



Improving Corporate Transparency: More Data is NOT the answer



By J. Paul Carey and Jeffrey P. Parker

The recent wake of corporate scandals has heightened demands to make publicly-traded companies more transparent. Today's investor marketplace now expects more company financial and non-financial data than ever before. The federal government has joined the chorus by encouraging continuous virtual disclosure of corporate information and use of the Internet as a prime tool for distribution of company data through the passage of such reforms as Regulation Fair Disclosure and the more recent Sarbanes-Oxley Act.

Paradoxically, if transparency is defined as more information provided in a more timely fashion to a wider public, corporations have been growing more transparent at a steady clip over the last seven years. The Internet has made it possible to disseminate unlimited quantities of corporate data to an unbounded, more democratized audience on a 24/7 basis.

Investor Relations (IR) departments have done an admirable job answering the call. Companies now use the Web to post all manner of SEC filings, corporate annual reports, financial press releases and quarterly financial statements, messages from the CEO, strategic planning documents, earnings and stock data, conference calls, Web casts—and more.

But what has this endless supply of continuous corporate information taught us?

With the increased ability to provide more information comes the increased responsibility to make that information accessible and meaningful to those that will use it. Our experience suggests that drowning investors in more and more data does not make companies more transparent. In fact, the opposite can often be the case. Even while companies provide endless streams of data, our ability to process this information has barely inched forward. Put another way, the gap between the information available and our ability to use it effectively is huge and growing. Adding more data on top of the existing glut can actually subtract value.

Against this backdrop, we would like to offer a new definition for transparency. Real transparency is not about how much information is offered—but about how useful that data is to the people who consume it in their goal of understanding and fairly valuing a business. The issue is not information access—but rather accessible usability. Additionally, the transparency objective calls for making information useful to a broad spectrum of investors and other constituents. The spirit of Regulation Fair Disclosure calls for companies to not only make information available to multiple investor types, but to also enable them to make use of the information.

Creating Value from Data

To regain investor confidence companies amidst the current client of corporate distrust, companies will need to become truly transparent. The best approach for them to do this is to leverage advances in technology to enhance the methods by which they provide investors with relevant and timely information.

Companies have begun to respond to this issue. Many provide quarterly earnings calls to investors in multiple formats to make the information generally more accessible and valuable, as well as to allow different investor types to access the level of information most suited to their needs. To do this companies are not only providing audio broadcasts of the calls over the Internet, but also providing written transcripts and factual event summaries. (For more information on this approach see Transparency and Transcripts by James J. Flanagan and Jeffrey P. Parker in the Fall 2002 issue of Strategic Investor Relations.)

This same concept of “better containers” for the information in conference calls should also be applied to the quantitative data that makes up the majority of an investors analysis.

For example, documents in PDF, HTML and Word account for the lion’s share of corporate information available online today. But before any analysis can be performed on this data, it has to be input into a spreadsheet or other analytical program, using cut and paste techniques or even manual re-typing. If you’ve ever tried transferring data from any of these formats into a spreadsheet for analysis, you know how frustrating and unproductive this process can be.

Many companies offer some corporate data for public download in Excel format. While this is a big improvement over data in the other “locked down” formats, Excel, too, has significant limitations. A large share of the investing public is not proficient in Excel. And even those experienced with Excel cannot easily cycle through various chart and table views of the same set of data to gain new insights. It’s hard to drill down to see key metrics because too much data is usually displayed across the spreadsheet. Applying equations to adjust the data—macros—is far beyond the capability of most average investors. And with Excel, there’s typically no explanation of why a number is included, if it has been modified, or where it came from. Even experienced Excel jocks can be tripped up.

Traditional formats are lacking when it comes to Web based presentation. “Format counts!” say Samuel A. DiPiazza, CEO of PricewaterhouseCoopers and Robert G. Eccles, President, Advisory Capital Partners in their book Building Public Trust, “Even the most accurate, relevant, and complete information would be all but useless for management decisions if it were presented in stone tablets at corporate headquarters. The same is true for information reported to investors and other stakeholders.”

The Move To More Interactivity

Fortunately, a new generation of Web technologies offers real hope for improving the transparency of corporate data and insuring that the data is not the equivalent of stone tablets.

