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LEADERSHIP
TOMORROW'S REPORTING TODAY

ONLINE REPORTING

Practical proposals for reporting corporate performance online

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PRICEWATERHOUSECOOPERS
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Report Leadership is a multi-stakeholder group that aims to challenge established thinking on corporate reporting. The contributors to this initiative are the Chartered Institute of Management Accountants (CIMA), PricewaterhouseCoopers LLP and Radley Yeldar.

You can shape the way that the Report Leadership project evolves by giving your comments, actively participating, or adopting the elements that appeal to you. Please provide any feedback, register your interest and keep up to date with developments at www.reportleadership.com

CIMA

The Chartered Institute of Management Accountants is a leading membership body that offers an internationally recognised professional qualification in management accountancy, focused on accounting in business.

PricewaterhouseCoopers

The firms of the PricewaterhouseCoopers global network provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

ry. radley yeldar consistently creative

Radley Yeldar is a creative communications consultancy offering a range of specialist services including brand identity, corporate reporting, corporate responsibility, digital media, internal communication, marketing communications, moving image and online investor relations.

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Corporate reporting should be more informative and accessible.

But can it provide the information investors want without swamping them in unnecessary detail? And how can companies best use the internet to do this?

The Report Leadership group came together to develop simple, practical ways to improve corporate reporting. In 2006 we set out ideas for the main narrative and some financial sections of a printed annual report. This latest publication outlines our thoughts on putting the report online. Reflecting input and feedback from a range of investors, it is intended to:

- → **Inspire companies to consider the possibilities of reporting online.**
- → **Help them respond to the opportunities created by changing legislation.**
- → **Encourage investors to push for the information they want.**
- → **Prompt regulators to consider how they might foster further beneficial change.**

Above all, it's intended to stimulate further debate. We welcome your feedback – you can contact us through our website at www.reportleadership.com

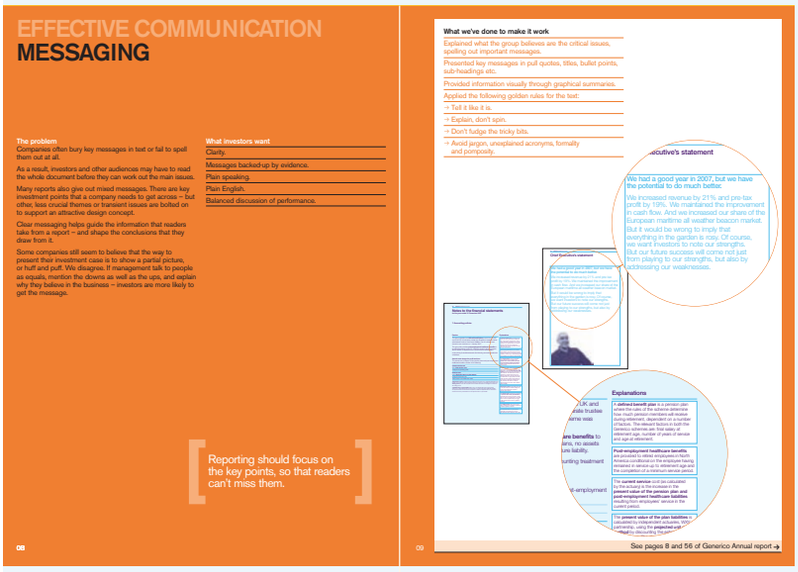
What we've done so far

The Report Leadership group was formed in 2006 by people in business and accountancy who feel that today's corporate reporting often fails to keep investors properly informed. By publishing simple, practical ideas – based on an iterative process of consultation with investors – we aim to stimulate discussion on these issues.

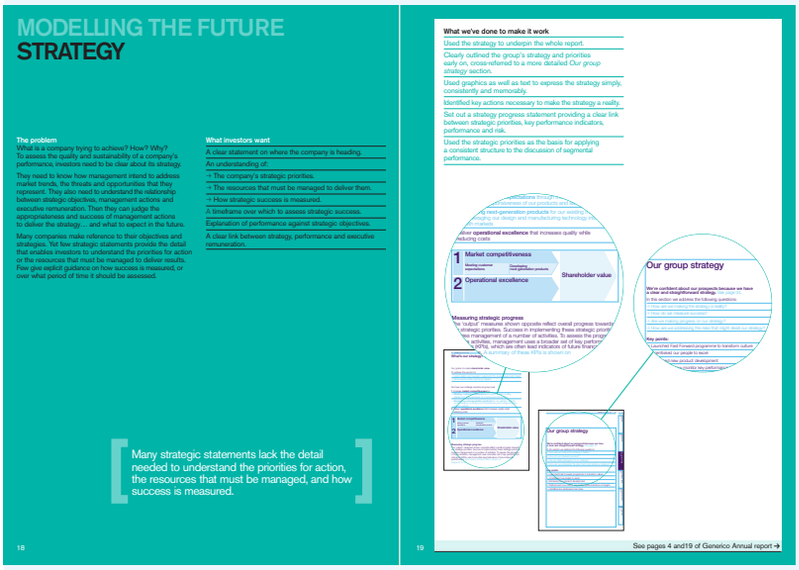
Our principal publication so far is a guide to some of the key issues that investors raise about reporting, with our proposed solutions. It is illustrated with extracts from an annual report for a fictitious company, Generico, to show how our ideas can work in practice. To make our proposals practical and realistic, we focus on what can be done within the current IFRS model by improving disclosure and presentation of information.

The first publication focuses on areas that we believe are particularly topical, under three broad headings:

→ **Effective communication.** Through clear structure, messaging and navigation.



→ **Modelling the future.** Through the provision of contextual information that allows investors to assess the quality and sustainability of future cash flows.



MODELLING THE FUTURE
STRATEGY

The problem
What is a company trying to achieve? How? Why? To assess the quality and sustainability of a company's performance, investors need to be clear about its strategy.

They need to know how management intend to address market trends, the threats and opportunities that they represent. They also need to understand the relationship between strategic objectives, management actions and executive remuneration. Then they can judge the appropriateness and success of management actions to deliver the strategy… and what to expect in the future.

Many companies make reference to their objectives and strategies. Yet few strategic statements provide the detail that enables investors to understand the priorities for action or the resources that must be managed to deliver results. Few give explicit guidance on how success is measured, or over what period of time it should be assessed.

What investors want
A clear statement on where the company is heading.
An understanding of:
→ The company's strategic priorities.
→ The resources that must be managed to deliver them.
→ How strategic success is measured.
A timeframe over which to assess strategic success.
Explanation of performance against strategic objectives.
A clear link between strategy, performance and executive remuneration.

[Many strategic statements lack the detail needed to understand the priorities for action, the resources that must be managed, and how success is measured.]

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What we've done to make it work
Used the strategy to underpin the whole report.
Clearly outlined the group's strategy and priorities early on, cross-referred to a more detailed *Our group strategy* section.
Used graphics as well as text to express the strategy simply, consistently and memorably.
Identified key actions necessary to make the strategy a reality.
Set out a strategy progress statement providing a clear link between strategic priorities, key performance indicators, performance and risk.
Used the strategic priorities as the basis for applying a consistent structure to the discussion of segmental performance.

