Preparatory thoughts for IFC workshop in Vienna, June 20/21

By Peter Montagnon, Associate Director, Institute of Business Ethics

Context
Narrative reporting has become much more important over recent years. Long gone are the days when company disclosures mainly consisted of figures, many of them manipulated and most hard to interpret, so that it was exceptionally difficult for outsiders to tell what was actually going on within an organisation.

While financial accounting has arguably made a number of strides forward, companies are now also expected to describe what they are doing in narrative form. This will often involve a focus on risks, including those that arise from their relations with broader society from which they derive their franchise.

Pressure to deliver more information has increased, especially since the debate around corporate culture. Companies are now expected to describe their values, business model, business prospects, risks and how they are dealt with, approach to diversity, health and safety record, corporate governance arrangements, remuneration, the supply chain, the environment and their health and safety record.

This is quite a tall order. One question is whether we are asking too much of companies. Who actually reads these voluminous reports? Do they tell us anything? Those written from a compliance perspective are generally not very informative. Those that are more of a personal statement by the corporate leadership tend to tell us more.

Recommendations
We need to draw some best practice out of all this, and, in doing so, make sure that companies understand that it is in their own interest to sort out their ideas and tell their story. So here are some thoughts:

- Narrative reporting needs to be put in explicit context. What is the purpose of the company? What are its values? How do these flow into
the business model (opportunities) and risks? Corporate leaders need to lay out the company’s values and explain how they seek to embed them in their own behaviour and throughout the company.

- Reporting must avoid spin and be consistent with the financial numbers. The FRC’s mantra of “fair balanced and reasonable” is a good objective.
- Input data matter as much, if not more, than those relating to outcomes. Of course companies need to report historical data, like the number of fatal accidents affecting their workforce, but they also need to focus on what might be called leading indicators, those which point up the risk of bad outcomes. In health and safety the forward looking indicator would be near misses and how they were handled.
- A lot of the data around corporate culture requires judgement and cannot simply be presented in raw form. Fewer calls to a speak-up line might either mean that the background culture has improved or that for some reason people have become afraid to speak up.
- We need to join up the dots and look for patterns. Is the result of the employee survey (which should be a leading indicator) consistent with the mood of people in the supply chain?

Challenges
The debate about culture means we are likely to see new reporting requirements in a situation where, as mentioned earlier, companies are already expected to report a wealth of information. This may require a wholesale rethink of narrative reporting.

Ideally reporting should be more personalised and executives should explain how they interpret the material. That way we can gain a better understanding of their basic values and their approach to culture.

In a more customised reporting world it will be difficult to get standardisation that allows comparisons between companies and sectors.

A legal, compliance-driven approach yields arid results that help nobody, but companies still have to be aware of legal liability.

June 12, 2017