

Business Guidance Notes

Guidance Note 13

As part of the Institute's ongoing efforts to provide members with guidance and information on key issues, the Institute has developed a Business Guidance Notes series which presents guidance for members written by members.

'Every board and every business is unique and this means tailored reporting solutions are required.'

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Board Reporting for SMEs

Many directors may find themselves wading through massive reporting packs days before a board meeting trying to understand and extract the relevant information.

The fiduciary duties and responsibilities of directors are well known and are becoming increasingly more onerous. Directors are expected to read, evaluate and approve more and more information as board members and members of corporate committees.

There are several questions that Small to Medium Enterprises (SMEs) must ask as they prepare information for their directors:

- > How many directors actually understand the information provided?
- > Is the information relevant to the directors' needs?
- > How do preparers meet the needs of a diverse group of directors from different backgrounds?
- > Does the information allow the directors to adequately perform their duties?
- > Are we being transparent about what information is reported and how it is presented?

There are no simple answers – it's an ongoing balancing act.

This guidance note contains the key elements of effective board reporting to assist preparers of board information.

Elements that lead to effective board reporting for SME's

1. Timeliness

The best board report is redundant to decision makers if the information is out-of-date. If adverse trends are to be addressed quickly, the information must be presented on a timely basis. For example, information presented monthly will not be helpful if it isn't available until the end of the next month.

Preparers of information for boards need to be aware of the key drivers of the business and how timely the decision makers need that information. An agreed schedule must be drawn up at the commencement of each financial year and it is imperative the information is prepared in accordance with that schedule. It may be helpful to consider the timing of board meetings so that the most recent information can be made available for those meetings. This gives the board confidence and surety about their decision making process.

2. Focus on the Future

Board reports should not only cover the ongoing operations but also report on the progress in achieving the objectives and strategy. Directors often spend a lot of time reviewing what has occurred in the past, when it is what lies ahead that is critical to understand.

Following these key points will enable the board to be focused on where the organisation is heading:

- > The board reporting package needs to outline not only what has happened, but also convey management's future intentions and what the risks are
- > Profit and cashflow forecasts should look out as far as needed to anticipate adverse trends in sufficient time to address them
- > Trends are critical to the understanding of the business – these must be included in all board reports so forecasts are fully understood
- > Forecasts need to be updated regularly to provide an accurate ongoing picture of where the business is heading
- > The balance sheet is important in terms of a company's debt management and debt capacity.

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3. Frequency

The frequency of reports is a delicate balancing act – too often will lead to decision makers becoming disinterested in the information provided. If trends in daily sales are a critical indicator of business health, it is no use reporting them monthly, two weeks after the end of the month. Alternatively if income is assured in the short term then tracking daily or weekly revenue is not useful. It will be irrelevant to decision makers and will undermine the quality of the information given to the board.

Information reported too infrequently will not provide decision makers with the information they need when they need it. Daily or weekly reports of key activity measures may be required for businesses in a volatile environment. For others, monthly reporting of financial reports and KPIs may be sufficient.

The appropriate frequency of reporting depends on the nature of the information being reported. For example, a report against strategic plans is more likely to be reported bi-annually rather than monthly. The schedule for reporting should be agreed upon with the board on an annual basis, but flexibility is vital in ensuring the board feels they can seek the information they want, when they want it.

4. Content

Too much financial information may potentially distract directors from the real issues of a business, whilst too little information may prevent directors from fulfilling their obligations.

To provide the most useful content:

- > Identify the top 6–7 key performance indicators – few will be financial, all will have a financial impact. Link the KPIs to strategic objectives and their achievement
- > Include both lead and lag indicators to allow directors to quickly understand key issues and identify potential trouble spots
- > Include regulatory and compliance matters the board must be aware of and monitor
- > Cover all categories of the sustainability criteria – financial, customers and stakeholders, assets and resources, environment and heritage, governance, processes and people
- > Set targets for each KPI – in line with the budget and/or strategic plan
- > Accompany KPI reports with action plans on what is proposed to rectify adverse trends and what is proposed to lock in favourable trends, by who and by when.

For example, if income is assured in the short term then tracking daily or weekly revenue will not be as useful as reporting other key indicators of current activity that will assure longer term revenue such as new memberships in a fitness club. If margins are more critical than gross sales then these should be closely monitored (e.g. catering).

5. Provide reliable comparisons

Benchmark information on competitors, products, operations and the industry is becoming more widely available. Information preparers must take advantage of this opportunity to provide decision makers with relevant and timely comparisons to their own business.

Agree on important benchmarks with the board at the beginning of the financial year. Report on these regularly and update the board of any industry or competitor changes. Comparable industry information in board reports makes understanding the business information so much easier.

Relative targets involve identifying financial and non-financial KPIs. The idea behind relative targets is to compare your company against competitors who are also impacted by the same external forces. This enables you to see how your business is performing on a relative basis.

[Guidance Note 6 – Relative targets](#), covered this in more detail.

6. Format and presentation

Ascertain how board members and managers like to receive information. Some like tables of figures, some like graphs – adapt the format to create a report that meets all of the directors needs.

Contents of the report should be reviewed regularly and changed if the business has changed. Breaking down the information flow to directors into smaller parcels can assist them in analysing business performance.

With advances in technology and software, the ability to keep directors informed through the use of ‘dashboards’, intranets and other information resources allow real time information to be regularly communicated. This allows directors to have a good feel of the operational environment before they even receive their board papers. That leaves more room in the board papers for analysis and gives directors a chance to understand how management is interpreting the data and how that interpretation may be driving strategy.

Therefore, the report should provide a mix of presentation formats. This will include the mode of delivery – from traditional hard copy to digital updates.

7. Seek feedback

There is significant value to be gained from boards regularly reviewing reporting packages to confirm how much of the information is of value and critical to the director's role as a board and committee member. Boards and committees may find it beneficial to internally review with management how reports can be altered, edited, condensed, or even eliminated in order to provide more concise, meaningful and relevant information.

Seeking feedback from directors on how to improve board reporting packs is an invaluable tool. The following are some suggested ways preparers can do this:

- > Hold regular stakeholder sessions that focus on what information is used and what takes up time without adding any value
- > Make an effort to understand the background, skills and dynamics of each director and what their reporting needs are
- > Understand individual directors' preferences for tabulated data, graphs, or detailed narratives or a combination of these. This should assist in providing information in a format that all directors can more easily understand
- > Include in any review of board reporting packages new information that allows directors to provide feedback and input into opportunities and risks.

The challenge of balance is to provide the right level of information to directors that enable them to ask concise, worthwhile questions thereby maximising their contribution at every board and committee meeting.

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