1 Market competitiveness
2 Operational excellence
Shareholder value
Our group strategy

See pages 4 and19 of Generico Annual report →

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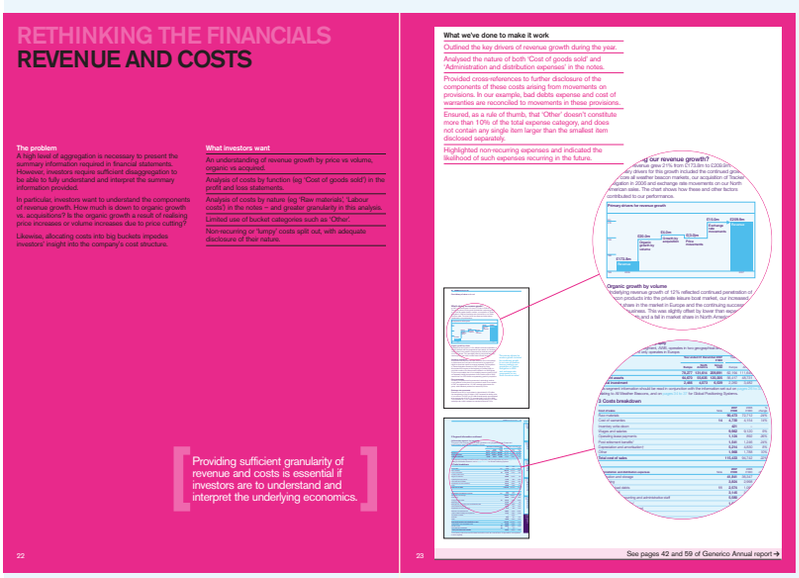
→ **Rethinking the financials.** Through greater granularity on revenue, costs, segmental information, pensions and debt.



RETHINKING THE FINANCIALS
REVENUE AND COSTS

The problem
A high level of aggregation is necessary to present the summary information required in financial statements. However, investors require sufficient disaggregation to be able to fully understand and interpret the summary information provided.

In particular, investors want to understand the components of revenue growth. How much is down to organic growth vs. acquisitions? Is the organic growth a result of realising price increases or volume increases due to price cutting?

Likewise, allocating costs into big buckets impedes investors' insight into the company's cost structure.

What investors want
An understanding of revenue growth by price vs volume, organic vs acquired.
Analysis of costs by function (eg 'Cost of goods sold') in the profit and loss statements.
Analysis of costs by nature (eg 'Raw materials', 'Labour costs') in the notes – and greater granularity in this analysis.
Limited use of bucket categories such as 'Other'.
Non-recurring or 'lumpy' costs split out, with adequate disclosure of their nature.

[Providing sufficient granularity of revenue and costs is essential if investors are to understand and interpret the underlying economics.]

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What we've done to make it work
Outlined the key drivers of revenue growth during the year.
Analysed the nature of both 'Cost of goods sold' and 'Administration and distribution expenses' in the notes.
Provided cross-references to further disclosure of the components of these costs arising from movements on provisions. In our example, bad debts expense and cost of warranties are reconciled to movements in these provisions.
Ensured, as a rule of thumb, that 'Other' doesn't constitute more than 10% of the total expense category, and does not contain any single item larger than the smallest item disclosed separately.
Highlighted non-recurring expenses and indicated the likelihood of such expenses recurring in the future.

See pages 42 and 59 of Generico Annual report →

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You can find the full document at www.reportleadership.com

Further ideas for improvement

We didn't attempt to address all areas of corporate reporting in the initial publication: Generico's fictional annual report has a number of gaps. Since launching the Generico annual report we've continued to seek investors' views on our initial ideas – and what areas we should tackle next. They told us they wanted to see improvement in two areas: the reporting of executive remuneration, and the online presentation of corporate performance.

We've tackled both subjects in 2007. You'll find more about our work on remuneration reporting at www.reportleadership.com

What we've tried to do with online reporting

Several factors are coming together to create a pull for more – and better – online reporting. Companies and investors both see websites as an increasingly useful channel for communicating information. And changing legislation is creating new opportunities. In the UK and US, for example, companies can now use the internet as their default medium for reporting. US regulations now positively encourage reporting in formats such as HTML, which favours interactivity, rather than simply providing PDFs of the printed report pages.

But even in HTML, few companies are doing more than present a slight variation on the printed book. In our conversations with both retail and institutional investors, we've found a real appetite for reports that take fuller advantage of the web's capabilities. In particular, they want online reports that provide richer, more usable and more readily accessible information – yet are easy and intuitive to use. Several also said they would like online reports available in a range of formats, including HTML and PDF.

Taking a conventional printed report and putting it online is the way most companies are working right now and the situation that we were faced with, too – but it's not the ideal route to online reporting. And maintaining high levels of accessibility sometimes means you cannot take the easiest solution. So we haven't been able to go as far as we'd wanted. But we've made a start – and we'd welcome feedback from those who are pushing further ahead.

The issues we've addressed

In considering practical ways for companies to communicate their performance online, we've recognised the real challenges companies face.

We're not proposing radical, leap of faith solutions. We recognise that most companies will want to make an orderly transition from the printed page to the digital future, creating their print and online reports together as far as possible. So we've suggested some things that are easy and relatively cheap to do and others that are slightly more complicated and require more resource.

At present regulatory requirements vary, but in some markets – including the UK – the content of online and printed reports must be the same. That said, the legal landscape is changing fast – and some markets are already more relaxed about linking directly online to information that might not be part of a printed report. We've tried to suggest solutions that allow for this shifting legal landscape.

So how best can companies make all information accessible to all audiences? We've considered how people flick through printed reports, the various ways they like to move through online information, and what they might want to do with it. We've aimed to make online reporting accessible to people with disabilities, and to other important audiences such as search engines.

The principal areas we've addressed are:

- → **Finding information.** Navigation, the user interface and accessibility.
- → **Recording information.** Bookmarking and annotation facilities that help readers keep track of the content that matters to them.
- → **Extracting and analysing information.** Using video and audio content to provide greater insight. Using the exciting opportunities that the web offers to provide readers with information they can analyse and manipulate for themselves through Excel and PDF downloads, interactive charts and sensitivity analysis, interactive financial statements and, ultimately, XBRL.

In the following pages we set out our ideas under these three broad headings.

Feeding back

The Generico report published in 2006 shows how our ideas on corporate reporting would work in print. To see the online version of that report, applying the ideas we've set out here, visit www.reportleadership.com. You'll also find our thoughts on reporting executive remuneration – and practical examples of reports incorporating ideas similar to those we put forward in the 2006 Report Leadership model.

We continue to consult with investors and practitioners on further ways to improve corporate reporting. Our aim is unchanged: to set out practical ideas that readers can implement today. Some may seem too bold or too uncomfortable, but we hope all will stimulate further thinking – and participation in the Report Leadership project.

Are these suggestions a step in the right direction? Do they go too far, or not far enough? What other aspects of corporate reporting need urgent improvement?

Please register your interest, suggest how the project should evolve, and keep up to date with developments at www.reportleadership.com.

Our ideas in practice

In the following pages we set out our initial ideas for improving online reporting. To see how we've applied them to present the annual report of our fictitious company, Generico, please visit the Report Leadership website at www.reportleadership.com

FINDING INFORMATION
NAVIGATION

The problem

Most online annual reports are very closely based on printed documents. In a printed document, it's easy to flick between pages and move from one area to another. But it can be much harder to navigate an online document if it has been produced in the same way as a printed report.

