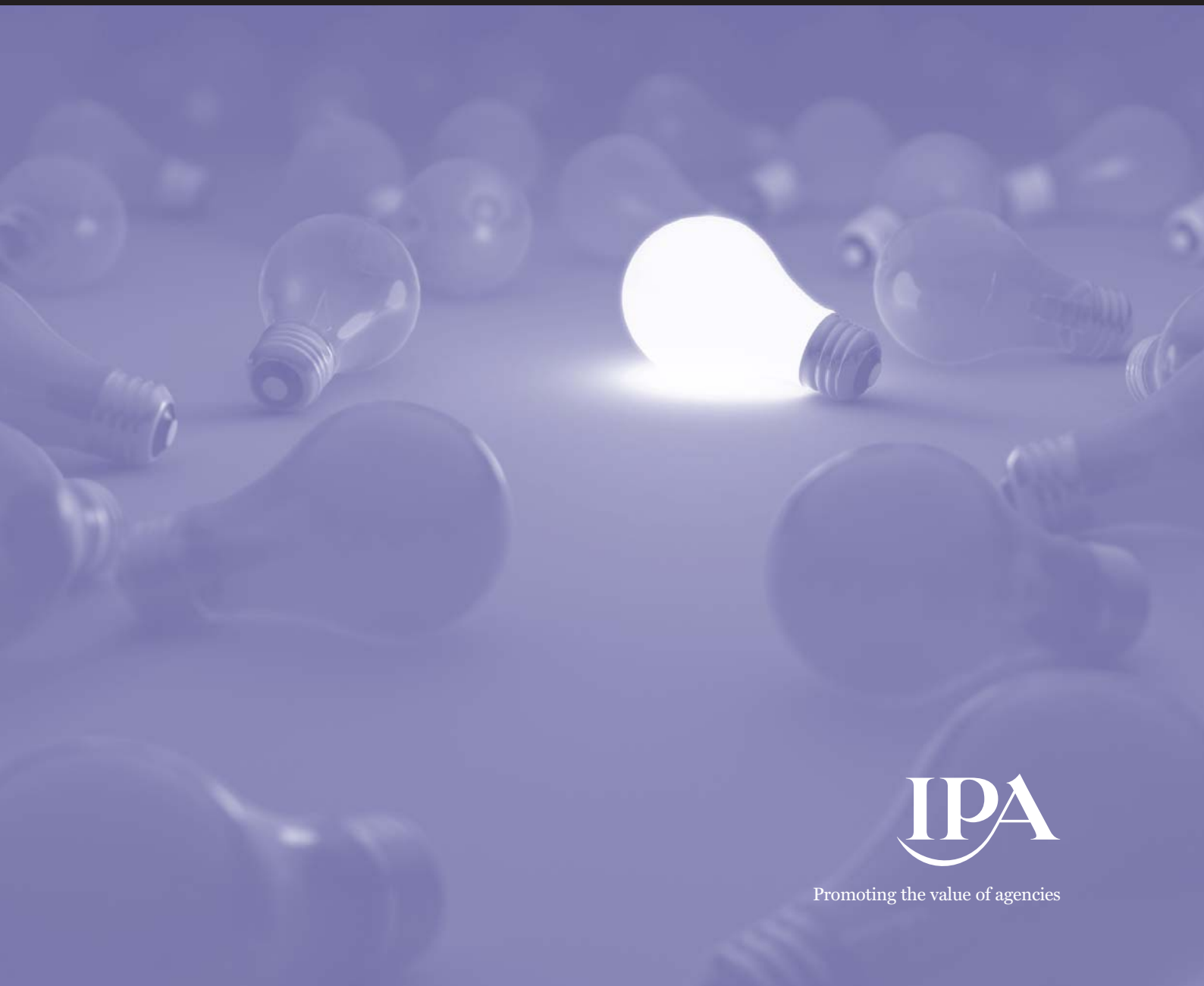
# Best practice in narrative reporting 2008

Key learning and recommendations from the IR Magazine UK Award judging process



IPA

Promoting the value of agencies

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# Foreword

IPA interest in sponsoring the IR Magazine UK Award for 'Best Narrative Reporting' stems from its conviction that companies' narrative reports represent the best forum for developing greater understanding of the issue of intangible assets. Whatever the terminology – 'intangible assets', 'non-financials', 'extra-financials', 'sources of long-term value' – the subject matter is increasingly recognised as business-critical for companies, investors and stakeholders alike. The factors and processes which generate this intangible value inside companies are of commercial significance, and identifying them and reporting on them has become a new challenge. For some companies, mastering disclosure in this area represents a source of differentiation and advantage.

Against this background, the IPA's specific interest lies in the area of brand intangibles, representing up to 12% of company market value on average, and a full 20% of intangible value.* More generally, the IPA is pleased to be helping to develop the debate. Through publications, events and, particularly, sponsorship of this award, the Institute wishes to continue to stimulate and crystallise the arguments around the importance of best practice reporting, deepen the understanding of different aspects of corporate value creation and strengthen the quality of the dialogue in this area between investors and companies.

IR Magazine and the IPA are delighted that the 'Best Narrative Reporting' award has become a feature of the investor-relations landscape and, through public recognition of the progress some companies are making, both a reflection on, as well as a driver of, excellence in corporate narrative disclosure.

**Moray MacLennan**
**IPA President and**
**Chairman, Europe, M&C Saatchi**

* Brand Finance: Global Intangible Tracker (GIT ™) 2006

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# Introduction

An intense debate followed the abolition of the mandatory Operating and Financial Review (OFR) in November 2005, involving the preparers, users and analysts of companies' annual reports. Companies were told that they were welcome, if they wished, to report to the provisions of what had now become the 'voluntary' OFR. Despite this unexpected change in Government policy, it became clear that a number of the features of the OFR remained in place as statutory reporting obligations, because the provisions of the Accounts Modernisation Directive had been incorporated into the 1985 Companies Act.

Following further high-profile debates in the business press, and in Parliament, most of the remaining provisions of the OFR were reintroduced, this time into what was to become the largest piece of legislation created in the UK, the Companies Act 2006. It was throughout this process of policy development that UK companies started to embrace a new disclosure regime, the business review, which has begun to transform the annual report from a 'mere' compliance document into an important new communications medium in the world of investor relations.

### A three-stage judging process

1. The IR Magazine UK Awards process is based on an annual survey sample of some 700 analysts and fund managers conducted by Mary Maude Research. Respondents are asked to identify companies displaying good and best practice in a range of IR-related activities, with top-scoring companies nominated as prize-winners.
2. In the case of the 'Best Narrative Reporting' award, a list of the highest scoring companies was subjected to further scrutiny by two IPA analysts who evaluated the companies' reports against ten key marking criteria.
3. This extra level of due diligence led to the identification of a shortlist of six reports, which were then subjected to the views of an expert judging panel. The judges assessed the reports, rigorously analysing the narrative from the perspective of their own specialist knowledge, and nominated an award winner and three runners up.

