UK Findings from KPMG’s Survey of Business Reporting

KPMG International’s Survey of Business Reporting covers some 270 larger listed company annual reports, of which one tenth are from the UK FTSE100. The survey highlights the gap between the information investors need to assess the health and prospects of companies, and the information they are currently receiving through corporate reporting channels. UK Company reports scored well in a number of aspects of the survey - notably, they tended to be more concise, and delivered more focused risk discussions. However, they also share many of the challenges apparent in the global survey particularly when it comes to providing a deeper view of business strategy and performance. The result is that UK reports tend to emphasise a short-term view of performance at the expense of the longer-term.
As UK companies continue to evolve their annual reports, the findings from the survey suggest three broad areas deserve particular attention:

— **Ensure the strategy discussion strikes the right balance between short term improvement tweaks and long-term strategy**

A third of UK reports focused only on short-term matters such as efficiency programmes and incremental revenue initiatives. Addressing underlying competitive strengths, such as the customer experience, and explaining how these are being developed and protected could help companies to provide a longer-term perspective.

— **Close the gaps in business model descriptions**

UK business model descriptions can lack depth and often focus on only a few aspects of the business. The most common gaps in descriptions related to know-how and supplier relationships which can represent key areas of competitive advantage and challenge. The gaps in these descriptions can be carried through to the rest of the report, and they can also make it difficult for investors to interpret the implications of external factors and events without further guidance from the company.

— **Make better use of non-financial KPIs**

The best company reports include a range of relevant measures covering, for example, brand, research, staff, customer base, product base, and efficiency. UK companies typically provide KPIs over two or three of these areas, but German companies, which scored particularly strongly in this area, average four or five.
UK financial statements are more concise than in many countries, but companies need to focus on improving the clarity and relevance of their strategy and performance narratives.

| ✔ | The ‘clear and concise’ focus in the UK is indeed producing more concise financial statements – At an average of 67 pages, UK financial statements were almost a quarter shorter than the survey average. |
| ✔ | The average UK annual report was 10% shorter than the survey average at 181 pages – Still leaving plenty of space to provide a clear picture of strategy and performance. |
| ⚠ | In common with other countries, UK narrative discussions of performance can be repetitive, anecdotal, and fail to reflect business priorities. |

### Annual report length

![Annual report length chart](image)

- **Global reports**
- **UK reports**

(1) In some countries disclosures that would normally be provided in an annual report are included in a separate document. For comparability these additional disclosures are included in the report page count.
Strategy discussions tend to be biased towards short-term operational enhancements, with some key elements of longer-term strategy missing from the majority of reports. To address this, UK companies could do more to balance discussion of short-term operational initiatives with analysis of how their underlying competitive strengths are being developed and protected.

**UK Companies are more likely to look beyond the short term when discussing strategy. Nevertheless, one third of UK Reports did not look beyond short term factors** (compared to the survey average of 44%).

In common with most countries, the two most frequently discussed aspects of strategy were focused on short term operational enhancement. Incremental revenue initiatives featured in 62% of strategy discussions, and efficiency initiatives in 59% of UK strategy narratives.

Looking at longer-term aspects of strategy discussions, in the UK, just **17%** addressed customer experience, whilst only **24%** covered reputation.

---

**Aspects of strategy addressed in reports**

![Graph of strategy addressed in reports](image-url)
In common with other countries, UK business model descriptions can lack depth, and focus on only a few aspects of the business. These gaps can often be carried through into the discussions of strategy and performance. They can also make it difficult for investors to interpret the implications of significant matters as they arise without additional guidance from the company.

Across eight common areas of a business model where companies typically aim to build competitive advantage (identified below), on average UK reports discussed only five, often at a superficial level. The most common gaps in business model descriptions were know-how and supplier relationships. 48% of UK reports don’t recognise know-how as a key part of their business model; and 62% don’t describe the supplier relationships and inputs the business depends on.

### Aspects of the business model described in reports

- **Employee base**: 80%
- **Product base**: 70%
- **Customer base**: 60%
- **Key Processes**: 50%
- **Brand & Market Position**: 40%
- **Operating Sites**: 30%
- **Knowledge & Expertise**: 20%
- **Suppliers & Inputs**: 10%

Key aspects of the business model are not being covered in some reports.

