

# Why and How to Write Narrative Financial Reports

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*It's interesting to learn what lurks behind a curtain of numbers.*

For many people, reading a paper covered with numbers is a burden. Instead of providing information, it provides data. To turn data into information, the reader needs to look at the line descriptions, look at the number or numbers, and do one of a few things:

- Relate that number to other numbers on that page.
- Relate that number to other numbers on a different page (maybe not among those attached).
- Compare that number to the same number in another period on another report.
- Determine if it is reasonable.
- Sense changes or movement in that number.

When the readers are unpaid volunteers, as in nonprofit organizations, the above tasks represent a burden that often prevents the volunteer from understanding the organization's status and performance. That lack of understanding can lead to frustration, poor decisions, and failure to comply with fiduciary duties.

Some readers of this piece will think about the role of professional management and discount the importance of directors understanding what's going on, and more importantly what lies ahead. I believe in good governance which includes a significant reliance on management. To remain in compliance, diligent boards rely on management through an understanding of what's going on, not in ignorance of it.

A narrative report removes ignorance in a pleasant way. Good narrative reports provide insights and compliment other tools such as dashboards, trend charts and comparative reports.

Some readers of this piece may be ready to stop reading because of the myth that numbers people can't put a sentence together. That myth is busted.



I am a numbers kind of guy with a strong left-brain leaning. People who know me will tell you that I did or do over-analyze. I say only sometimes ... now. But this and hundreds of articles, special reports, books and, more importantly, narrative financial reports to a board of volunteer directors over many quarters, demonstrate that a narrative writing ability can coexist with a penchant for numbers.

It is one thing to be analytical and internalize or speak about the findings to a small group. It's another thing to put one's thoughts down on paper to edify those who are less analytical and numbers-oriented. The chore of the writing helps to balance the analysis; writing helps one to focus on the analysis that needs to be communicated. In other words, what summation does the board need to be effective?

As a CEO I developed a monitoring tool, two pages containing about 60 ratios. These ratios helped my management team spot trends and issues so we could take action. The first columns showed month-end, the second column was the prior month-end. Then there were two columns showing the most recent two-quarterly averages of each ratio, followed by the same three months a year ago. The last two columns were 12-month moving averages, the most recent 12, and the 12 prior to that; once you have the spreadsheet set up, it's no trouble to maintain it.

Those comparative columns gave us a sense of movement. All a manager needed to do was look at it and interpret changes to sense the movement. Being close to the action, we knew or could infer what member activities and ALM policies were behind those movements.

It was convenient to supply the board with the same ratio sheets management used. But convenience is not the criteria for designing information to the board or any anyone else. While my management team continued to work with the two-pager, we began supplying the board with a simplified and focused dashboard of nine essential ratios.

Trend charts for the same ratios accompanied the dashboard. While the dashboard was a snapshot of quarter-end, the charts showed movement over 13-quarters, like a photo and a movie.



The dashboard and charts were major improvements over typical financial reports (i.e. data) and sixty-some ratios (i.e. too much information). The challenge was to move to the next level, “understanding.” That’s where the narrative report comes in.

The fact that we supplied the dashboard and charts *quarterly* is significant to note. We wrote narrative reports only quarterly, too. Monthly narratives can too easily become “boilerplates” within which to plug the latest numbers; in that case, little insight transfers. Writing quarterly almost always required a new writing, unique stories each time. One or two stories may carryover but because some trends may last several quarters or years to play out. My quarterly narrative reports developed a familiar order, pattern and rhythm. That was helpful to me writing it, and helpful to the readers. However, over three months the most important and most interesting changes needed a new or updated explanation.

It matters not the size or complexity of a credit union. At the proverbial 30-thousand foot level, and to maintain that altitude, quarterly numbers are just right for the typical board. Receiving monthly numbers only serves to communicate that the board should be interested in the changes month-to-month. It is better for the credit union that management takes action to correct trends than to wait the typical three-weeks for the board to see month-end numbers and then propose actions. Management can inform the board of the issues and management’s actions monthly, but fully detailed and monthly financial statements are still too much.

Here is one more point about what the narrative report is *not*. It is not a verbalization about what someone could see by looking at the dashboard and charts. For example, “Net worth rose from x% to y%.” As a director, don’t read to me the numbers I can see; instead, tell me what’s behind them, and tell me in a report I can digest before I’m in a meeting with you.

An effective narrative report is not just a road map to lead the reader from dashboard, to charts, and back to dashboard. A narrative report can do so much more.



The narrative style of reporting provides insights to the readers who were not involved day-to-day over the reporting period. Managers and staff were there; it is their observations, understandings, and conversations with other employees, members and affiliates that provide “color commentary” on what’s happening with the numbers. The narrative report helps to understand why the numbers became what they became.