### Rationale for focusing on the narrative report

The judging process was based on the formal Annual Report and Accounts, which constitutes each company's formal compliance document. The panel recognised that companies are choosing a range of methods for communicating the material traditionally found in the annual report, and that the passing of the Companies Act 2006 had also provided the legislative powers for companies to use e-comms to develop alternative communications and messaging strategies. The panel operated on the basis that a company's investor relations strategy would be consistent across the disclosure suite, whether in terms of fixed-time reporting or on the basis of ongoing communications with the markets, and that the Annual Report and Accounts was a representative document of the company's disclosure policy and practice.

# Overview

Following the 2007 award, we noted that 'Companies should seek to go beyond compliance and use the narrative section of their annual report as a communication opportunity'. The evidence from the 2008 awards process is that the quality of disclosure is improving, significantly in places, and that the communication opportunity is being leveraged. There is a sense that the preparation of the Annual Report and Accounts document is being viewed less as a chore and a hygiene task, and is becoming more a business priority.

The marks awarded by the judges take full recognition of the fact that the winning reports were not perfect, and that improvement is still possible in many ways. But the quality of the disclosure in the longlist, and particularly the shortlist, makes it difficult to see how preparation of the Annual Report and Accounts document will ever revert to a compliance-only process.

The involvement of analysts and fund managers at the beginning of the award process continues to prove particularly valuable, given that one of the primary purposes of the award is to close the loop between investors and companies on the issue of value creation. It is noteworthy that the award process took place against a backdrop of significant activity in the area of disclosure, with increasing evidence that, for investors and companies alike, the agenda will only grow in importance. The following comments are offered in that context.

- Disclosure does not take place in a vacuum; all sectors, from capital markets to consumers, are now requiring higher levels of transparency as a prerequisite to the trust on which their relationship with companies is based. The benefits for a company committed to high-quality disclosure are increased credibility, improved market positioning and an enhanced reputation.

- Good disclosure practice is a priority, on which future business success depends. In the current economic climate, where most business models are under significant stress, even threat, the importance of high-quality disclosure increases, and may even generate advantage for a company, particularly in relation to levels of investor confidence and access to capital.

- Directors understand the strategic nature of disclosure, and also that disclosure performance and operational performance are inextricably linked. Disclosure, even of past performance, creates expectations for the future and therefore can, and usually does, lead to changed management behaviour.

- A company's approach to disclosure is inevitably leading to further reflection on how value is being created within the business model, how existing value is being protected, and how that value story is being communicated.

- High-quality disclosure will become the hallmark of all well run companies. The evidence from last year's reporting awards process, substantiated by market practice this year, is that FTSE 100 companies do not have a monopoly on good practice narrative reporting. Companies in the FTSE 250, and lower down, have proven equally adept at communicating the story of their business in an increasingly engaging way, at little or no extra cost, and some of the best examples of innovation come from that end of the scale. Indeed, 'less is more'. The judging panel was clear in its view that it was not looking for business reviews running to excessive length – another reason why smaller companies are equally able to deliver.

- Nor is the disclosure agenda exclusively for listed companies. The introduction, over the past year, of self-regulatory disclosure regimes for parts of the private equity and hedge fund sectors, has demonstrated that, where brand, reputational and positioning issues are involved, the need for a properly considered disclosure strategy is never far away. The momentum in this area is growing, with recognition from Sovereign Wealth Funds, and parts of the alternative investments sector in other jurisdictions, that they will soon be out of position if they do not also adopt appropriate disclosure policies and practices.

- Market positioning is a more powerful and attractive driver than regulatory pressure for pursuing improved disclosure. While the disclosure ratchet moves in one direction only, the commercial rationale must remain the dominant motivation.

### What can companies do to improve their performance?

The guidance, and feedback, from the judging process, set out in this document, provide clear pointers for companies on what more they need to do to ensure they are properly positioned.

- The dominant outstanding issue remains the link between a company's strategy, its ability to deliver, and the value subsequently created. Ensuring alignment between the narrative, and the operational performance it describes, requires a stronger, and more coherent approach to identifying, and then reporting on, the unique characteristics of a company's business model which make it likely to succeed.

- In many company's reports these value pieces of the jigsaw are missing, or remain undeveloped compared to other parts of the narrative. This weakens the communication of the company's value, and leaves investors in the dark in their understanding of all aspects of the operation of a company's business model.

- In contrast, strong reporters understand that high-quality disclosure, with few or no gaps, satisfies a legitimate need of investors to know more, and understand better.

The Best Narrative Reporting award therefore seeks to acknowledge those companies whose disclosure substantially closes this knowledge gap. And because disclosure changes behaviour, the award also aims to generate greater confidence among companies to develop their capability in those areas which complete the value creation narrative. These include, though are not limited to, the issues of brand and reputation which lie at the heart of driving increased sales, customer loyalty and employee commitment, and ultimately satisfied shareholders.

Best practice reporting deepens the understanding of the process of corporate value creation, and strengthens the quality of the dialogue between a company and those with the greatest interest in the long-term sustainability of its business model. We expect to see companies increasing their use of narrative disclosure processes, not simply to deepen this dialogue but also, in recognition of the importance attached to delivery, to strengthen the systems which create the value in the first place.

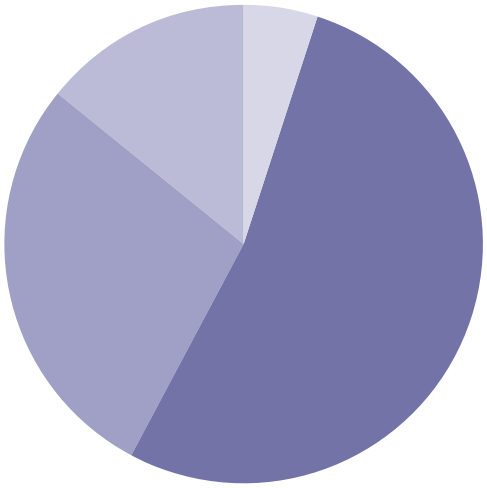
# Stage 1
# Identifying the longlist
## IR Magazine Awards Investor Perception Study

IR Magazine commissioned Mary Maude Research to carry out a quantitative study of investor perception aimed at identifying the companies that are currently the leading exponents of investor relations in the UK. The survey also garnered responses on a number of issues that currently affect the investor relations community. The research for the awards was carried out in London by Mary Maude Research in March/April 2008.

### Survey respondents

With 700 respondents, the target group interviewed consisted mainly of sell-side analysts, buy-side analysts and portfolio managers (Fig 1).

Fig 1. **Survey respondents by job function**



| | |
|---|---|
| Sell-side analysts | 53% |
| Buy-side analysts | 28% |
| Portfolio manager | 14% |
| Other* | 5% |

* *'Other' includes heads of research (buy- and sell-side), corporate governance and corporate social responsibility specialists, and independent research analysts.*

Source: Investor Perception Study, Mary Maude Research for UK IR Magazine 2008

### The questionnaire

The interviews were conducted by telephone, and each interview took between ten and 20 minutes. In relation to the 'Best Narrative Reporting' award, candidates were asked:

> *"Which company provides the best narrative reporting in the business review in its annual report? Please think in terms of the forward-looking commentary on the company's prospects, non-financial information, information about KPIs, risk factors, and so on."*

### The points system and the creation of the longlist

Respondents were asked to nominate companies by first, second and third rankings. Points were attributed to nominated companies on the basis of: five for a first placing, three for a second placing and one for a third placing.

