Controlling Your Equity Narrative

Business leaders talk to **Marc Barber** about how to ensure corporate reporting is relevant to stakeholders, while also helping to improve business performance

The complexity and sheer volume of corporate reporting does not appear to be winning back the hearts and minds of stakeholders. It's why senior executives and investors are coming together to reassess how to achieve greater transparency in reporting, so the information presented is clear and relevant for those looking to understand performance over the short, medium and long term.

Tom Beedham, Director of Programme Management at Criticaleye, says: "Effective reporting and governance frameworks build an environment where a board can ask the most pertinent questions, based on the best-quality information. It should help to improve – and provide clarity – on overall performance, not stifle it or cause confusion."

From a company perspective, boards should think constructively about new guidelines, recommendations or requirements, such as the introduction of viability statements in annual reports. **Richard Shoylekov**, Group General Counsel of Ferguson, says: "You can look at it in a negative way, or can look at what the intent behind it was. This is about creating long term, sustainable value and making sure that all stakeholders in a company understand that.

"It is also an opportunity to improve the quality of your data and the way that you go about locating strengths in your business. Considering what might destroy the company in the future prompts different thinking about risk and management systems."

Richard, who was speaking at Criticaleye's Non-executive Director Retreat, acknowledges that when communicating financial results, >

the primary focus as a listed company must be on delivering short-term shareholder return. However, he adds that, "if you have a longer-term purpose, which is about your role and impact on society, employees, customers and your environment, it's far harder to measure those things in the current approach to reporting".

There continues to be real pressure to review existing governance and reporting practices. **Gay Huey Evans**, Deputy Chair of the Financial Reporting Council, comments: "I understand it when people say there are too may rules and regulatory changes, but a lot of it comes down to some of the major corporate problems that we have suffered recently.

"Large companies have made big mistakes and people have lost trust, so the Government has started pushing for trust to be won back. Investors and the public are just not fond of what companies are doing unless they really understand them. There are gender issues and pay gaps, so something has to be done... This kind of dialogue convinced me that the FRC needs to be involved in the debate."

For **Gay**, the goal is to ensure good governance raises fundamental questions, such as about the way that customers and employees are treated. "It goes to the heart of how your company is run – I think a lot of boards in the past have focused too much on the numbers."

A New Era

If companies are to provide stakeholders with greater degrees of assurance – rather than bombarding them with too much information – they need to rethink the relevance of what they are reporting.

Barend van Bergen, Partner at EY UK, argues that intangible assets should be seen as an intrinsic element of understanding the true value of a business. He explains: "If you talk to a company, many put out a lot of data, but that doesn't necessarily mean they are communicating a clear and transparent picture of their business. I know of one company that has over 1,000 data points for just one division. That's not all because of regulation; it has probably mushroomed over the years.

"If you then ask how much of that data is used by fund managers and other stakeholders, most companies don't know. They need to actually sit down with their shareholders and say: Can we get some agreement on what are the most relevant proxies? What are the handful of indicators that you would really like to know?"

In too many cases, there is a scattergun approach to reporting. "Executive directors need to ask themselves: 'To what extent do I want to control my equity narrative? Is it fine for me just to have metrics for 20 percent and leave the 80 percent of intangibles to the side because it's seen as all too complicated?'"

According to **Barend**, this can't be the answer and therefore executive and non-executive directors have a responsibility to evaluate other options. "The low-hanging fruit is to look at your disclosures and see which ones have a meaningful impact on stakeholders and which could be reduced, because I think there is a lot of room for improvement there."

In practice, this can entail implementing a long-term framework, so organisations can articulate how they are allocating their capital in order to deliver value to stakeholders. "If you master the subject, you are less likely to be afraid of another index or another regulator, because you will have confidence in your equity narrative and the statistics that you want to put out there."

There is also an onus on investors, analysts and other stakeholders to use these new streams of information appropriately. As **Richard** points out, the people making investment decisions in a company don't always talk to their own environmental, social and governance analysts. ■

To find out more about reporting on long-term value, click here

These comments were made at Criticaleye's Non-executive Director Retreat 2017, held in association with Santander, Brewin Dolphin and EY

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