



Reporting and Communications Developments

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Today's Corporate Reporting Challenges

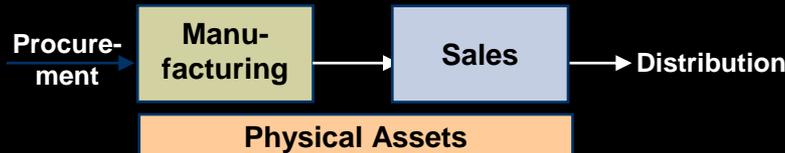
The purpose:

To solve investor's/stakeholder's information problem:
„ How good or bad will the black box perform?“



1. The Knowledge Economy: Changing Internal Business Economics

Traditional Industrial Operations Model

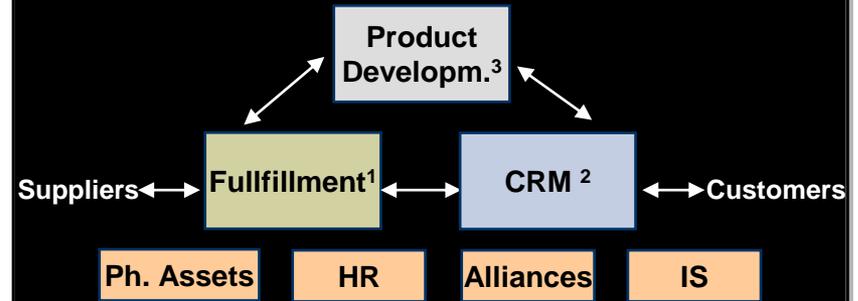


- Time dimension: Month/Quarter
- More direct relation between input and output
- Resources/Assets can be acquired and deployed short term
- Reporting and control instruments: I/S, B/S

Reporting on capabilities and resources (assets):
Balance Sheet

Reporting on value extraction success (profit):
Income Statement

Today's Operations Model

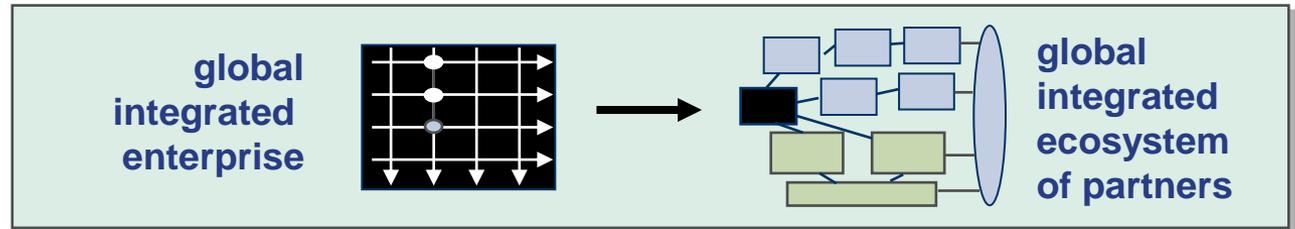


- Time dimension: Quarter¹, 1-2 years², 3-5 years³
- More indirect relation between input and output
- Major resources have to be developed in-house
- Reporting and control instruments: ?

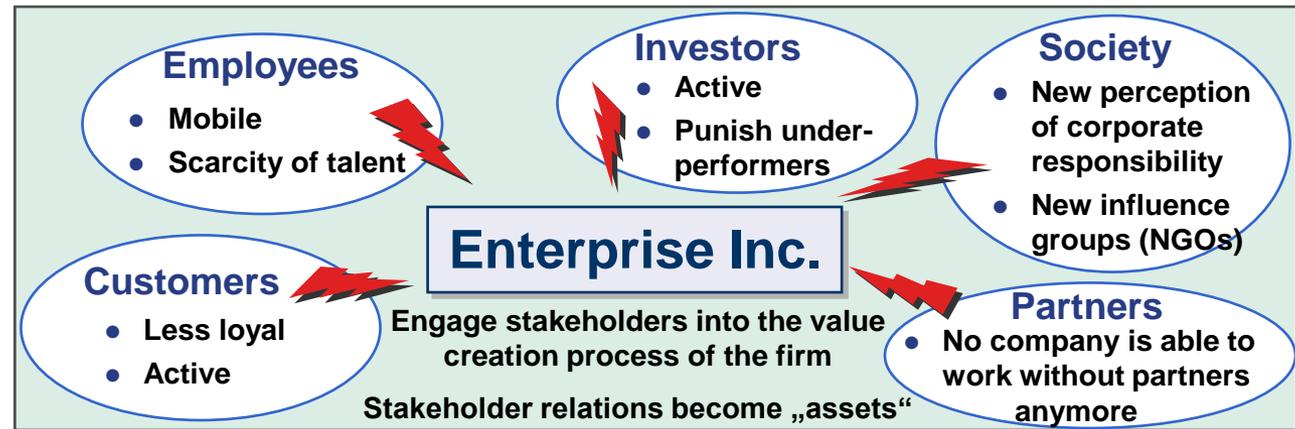
- **Dynamic Complexity: Growing tension between value creation / value extraction**
 - **Assets and operations more interlinked**