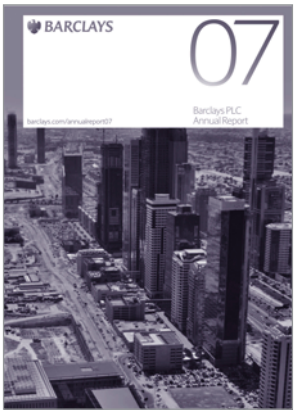
A total of 24 companies were identified through the voting process, and their names were forwarded to the IPA for further analysis. The longlist represented those companies who, in the eyes of City commentators, produced the most convincing and compelling communications to target markets within the investment community.

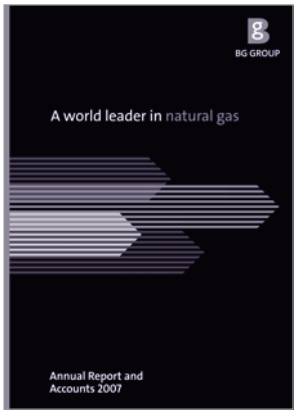
The companies rated as having the best narrative report sections were, in alphabetical order:

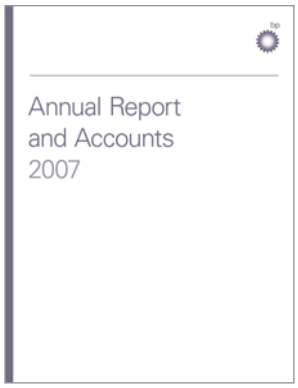
- Aviva
- Barclays
- BG Group
- BP
- British Land Company
- Cadbury Schweppes
- Capita Group
- Diageo
- GlaxoSmithKline
- Great Portland Estates
- HBOS
- Home Retail Group
- HSBC Holdings (Hong Kong)
- InterContinental Hotels Group
- Land Securities Group
- Lloyds TSB Group
- Michael Page International
- Reckitt Benckiser
- Rio Tinto
- Serco Group
- Tesco
- Vodafone Group
- WPP Group
- Xstrata

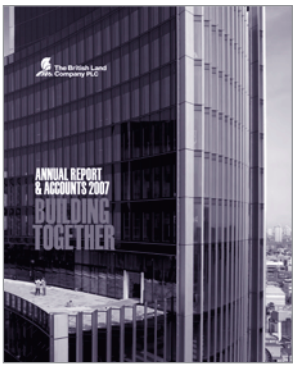
The annual reports studied were all from 2007. For avoidance of doubt, visual representations of the 24 studies are shown in Fig 2.

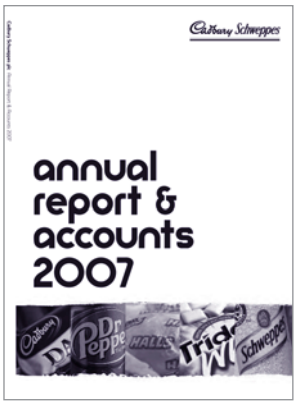
Fig 2. **The longlist**

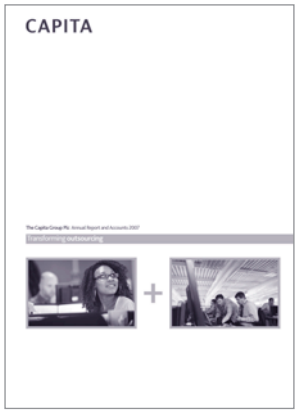


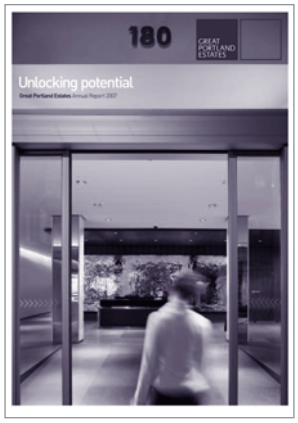



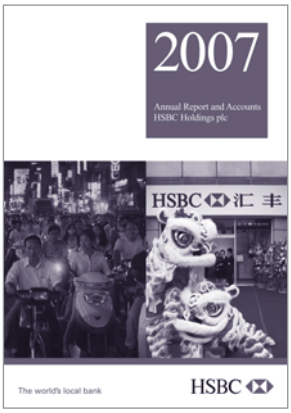



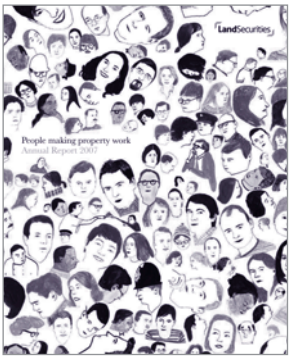



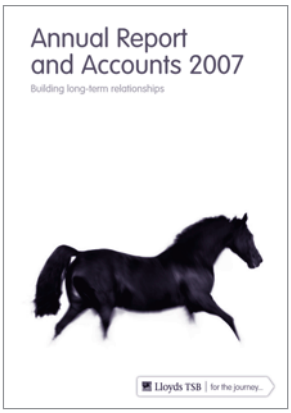






2007
Annual Report and Accounts
HSBC Holdings plc
HSBC 汇丰
The world's local bank
HSBC

IHG
opportunity, strategy, investment, targets, performance, progress, growth, profits, returns, dividends, results...
great hotels guests love™


LandSecurities
People making property work
Annual Report 2007


Annual Report and Accounts 2007
Building long-term relationships
Lloyds TSB | for the journey...

30 years of organic growth
Michael Page

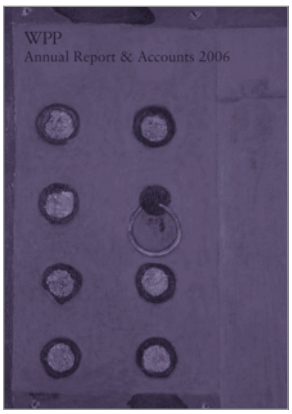
Reckitt Benckiser
Seeing is believing...

RioTinto
Annual report
Keeping the world moving
2007

Bringing service to life
serco
Improving service, increasing value
Annual Review & Accounts 2007

Tesco
Every little helps
Annual Report and Financial Statements 2007

Delivering on our strategic objectives
vodafone


WPP
Annual Report & Accounts 2006

xstrata

# Stage 2
# Creation of the shortlist
## Analysis by IPA criteria

The 24 reports on the longlist were then assessed by two IPA analysts against ten criteria, specifically developed for the award, on a 7-point marking scale from -3, for very poor performance, to +3, for excellent performance.

