

Key Performance Indicators are the next step in financial reporting transparency

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With the election over, we now must focus on what real changes will advance the markets. We have spent a lot of time talking about mark-to-market accounting and International Financial Reporting Standards (IFRS) – both concepts I support, but the application of which stirs heated debates. I would like to add another practical concept to the debate – Key Performance Indicators.

Today's financial crisis is a harsh reminder that our financial reporting model, created more than 70 years ago, does not provide the information necessary today to allow investors to understand business risks and performance. This "information gap" requires a fundamental rethinking of the information that corporations should be disclosing to keep investors properly informed about corporate financial prospects. Given the cost and ramifications of the credit crisis and drastic slow down in the economy, the United States, and entire international financial community, cannot afford to ignore the urgent need to enhance business reporting.

I was honored to spend the past year as a member of the SEC Advisory Committee on Improvements to Financial Reporting (CIFiR). Our firm heartily endorsed the recommendations of the committee, calling its report "a catalyst for future action to make public company financial reporting more relevant, accessible and reliable."

The report articulated a number of important recommendations, but the most important was that set forth in the section on "Disclosures of KPIs and Other Metrics to Enhance Business Reporting." KPIs (Key Performance Indicators) are leading indicators of financial results and intangible assets that are not necessarily included in a company's balance sheet and that can provide more transparency to investors in understanding the company.

For example, would it help investors to be able to assess qualitative factors such as strategy, innovation, people and customer loyalty? What about market share, leadership, technological change, R&D, brand or patents? Surely, providing key performance information on all of these parameters would enable or enhance assessment of the quality, sustainability and variability of a company's cash flows and earnings. However, such performance indicators are rarely found in existing financial reports. Clearly, KPIs would change between industries to correspond with the unique features of each environment.

U.S. CFOs also agree that our financial reporting system needs an overhaul. In a Grant Thornton LLP survey of nearly 700 U.S. CFOs and Senior Comptrollers conducted recently, 73% said that financial reporting was too complex to be understandable by investors, and 84% would support supplementing financial statements with nonfinancial measures that provide more relevant information about their organization and its value drivers.

Grant Thornton's commitment to the development of a new business reporting model is reflected in our leadership role in U.S. and international initiatives, such as Enhanced Business Reporting and the World Intellectual Capital Initiative, as well as our support for XBRL (Extensible Business Reporting Language). All of these initiatives promote more effective reporting of key performance indicators and high-quality, transparent narrative about business strategy, plans, opportunities and risks for the benefit of all capital markets participants.

Could KPIs have prevented the present financial trauma? Probably not, but it should be the accounting profession's goal to work continually on behalf of the investor to provide clear and relevant information that can be relied upon for making informed decisions.

KPIs represent a major leap forward in doing so.