Today's Corporate Reporting Challenges

2. The Networked Economy: Changing Enterprise Structures



3. The Democratized Economy: Changing Corporate Governance Standards



Requirements:

- **Extended information about corporate performance:** The corporate reporting system has to reflect the companies business model and should inform about operational KPIs as well as about strategy, its implementation process, and about related management challenges
- **Information about the dynamics of long term value creation and short term performance management:** Transparency of risks and opportunities. Information about how the company is trying to balance short performance vs. long term value creation.
- **Information about the extended enterprise:** Status of network creation activities, information about the network's potential and about its performance
- **Stakeholder oriented reporting and communication:** Engage stakeholders into the corporate strategy and performance management process. Reporting from a stakeholder point of view.

Corporate Reporting and Communication Developments

Examples of current work for improving corporate reporting

FASB / SEC

Framework for Supplemental Reporting: business model description, intangibles performance measures, operational performance measures, opportunities and risks (forward looking)

Baruch Lev

Enhanced GAAP + Value Chain Blueprint: capitilization of intangible investments, intangible value creation process KPIs, „knowledge capital“/ book value vs. „comprehensive value“

Danish Governm. / Skandia

Intellectual Capital Statement:

„knowledge narrative“, management challenges, IC indicators (e.g. Skandia's Navigator)

Global Reporting Initiative

Sustainability Reporting / Triple Bottom Line Reporting:

Economic Performance, Environmental Performance, Social Performance

Common principles: Voluntary reporting, in addition to GAAP-based financial reports, no direct valuation of intangibles / focus on value creation process, stakeholder orientation

A possible framework for corporate reporting and communication

„Content“

Background Info

- „Theory of Business“
- Strategy
- Business Model
- Management challenges and opportunities & risks
- Stories / examples

KPIs / Measures

Strategy Implementation / Total Performance

Product innovation

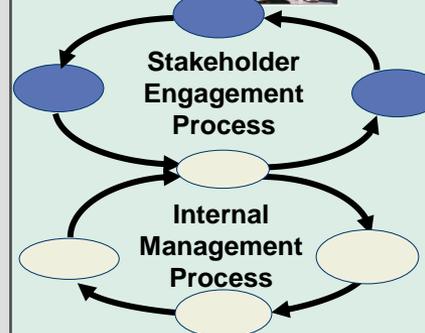
Operations: CRM + Fulfillment

Resource management (HR, Fin., Alliances, IT)

„Tableau de Bord“

„Procedures“

Stakeholder Dialog



Communication to the public

- Illustrated printed annual reports
- Ongoing reporting on the corporate website
- Others „Mise en Scène“ of a company's essence (e.g. Swiss Re Rüschiikon...)

FASB Business Reporting Research Project: Improving Business Reporting, Jan 2001
<http://www.fasb.org/brrp/BRRP2.pdf>

SEC-Inspired Task Force: Strengthening Financial Markets, May 2001
<http://www.fei.org/download/SEC-Taskforce-Final-6-6-2k1.pdf>

Baruch Lev: Intangibles – Management, Measurement, and Reporting, June 2001
<http://www.baruch-lev.com>
http://www.juergendaum.com/news/10_30_2001.htm

Danish Agency for Trade and Industry: A Guideline for Intellectual Capital Statements, Nov 2000
<http://www.efs.dk/download/pdf/videnUK.pdf>

Global Reporting Initiative: Sustainability Reporting Guidelines 2002, Sept 2002
http://www.globalreporting.org/GRIGuidelines/2002/gri_2002_guidelines.pdf

Juergen H. Daum: Intangible Assets and Value Creation, Dec 2002 (English), May 2002 (German)
<http://www.juergendaum.com/mybook.htm>

Juergen Daum's Website on Enterprise Management, Leadership and Business Control
<http://www.juergendaum.com>
especially the following reports are dealing with corporate reporting:
http://www.juergendaum.com/news/09_22_2002.htm
http://www.juergendaum.com/news/05_12_2001.htm