### The ten criteria

The IPA judging criteria were developed on the basis that the progression from 'good practice' to 'best practice' narrative disclosure required a more sophisticated set of judgements than were being used at the time in terms of general market commentary. The criteria can be sourced to the ASB's guidance to companies, before and after the abolition of the mandatory OFR. The criteria have stood the test of the relatively short period of time during which the awards have been in existence.

While, from a legal and regulatory perspective, the primary audience for the business review is the existing investor base, the criteria are designed to acknowledge that the actual audience includes potential investors, other members of the financial community (including analysts) and other business-critical stakeholders groups (including employees, customers, suppliers, community groups and NGOs). The criteria are also designed to guide those who, within the companies themselves, prepare the narrative from inception through to completion.

The criteria are designed to allow each company the flexibility to tell its story in the way it wants, displaying the personality and character which mark it out in a complex and competitive world.

1. **Concise**

   *A well communicated, accessible narrative, clearly articulating the value proposition underpinning the business, for the benefit of all those with a significant interest in the company and its success.*

- Without stipulating the number of pages, a business review should not be overlong, however complex the business model. Readers' time is limited; excess length can complicate the communication of the value proposition. The panel also looked at style, design, format, presentation, signposting and innovation – any mechanism used to attract readers' attention and keep them engaged.

2. **Comprehensive**

   *Within the constraints of producing a concise and readable document, the report painted the full performance and governance picture, as well as achieving technical compliance.*

- The business review contains a number of regulatory 'must-dos' – risk, key performance indicators (KPIs), forward look – which provide a useful structure for analysing a company's report, as well as providing an element of comparability with other companies' narratives. Where one or more of these elements is weak, it undermines the integrity of the report, and can lead to lower marks elsewhere.

### 3. Material

*Focused on those aspects of the company's operations, financial and non-financial, that are business-critical.*

- How a company talks about itself reveals much about how the business is actually run. The ability of a narrative to concentrate on the issues which really matter speaks volumes about the management culture inside the company, the operating systems and the likely quality of execution. Material disclosure distinguishes top-quality reporting.

### 4. Cohesive

*Internally consistent and joined-up reporting, linking strategy, objectives, risk and performance, with the narrative supporting the numbers.*

- Joined-up narrative, and a logical and coherent reading experience, allows an analyst or investor to see the bigger picture more clearly. Straightforward disclosure about the business plan, and the operating model, should be consistent with the overall investor relations communication strategy. A poor mark elsewhere in the report can affect the standard of disclosure achieved in this category.

### 5. Strategic

*Reporting from the perspective of the Board, identifying the key drivers of, and risks to, long-term value, thereby focusing the minds and priorities of senior management.*

- Investors are looking for high-quality Board-level thinking at every turn of the business review, and particularly disclosure linking the company's strategic analysis with the resulting operational performance. In this way investors can judge the strength of the management team and its ability to deliver, and make better-informed judgements on future prospects.

### 6. Forward looking

*Identifies (expectations of) future business performance in the context of current performance and capabilities.*

- By regulation, a business review must look at the past; to create value it should also look to the future. Investors are primarily interested in a company's prospects for generating long-term earnings growth, and targets and associated commentary build visibility and confidence. Ultimately, the strength of disclosure communicates management's ambition, and its confidence in its ability to deliver future earnings.

### 7. Explicit

*Deployment of financial and non-financial KPIs, explained and verified. Appropriate trend data and specific targets are provided.*

- The credibility of a narrative depends on the company's ability to be specific about the way in which it runs the business, the targets it sets, and how it measures progress in achieving them. The absence, or weakness, of KPIs, undermines the overall reporting effort; it raises questions in the mind of investors and may attract the interest of the Financial Reporting Review panel.

### 8. Comparative

*Places the company in its competitive context, and positions performance relative to the wider market. Market-share data provided.*

- Investors are interested in a company's ability to grow share in profitable markets, to demonstrate resilience in declining market conditions and to communicate a stronger investment rationale than that of competitors. Whatever the company's business model, and whatever its market context, the competitive situation needs to be explained – convincingly.

### 9. Comparable over time

*Recognition that trends over time are as important as the absolute performance being reported, that momentum is important, and that quantification increases credibility.*

- The use of trend data and analysis helps the reader understand whether the business model is adapting to evolving market conditions. Reconciliations between different time periods can be a particularly useful mechanism for deepening the reader's understanding of the dynamics of the market environment within which the company is operating. The sustainability of value requires supporting data over time.

### 10. Balanced

*Setting out both good and bad, emphasising success while conceding non-performance.*

- 'Telling it how it is', as recommended by the Financial Reporting Review panel, is an effective way of winning the hearts and minds of the reader. Honesty and integrity in disclosure add to the quality of the final product. Even top-performing companies have competitors, and have to manage hostile market conditions. Investors require visibility of the (potential) downside as well as the good news.

### Average scores across the 24 reports on the longlist

Fig 2. below shows the average score for each of the ten criteria. From this it is easy to see the key general areas of strength and weakness in current reporting.

Fig 3. **IPA criteria in order of average score (best to worst)**
**Average score (-3 to +3 on a 7-point scale where +3 is excellent)**

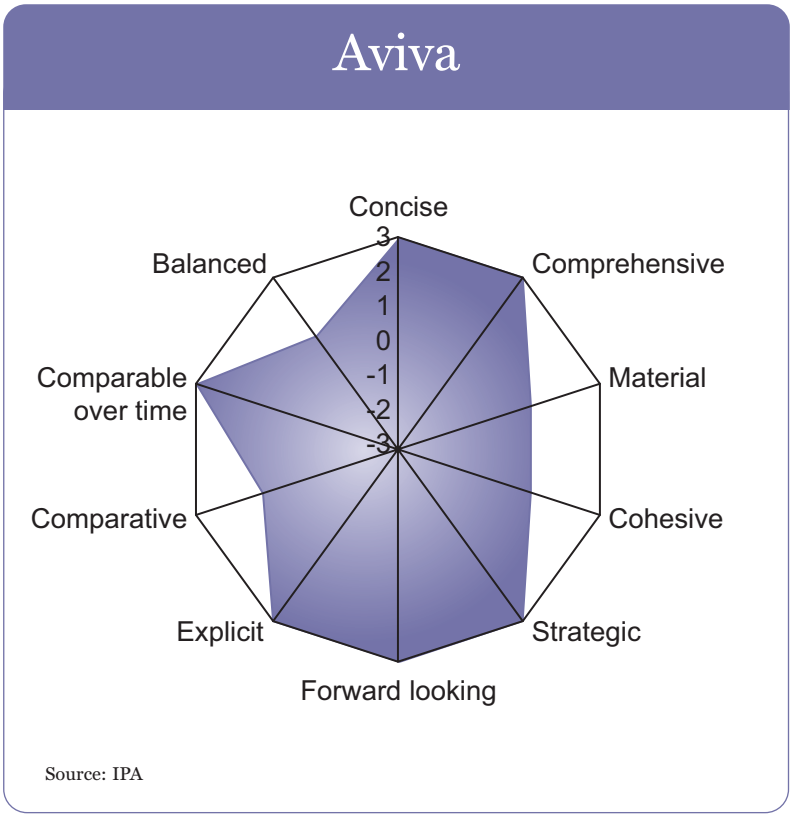
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|
| Strategic | Material | Concise | Comparable | Forward looking | Comparative | Explicit | Balanced | Cohesive | Comprehensive |
| 2.71 | 2.46 | 2.29 | 2.17 | 2.13 | 2.13 | 2.08 | 2.04 | 1.71 | 1.25 |