In a printed document, for example, you might turn back five pages to remind yourself what was said about strategy. Doing the same in an online report can be frustrating if it's not well structured and cross-referenced. In a printed report, it's easy to dip into individual pages but remain aware of the report's overall messaging and the context in which an individual page is set. Without clear navigation, this overview can be lost online.

What investors want

To be able to move around an online document in a fluid, logical manner.

A variety of navigation options, including a search that delivers useful results.

Cross-references – both within the document and to related information elsewhere.

Links between the annual report and other relevant information, such as investor presentations, corporate responsibility reports or product data.

A reminder of the overall content of the page being viewed.

[It can be much harder to navigate an online document if it has been produced in the same way as a printed report.]

What we've done to make it work

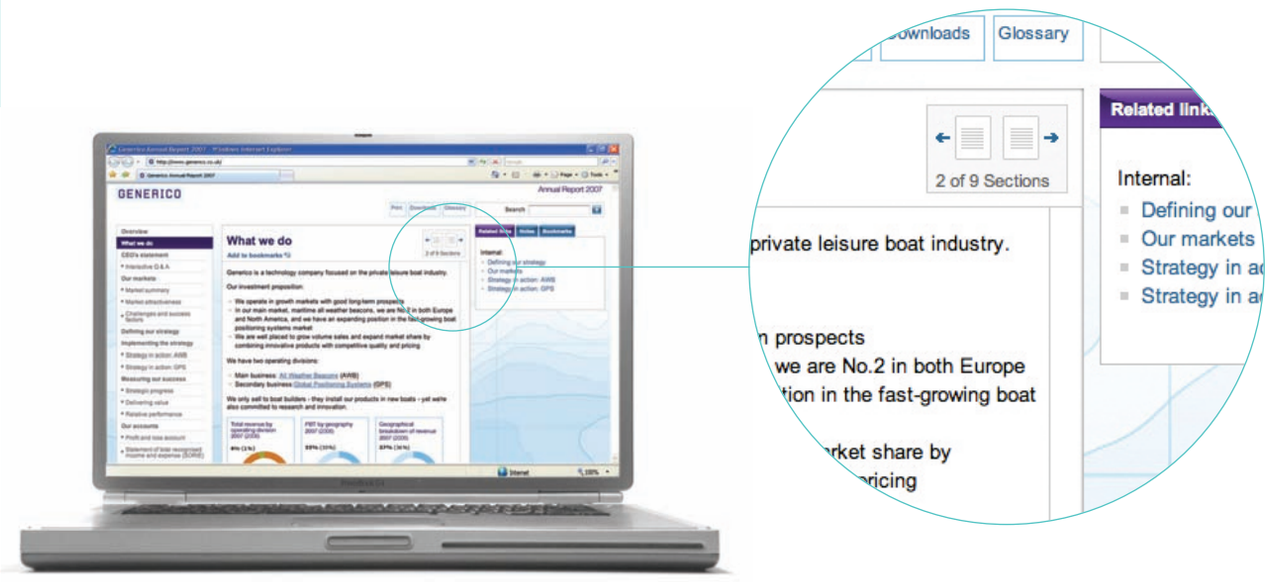
Increased cross-referencing – and where links access content outside the annual report, we've added simple legal disclaimers.

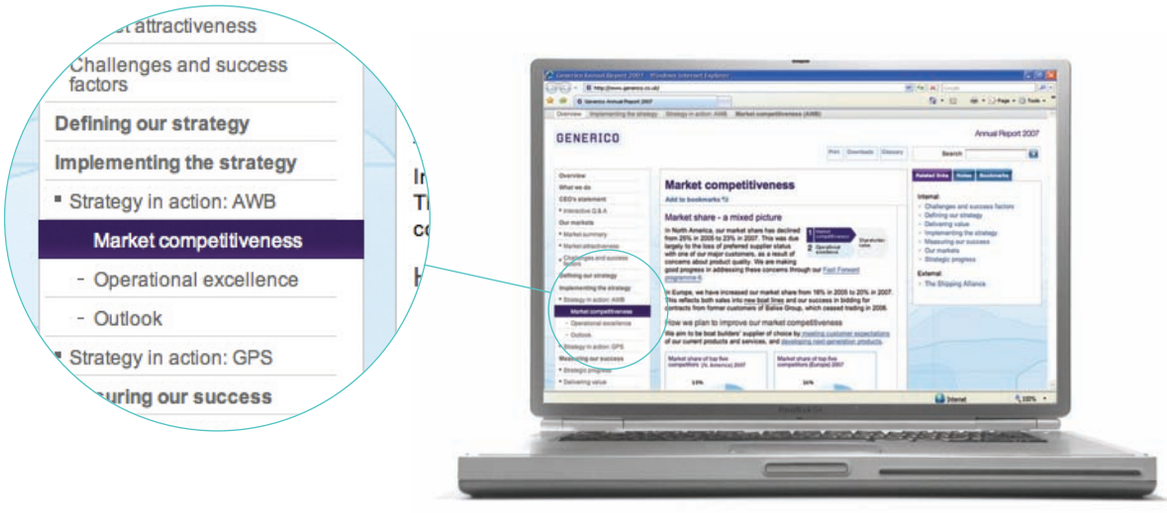
Offered a range of navigation options on each page.

Provided a clear, effective search option that works.

Included links to other pages of interest.

Provided section-based and page-based navigation.





FINDING INFORMATION
USER INTERFACE

The problem

Cross-references in printed reports can become frustrating if they require you to jump between several points around the publication to see the full picture. Online reporting should provide an ideal alternative: it allows links to other content on other pages and the ability to click on any aspect and get more detail without leaving the current page. Yet few online documents take full advantage of this fact. Typically, they rely solely on hyperlinks that take the user to another page without any clear indication of where the relevant information is positioned on the page. In effect, they mimic the deficiencies of a printed book, with the added disadvantage that you can't use your fingers and thumb as impromptu bookmarks.

What investors want

To access other areas of the document without leaving the current page.

To view relevant financial information while reading the narrative.

[In effect, they mimic the deficiencies of a printed book, with the added disadvantage that you can't use your fingers and thumb as impromptu bookmarks.]

What we've done to make it work

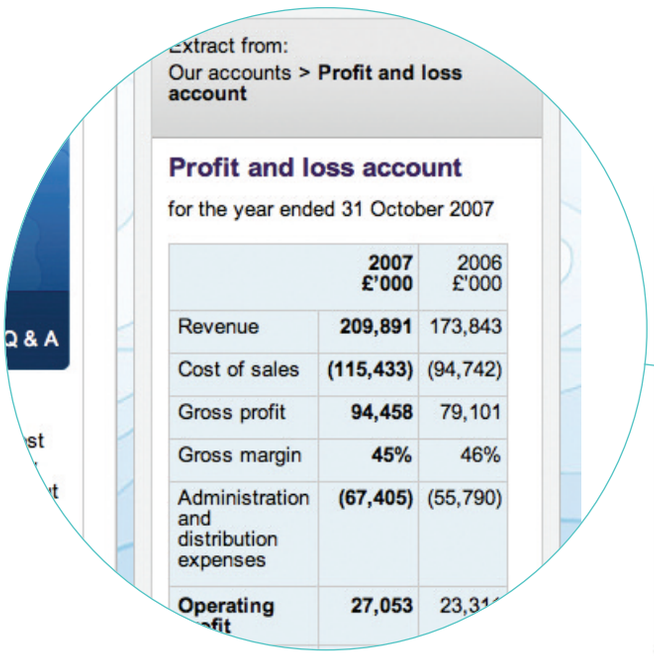
Introduced an easy-to-use dual screen format, so that supplementary information (extracted or summarised from other parts of the report) can be displayed alongside the text you're reading.

