stakeholder communications

5C

the study

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01 / foreword

Good stakeholder communications is critical in building trust and confidence in a company's performance. As a company's key communicator of financial information and related reporting to stakeholders, CFOs face a unique set of challenges when considering how to communicate with their stakeholders.

In this publication, CPA Australia, KPMG and the Singapore CFO Institute aim to bring some clarity to the issues and provide a starting point for discussion about stakeholder communications as it relates to CFOs.

This study includes a quantitative analysis of the communication methods of about 700 Singapore-listed companies, as well as a qualitative analysis of both listed and non-listed entities in Singapore. The analysis has identified a number of observations on the current state of stakeholder communications:

- Online is the most preferred mode of communication
- Communications can be speeded up
- AGM notices could be more timely

- Communications can be clearer
- CFOs are also increasingly the face of investor relations
- Integrated reporting will become a way of life

From these observations, this study aims to provide practical guidance to CFOs to assist them through the challenges of communicating with their stakeholders. It includes a checklist for CFOs to better identify their key stakeholder communication needs, how to work within their stakeholders' agenda, how to proactively manage their stakeholder communications, and provide the necessary leadership and direction for their finance functions.

We hope you will find this report useful in charting your communications strategy with the myriad number of stakeholders of your company.

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02 / key highlights

The age of greater shareholder activism, rise of social media, and an increasingly complex business environment has made effective communication with a company's stakeholders more important than ever.

No longer can companies simply broadcast their message and expect immediate and positive stakeholder response. Communication technologies have so evolved that not only can they be deployed to spread a message rapidly, they can just as quickly tarnish a company's reputation.

Companies that excel in communicating do not just "speak" to stakeholders. Rather, they see their constituents as "participants" in a conversation. Skills in listening are just as important as talking.

As the main communicators of a company's financial numbers, CFOs will need to understand and adapt to several key communications trends:

- Stakeholders want a real conversation

with management and expect timely responses to their questions and concerns.
- Minor issues, if not managed well, can snowball into major issues, forcing companies to consider even more carefully whether a developing issue requires a response.
- Small shareholders have become an even louder voice; before, it was the domain of institutional investors.

These may sound disconcerting to companies used to broadcasting a position but they offer opportunities for new views and feedback on issues as long as the respective stakeholders are properly managed.

Overall, Singapore-listed companies will need to do better in communicating with stakeholders, according to this study conducted by KPMG in Singapore between May and July 2013.
In analysing close to 700 companies listed on the Singapore Exchange, the study has found that while there are steps taken in the right direction - nudged by regulatory and listing rule requirements - more work needs to be done to positively engage stakeholders through better communication.

The study identified a number of observations on the current state of stakeholder communications.

Online is the most preferred mode of communication
Much of the communications among Singapore-listed companies is being done via websites and, increasingly,

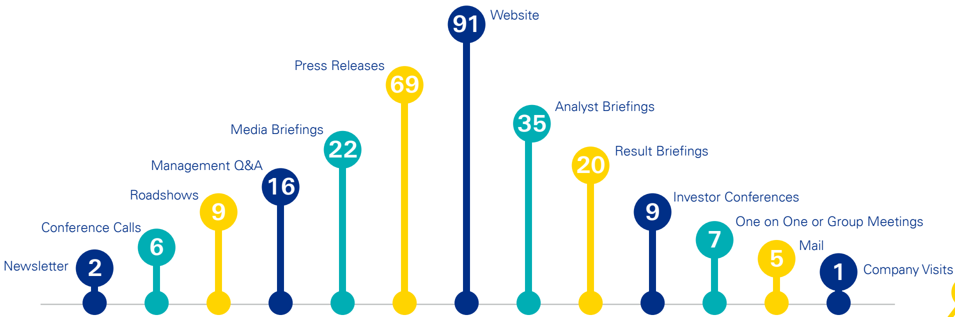
other online channels as well. This makes the information more timely and relevant to decision making.

More than 9-in-10 companies surveyed communicate with the public through their corporate websites. News releases came a distant second, with about 70 per cent of companies using this method.

A third of companies felt that a face-to-face meeting with analysts was more effective, while about a quarter used media as a conduit.

Interestingly, the modes least preferred for reaching out to shareholders were company visits, newsletters and snail mail.

