

# Reporting Developments and Trends 2016

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## Preface by the Editor

Dear Corporate Members

This publication proffers an assessment of the current reporting landscape in the DACH region as well as an analysis of trends highlighting developments in corporate reporting. With this first release in 2016 we are initiating a series of publications that analyze annually the reporting practice of companies, compile developments and trends and – based on our commitment to provide you with practical and useful knowledge – focus primarily on actual recommendations for action.

In this first year we have invited prominent experts to contribute their personal analysis to a 360-degree evaluation. Experts in reporting? What could be more meaningful than inviting initiators and jurors of the various annual report and investor relations rankings to weigh in? We are delighted with the interest and input of the participants, and would like to convey our heartfelt thanks to the following – in alphabetical order:

Professor Dr Dr h.c. Jörg Baetge, Dr Sascha Behnk, Professor Dr Thomas Berndt, Jiri Chmelik, Daniela Friedinger-Stefan, Kaevan Gazdar, Professor Gisela Grosse, Ralf Noffke, Manfred Piwinger, Chiara Rinaldi, Dr Mark Veser, Professor Dr Alexander F. Wagner, Dr Benedikt Wünsche, Hans-Florian Zangerl and Professor Dr Henning Zülch.

The trend publication at hand is just the beginning and it will be continuously further developed over the coming years. In so doing we would like to focus on your concerns – please let us know what they are! Next year for the very first time we are planning to survey reporting companies on their reporting practices. Topics will include target setting, stakeholders, responsibilities, process, budget, evaluation and relevance within the company. These findings will complement the opinions of the experts and provide additional company-specific insights. In particular, the benchmarking with other companies and preview of processes and internal decision-making are relevant for shaping individual reporting approaches – in addition to the treatment of the annual report “product”.

But first we would like to wish you an engaging read of the 2016 publication with some useful insights into the status quo and reporting trends. We are always happy to serve as your sparring partner. We would also be delighted to link you up with the authors – or you can consult the relevant contact details listed in the chapter “About the authors”.

Kind regards

Dr Kristin Köhler  
Chief Executive Officer  
Center for Corporate Reporting (CCR)

Zurich, November 2016

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# 1 Reporting trends 2016 and beyond – a comprehensive summary

*Kristin Köhler*

## The trends at a glance

- **Regulatory guidelines as a framework:** New developments pertain mainly to the leasing standard (IFRS 16), disclosure of revenue from contracts with customers (IFRS 15), new transparency requirements in communicating key audit matters (IAS 701) and sustainability reporting guidelines on a mandatory and voluntary basis.
- **Stronger focus on non-financials:** ESG topics need to be included in the annual report if they are an integral component of the business model and corporate strategy – and are deemed relevant and acknowledged by the capital market.
- **Pursuing an integrated approach in reporting:** Stakeholders want to understand a company and its (long-term) strategy. A holistic presentation of the business model in the context of environment, sector, opportunities and risks as well as long-term potential for success is increasingly becoming best practice.
- **Providing an outlook:** Forecast reporting is often found lacking by experts; the capital market in particular sets great store on (quantitative) future prospects.
- **Ensuring high quality of corporate governance reporting:** Investors put the greatest focus on the “G” in ESG, the governance topics. Companies would be well advised to shape their CG reporting accordingly – open and transparent.
- **Purpose and communication concept drives form:** Investors and analysts prefer well designed, structured PDFs with a search function to elaborate HTML versions where they need to “search” for desired information. A company is best served when focusing on identifying annual report objectives and stakeholders long before format and content is discussed.
- **Producing quality through design and visualization:** Design can significantly contribute to reducing complexity -- for example, through the smart use of infographics and visualization. Companies can markedly distinguish themselves from peers by presenting their business model in a succinct graphic.

## **The trends in detail**

### **Regulatory guidelines as a framework**

The initiatives of regulators, standard-setters and stock exchanges usually set minimum reporting requirements on a company. Noticeable this year is that relatively little has changed in financial reporting. Companies need to take into account the new leasing standard (IFRS 16), disclosure of revenue from contracts with customers (IFRS 15) and new transparency requirements in communicating key audit matters (IAS 701). In contrast, substantial advances and new rules apply to the area of so-called non-financial reporting. Accordingly, companies are urged to focus on information regarding environmental, social and governance issues. For many large German and Austrian companies, a structured and transparent sustainability report will be mandatory, effective 2017.