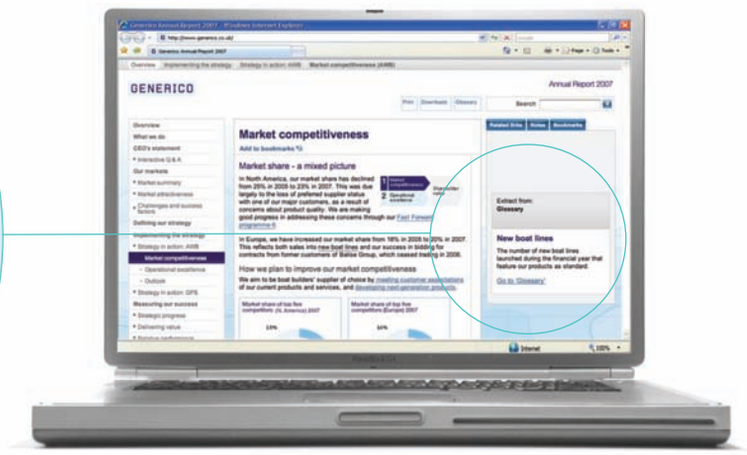
Given links in the narrative text to relevant summary financial information that can be displayed alongside.

Provided access to a glossary from every page.

Provided a search facility on every page.

Allowed 'wide' or 'narrow' view options, so that the dual format adapts to changes in screen size.





FINDING INFORMATION
ACCESSIBILITY

The problem

Companies want to make their online content accessible to the widest possible audience. And in most major markets, legislation now requires web content to be accessible to people with a variety of disabilities – for example, those who are blind or partially sighted. This means crafting online material so that it can be accessed by devices such as screen readers.

In practice, companies often either ignore accessibility – for example, by only providing a basic PDF – or implement it in a way that makes the document less engaging for other users. But the technology is available to produce an engaging online experience while providing access to the widest possible audience. Accessible websites carry the benefits of increased readability on portable devices such as BlackBerrys, and enhanced visibility to search engines.

What investors want

An engaging online experience.
Access to the content regardless of device used (eg web browser, screen reader, PDA).
Access for all, regardless of their physical disabilities.
Content that can be found by search engines (which find it hard to index content that's hidden away, for example in PDFs).

> In practice, companies often either ignore accessibility or implement it in a way that makes the document less engaging for other users.

What we've done to make it work

Written best practice code to ensure compatibility and create a quality experience.

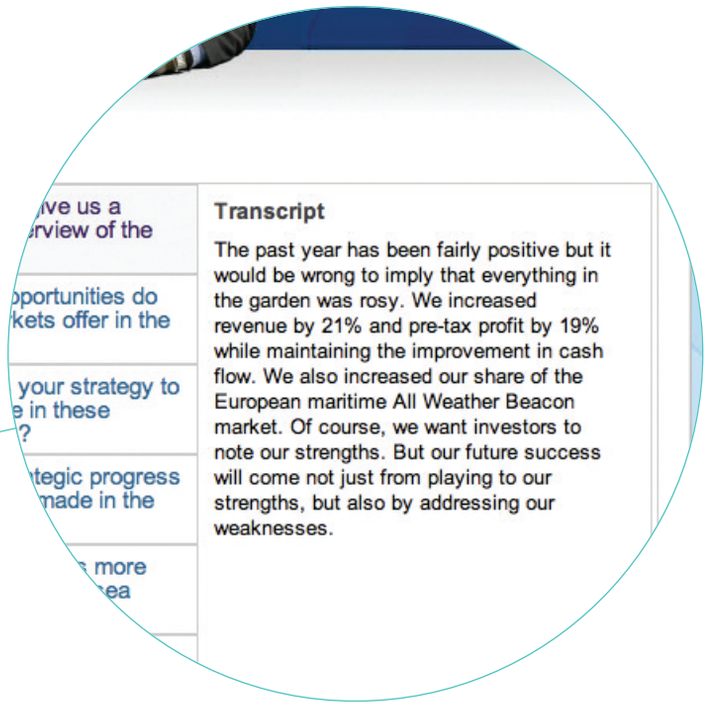
Included specific accessibility features, such as 'skiplinks' – these enable people using screen readers to skip over repetitive elements such as lists of links – and access keys.

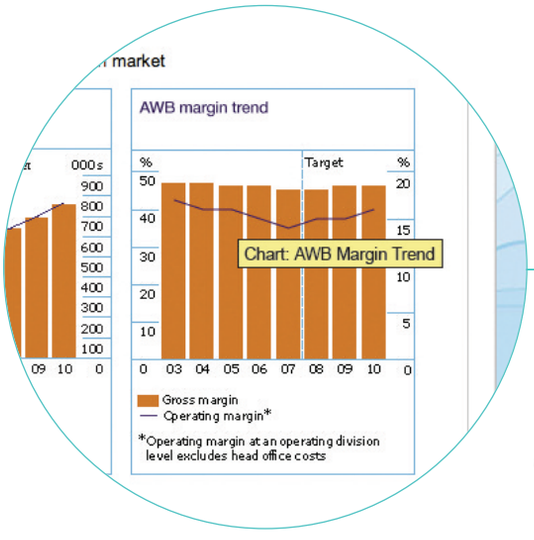
Created an intuitive and keyboard-operable navigation system.

Tested the website in a wide range of web browsers and screen readers.

Provided alternative, text-based content for graphical items.

Provided transcripts for video content.





RECORDING INFORMATION
BOOKMARKS AND NOTES

The problem

Investors often want to mark printed annual reports. They might use a highlighter or underline parts of the text, scribble notes in the margin, stick in bits of Post-It as bookmarks or fold down corners.

Such notation is often not available in the online world. So instead, investors may well resort to printing out the relevant pages and marking them up in a traditional fashion. Not very green. And not very convenient: they're left with a bunch of loose pages.

What investors want

Notation and bookmarking solutions that are intuitive and easy to use.

The option of saving their comments for future reference, or printing them out.

> Investors resort to printing out pages and marking them up in a traditional fashion.