Figure 1: Modes of communication used by companies
(Based on all companies; in percentages)



Of those with working websites, three quarters have dedicated investor relations links on their home pages. About one sixth of companies appeared to think that investor relations was not important and therefore had no links to this area on their websites.

"Trends in online media make it inevitable that information needs to be communicated to shareholders beyond the traditional channels of communication. The survey results are evident of this trend and without much choice, companies need to embrace and learn the most effective strategies in relation to online communication. If employed in the right manner, online media can also be an effective risk management tool to respond to rumours in a timely manner," said Irving Low, Partner, Head of Risk Consulting, KPMG in Singapore.

While technology marks the way forward as a communications tool, businesses will still need to maintain their traditional methods.

"Although technology is useful, nothing beats face-to-face engagements. These range from one-to-one or one-to-many meetings with external stakeholders such as investors, and large internal forums such as staff town halls. I believe in engaging in a two-way dialogue and I am not afraid to ask the stakeholder for their views or assistance," shared Chng Lay Chew, CFO, Singapore Exchange.

Communications can be speeded up

The survey also showed that many

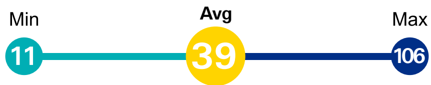
companies were not communicating in a timely fashion. Some even provided insufficient guidance for investors to make informed investment decisions.

Take, for instance, informing the public about the dates of the results announcement in advance. Only 14 per cent of companies notify the market ahead of time about the dates they intend to release earnings results.

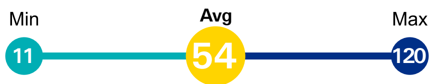
On average, Singapore-listed companies report their results within 39 days from the end of each quarter or the first half year. For full year results, they take an average of 54 days after the year-end to unveil their report cards.

While companies are complying with the regulatory thresholds for releasing results – 45 days for half year and 60 days for the full year numbers - earlier announcements of when results will be released will facilitate engagement with stakeholders such as investors, analysts and the media.

Figure 2: Timeliness of financial reporting (Based on all companies)



Number of days between interim results and results announcement date



Number of days between financial year end and results announcement date

Seasoned industry players believe it is important to improve the timeliness of communications and also feel that CFOs need to help stakeholders distil the facts from the noise and from "popular opinion".

"If stakeholders are aware of the company's fundamental value drivers, and the values the company stands for, then any short-term noise will not cause these stakeholders' views to waver. Be as transparent as possible to win their long-term trust. One should not unnecessarily sugar-coat any messages but communicate with credibility. Always adopt an open, honest and consistent approach to provide timely and accurate information, and ensure consistency and continuity of communication," said Arthur Lang, Group CFO, CapitaLand.

But CFOs should also think out of the box when managing communications with stakeholders, especially if these are internal. The goal is getting everyone on the same page so that an organisation can effectively compete in the market place.

"You need to be ahead of the game by anticipating thinking or concepts or ideas, pushing them into the organisation and getting a reaction. Leadership must have the capability and capacity, setting out with a clear vision, with objectives and goals clearly spelt out. This anticipatory approach is for all levels of employees, don't just limit it to management. Everyone down the line needs to live this, it's a journey. It may not be the way it is when you first set them but know that you should adapt them as conditions and environments change," said Valerio Nannini, Managing Director, Nestlé Singapore.

AGM notices could be more timely

The Singapore Exchange Listing Manual requires companies to notify shareholders of the annual general meeting at least 14 calendar days before the AGM.

In this survey, companies give shareholders an average of 19 days' notice about the AGM. The more pro-active companies provide up to 49 calendar days. For the period polled, only three companies failed to meet the listing requirement, with a time gap of 11 days.

The average 19 day notice period comes close to the 14 day regulatory minimum, suggesting some room for improvement to keep with the spirit of early and timely communications with stakeholders. Notification of AGMs way in advance would give time for investors to block their availability to attend the meetings and take a deeper interest in a company's affairs.

Figure 3: Timeliness of AGMs notice (Based on all companies)

Number of days between notice of AGM and date of AGM

As a growing voice, retail investors believe that the time they get the most information about companies is during AGMs. But with clustering of AGMs, this makes it very difficult for retail investors to attend.