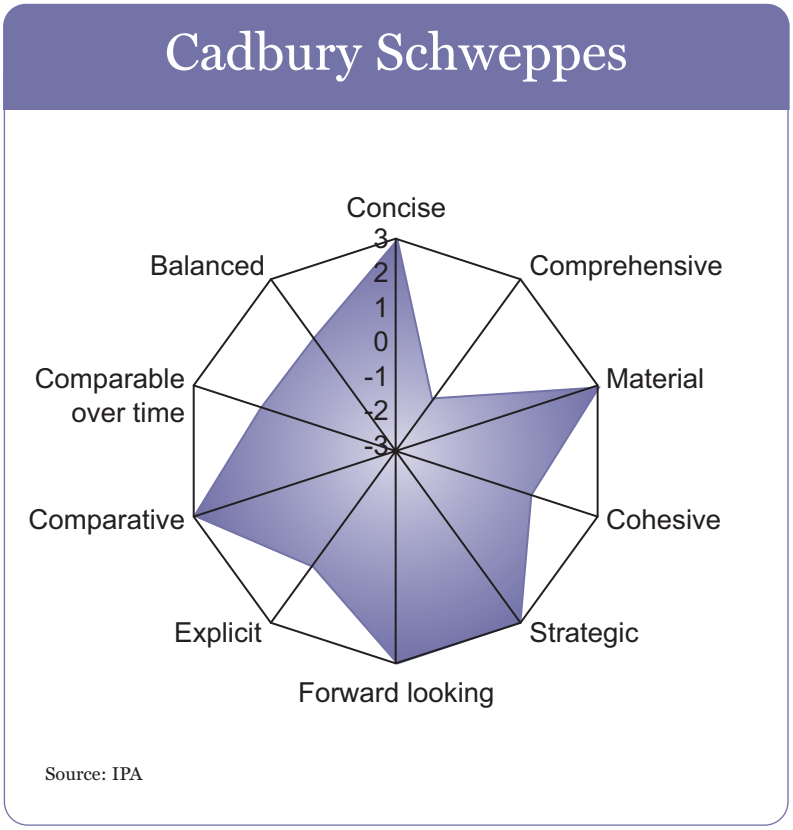
Source: IPA

## The shortlist

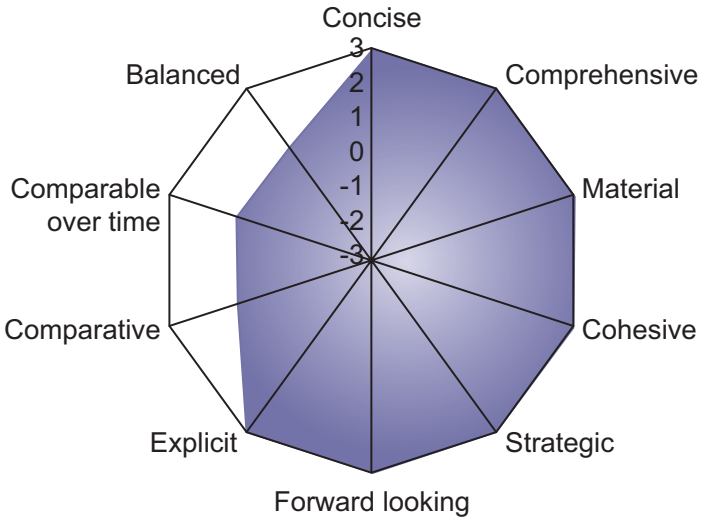
The radar graphs below illustrate the scores achieved by the top six companies out of the 24 analysed. The companies are displayed in alphabetical order:

Fig. 4 **Profiles of the six shortlisted companies against IPA criteria**



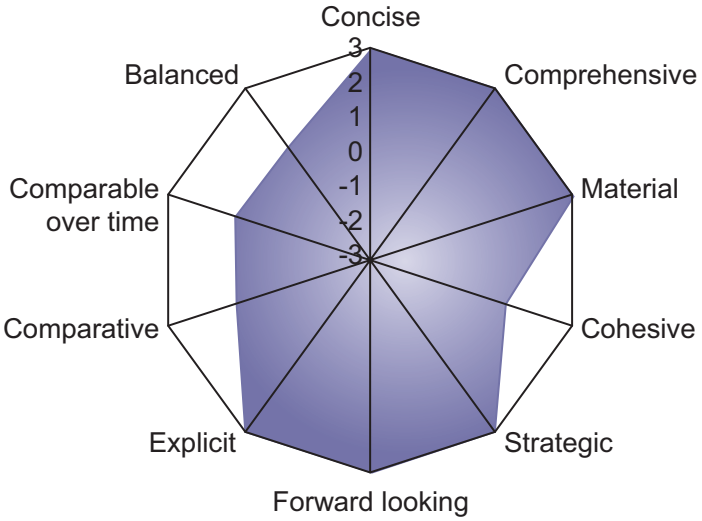



## Capita Group



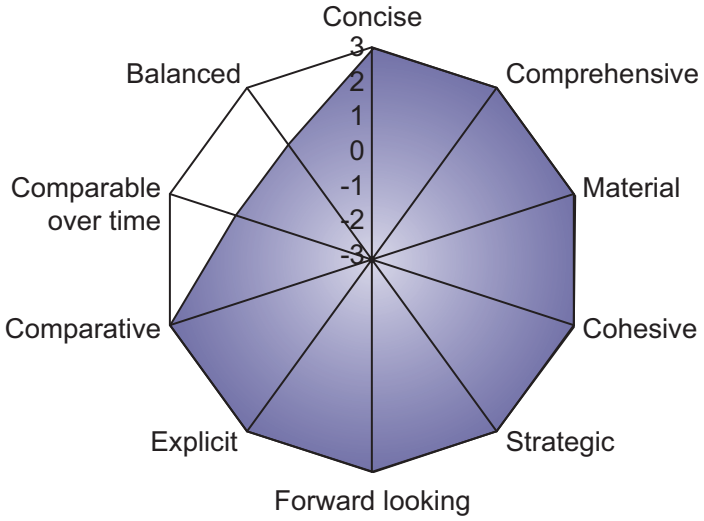

Source: IPA

## HBOS



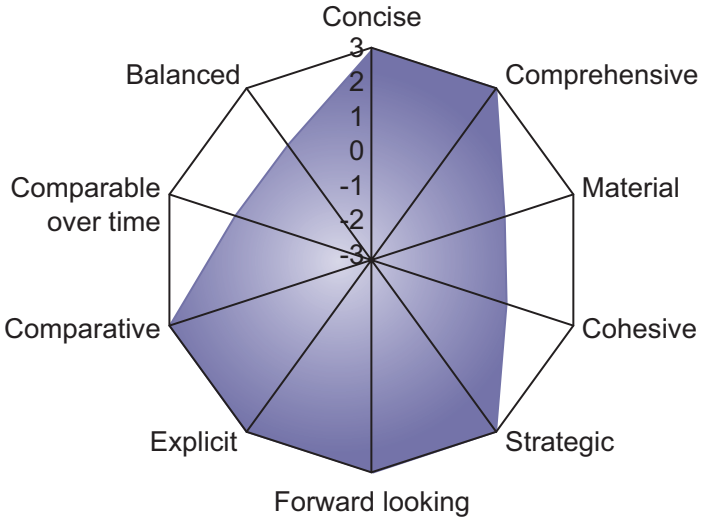

Source: IPA

## Land Securities Group




Source: IPA

## Xstrata




Source: IPA

# Stage 3
# The winner and runners up
## The IPA judging panel

After the process of marking each report against the IPA criteria, the top six reports were submitted to the expert judging panel.

Each member of the judging panel scrutinised the six reports in detail. The members then met as a group to discuss their views and challenge, as necessary, the opinions of their colleagues. At the conclusion of the judging process, the panel agreed the runners up, second place and eventual winner of the award for best narrative reporting.

### Nomination of the winner and runners up

After thorough debate the judging panel agreed the following ranking:

**Winner**
• Land Securities

**Second place**
• Capita Group

**Runners-up** (**in alphabetical order**)
• Aviva
• Xstrata

### The judging panel

The judging panel for the award was drawn from a range of organisations with an interest in better narrative reporting; including representation from large pension funds, accountancy bodies, and thinktanks engaged in understanding the value of intangible business assets: human capital, corporate reputation, marketing and brands.

Details of the judging panel follow overleaf.

Fig 5. **IPA judging panel**

**Chair**

**Moray MacLennan** – Moray is Chairman (Europe) of M&C Saatchi, with responsibility for all group companies in London, Paris, Berlin and Madrid. As President of the Institute of Practitioners in Advertising (IPA), Moray has identified as a priority for his two-year term of office to reinforce the importance of marketing and brand investment in developing long-term corporate value, and the key role of agencies in optimising that value.

**Moray McLennan** | Chairman, Europe, M & C Saatchi | IPA Chairman of Judges

**Convenor**

**Seamus Gillen** – is Founder of consultancy ValueAlpha and narrative disclosure specialist for the Institute of Chartered Secretaries and Administrators (ICSA), and Course Director of ICSA's 'Narrative Reporting in practice' seminar.

**Seamus Gillen** | IPA Convenor of Judges and Founder, ValueAlpha

**Mark Goyder** – Mark is Founder of Tomorrow's Company, the not-for-profit and agenda-setting organisation committed to 'creating a future for business which makes equal sense to staff, shareholders and society'. Tomorrow's Company has published a number of ground-breaking reports in areas ranging from pensions to climate change, as well as its work on companies' annual reports. Mark was a member of the Company Law Review Team whose deliberations informed the Companies Act 2006.

**Mark Goyder** | Founder, Tomorrow's Company

**Aine O'Keeffe** – Aine is Advisor to the Chief Executive at The Work Foundation, an independent, not-for-dividend research-based consultancy, which is the most influential voice on work, workplace and employment issues in Britain, led by Will Hutton. She has collaborated with Will on a number of publications, most recently on *Staying Ahead: an economic analysis of the creative industries in the UK* for the Department of Culture, Media and Sport.

**Aine O'Keeffe** | Advisor to the Chief Executive, The Work Foundation

**Patricia Peter** – Patricia is best known from her former position as Head of Governance at the Institute of Directors, where she established herself as one of the leading thinkers on how companies could capture increased value from governance processes. Patricia has recently moved to become the Head of Institute Governance at the Institute of Chartered Accountants in England and Wales.

**Patricia Peter** | Head of Institute Governance, Institute of Chartered Accountants

**Hamish Pringle** – Hamish is Director General of the Institute of Practitioners in Advertising (IPA), the professional institute and trade body for over 270 advertising and marketing communications agencies in the UK, representing 17,000 individuals and an annual media expenditure in excess of 15bn.

**Hamish Pringle** | Director General, Institute of Practitioners in Advertising

**David Russell** – David is Co-Head of Responsible Investment at the University Superannuation Scheme (USS), the country's second largest pension scheme, with some £30bn in assets. The fund is a pioneer in sponsoring research into the sources of long-term corporate value through its membership of the Enhanced Analytics Initiative – an international collaboration between asset owners and asset managers aimed at encouraging better investment research into long-term extra-financial issues. The Initiative currently represents total assets under management of c. €1.8 trillion (c. US$2.4 trillion).

**David Russell** | Co-Head of Responsible Investment, University Superannuation Scheme

**Jennifer Walmsley** – Jennifer, an Associate Director at Hermes Equity Ownership Services (EOS), engages with UK companies on behalf of their long-term owners with the aim of increasing shareholder value, or preventing its destruction. Hermes' EOS clients include: BT Pension Scheme (its owner); BBC; Canadian Public Sector Pensions Investment Board; National Pension Reserve Fund of Ireland; VicSuper (Australia); PKA (Denmark); and Pensioenfonds PNO Media (Netherlands).

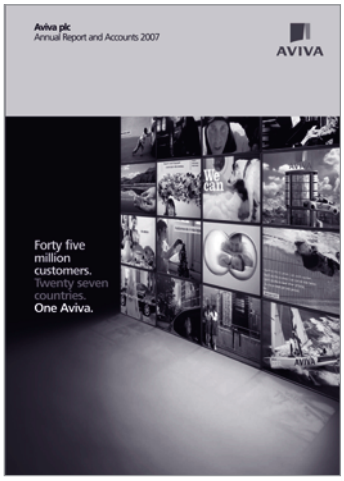
**Jennifer Walmsley** | Associate Director, Hermes Equity Ownership Services

### Judging comments

Comments made at the judging meeting were logged and amalgamated as follows:

## Runners up

### Aviva




**Total score** 26

The early use of the Aviva triangle, and its deployment throughout the report, helps the reader understand the purpose, vision, strategy and regional performance of the company from the outset. The business review succeeds in communicating the complex world of insurance, and there is consistency of approach in the disclosure in each segment. The risk narrative is strong, as is the reporting on KPIs, covering both financial and non-financial areas. The Chairman and Chief Executive's statements on the importance of the company's employees is supported by narrative focusing on the importance of people and talent as key components of Aviva's success.