### **Stronger focus on the non-financials**

It is not just the regulator and diverse standard-setters who are becoming active when it comes to the disclosure of non-financials. The following articles note a number of deficiencies in this area affording great potential for improvement. Main proposals are an integrated approach and a contextualization of financial and non-financial information. Institutional investors and especially analysts are (still) looking primarily at financial performance and corresponding key performance indicators. Sustainability is only interesting when it is integrated into the business model and strategy. Companies now feel compelled to afford sustainability topics a greater presence in corporate reporting if they are of importance. If ESG topics should be considered relevant and acknowledged by the capital market, then these clearly belong in the annual report. Further stakeholder-specific information can be provided on the website or if desired, communicated in a separate report. But it should not be assumed that this would be of great interest to investors and analysts.

### **Pursuing an integrated approach in reporting**

It should be mentioned in this context that integrated reporting is not yet mainstream. More often than not we see pioneer companies in the three countries steering an integration of their financial and non-financial information, and in that respect they view a comprehensive business model and management approach as a logical consequence in their reporting. Having no compulsory standard for integrated reporting makes this difficult to evaluate. We do see companies that already measure their ESG performance (quantitative) in detail, and capture and manage this in the context of their corporate strategy and financial performance. The term “Integrated Report” is sometimes used, but oftentimes not. Companies should be thinking less about the ultimate destination and more about the underlying concept – and checking to what extent an integrated approach, a comprehensive picture of corporate strategy, business model, and potential for success and (future) performance can be conveyed through reporting.

### **Providing an outlook**

The annual report provides an account of successes or failures over the past business year – but investors and other stakeholders are more interested in the *future* of the company. Experts repeatedly find forecast reporting in the annual report to be weak. In financial reporting they recommend quantitative projections and assumptions at the corporate and segment level over a

multi-year period. Then there is risk and sustainability reporting. In the case of risk reporting they recommend stating the likelihood of risk occurrence and amount of potential damage. In sustainability reporting they are interested in – similar to financial reporting – objectives, performance, the differing degrees of reaching targets as well as measures to accomplish this. Here too, quantitative data is welcomed by the capital market.

### **Ensuring high quality corporate governance reporting**

Information on corporate governance – in particular on the composition of governing bodies and remuneration – are still the focus. Shortcomings are pinpointed, especially in the presentation of the link between remuneration and achieved performance. But investors put the greatest focus on the “G” in ESG, the governance topics. Companies would be well advised to shape their CG reporting accordingly – open and transparent. Forget text wastelands, on the contrary it is better to contextualize the business model and strategy together with a consistent, concise presentation where the reader finds information – and does not have to search for it. Stakeholder communication should get right to the point.

### **Purpose und communication concept drives form**

It is no surprise that the trend toward online reporting is still ongoing. But one needs to make a sharp distinction here. While more and more companies in Switzerland go “online first” or have an “online only” approach, this trend in Germany is already on the way out -- companies rely on PDFs. Investors and analysts prefer well designed, structured PDFs with a search function to the elaborate HTML versions, where they need to “look for” for required information. A company is best served focusing on the conceptual identification of annual report objectives and stakeholders before format and content are discussed. The annual report as a company’s stand-alone means of communication to address customers, employees and business partners warrants a different kind of treatment than a document clearly seen as “simply” a regulatory document supplemented by further stakeholder-specific publications and online information.

### **Producing quality through design and visualization**

Creative treatments, quality of language and visual presentation have been panned once again by the experts in 2016. Annual reports emerge as text wastelands that scarcely ease information intake and understanding, do not highlight what is material or are not a pleasure to read. Design can significantly contribute to reducing complexity – for example, through the smart use of infographics and visualization. Companies can markedly distinguish themselves from peers by presenting their business model in a succinct graphic. Language, accuracy of translations, highlighting critical information with design elements, using self-explanatory tables, compiling the most important performance indicators and strategically relevant information on overview pages all contribute sizably to reader-friendliness and reception. Incidentally, graphics and overview presentations can be used in other communication formats than the annual report, in particular online.

