

“Best in Class” Annual Reports: Results from A Focus Group^{*}

BACKGROUND

A properly prepared annual report can be a powerful tool for an organization’s board and senior management to assess past performance and for transparent accounting to key stakeholders for the manner in which its business is conducted; resources are utilized; and results achieved as assessed against results desired.

The best annual reports can serve as a ‘beacon’ that motivates other organizations to examine their own accountability practices and guide them to strengthened reporting.

Good governance, financial prudence and statutory requirements demand that the board of directors of an organization account to the owners of the NPO or to taxpayers for their stewardship of resources and achievement of mandated results.

The use and supply of accountability information lies primarily in four areas:

- **Management Oversight:** The production, collection and analysis of information that informs management decisions and actions related to operation, financing and assessment of results of services or benefits and fulfillment of the mandates for which the agencies were established.
- **Governance Oversight:** The use of accountability information by Boards of Directors to hold Executive Directors or CEOs to account and to ensure proper and prudent management.
- **Broader Stakeholder Accountability:** The use of accountability information by the key stakeholders of the NPO.
- **Public Oversight:** The use of accountability information by the Canada Revenue agency in overseeing the finances and activities of registered charities.

The focus of this limited initiative is on annual reports in selected segments of the voluntary sector, particularly granting foundations and United Ways as proxies for those who demand annual reports from others in the voluntary sector. Certainly other donors could be considered including larger contributors, government funding agencies and the like, but this initial study focused on representatives of voluntary sector granting agencies.

* CA – Queen’s Centre for Governance located at the Queen’s School of Business provided funding for the author of this report, Mel Gill, to analyze and write up the results of a focus group he held on the criteria for ‘best in class’ annual reports from a demand and supply perspective. The CA-Queen’s Centre for Governance Not for Profit Initiative’s mandate included improving the quality of governance in the Canadian not for profit sector and includes such programs as scholarships to Queen’s Executive Development Fundamentals of Governance for Boards of Municipal, Provincial and Federal Agencies and Not for Profit Organizations, not for profit fraud awareness and quality of not for profit public accountability reporting.

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Why the Nonprofit Sector¹

“The nonprofit sector in Canada is large and diverse. According to a recent surveyⁱ there were 161,227 nonprofit and voluntary organizations in Canada in 2003, 56 percent of which were registered charities. This figure does not include unincorporated associations other than registered charities. Approximately 84 percent of registered charities were incorporated. Seventy-three percent of nonprofit and voluntary organizations provide service directly to benefit the Canadian public, including health; education and research; religion; social and legal services; community development and environment; arts, culture and recreation; and philanthropy. They had annual revenues of \$112 billion. One-third of this revenue (\$37 billion) was reported by hospitals, universities and colleges, which employ 34 percent of paid staff but comprise only 1 percent of the total number of organizations. Approximately 62 percent reported annual revenues of less than \$100,000 and about 80 percent reported revenues of less than \$250,000. Forty-nine per cent of their revenues derive from various levels of government (mainly provincial).

Nonprofits employed over 2 million Canadians and garnered 2 billion hours of volunteer time (equivalent to one million full-time staff) from some 19 million volunteers. Nine percent of these volunteer hours were devoted to governance of the organizations. The average age of these organizations was 29 years. “Economically, the voluntary sector in Canada in 1997 was comparable in size to the economy of the province of British Columbia and comprised 12 percent of Canada’s Gross Domestic Productⁱⁱ.”

Methodology

Boards and CEOs are obligated to ‘supply’ accountability information while owners create the ‘demand’, such as it may be, for the information. Traditional research has focused on the supply; rather than the match, or the differences, between supply and demand.

The research reported here was based on a focus group of grant-making organizations and to provide some challenge a contrast a smaller number of direct service agencies. A list of discussion questionsⁱⁱⁱ was developed and employed at a session hosted by the United Way of Winnipeg in late May 2007. Follow-up was carried out with the United Way of Ottawa and the Community Foundation of Ottawa, by soliciting their responses to a mailed questionnaire, to ensure that results were not specific to this focus group.

This report focuses on identifying current practices in preparation and use of annual reports, criteria for identifying features of outstanding annual reports, and the type of critical information essential for evaluating the manner in which an organization’s business is conducted, resources utilized and performance measured against planned results. It identifies, based on a limited sample of frontline organizations^{iv}, some differences in their perspectives from those of granting agencies.

