THE RISE OF DATA

AND WHAT IT MEANS FOR CORPORATE REPORTING

Corporate reporting has always been the main way that companies communicate with their stakeholders. But with the availability of data on companies increasing every day, can the company still own its own story?

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By 2025, there will be 175 zettabytes of data produced every year; a 530% increase from 2018. Investors are already using this data to get ahead of the information published by companies. Examples of this are the use of satellite imagery to analyse the number of trucks leaving a factory to predict sales before the sales figures are available, or the use of algorithms on travel portals to check on airline load factors before this information is reported.

The rise of data, coupled with tools that allow that data to be harnessed and analysed, is a challenge to the corporate report but, rather than making it superfluous to the investment process it, if anything, strengthens the value of reporting. If you consider the above examples of harvested data, you will note that their value lies in a short-term advantage; they are useful only in so much that they represent knowledge ahead of the general market.

One response to this would be to move to real-time reporting, to provide universal access to relevant data. Although some have called for this, more recently, there has been a strong push for companies to focus, not on the short term, but the longer term. In the UK, for example, the Investment Association has been calling on companies to drop quarterly reporting and focus on the longer term. Therefore, recognising that data-centric investment is, by its nature, focused on trading opportunities, not on long-term value creation, the best approach might be to ignore it and consider how the challenge of technology pushes the annual report to evolve into longer-term value creation.

Communicating value creation

But the question is, are companies good at articulating how they are creating value for the long-term? Often the answer to this is “not quite”. Partly, this is due to the historical approach that reporting should be backward-looking – the income statement is a record of performance for the past year and the balance sheet provides information about assets and liabilities measured at a point in time in the past. However, the front half of the annual report, as well as investor presentations, preliminary results announcements and other corporate communications provide an opportunity to articulate how the company is generating long-term value. Easy, right? Well, perhaps not. Much of this value is intangible and difficult to measure which makes it difficult for investors to analyse.

However, it is fair to say that the market is developing solutions to these difficulties. The Sustainability Accounting Standards Board (SASB) recently developed a set of standardised performance indicators (both financial and non-financial) for different industries. The Financial Reporting Lab in the UK has developed a framework (based on discussions with investors) to help companies decide and report their metrics (both financial and non-financial). It set out five principles. Investors seek disclosure that is:

1. Aligned to the company’s strategy and provides insight into its business model, and how it creates long-term value.
2. Transparent on how the metrics are calculated and defined to enable investors to understand how the metrics have been derived and make their own adjustments if necessary.
3. In context, providing information on whether they are in line with expectations and targets set.
4. Reliable, with an explanation of how the company (for example, through its audit committee) have assessed reliability.
5. Consistent from year to year, with a clear track record preferably over five years or more.

Information provided by companies or the market

Regulation is also driving change. The non-financial reporting directive requires companies to provide more information to the market and the Lab’s framework provides a helpful guide to developing some of the necessary metrics to measure this performance. If companies do not provide this information, the market will do it for them, largely from the numerous social media data tools that are becoming more widely available. These increasingly measure things like customer satisfaction, employee engagement and environmental impact. More sophisticated AI tools are also being used to analyse unstructured data from social media feeds to make assessments of the value that companies are generating. These might not be perfect and may not be the same as the company’s perspective but they are increasingly influential in consumer and investor decision-making.

So what can companies do in this evermore complex environment? Two things come to mind. Firstly, companies should develop their own measures using the principles that the Lab has set out. Secondly, they should find out and address whether these measures are consistent with external data. Whatever approach companies take, it is inevitable that data will increase and that investors will look to use that data. Companies need to articulate how they are generating value before others do it for them.

ABOUT THE FINANCIAL REPORTING LAB

The Financial Reporting Lab (part of the Financial Reporting Council) provides a safe environment for companies and investors to explore better ways of reporting. It publishes reports that provide practical ways of improving reporting based on those discussions with investors and companies. The reports, including those found in this article, can be found at: frc.org.uk/investors/financial-reporting-lab

The Lab always welcomes comments and feedback and can be contacted by e-mail at: financialreportinglab@frc.org.uk

REPORT OR YOU WILL BE REPORTED

The workshop “Report or you will be reported” was a valid guide to better understand how companies are affected by the ever-increasing data-jungle from alternative data-sources. It was sponsored by MDD (Management Digital Data AG), specialist in the digitalisation of report creation processes and the business reporting standard XBRL. For Armin Galliker, CEO and owner of MDD, the importance of efficient and reliable data creation processes is an important prerequisite to enable companies to articulate timely how they generate value with their reporting before others do it for them. Further key take-aways can be ordered via info@corporate-reporting.com
(this offer is reserved for corporate members of the CCR).