"Companies should be looking to provide, for example, an investor day and communicate through other new media platforms so as to engage investors more appropriately. This is currently set out in a new principle on shareholders rights and communication that also recommends greater interaction with shareholders in the revised Singapore Corporate Governance Code," said David Gerald, President and CEO, Securities Investors Association (Singapore).

Irving Low, Partner, Head of Risk Consulting, KPMG in Singapore said, "It is not surprising that the results of the survey highlights that most companies are giving more than ample notice to shareholders for the AGM. With many more companies operating globally, there are more complex issues and challenges which need to be dealt with. More time would provide shareholders with the opportunity to review, study and pose questions to seek clarity and hence gain a better understanding and insights into the Board's and Management's thought process."

Communications can be clearer

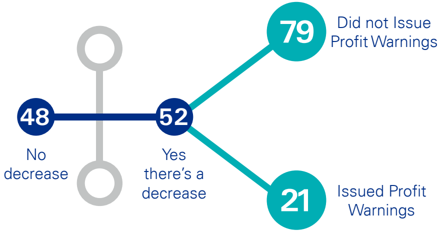
The survey found that while there is some form of stakeholder communication undertaken by companies, more work could be done to make the messages clearer. For listed companies, unclear communications tend to trigger queries by the regulator, Singapore Exchange, on issues involving annual reports, quarterly or full year earnings, and unusual trading activity.

Based on disclosures by 177 listed companies, four-in-10 had to answer questions about their annual reports. About 40 per cent of firms needed to clarify their full year results, while between 20 and 32 per cent of firms had to reply to queries on their quarterly earnings numbers. Just over a quarter had to explain what the regulator felt were unusual trading activities.

The survey also showed that slightly more than half of companies reported a decrease in earnings compared with the previous year. Out of 360 companies which reported lower on-year earnings, only a fifth had issued profit warnings.

The remainder – a substantial four-fifths – did not warn that things may not be rosy. Preparing investors for potentially negative news will help a company manage expectations and demonstrate transparency.

Figure 4: Decrease in the company's earnings compared to the previous financial year (Based on all companies; in percentages)



Companies can take steps to minimise regulator queries by being more pro-active in communications. This includes reviewing their disclosures, actively monitoring trading activity, and responding appropriately to media reports.

Some CFOs feel that effective stakeholder communications have to go beyond the mandatory quarterly and annual reporting cycles.

"The markets are usually flooded with standard communication from many companies. CFOs should define a stakeholder engagement calendar apart from standard formats, such as field visits, investor days and one-on-one meetings with key stakeholders outside of the 'generic noise'. Besides reaching a more targeted audience, it can improve the impact and understanding of publicly available information on their company," said Shekhar Anantharaman, Executive Director, Olam International.

Still, CFOs will do well to understand that effective stakeholder communications is often a fine art, not a hard science. "There is no one single stakeholder engagement plan that fits all stakeholders. Start by understanding the stakeholder and his or her needs. Engage them in developing a plan," said Chng Lay Chew, CFO, Singapore Exchange.

CFOs are also increasingly the face of investor relations

In this study, based on available data from about 145 companies, nearly a third of companies indicated their CFOs also assume the role of investor relations officers, although nearly half have a dedicated individual for this function. A much smaller percentage of firms use other executives such as the board chairman, CEO, executive director or corporate communications officer to perform investor relations functions.

Figure 5: Officer responsible for managing investor relations and communications (Based on 143 companies that disclosed who handles IR in their companies; in percentages)

"The role of the CFO has clearly evolved of late, where CFOs are required to do more than balance the books or keep the company afloat. In fact, CFOs are seen as both the Board and CEO's alternate C-Suite executive to face the public. In particular, issues discussed these days go beyond growth and expansion, areas traditionally covered by the Board Chairman or CEO. Now, risk, controls and compliance are being discussed and debated. Clearly, these areas are better dealt with by the CFO," said Irving Low, Partner, Head of Risk Consulting, KPMG in Singapore.

"It is very much the role of a financial steward and contributing to the formulation and execution of the company's strategy. As an internally-focused manager, the CFO is responsible for the company's financial reporting, treasury, risk management and strategic planning functions. As an externally-focused manager, the CFO's role includes communicating the company strategy to external parties and helping them understand the direction that the company is heading. It is to help parties make sense of the financial numbers," according to Arthur Lang, Group CFO, CapitaLand.