¹ Excerpted from Mel D. Gill, Governing for Results: A Director’s Guide to Good Governance Trafford Publishing, 2005

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Interviewees were asked to respond to the questions outlined in Parts One and Two. In addition, some respondents recommended organizations that they viewed as producing exemplary annual reports. Those were reviewed along with several others. A small number of those that best incorporate the attributes of outstanding reports identified in this research are referenced in Appendix B.

SURVEY PART ONE:

Annual Reports typically include the following components:

- Narrative**
- Overview of results and current situation**
- Expectations**
- Strategies**
- Management Discussion and Analysis (MD&A)**
- Summary and interpretation of financial results**
- Financial Statements**
- Management responsibility and auditor's report**
- Income Statement**
- Balance Sheet**
- Cash Flow Statement**
- Notes**
- Pictures**

a) Does your annual report follow this format?

Funding organizations generally follow this format in their own reports and look for it in submissions from those seeking funding. They tend to have greater interest in the financial statements and any evidence of the impact of the projects/services they fund. The service agencies tend to take more of a minimalist approach to including financial information in their annual reports.

b) If not, where does it deviate?

There was some debate about how many of the financial statement reports were essential, and some question about whether notes to financial statements should be included. Funders supported including notes to financial statements as essential to their evaluation of the stability/viability of organizations requesting funding, while the service agencies were less inclined to include the notes, suggesting these should be ‘available upon request’. Funders, on the contrary, strongly suggested that you only get one ‘kick at the can’ with a prospective donor, and donors are unlikely to follow-up in pursuit of additional information... there’s no second chance to make a first impression.

Donors (other funders) shouldn’t have to ask for supplementary information. If what they want is not there, they may simply move on to another request.

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c) Does it include components not covered in this overview?

There was general agreement that an annual report from funders ought to provide a ‘bird’s eye view’ or snapshot of the organization with several major areas of emphasis suggested:

- 1) Community engagement and investment strategy
- 2) Capacity building
- 3) Management discussion and reporting on measurable results related to
 - i) Core funding (UW Winnipeg provides three-year funding agreements, subject to annual review)
 - ii) Project funding
 - iii) Discernable (quantitative) or anecdotal (qualitative) individual or community impact (Winnipeg Big Brothers/Sisters has results focused annual reports)
- 4) Collaboration or collective action
- 5) Reporting on work done over the past year and some sense of future plans
- 6) Positioning the funder or agency within the community
- 7) Marketing, branding and public relations
- 8) Making the business case’ for support (financial and moral)
- 9) Recognition of donors, funding authorities, volunteers and staff creating a ‘sense of generosity with (for a) purpose
- 10) Creating a sense of the value that the organization provides to the community...with a focus on results
- 11) Creating a ‘feel’ for the organization’s values and culture pictorially and anecdotally
- 12) Celebrating past accomplishments and creating a bridge to the future

In a nutshell, an annual report should “Tell who we are, where we’ve been, what we’re doing, what value/benefit we’ve added, where we’re going, what it costs, and acknowledge/thank those who pay for it.” In other words, “*Justification* and *authentication* for what we do and who paid for it; and *validation*: what we promised, what we delivered, how we did it, what it cost.”

d) Who do you think an annual report is written for?

Audiences for an annual ‘report card’ are direct ‘owners’ or members, funders of individual services, other funders (positioning and collaboration), other agencies, staff, clients/consumers, volunteers. Funders want the numbers but they also want the feel of the organization (spirit, culture, values). There is also an element of public accountability, particularly for those organizations that rely on public financial contributions or carry a public benefit mandate.

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e) Do you think it fulfills the requirement to account to all your stakeholders?

Annual reports should provide a ‘report card’ on the organization’s past performance balanced with a vision of the future, but it should not be a ‘brag’ document. It should take credit for achievements but be presented with humility. It may not be possible to meet the needs or requirements of all stakeholders in a single report, so needs to focus on primary accountability to (the needs of) key users. Information needs of stakeholders that are not the primary target of the annual report are sometimes met through supplementary information provided through newsletters, brochures, etc.

