Reporting on strategy

As investors and other stakeholders continue to demand greater transparency and disclosure, one area of importance is corporate strategy. Strategy reporting tells investors and other stakeholders how a reporting organization plans to create value—which may be financial, societal or natural—for today and the future.

Of course, net value created reflects the total picture of value created minus any value destroyed. A thorough, comprehensive strategy should look at how an organization plans to create different types of value for different stakeholders, and how it plans to overcome obstacles, including minimizing value destruction.

Why is reporting on corporate strategy important?

It tells us where a company is heading, and how it intends to get there. Strategy reporting is therefore almost always forward looking, and provides an important counterweight to historical financial reporting. It helps investors and other report readers by providing critical information on:

*Management quality and decision making
*Governance and accountability

What does a good strategy look like?

The core of a good strategy is an explanation of how an organisation creates value, and how it intends to create value going forward. But a good strategy does more than create goals or vision; it honestly acknowledges the challenges faced and provides a path or approach for overcoming them. Some of these challenges may involve managing social and environmental impacts.

There should be a natural fit between the reporting organization's business model and strategy. If there is not, both can be called into question.

A long list of things to do, often mislabelled as strategies or objectives, is not a strategy. It is just a list of things to do. Other activities that may be mislabelled as strategies include:

- Seeking a single ideal competitive position in an industry
- Benchmarking and adopting best practices
- Focusing on a few key success factors
- Rapidly responding to ever-evolving competitive and market changes

A strategy involves a comprehensive plan to develop competitive advantage and create net positive value. It should include governance mechanisms such as links to executive remuneration to ensure success, and relevant KPIs to measure success on the journey toward goals. Do KPIs and performance
reporting align with strategic goals? Does the company hold itself publicly accountable for strategic goals? Is remuneration linked to strategic goals or only to financial performance?

What does good strategy reporting look like?

For strategy reporting to be fully useful, it should be accompanied by an assessment of the reporting organization's operating environment, business context and risks and opportunities. Information on stakeholder engagement is also extremely useful context for understanding corporate strategies. Finally, related KPIs and governance information are important to provide a complete overview.

It is not just important to report on strategic goals--it's important to provide insight into why the strategy is the right path, with the right goals. It can be argued that strategy setting is management's most important task, so it is important to make the case that strategy setting is done well and that decisions related to strategy setting are sound.

Strategy reporting is a good place to discuss major plans and initiatives, especially in the context of objectives and the business model. The financing needs and resources for specific investments can also be discussed, and this is required in the MD&A sections for certain countries.

High level priorities should be introduced and linked to the strategy. KPIs can be grouped under each objective. Objectives do not have to be very detailed. The detail comes from the discussion of links to strategy and KPI.

Key performance indicators should be more specific than broader objectives, but should clearly fit under them and the wider strategy. A thorough, comprehensive strategy should involve both non-financial and financial KPIs, and link these to what the reporting organization would like to achieve, and risks they would like to mitigate and challenges to overcome. Non-financial KPI may cover operational performance, market position, product quality, research and development, customer satisfaction, or sustainability indicators related to employees, the environment, local communities or local stakeholders.

The annual report should discuss how the company develops strategy, and the roles of senior management and the board. Try to include company specific details, noting, for instance, when and how the board discusses strategy with senior management.

How many strategies should a reporting organization report on?

Ideally, goals and objectives, as well as the strategic path, should be cascaded throughout an organization so that all employees understand what they should be working towards.

All too often, companies fragment their strategies rather than cascading them. What this can look like: every department working with--and reporting on--their own version of the corporate strategy. In cases such as this, companies sometimes report about different strategies in different chapters of the annual report.

This can not only impede success internally--with departments unable to work together effectively--but it can be very confusing to external report readers. It's fine to have a number of strategies if these are very clearly linked together. For external reporting, the more streamlined and coherent strategy presentation is, the better. In this case, less definitely is more.