The first wave of Web technology in the 1990s enabled mass communication and instant information access. But this glut of information puts the burden on the investor and analyst and makes the company providing the information no more transparent.

A next generation of Web technologies makes it possible for companies to present financial and other business data on their investor relations Web sites in a way that allows investors to interact with that data. This interactive format increases a company’s transparency because it makes the data easier to analyze and it allows different users to use the data in different ways.

What do we mean by interactive data?

Interactive data transforms conventional investment analysis into point-and-click operations. Here are some of the functions the end user of interactive data can now perform by just pointing and clicking

- Call up the data instantly in a Web browser
- Explore and analyze the data directly online, without having to first put it into a spreadsheet
- Apply one-click calculations to the data—even complex analytics from normalize to standard deviation
- Bring in new data sets for comparison, with no reformatting required
- Cycle through various chart and table views instantly—line charts, bar charts, area charts, pie charts, and tables
- Download the charts and tables for insertion into other presentations or to e-mail around
- Download the raw or after manipulation data as an Excel spreadsheet

Plus, interactive data adds value for data consumers all along the analytical continuum—from the institutional investor to the sell-side analyst to the retail investor.

Using this type of data, retail investors can analyze companies more easily and in more depth than was previously possible. For example, the interactive format allows users to visualize the financials graphically. It is much easier for people to comprehend trends or compare performance across categories if they can view data visually.

Additionally, interactive data allows the retail investor to look at derived data (e.g. calculated ratios) more easily. Investors not only like to look at the actual data but percentage change or average over several periods. With built in calculations, interactive data allows retail investors to perform analysis that would otherwise require somewhat advanced knowledge of a spreadsheet, the time to input the data into a spreadsheet, and the time to write formulas and manually manipulate the data.

For the institutional investor, interactive data provides a faster way for them to perform the “diagnostics” they use to spot changes in a companies financials that indicate an investment opportunity. That is, they look at things like revenue, capital expenditure, return on equity and other items across time periods and across similar companies looking for spikes or movement that is out of the ordinary either positive or negative. Today, they typically print out a spreadsheet and with a ruler work their way down the page. Interactive data enables the institutional investor to do this much more quickly) and with greater ability to see anomalies.

Finally, interactive data can help sell-side analysts generate more meaningful research reports and help them do this quickly. An analyst can use the point-and-click feature to create custom charts from company financial data and then graphically depict the result.

The Power of Interactive Data

In conclusion, the objective of corporate transparency should not just be offering more data, but using the power of the Internet to help data consumers efficiently translate all that data into productive decision-making. The system needs to be easy to use, flexible enough to serve varied audiences simultaneously, and powerful for end-users.

To make their financial data and business metrics easier for investors to analyze, to help prevent information overload in an age of increased disclosure, and to meet the needs of multiple investor types, companies need to consider how they can leverage the latest generation of Web technologies. The Standard & Poor’s Global Transparency & Disclosure 2002 survey states, “There is a growing body of evidence that supports the view that high standards of transparency and disclosure can have a material impact on the cost of capital.”

By offering financial and non-financial performance data in an interactive format, companies can make it easier for investors to analyze corporate performance and be seen as more transparent by the market. In the post Enron era, it is the companies like these that consistently present their performance results in a meaningful and understandable way who will be rewarded by Wall Street and Main Street alike. Credibility through effective disclosure will in the long run create premium valuations.

Paul Carey is CEO of enumerate, a Northern Virginia software firm which develops and markets products that enhance the presentation of numerical data online and transform complex analysis into one-click operations. He was formerly the Executive Vice President of Sallie Mae responsible for financial reporting and relationships with Wall Street among other things. He also was the architect of Sallie Mae's "the model of corporate governance" as described by Institutional Shareholder Services.

Jeffrey P. Parker co-founded CCBN in 1997, a Boston based corporate communication firm that brings public companies and investors together via the Internet. He has served as the company's Chairman and CEO since its inception. As the creator and CEO of several successful financial services companies over the past twenty years, Jeff is a champion of entrepreneurship and shares a wealth of operating and financial expertise.