Preparation of an annual report needs to be mindful of the financial and personnel resource utilization seeking a balance between comprehensiveness and economy/feasibility that meets essential accountability requirements.

f) What other features, if any, might you include to address the information needs of specific stakeholder groups?

Annual reports can be supplemented through other vehicles (e.g. newsletters, web postings, video reports, a virtual tour of the organization showing how strategy is being implemented, etc.) for broader stakeholder groups.

g) How extensive is your experience with annual reports?

Funding organizations are, for the most part, both suppliers and users of annual reports. They review many annual reports as well as develop annual reports for their own organizations. The annual report is ‘almost’ always requested in support of an application for funding. Financial statements are ‘always’ required and reviewed in deciding on an application for funding.

Funded organizations and service providers almost always examine the annual reports of other organizations as they strive to improve their own annual reports and position their organizations within the community and account to their various constituencies.

h) What are the attributes of annual reports that you believe make great annual reports (i.e. ‘the best in their class’)?

The primary attributes identified were:

- 1) Picture and good news at start and end
- 2) Transparency, readability and brevity
- 3) Design that makes information accessible through graphs and charts
- 4) Positioning the funder or agency within the community (marketing, branding and public relations)
- 5) Concise (condensed) financials
- 6) Creating a sense of the value that the organization provides within the community

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- 7) Recognition of donors, funding authorities, volunteers and staff creating a ‘sense of generosity with (for a) purpose
- 8) Celebrating past accomplishments (compelling stories and photographs that illustrate the work of the organization)
- 9) Creating a bridge to the future
- 10) Reporting on work done over the past year and some sense of future plans
- 11) A ‘hook’ to reel in donors

i) In view of this discussion, how might you improve your own annual report?

- Assume the reader knows nothing about the organization. A ‘snapshot’ won’t achieve this
- Long-term financial trends are not as important as the current balance sheet
- Examine how the annual report relates to newsletters or other communication vehicles used by the organization
- Distinguish between project vs. operational vs. capital revenues and expenditures

SURVEY PART TWO

1. Ownership? Who is the “Owner” of your organization?

The legal owners of NPOs are their members with secondary contractual or fiduciary obligations to donors, moral obligations to other key stakeholders, the local community, and a trust obligation to the general public on the part of registered charities (i.e. those NPOs that are charged with a statutory mandate and those that depend on community contributions).

2. What Does the Owner Need? What information does the Owner need to hold a Board of Directors and an ED or CEO to account for good governance, sound stewardship and the achievement of mandated results?

- What the board needs should be in the first two pages. (i.e. an Executive Summary)
- The report belongs to the board, but it should not be viewed as just a financial reporting vehicle.
- The structure of the annual report will be different for an organization that wants to appeal to donors as opposed to one that appeals to a funding authority.
- It’s important to structure an annual report to appeal to primary target audiences...there really is no ‘one size fits all’.

2.1 What parts of your most recent Annual Report are most/least useful to the owners and why?

Most people respond to the stories but different people find different parts more useful. It depends entirely on the context. A donor wanting to get a neighbor

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interested might point to the Board or donor list. An accountant or investment broker may look for information about returns on investment. Most would also want to see the impact of the grants.

There should be a good balance between reporting and marketing, in addition to the features of outstanding annual reports mentioned earlier. However, this particular research was too limited in scope to provide a comprehensive response to this question.

2.2 What information would the owners like more of/less of in an Annual Report?

The annual report should provide a global overview, not just a review of projects, activities and finances. One suggestion for streamlining is to provide a very concise financial summary in the annual report and more comprehensive financial statements in a supplementary document. The features of outstanding annual reports mentioned earlier provide some response to this question since almost all of the respondents have extensive experience on boards of both granting and service organizations.

3.0 How Do Boards Know If the Annual Report is Effective (Telling the Right Story) and What the Readers Need or Want? How do Boards of Directors and EDs/CEOs measure or test the effectiveness of their Annual Reports to render an account to their Owners and Stakeholders of their governance, stewardship and achievement of mandated results?

- Boards need to solicit feedback from users via focus groups, informal discussions and user surveys.
- Most funders still want paper copies. However, organizations might try focus groups with younger (18 to 45) year olds to see if there are differences in how they receive/perceive/access information. Are they more likely to favor electronic reports?
- UW Winnipeg board holds meetings on a rotating basis in the communities/neighborhoods in which its funding support is concentrated. This is reported to break down prejudices and barriers and improve mutual understanding.