The basic ingredients of a story for a speaker or story teller are time, place, characters, dialogue, and issues. For the narrative financial report, story is simpler than that. Insight-delivering narrative stories do not need to carry the same detail of a traditional story, but simply explain the forces behind the numbers. For example,

Loan volume continued its decline (as seen in chart #4) as the economy stayed in a slump. Members appear to be under financial stress: we’ve seen an increase in delinquency, still manageable at 1.3%, and a slight rise in bankruptcies. Roughly a fourth of our members live paycheck-to-paycheck; while not in need of credit counseling, many do not qualify to borrow more. While the approval rate of loans remained high, the membership again filed fewer loan applications in the most recent three-month period. Loan applications declined steadily over the last nine months, a drop of 7.5%, from xxx in (some prior month) to yyy this past month. The staffing level in loans effectively handles a volume from xxx to yyy.

We’ll analyze what’s good in that example and that way cover many writing tips in the process.

- In the first sentence, “Decline” creates a sense of movement and direction. One way to rate the effectiveness of your narrative is if a reader gains a sense of the business without ever reading the financial data, dashboard and charts.
- In the second sentence, the reader gains insight regarding the capacity of staff to handle what is a rising delinquency trend seen in the charts. Here the narrative writer informs us of a rise in bankruptcies without providing or referring to data. In such a case, management does well to have the data handy because one of the necessary activities of a director is to inquire. The



effective narrative introduces other aspects without supporting data. While any director could ask about bankruptcies at any time, reference to them in the narrative report raises the probability of it. Asking questions is a director's duty; questioning is not inherently micromanaging.

- In the third sentence, the words “remained” and “high” communicate consistency and health to the reader. Since lending is a big part of why your credit union exists, a “high” approval rate (approved applications divided by application acted upon) suggests healthy activity. When bringing up new things, like referring the first time to loan approval rates, Management will do well to define it as I did above, getting ahead of the question, and have loan approval rate data available in case a board member asks about it. It is most often counter-productive to include a separate chart of unfamiliar data; avoid that temptation. Providing insight carries a risk; exposing otherwise hidden information entices detail-oriented people to want more. Directors should stifle their temptation to request that nugget once again, or worse, from that point on. The narrative format mitigates that tendency because it does not inherently illuminate how management found it, whether it was a part of management's normal tracking or researched one-time for that particular report.
- In an interview, Steve Martin said that his writing came alive when he started using verbs. Jokes aside, we may say the same for “active” versus “passive voice.” It is a challenge (maybe only for former examiners, recording secretaries and auditors like me) to avoid writing something like this, “The decline in loan applications over the last six months was 7.5%.” You may be thinking to yourself, “What's wrong with that?” Nothing is wrong with that but it is more flat than it needs to be. It is more alive when something or someone does the declining. Loan applications declined 7.5% over the last six months.” A modicum of passive sentences won't ruin your report. However, readers will find it more pleasant and easier to read your informative financial narrative when you write mostly active voice sentences, and minimize passive sentences.
- When you refer to a dashboard or chart, be clear about where the reader should look. Refer to it by its full title and its location in the package. This is a place in the narrative report where you



can write in general terms and leave off the number or percentage because the reader will see those on the referred pages.

- Use numbers or percentages only to detail unique, useful information that is not displayed on other pages provided; the drop in applications by 7.5% is an example.
- When percentages are under ten, include a decimal point for additional precision. Over 9, round off to the full percentage. At 30-thousand feet, the little details should remain unseen.
- Similarly, the few times you cite dollars in a report, leave the cents off. Generously round numbers to, for example, “\$3.5 million in new loans,” and “... about \$12,000 in fees.” Details are rarely important to gaining insight. The readers will easily get use to the idea that the numbers you write will be found in the data and any difference is due to rounding.
- “Roughly a fourth of our members live paycheck-to-paycheck.” Remember, the narrative financial report is not a different way to pass along the numbers; few numbers belong here. The narrative speaks of proportions, and degrees of movement, and shifts in direction. It is about the readers sensing and picturing in their heads how things are, and how they got there, and even how things are going.

How do you get started writing a narrative financial report? Here’s one way. Review the charts and dashboard. Think, what would a reader, not in the branches every day, be unaware of? What would a director ask as a result of looking at these? Answer the largest (30k ft level) questions related to what you see, know and believe to be true. Write it much the way you would present it verbally during a meeting. Writing the narrative financial report will cause you to organize that presentation better.

Remember, publishing the narrative means you won’t have to report it verbally. As a result, there will more time at board meetings for directors and managers to discuss the future since they understand financial history before they arrive at a meeting.



The narrative financial report you write, or cause to be written, tells us how the credit union got from there, three months ago, to here now. Thirteen quarters shown in a chart may have different stories from those explaining only the last quarter.

At first writing a narrative financial report may seem difficult. It may even seem like extra work. Since it is highly probable that a verbal report had to be prepared, there is likely very little time difference. Over time, the writer may come to value the task because it is different from the day-to-day, month-to-month analytical work. You'll begin paying greater attention to the forces for change and have noted them somewhere, readily available when you start the next quarter's narrative.

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