---

(1) Companies providing at least some information on each aspect of their business model.
A longer-term perspective on performance

Better reporting of non-financial KPIs could help to balance short-term discussions of financial performance with a longer-term view of business success. Both the form and focus of measures provided by UK companies could be improved.

KPIs are often provided in a form that emphasises a short-term view of performance. Just under half (44%) of operational performance measures quoted in UK reports were given for a single period only – Typically embedded in the narrative text.

Only 20% of UK operational performance measures were given as a track record, covering five or more years. That’s better than the global average of 9%, but could be much higher.

Looking across six key areas of operational performance (efficiency, customers, staff based, product based, know-how, and brand and market share), on average UK companies provided KPIs to address just three of these performance areas.

In fact, just 14% of UK reports came close to providing performance information on at least five of the six key areas listed above that can help to provide a longer term view of business success. Reporting of these measures is typically strongest amongst German companies, with 54% of reports covering at least five of the six areas.

Aspects of operational performance addressed

<table>
<thead>
<tr>
<th>% of reports providing a KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
</tr>
<tr>
<td>Global Average</td>
</tr>
<tr>
<td>UK Average</td>
</tr>
</tbody>
</table>

(1) Companies providing objective measures that show whether or not performance is improving.
KPIs that align with strategic priorities

Most companies can point to KPIs covering two or three aspects of operational performance. The right measures can provide valuable insight into strategic progress and business prospects, but these are not widely used. Companies in the UK and globally could look harder to identify the measures that best align with the success factors for their business.

Some companies are providing simple non-financial KPIs that align with the operational priorities of the business, but these measures should be relevant to many more:

- **Building the customer base**: 17% of UK reports show whether the business is winning or retaining customers. That’s consistent with the global average, but low in absolute terms.

- **Product quality and safety**: Whilst almost a third of UK companies identified product safety or failure as principal risk, just 7% provided a related KPI.

- **Growing the brand**: Just 14% of UK reports show whether the business is building brand or market share.

- **Retaining business-critical staff**: Almost half of UK companies provide general staff-related measures, covering staff retention or satisfaction, but it is rare to see information that specifically addresses the key groups of staff most critical to business success.

Customer focused performance reporting

![Image showing percentage of companies providing measures across different contexts]

- **Contextual information includes single period measures that don’t allow changes in performance to be assessed.**

Performance analysis is often limited to less insightful measures.
Some UK annual reports provide insight into current business performance to complement the historical data, potentially providing a cleaner base-line from which to assess future prospects. A quarter provide a financial forecast, but few follow this up by comparing results to past guidance.

**28%** of UK reports use current sales performance information – for example, order-book or sales run-rate – to provide insight into current base-line performance for the business. That’s significantly ahead of the survey average of 7%.

Just over a quarter of UK companies included a financial forecast in their annual report, consistent with the global average. However, in general, this is provided with limited supporting detail and is not followed up by comparing results to past guidance, as, for example, German companies do.

---

**Reports addressing each aspect of performance**

Reports encourage a backwards looking view of performance.
Focused risk discussions

UK risk discussions generally have a stronger focus on shareholder value, with an emphasis on matters affecting the business model and strategy, but more could be done to explain progress in managing these risks.

- **UK risk disclosures have a more strategic focus.** Just over half (56%) of all reported risks were focused on the business model and strategy, compared to a global average of 39%.

- **UK companies largely avoid boilerplate risk disclosures** that have resulted in certain risks becoming almost standard disclosures in some countries. As a result, the average UK company disclosed 13 principal risks, whilst companies in five countries in the survey averaged over 20 principal risks per company.

- **Risk discussions tend to be passive.** Greater use could be made of risk heatmaps and other approaches to show how the risk profile has been managed over time. It is also rare for risk disclosures to be supported by a related KPI.

![Risk disclosure focus](image)

**UK risk reporting places more emphasis on factors affecting the business model and strategy**
KPMG’s Survey of Business Reporting is based on analysis of 270 annual reports from larger listed companies, covering 16 countries and 15 non-financial industry super-sectors, one tenth of which were from the UK FTSE100. The survey looked at the quantitative and qualitative information reported in relation to companies’ business model, strategy, performance and risk.


Matt Chapman
Better Business Reporting
KPMG UK
T +44 (0)20 7311 3236
E matthew.chapman@kpmg.co.uk