The Ottawa Community Foundation collects feedback, which they get in abundance, and look at the compiled results before embarking on the next annual report. It also submits the report for awards and gets feedback from judges, whether or not they have won. It uses the feedback to improve the following year's report.

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Conclusion

This report is based on a focus group of funding agencies and front-line nonprofit organizations and review of a limited number of annual reports. However, there are some important findings that can be used to guide the development of improved annual reports and accountability processes. There are minor differences between the perspectives of funders and front-line nonprofits, but these seem to be primarily related to the economics of producing annual reports and the ‘readability’ of voluminous reports.

While there is no ‘one size fits all’, outstanding annual reports will typically follow the format outlined in Part One of this report and share several other important attributes.

They will:

- 1) Begin and end with a picture and good news
- 2) Position the funder or agency within the community (marketing, branding and public relations)
- 3) Provide concise (condensed) financials and a transparent view into the organization
- 4) Focus on Results...Create a sense of the value that the organization provides within the community
- 5) Recognize and appreciate donors, funding authorities, volunteers and staff
- 6) Create a ‘sense of generosity with (for a) purpose
- 7) Create a ‘feel’ for the organization’s values and culture, pictorially and anecdotally
- 8) Celebrate past accomplishments
- 9) Create a bridge to the future
- 10) Report on work done over the past year and some sense of future plans
- 11) Make the business case’ for support (financial and moral)
- 12) Provide a ‘hook’ to ‘reel in’ donors

In a nutshell, an annual report should, to paraphrase several respondents: “Tell who we are, where we’ve been, what we’re doing, what value/benefit we’ve added, where we’re going, what it costs, and acknowledge/thank those who pay for it and those who provide the services.”

The larger the size and complexity of the organization, the more important it will be to provide an executive summary of the report.

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Appendix A – Interviewees

Sincere appreciation is expressed to the following individuals and organizations for the contribution of their perspectives to this survey.

Participants in the focus group hosted by United Way Winnipeg:

Linda Brazier, Director Community Investment, United Way Winnipeg
LuAnn Lovlin, Dir of Communications, The Winnipeg Foundation
Kingsley Bowles, Board Member, Big Brothers/Sisters Winnipeg
Barbara Palace, ED, The Manitoba Law Foundation
Madeline Kohut, Winnipeg Regional Health Authority
Abby Feller Morris, Jewish Philanthropy
Carla Pelletier Gray, Independent Perspective, CGA, Management/Financial Consultant
Elaine Bishop, Exec Dir, North Point Douglas Women’s Centre
Kathryn Strachan, Board Member, North Point Douglas Women’s Centre

Other Respondents:

Barbara McInnes, Executive Director, Community Foundation of Ottawa
Beth Green, United Way of Ottawa (response pending)

Appendix B – Annual Report Examples

Winnipeg Foundation: http://www.wpgfdn.org/downloads/2006_AR.pdf

Vancouver Foundation:

http://www.vancouverfoundation.bc.ca/AboutVancouverFoundation/Downloads/VF_ar_06.pdf

Community Foundations Canada: http://www.cfc-fcc.ca/doc/pf_9_ENG_CFC_AR_06.pdf

(does not include its own financials)

United Way of Greater Toronto:

http://www.unitedwaytoronto.com/who_we_are/PDFS/AR2006/2006-UW-AnnualReport.pdf

United Way of Atlanta: http://www.unitedwayatlanta.org/b0-your_united_way.asp

United Way of Los Angeles:

http://www.unitedwayla.org/getinformed/Documents/annualreport_2006.pdf

United Way of Twin Cities

<http://www.unitedwaytwincities.org/aboutus/Documents/2006.community.report.pdf>

ⁱ Cornerstones of Community: Highlights of the National Survey of Nonprofit and Voluntary Organizations. Statistics Canada, Minister of Industry 2004:9-21

ⁱⁱ Broadbent, Panel on Accountability. 1999:13

ⁱⁱⁱ The survey instrument was developed and refined through a collaboration between Dan Rubenstein and Mel Gill

^{iv} It should be noted that most of the respondents to this survey representing grant-making NPOs also have had extensive experience at either the staff or board level of direct service agencies