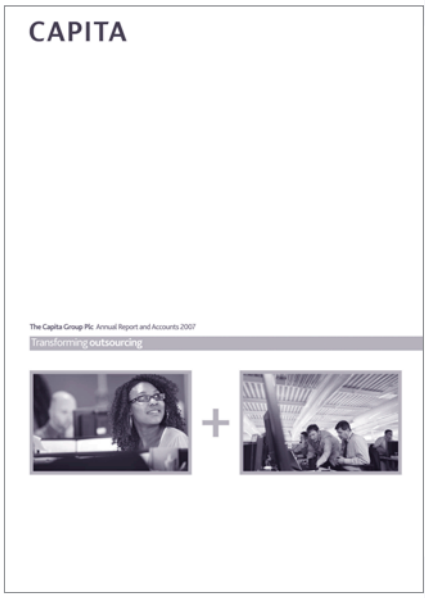
### Xstrata

**Total score** 26

The report successfully covers the complexity of a global business operating in different mineral and mining sectors, and helps the reader understand the main dynamics of the enterprise. There is a useful analysis of the outlook for the company from the Chief Executive, and this is supplemented by more detailed statements in the segmental reporting. The judges considered the disclosure on risk to be particularly strong, as well as the associated section on KPIs, covering both financial and non-financial areas of activity. The business review also details the company's market position compared to competitors, a feat still achieved by too few reports.

## Second place

### Capita

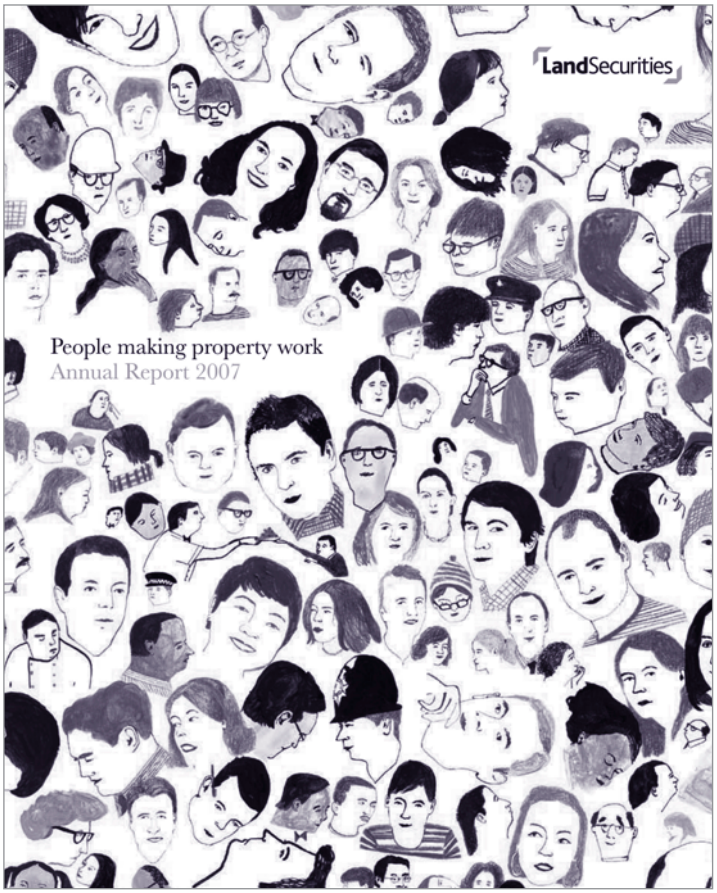



**Total score** 27

A very close runner-up and approaching the narrative from a completely different perspective, the report goes directly to the heart of the business and outlines, in clearly-understandable detail, the architecture of the business model. The judges were impressed with the articulation of strategy from the outset, and the way in which this is broken down to provide visibility of the philosophy, the systems and the processes deployed to deliver results. The section on managing the business responsibly is embedded in the text, signalling its importance, and the segmental reporting on growth markets identifies the sources of future earnings, increasing the accountability to deliver.

## Overall winner

# Land Securities




**Total score** 28

The report impressed its personality and character on the judges in a way which gives full meaning to the term 'narrative'. The business review confidently – and with style, an attractive layout and interesting graphics - outlines the complexity of the business in a way which attracts interest and invites the reader to continue all the way to the end. The identification of values, vision and strategy at the beginning is helpful, and is complemented by the Chairman's statement on the three key issues facing the business. The segmental reporting is strong, as is the explanation of drivers, and future drivers, of performance.

# Key learning from IPA analysis

In addition to marking the 24 companies on the longlist provided by IR Magazine, the IPA analytics team prepared a commentary on each of the ten criteria featuring in their marking framework. The overall objective was to provide useful feedback and guidance notes to all preparers of annual reports, looking to achieve excellence in narrative reporting.

## Concise

Considering the size of the FTSE 100 companies, and the breadth of activity each one represents, most managed to keep their reports concise and focused, producing the information in an accessible amount of pages and detail. Many scored full marks in this area, a good outcome given the difficulty of the challenge.

Some companies still produced large reports, however, with too much detail and unfocused material. Too many reports also drifted into becoming text-heavy, a key area where reports can improve next year. Diagrams, business models, integrated ideas, and an effective page layout would all increase the level of accessibility, and make the reports easier to digest.

**High performers**
- Provided only that information which was important and key to their company's performance
- Had a user-friendly, accessible design

**Low performers**
- Included unnecessary discussion on non-important areas
- Went into too much detail about small, non-key, areas of the business' operations
- Were text-heavy and hard to penetrate

## Comprehensive

This section experienced the greatest spread in terms of marks and quality, with the lowest average score due to the high number of companies that scored negative marks.

Areas of non-performance differed from one company to another. Sometimes information was missed out completely, at other times the standard of disclosure was weak – there was no specific trend. It is surprising that, even among high-performing reports, these omissions should occur. Inevitably, a poor mark in this area affected scores in other categories.

**High performers**
- Included information on all key areas such as risk, market, strategy, future plans, KPIs, people, non-financial assets
- Made sure they provided a full company story

**Low performers**
- Left out important detail
- Didn't address key issues
- Were too text heavy, making it difficult to find specific information

## Cohesive

Companies displaying the highest standards in this area generally had the highest quality of report. Only three companies gained full marks in this category, and all were winners: Land Securities, Capita and Xstrata.

This is a difficult area to get right, but by doing so a company can significantly improve the power of its disclosure. The best reports opened early on with strategy-focused content, and used this as an umbrella to structure the flow of information. They linked all information back to strategy, explaining its purpose, and then used performance commentary in relation to objectives to analyse the success of the strategy and its implementation.

Companies should see these reports as holistic documents, which follow on logically throughout. Free-standing sections, though easier to construct, render the report of a much lower quality, and the content potentially confusing.

**High performers**

- Started with strategy and used it to control and define the flow of information in the rest of the report
- Linked all results and detail into the company's strategy and future plans
- Created models that explained the relevance of the information being disclosed
- Created a complete document with all sections being linked

**Low performers**

- Kept each section separate and isolated
- Failed to link detail to strategy (or future prospects)
- Described the past with no analysis or explanation

## Balanced

This is the category in which companies scored the fewest high marks, although many companies scored two out of three – not an area of major weakness, but improvement is possible. Some reports failed to give an account of the markets in which they operated and the competitive challenges encountered in the past, possibly with an eye on the future. Some reports failed to provide a balanced view of the risks their company faced. In contrast, the analysis offered by Land Securities, with risks highlighted per business segment and throughout the report, provided valuable insights into the challenges involved in keeping the business on course.