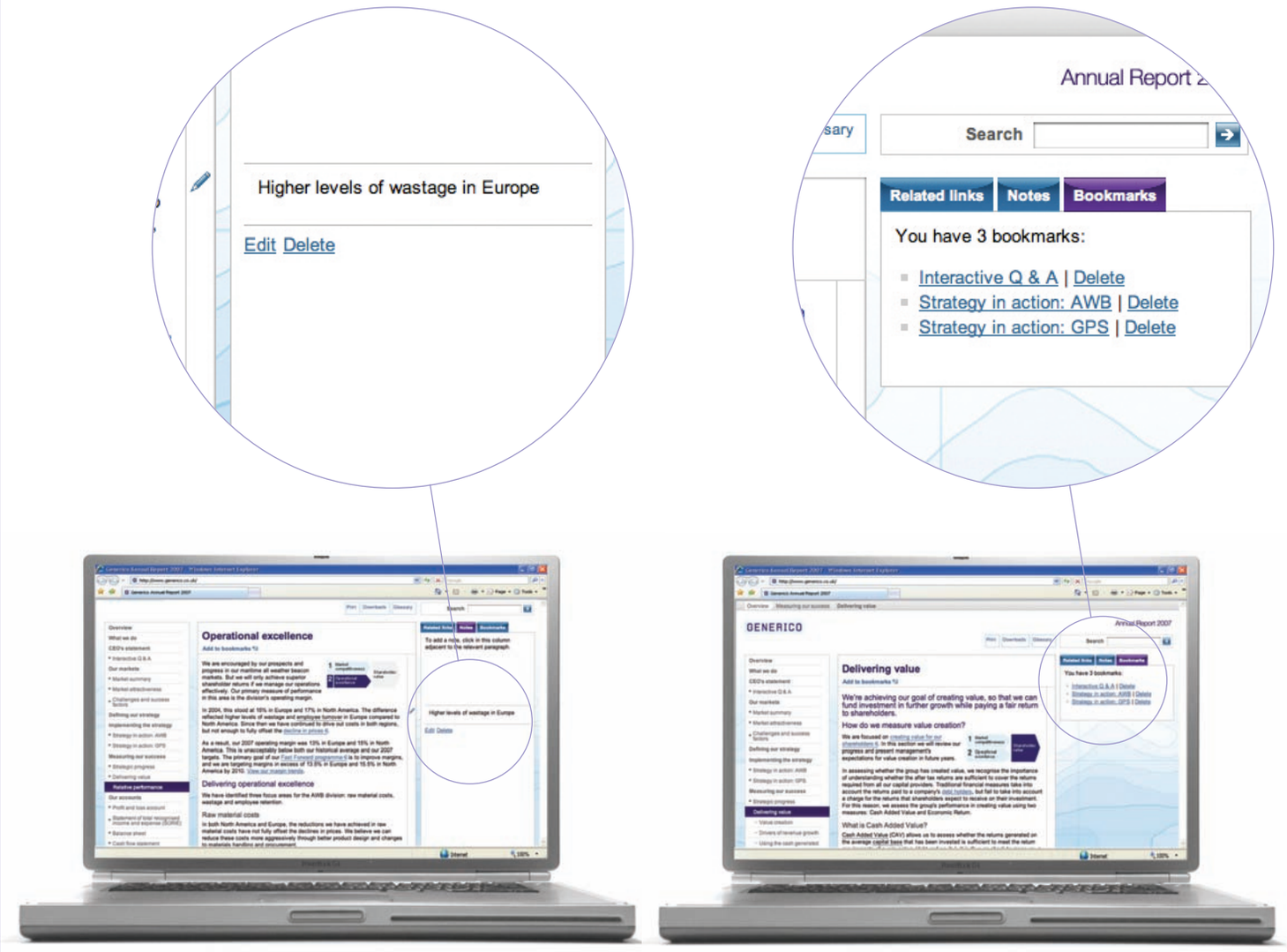
What we've done to make it work

Made it possible to mark pages with bookmarks on the side of the screen.

Made it easy to add or remove comments and bookmarks – and to hide them.

Enabled specified pages to be printed with comments embedded into them.

Allowed users to retain a version of the annual report with their own personal comments.



EXTRACTING AND ANALYSING INFORMATION
VIDEO AND AUDIO CONTENT

The problem
Reading a lot of text on screen is very different from reading a printed page. On average, people tend to read only three lines of text on a screen. Sometimes it therefore makes sense to present text-based content in a more interactive style that's better suited to the web. The web gives companies a choice of channels for conveying their messages in a more personalised manner. For example, bringing text alive by using video or audio can make information more attractive and compelling – and provide fresh insight into what senior management has to say.

What investors want

Ability to understand key messages as quickly and easily as possible.
A chance to 'see the whites of management's eyes'.
Greater understanding of what really makes senior management tick.
Specific videos of senior management presentations or interviews in certain circumstances.
Video and audio content where appropriate – but not for its own sake.
Downloadable audio content that they can access on the move.
Transcripts as well as audio.

> On average, people tend to read only three lines of text on a screen.

What we've done to make it work

Created a video of the CEO's message from the Generico report.

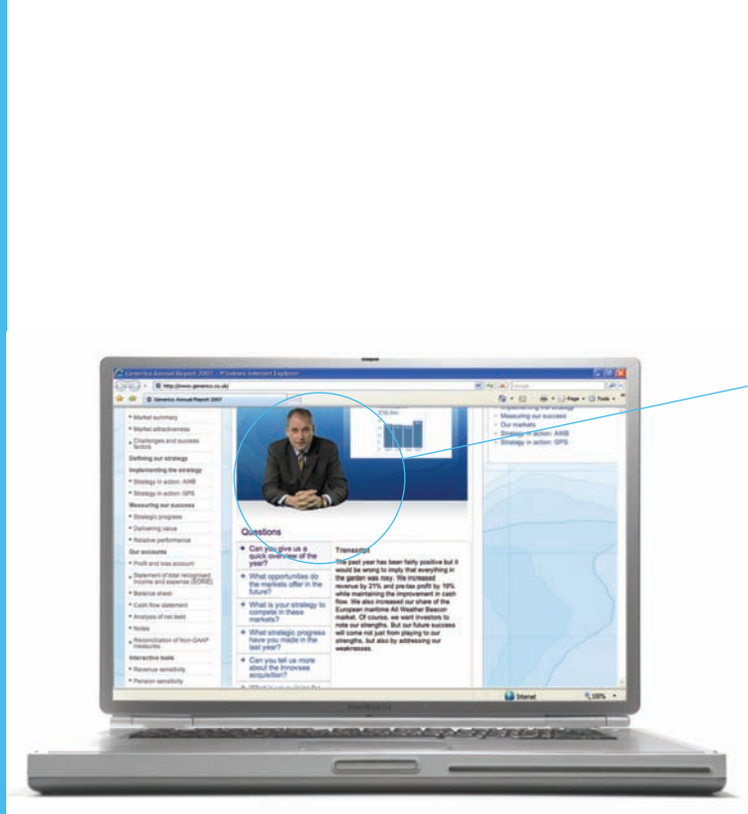
Split the video down into bite-sized Q&A content – because information takes longer to receive through video or audio than it does by reading.

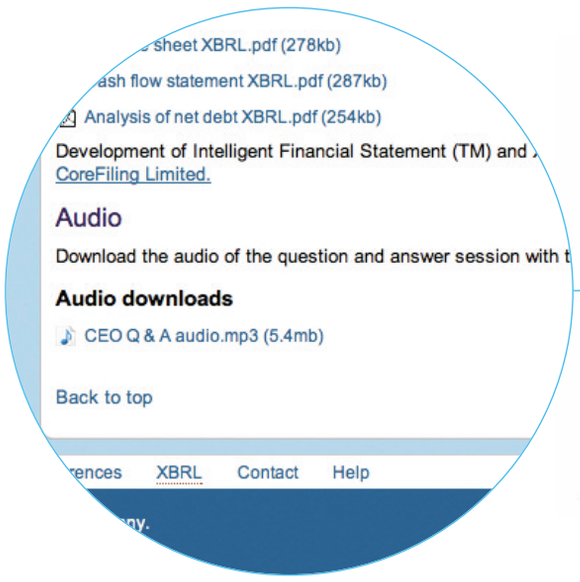
Provided text-based access to the presentation.