### Expert opinions in further detail

The Center for Corporate Reporting publication “Reporting Developments and Trends 2016” includes the detailed assessments made by the following reporting experts:

- In the first article **Mark Veser, Chiara Rinaldi and Ralf Noffke** summarize the 2017 regulatory reporting developments that companies need to take into account.
- **Thomas Berndt** provides an overview of reporting megatrends as seen from his vantage point. He considers the major trends encompassing a progression from financial to integrated reporting, a surge in auditing transparency and the technological developments of reporting.

The following articles track developments in reporting in Switzerland, Germany and Austria.

- In “Value Reporting in der Schweiz” (Value Reporting in Switzerland) **Sascha Behnk and Alexander Wagner** present insights into the development of value reporting in all listed and several unlisted Swiss companies (in total: 228) over the past few years.
- **Jiri Chmelik** complement this substantive perspective with a glimpse into the visualization and design of Swiss annual reports.
- **Chiara Rinaldi and Mark Veser** focus on sustainability reporting and categorize the reports of Swiss companies accordingly.
- **Henning Zülch** introduces an assessment of the German reporting landscape based on the key findings of his annual ranking of capital market communication in the 160 listed companies in the DAX, MDAX, TECDAX and SDAX indices. He observes reporting in the form of annual and half year publications, analyst presentations and IR websites in the context of economic development and valuation in the capital market.
- In their annual report analyses **Benedikt Wünsche and Jörg Baetge** do a yearly measurement on the quality of financial reporting in the 100 largest market-listed companies in Germany and from these derive recommendations for action for report “doers.”
- **Kaevan Gazdar and Manfred Piwinger** have analyzed and commented on the reports of DAX-listed companies in regard to financial communications, non-financials, human resources and shareholder letters.
- With her “Visuelle Bilanz 2016” (Visual balance sheet of the best annual reports 2016) **Gisela Grosse** addresses design and visual quality of annual reports and online reporting in German companies.
- **Florian Zangerl and Daniela Friedinger-Stefan** proffer a condensed summary of reporting trends in Austria – based on the analysis of annual reports in the largest market-listed and non-market listed companies and NPOs.
- **Henning Zülch** evaluates 20 companies in the Austrian key index ATX with regard to the quality of the financial communication in reporting, investor relations and capital markets for the business year 2015 and sums up his findings. And this concludes the look at the DACH region.
- And finally **Kaevan Gazdar** furnishes examples of excellent reports of international companies.

## About CCR

The [Center for Corporate Reporting \(CCR\)](#) is an independent center of excellence for corporate reporting and the central point of contact for all key players in the corporate reporting community. CCR's activities include the annual [Symposium](#), topic-specific events, the trade publication "[The Reporting Times](#)" and exclusive services for corporate members.

Our aim is to foster the quality of reporting and heighten its effectiveness – for the reporting companies as well as their stakeholders. We create added value through knowledge and networking. CCR focuses not only on reporting in the strictest sense, it examines external and internal reporting and their interaction with topics such as strategy, leadership, reputation, risk and corporate management.

### **Knowledge hub**

As your knowledge partner CCR tracks the latest developments in corporate reporting and addresses major trends. At the same time, we monitor international research on key topics, and together with our knowledge partners initiate our own research projects, and process relevant learnings in practical formats to help you in your daily work (e.g. checklists, recommendations for action, best practice cases).

**We serve as your knowledge hub offering practical corporate reporting expertise.**

### **Your networking hub**

As your networking partner we actively promote dialog within the reporting community to foster interdisciplinary knowledge sharing. Our corporate members have the opportunity to learn about reporting topics and link up with other practitioners, decision-makers and experts in the field. For the benefit of corporate members in the DACH region CCR connects diverse players within the reporting community to initiatives and strategic partners at an international level.

**We offer you a unique, interdisciplinary network in corporate reporting.**

Our corporate members include (extract):

AFG Management, Ascom, Baloise, Clariant, Dufry, Geberit, Georg Fischer, Givaudan, HIAG, Hilti, Kaba, Liechtensteinische Landesbank, Lindt & Sprüngli, Lonza, Mikron, Raiffeisen, Roche, RUAG, Schindler, SGS, Siegfried Holding, Suva, Swisscom, Swiss Re, Syngenta, Valora, Zurich and many more.

More Information:

[corporate-reporting.com](http://corporate-reporting.com)

[gb-symposium.ch](http://gb-symposium.ch)

[reporting-times.com](http://reporting-times.com)