The Singapore Exchange Listing Rule 1207 (10) requires listed companies to disclose the "Opinion of the Board with the concurrence of the audit committee on the adequacy of the internal controls, addressing financial, operational and compliance risks." But this is an area that still requires some amount of work.

"Many companies still do not have a full time Internal Auditor to communicate risk management to shareholders. Therefore, the CFOs need to communicate these aspects of the company more thoroughly. They should not be focusing on the investor relations function, as is happening in many companies today. This should be left in the hands on the investor relations officer," said David Gerald, President and CEO, Securities Investors Association (Singapore).

When performing their roles as business advisors, CFOs should also evolve from their traditional comfort zones.

"Be more strategic. Talk business issues not just the numbers. Broaden your outlook and knowledge beyond your usual familiar areas. Don't be afraid to not be the expert on everything. Just understand the big picture and be able to articulate and sell this business idea. Then bring in experts to talk through the details. This does not mean you are showing your weakness. In fact, it is demonstrating your strength as a leader because you leverage the collective strength of subject matter experts in your organisation," said Valerio Nannini, Managing Director, Nestlé Singapore.

As strategic business advisors, CFOs may do well to advise senior management to focus on the longer term for the organisation's benefit.

"There is a lot of what I call short-termism in the financial market these days - an unhealthy fixation on short-term successes rather than building a sustainable business. Sustainability is not just about business performance but also how the company embraces good governance, supports environmental issues and plays a role which benefits society. Governance and risk management are increasingly important messages from a CFO," said Chng Lay Chew, CFO, Singapore Exchange.

But when it comes to communicating with both internal and external stakeholders, there are no hard and fast rules. Such communication could be on a scheduled or as-needed basis.

"Internally, I make the quarterly updates to the Board, and to colleagues at staff town halls. I also send a monthly performance report to the Board so that they are kept current on the company's performance. Externally, I present at the quarterly press and analyst results briefing, and on an annual basis at the AGM for our shareholders. I also make it a point to meet with other stakeholders e.g. bankers, auditors on a regular basis to keep them updated and also to build relationships," said Chng Lay Chew, CFO, Singapore Exchange.

Integrated reporting will become a way of life

Beyond stakeholder communications, effective stakeholder management needs to consider investor sentiment, internal and external expectations of the firm, as well as challenges presented by changes in financial reporting standards.

A developing area that CFOs should watch out for is Integrated Reporting. Integrated reports do not necessarily replace existing financial reports. They can, however, provide more concise, relevant and focused disclosure for important organisational issues. The purpose of integrated reports is to improve existing narrative reporting and serve as the primary source of corporate information for financial stakeholders and other capital providers.

Through integrated reporting, companies have an opportunity to more effectively make the case for capital by reporting on their real business stories and value creation over the short, medium and long term. It reflects the critical opportunities and challenges that affect the business. These are often the same issues that management deals with daily.

Integrated reporting also represents an opportunity to introduce a clearer focus on materiality and eliminate clutter that features in so many reports today. It requires integrated thinking and a multi-disciplinary approach across functions. Traditional silos need to be broken down and functions such as accounting, strategy, sustainability, operations, audit and assurance must work together to develop the right balance of disclosure.

With financial and non-financial issues being covered, integrated reports assist stakeholders in evaluating a company more holistically, monitoring its risk and sustainable practices, as well as how they manage relationships with key stakeholders.

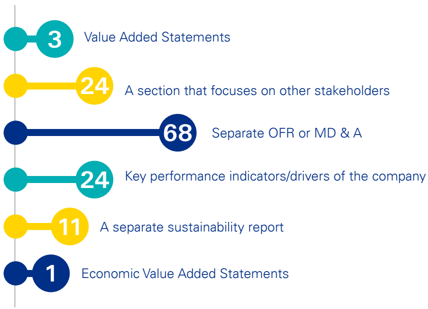
Investors, customers and other stakeholders are increasingly demanding such information. Some "socially responsible investors" are also rewarding companies who behave responsibly with long term value in mind and punishing those who do not.

In Singapore, there is great momentum and practical support for integrated reporting. CFOs need to start thinking about the issues early, even if such reports may be a few years away for many.