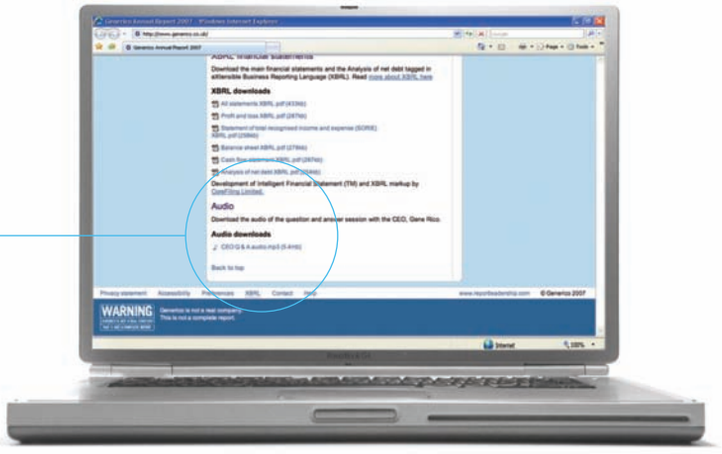
Introduced charts to accompany video content.

Provided a transcript of the CEO's message alongside the video.

Created an audio file alternative for the video content.







EXTRACTING AND ANALYSING INFORMATION
EXCEL AND PDF DOWNLOADS

The problem

Investors use spreadsheets to model the quality and sustainability of a company's performance. Many investors complain that they have to waste time re-keying information into their own spreadsheets, or that not all of the data from the annual report is available.

This is easy to rectify in the online world by providing a downloadable Excel data sheet to support the charts, tables and financial statements and notes in the document. Few, if any, companies make this level of data available.

Likewise, investors often want to download a PDF of the report. These are now commonly available – though not all companies offer the option of PDFs of individual sections to make it simpler for users to print only part of the document. If they run out the whole report, they bear the printing cost that the company would formerly have paid.

What investors want

Numbers available for every chart and graph.
Numbers that are easy to cut, paste and download.
Ability to print out required sections without having to print the whole report or search through a lengthy PDF.

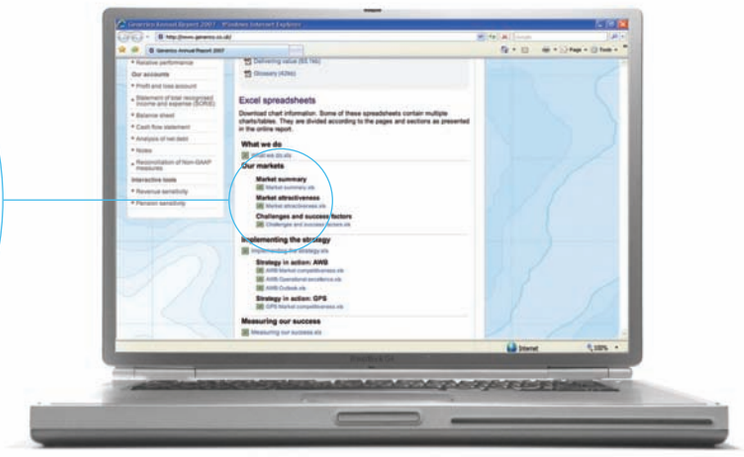
> Many investors complain that they have to waste time re-keying data into their own spreadsheets.

What we've done to make it work

Provided links to downloadable spreadsheets next to every chart.

Made the spreadsheets available throughout the online report and in a separate download centre.

Provided PDF versions of the printed report, both as a complete document and split into sections.



EXTRACTING AND ANALYSING INFORMATION
INTERACTIVE CHARTS AND SENSITIVITY ANALYSIS

The problem

Charts and graphs in printed documents are static statements of the way in which the management team interprets data. And normally, that's the way they stay when they're placed online. They're still of interest to investors, of course – but companies are missing out on all the opportunities the web provides to make graphics even more informative and dynamic. For example, charts can be brought alive to demonstrate trends or help with analysis. Alternatively, charts or graphs could allow readers to input their own data to map out potential future scenarios.

Few companies provide sufficient information about the principal assumptions that underpin their calculations, or show the potential impact of variations in these assumptions. But the web makes this easy to do: companies can show their assumptions in a spreadsheet, allowing users to change some of the data to assess the impact on the company's performance.

What investors want

Graphics and charts that show trends clearly, without being over-cluttered with numbers and data.
Clear, diagrammatic representation of numbers in an online format.
A better understanding of what management is planning for – or should be planning for.
Sufficient understanding about the principal management assumptions to allow an understanding of the inherent sensitivities and uncertainties.
The ability to 'play around' with numbers, changing inputs to see how this might impact financial performance or position.

> Companies are missing out on all the opportunities the web provides to make graphics even more informative and dynamic.

What we've done to make it work

Used dynamic charts sensibly and sparingly.

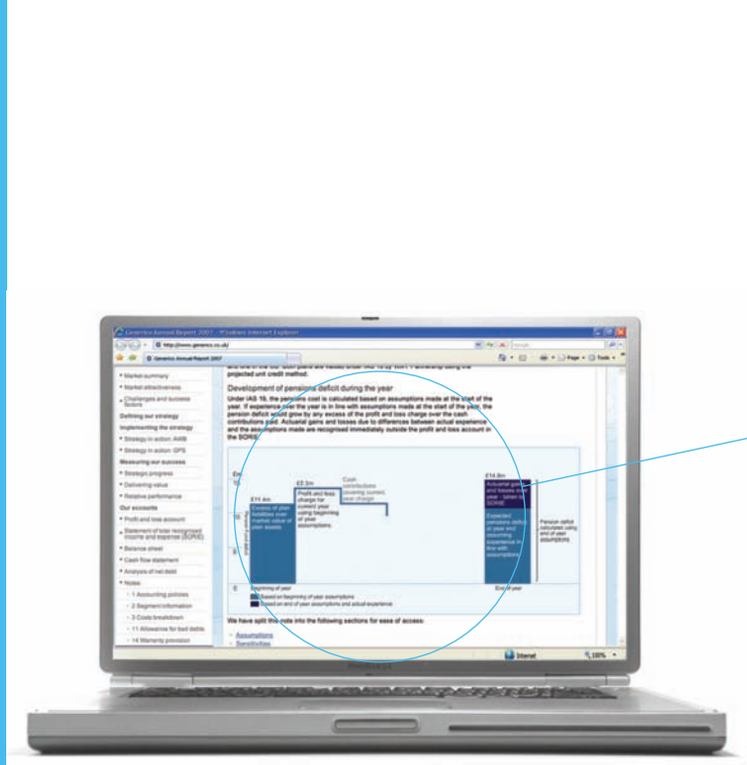
Enabled investors to input their own data and see the potential impact.