**High performers**

- Acknowledged areas of weakness, described them, and then explained how they would improve performance
- Analysed changes in the market that might affect performance, and offered strategies to mitigate the damage
- Commented on their rivals and how their strategies affected them

**Low performers**

- Failed to accept or mention any obvious weaknesses or mistakes
- Ignored their market and how it is changing, and ignored their competitors

### Explicit

Some companies clearly failed to identify their KPIs. Despite the legislative requirements in this area, which may leave room for manoeuvre, stakeholders' expectations make it inconceivable that any credible business narrative can get by without the deployment of carefully thought through indicators. The best companies had both financial and non-financial KPIs spread over time, with trend data and clear explanation.

Many companies failed to address the challenge of deploying non-financial KPIs, including in such business-critical areas as brand awareness, customer satisfaction and employee satisfaction. Non-financial KPIs often relate to business processes which generate long-term value, and represent the distinct and unique characteristics of the company's business model. Poor performance in this area meant that companies failed to articulate one of the key aspects of the value proposition, namely the ability of management to harness and leverage the intangible assets which are an indispensable part of their business success.

**High performers**

- Had a good mix of KPIs that covered financial and key non-financial areas
- Analysed their KPIs so that their relevance was justified and the results explained
- Offered comparison over time so that trends could be analysed
- Linked their KPIs into strategy and targets

**Low performers**

- Failed to identify KPIs clearly
- Restricted themselves to only the most basic financial KPIs
- Failed to explain, analyse or justify their chosen KPIs
- Chose obscure KPIs

### Comparable over time

With nearly all companies providing data that offered a comparison with the previous year, this category is defined more by those who performed best. A minority of companies offered comparisons over a minimum of four years. They deployed graphs which analysed trends and provided a picture of the long-term direction of the company, allowing them to place the year's results in context.

In contrast, some reports gave too much historical background, without adequate explanation of how this was relevant to the company's present position and its future prospects. This information might best be left to a section on the corporate website, unless its rationale for inclusion in the business review is made more explicit.

**High performers**

- Offered comparisons over several years in numerous different areas
- Used graphs to analyse the trends of the past several years
- Clearly linked the information into the main narrative

**Low performers**

- Only offered one-year comparisons
- Offered no trend data
- Failed to incorporate the data into the mainstream narrative

### Forward looking

The best companies appeared to do two things well. They provided specifics, in terms of dates and projected figures, and they grounded their marketplace information and strategy in the future. A good example of a company doing this well is GlaxoSmithKline, which explained key future research and development, provided a detailed pipeline, and articulated a strong explanation of the evolving market in which they operate. The weaknesses of many companies in this area stemmed from either a failure to address the future, due to a traditional reporting format, or a failure to provide specific targets for the future, leaving the report vague and open-ended.

**High performers**

- Had a forward-looking focus to the report
- Gave specific predictions and targets for the immediate and mid-term future
- Included pipelines and completion dates where appropriate
- Had clear goals for the future, and expressed a means to measure their success

**Low performers**

- Reported only on past events
- Provided only vague and general objectives for the future ("increase the size of the business")
- Made no predictions

### Comparative

Placing a company within its competitive context is key for an understanding of how it will develop and what the future holds. Reports need to discuss a company's place within its markets, its competitors and how changes in that market will affect them. Too many companies ignored this discussion and focussed too narrowly on introspective comments about their actions, without providing the market context which justified the strategic response. Some companies simply provided a general discussion on the economy, without reference to the implications for their specific market.

GlaxoSmithKline provided a commendable section on Competition, discussing its competitors and how it aimed to strive to be the most efficient and competitive company in the sector. Beyond this, GlaxoSmithKline also deployed strong sections on the regulatory environment, and global manufacturing and supply. This helped base the company in its market context, providing a realistic explanation of the constraints and issues it faces.

**High performers**

- Gave detail on the key challenges and opportunities in the market
- Explicitly linked the company into the market and gave its market position
- Gave detail on how key regulation affects them, and detail on how possible future regulation may affect them

**Low performers**

- Gave no description of the wider market place
- Failed to comment on their position in the market, or on their competitors
- Had an introspective approach, focusing only on their company's past actions

### Material

Companies seemed to find it difficult to find the right balance in terms of their reporting on social and environmental issues. Some reports excluded consideration of their social or environmental impact, where it seemed some commentary would have been appropriate, while others reported on non-business-critical issues whose relevance to the business model was difficult to understand.

Reports often failed to provide enough information on other intangible assets especially, from the IPA's perspective, their brand profile and, where relevant, their marketing resource and capability. Without an explanation of the brand, a company cannot explain its strategy for selling or increasing demand for its product. Areas where disclosure was of a higher standard included that of Reckitt Benckiser, which commented on their media spend and the importance of brands (especially their superbrands). WPP were also strong in highlighting their key brands. Aviva were the only company to discuss a specific campaign. Generally, however, too many companies failed to highlight the importance of their brand as a key asset of the business, how it had grown and developed, and their plans for it for the future.

**High performers**

- Reported on those areas that are key to their business performance
- Explained and linked all information into the strategy, performance and future prospects for the company

**Low performers**

- Left out key areas of the business or failed to discuss key actions and issues
- Discussed non-critical business issues at length

### Strategic

Companies in the longlist generally handled disclosure on strategy well, with the key differentiator between the good and the best being the ability of companies to weave the strategic narrative into their report so that it formed a coherent thread throughout.

Reports were best when controlled by an umbrella of strategies/objectives/aims which informed all of the report. This gave a clear focus to the information and a direction to the report. It also helped companies avoid a traditional report style format of basic historical information. Clear statements from the Chairman and CEO help communicate the strategic messages of the narrative. Strategy can often also be best represented and displayed through the use of models, providing the reader with a clear mental picture of the company's strategy and how all the information they read fits into that.

**High performers**

- Opened with, and clearly identified, their strategy
- Linked the strategy, themes and issues into their entire report, and used the overall content as an umbrella to control and define the flow of information
- Fitted their strategy into an easily accessible and identifiable model

**Low performers**

- Kept their strategy too broad and vague
- Failed to link their strategy into the rest of their report

# Additional reading

**IPA publications**

KPIs for Marketing Reporting: *A framework for effective marketing disclosure*
(IPA 2008)

Best Practice in Narrative Reporting: *A review of FTSE 350 listed companies*
(IPA 2007)

How Analysts View Marketing: *An IPA study of City opinion*
(IPA 2006)

The Development of Intangibles Reporting: *How intangible assets are transforming management and reporting practice*
(IPA 2007)

**Other**

A review of Narrative reporting by UK Listed Companies in 2006
(Accounting Standards Board, 2007)

Narrative Reporting Content in the FTSE 100
(Radley Yelder 2008)

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