Already companies have taken steps in this direction. Of those surveyed for this study, more than two thirds of annual reports contained a separate Operating and Financial Review (OFR) or Management Discussion and Analysis (MD&A) section.

A quarter of annual reports had a section that focuses on other stakeholders, and key performance indicators or drivers of the company. About 1-in-10 produced a separate sustainability report. A smaller proportion provided value added statements or economic value added statements.

Figure 6: Companies disclosing the following in their ARs (Based on all companies; in percentages)



"Integrated Reporting can reduce the reporting burden on organisations and help investors and other stakeholders gain clearer understanding of the information. Both stakeholders and shareholders are becoming increasingly more sophisticated and are demanding more information beyond the financials. They want to know how companies are addressing resources which the business consumes and creates – financial, manufactured, human, intellectual, natural and social – which also creates and sustains value and contributes to the wider community and society," said Irving Low, Partner, Head of Risk Consulting, KPMG in Singapore.

"Integrated Reporting takes a holistic view of corporate reporting, and will fundamentally change the way companies communicate with stakeholders. As a thought leader in accounting research, the Accountancy Sector Research Centre (ASRC) has identified Integrated Reporting as a critical item on its research agenda. The ASRC has undertaken several research projects pertaining to Integrated Reporting with three goals in mind – to educate and raise the awareness of stakeholders and companies on the benefits of Integrated Reporting, to promote Integrated Reporting through market forces, and to understand the costs of implementing Integrated Reporting. The ultimate goal is to build Singapore into a regional hub for Integrated Reporting and to provide technical support for organisations that aim to adopt Integrated Reporting." said Dr Vincent Chen, Head of Accountancy Sector Research Centre, Singapore Accountancy Commission.

03 / top tips on communicating

One of the key responsibilities of the CFO is to communicate the numbers in the context of business issues.

To conclude this report, we asked a group of CFOs what they thought they needed most to perform this role well and improve the quality of communication.

"Empathy with your stakeholders is important. Put yourself in the shoes of the stakeholders and understand what they want to know. Use the presentation tool that is most effective for that event or the stakeholder. We can also learn from the good communicators by observing them."

Chng Lay Chew
CFO, Singapore Exchange

"Have a structured contact plan through the Investor Relations, Treasury, and/or Corporate Finance departments under the CFO to engage with other stakeholders. The ability of the organisation to structure a multi-layered, multilateral communication programme – rather than just relying on a CFO (or CEO) as a 'single spokesman' – is key to long term success."

Shekhar Anantharaman
Executive Director, Olam International

“CFOs need to develop a personal brand and the confidence to step out into the public domain through the media and engage investors and shareholders more effectively. For this to happen, there must be a mindset change at the Company level. The CEO and the Board must encourage the CFOs to engage the shareholders.”

David Gerald
President and CEO, Securities Investors Association (Singapore)

"You cannot do things alone – business partnerships are the way to go. Create business links with organisations that share common interests and objectives. Be entrepreneurial by continuously improving your innovative thinking. Facilitate learning and re-learning so that you can bring everybody towards the goal in the fastest possible way. Try to build a high innovation and entrepreneurship model. When you do these four things well, you build strong teams. Together, you can bring the entire team to win along with you."

Valerio Nannini
Managing Director, Nestlé Singapore

"Listen to feedback. There is often a disconnect between what the company is saying, and what the stakeholders think they are hearing. The CFO can be a communication bridge. At the end of the day, this is not rocket science. Keep things very simple and clear. Say what you mean, and mean what you say."

Arthur Lang
Group CFO, CapitaLand

04 / about the study

Some two-thirds of companies surveyed have a public float of 50 per cent and less. About a fifth have a public float of between 31 and 40 per cent, and a similar proportion has a public float of between 41 and 50 per cent. One-in-10 companies have a public float of more than 70 per cent.

In this study, small shareholders are defined as those holding 10,000 shares or less in a company. Medium shareholders hold between 10,000 and 1 million shares. Large shareholders own 1 million or more shares in a company.

Based on the 700 or so listed companies on the Singapore Exchange, on average, small shareholders made up 56 per cent of shareholders in a company but only hold about two per cent of the shares. In contrast, large shareholders account for an average of 2 per cent of shareholders but own about 81 per cent of the shares.

The data for this report was collected between May and July 2013.

Note

Disclaimer

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