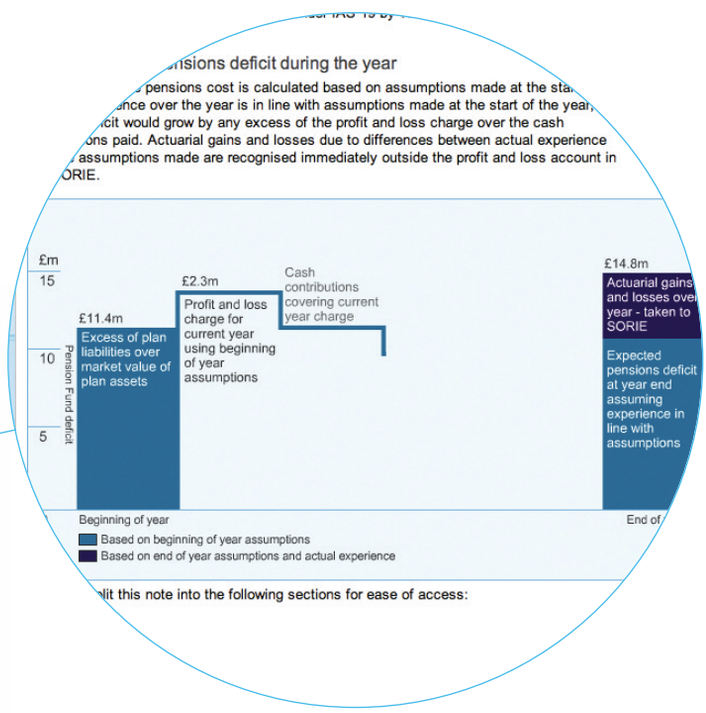
Introduced dynamic charts that allow users to explore the key drivers of revenue growth.

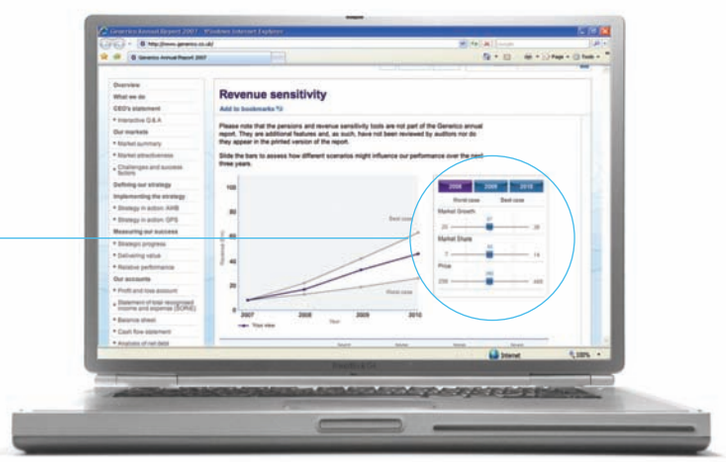
Enabled users to explore the impact on the pension deficit if underlying assumptions are changed.

Ensured management estimates of performance are always available.

Located assumptions in easy-to-access tables and spreadsheets, allowing users to change data to test their own assumptions.







EXTRACTING AND ANALYSING INFORMATION
INTERACTIVE FINANCIAL STATEMENTS

The problem

Some investors want a very basic understanding of the financial statements. Others want to be able to drill down into the data and look at more line numbers, click through historical data, or view segmental information. Few companies make accounting information available in a range of formats to suit different users – even though this is relatively easy to do online.

What investors want

Hierarchical representation of accounting data so that they can see top-line figures and then drill down into the detail.
Easy access to historical numbers.
Ability to view years in ascending or descending order.
Graphical representation of historical trends.
To view performance through the eyes of management.

> Few companies make accounting information available in a range of formats to suit different users.

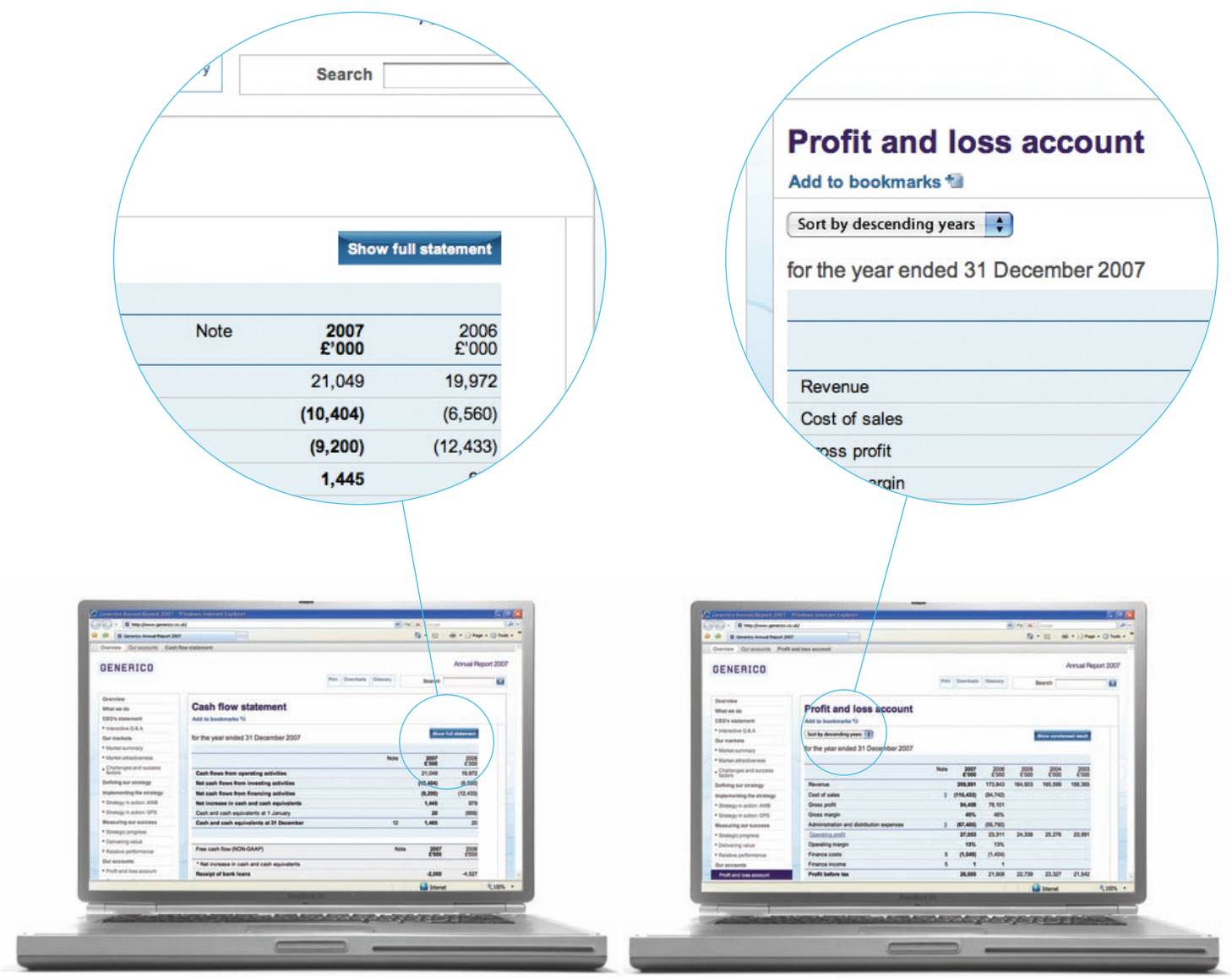
What we've done to make it work

Provided a collapse/expand facility on some of the primary financials to allow users to drill into the detail.

Included five years of financial data, available at the click of a button.

Created an ascending/descending years option.

Made non-GAAP and five-year data available from the financial statements.



EXTRACTING AND ANALYSING INFORMATION
XBRL

The problem

Investors and analysts have to re-key or cut and paste data if they want to bring it into their own spreadsheets. And they have to repeat this process for every company they are reviewing or comparing. This is time-consuming and error-prone.

In principle, eXtensible Business Reporting Language (XBRL) is the answer. By labelling each line of data with a universally-understood XBRL 'tag' such as 'net profit', companies can enable investors and others – including regulators – to share data easily and import it into their spreadsheets from a variety of sources, without re-keying.

Some early adopters have confirmed that XBRL achieves time and cost savings in the reporting process, yet the take up has been slow. We believe that XBRL might be a partial solution for the future of reporting – but that a more fundamental debate is still needed. This should include what information is important, how it is created and used internally, and how it is shared with external audiences.

Without such a debate, the evolution of XBRL is likely to be shaped by regulators rather than users. We'd like to see more companies experimenting internally with the technology to explore what it has to offer and reach an informed view on whether it should be adopted more widely.

What investors want

Easier ways to import financial data into their own models without having to re-key numbers.
Easy manipulation of data without having to re-key numbers.
Compatible presentation of data so that they can bring in data sets for analysis across a range of companies or historical periods.
Availability of taxonomies for more detailed, or industry-specific business and financial information.
Financial statements that can be 'automatically' translated into a multitude of languages.

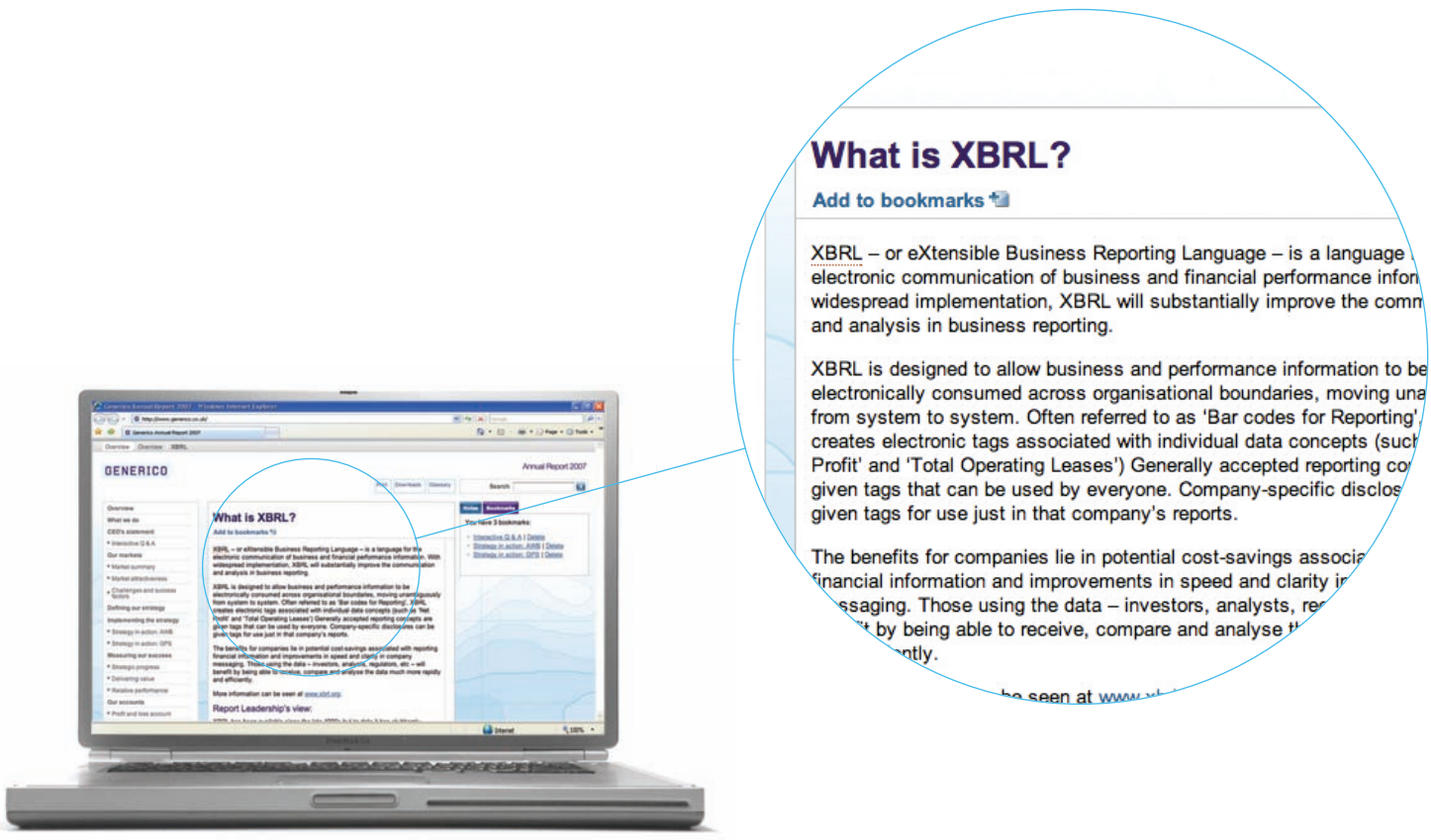
> XBRL might be a partial solution for the future of reporting – but a more fundamental debate is still needed.

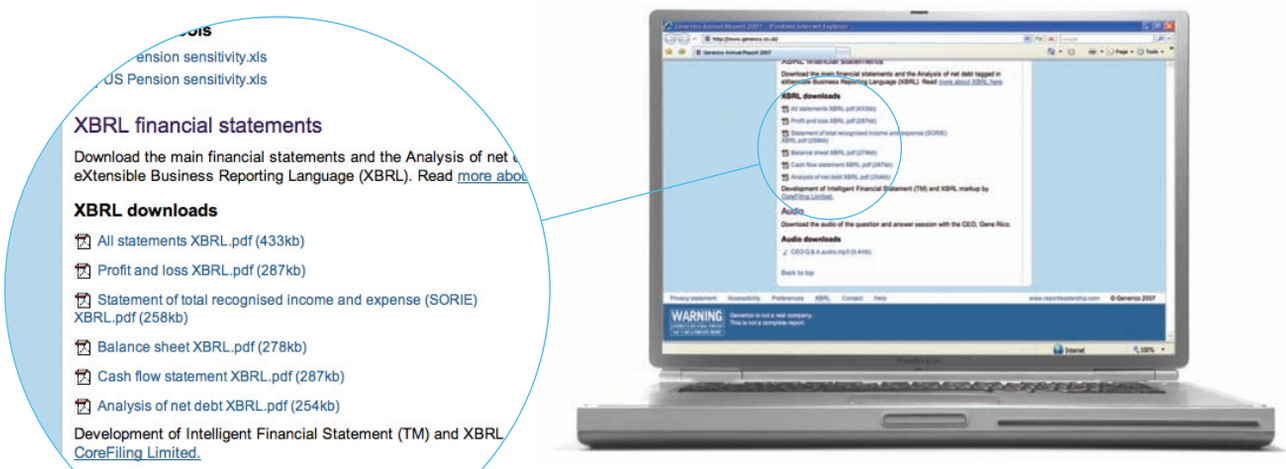
What we've done to make it work

Provided primary financial statements in a tagged XBRL format.

Tagged each line so that data can be easily downloaded into an XBRL-enabled spreadsheet.

Refrained from tagging the full financials – we think many companies will want to start by experimenting, as Generico has done.





Report Leadership is a multi-stakeholder group that aims to challenge established thinking on corporate reporting. The contributors to this initiative are the Chartered Institute of Management Accountants (CIMA), PricewaterhouseCoopers LLP and Radley Yeldar.
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