Fast Delivery of Complex Financial Reports

How Leading CFOs Do It

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Around the world, many large companies that file their financial information with regulators or government authorities are under pressure to repair the "last mile of finance." That phrase refers to the business processes and tasks that occur between clarification of the trial balance, the validation of data from discrete sources, and the filing of 10-Ks, 10-Qs, or other disclosure documents with regulators such as the U.S. Securities and Exchange Commission (SEC). As it turns out, this pressure for change, which is coming from external and internal constituencies, is providing some organizations with the impetus to make long-needed process improvements. As APQC's Open Standards Benchmarking reveals, performance gaps are striking, with time, talent, and other resources poorly deployed by many organizations that participated in APQC's survey.

PRESSURE TO IMPROVE FINANCIAL REPORTING

The external forces that are prompting change include government authorities, capital markets regulators, stock exchanges, and even industry-specific regulators who are upgrading processes for gathering and reviewing financial information from organizations under their jurisdictions. One aspect of this trend that has received a lot of attention in the last year involves the standardized report format known as XBRL[1]. By requiring organizations to file financial information in this manner, regulators gain the ability to quickly run algorithms to validate data and calculations. The point is to improve the reliability of financial reporting processes and to increase the accuracy of the information produced. Moreover, regulators want to make it easier for users to access financial statements and better understand what is behind the reported numbers.

Another external pressure source involves credit rating agencies, capital providers, vendors, and even tomorrow's talent pipeline asking for voluminous, forward-looking, and detailed information about the underlying drivers of financial results. The financial crisis heightened the sense among corporate stakeholders and users of financial statements that they need to be more discerning when assessing an organization's stated strategic intent and performance promises. The SEC, for its part, is ramping up efforts to improve the quality of accounting and auditing policy decisions and to address potential financial reporting deficiencies.[2]

The internal pressures come largely from CEOs, COOs, and board members clamoring for more frequent, up-to-date information about current financial performance. They also want sound analysis of likely trends in future financial outcomes. But it is common to find accounting staff members so stretched by regulatory compliance activities that they lack the bandwidth needed to support financial analysts who, in turn, are striving to address the growing demand for faster, better management reports.

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[1] XBRL refers to eXtensible Business Reporting Language, a computer language developed by accountants based on financial language. XBRL embeds existing financial data into the coded language according to the taxonomies developed by government jurisdictions and regulatory accounting bodies.

[2] "Compliance, Complexity and the Need for XBRL: an interview with former SEC Chairman Christopher Cox," conducted by executives from IBM's Business Analytics and Financial Performance and Strategy Management unit (April 15, 2011).

PROCESS SLUGGISHNESS AND PRODUCTIVITY GAPS STAND OUT

Surely the time has come to address financial reporting process inadequacies. And they abound. APQC has scoured its Open Standards Benchmarking database and found wide gaps between organizations that excel in this realm and those that fall way behind. Figure 1 shows the relative cycle time performance of organizations that participated in APQC's benchmarking survey on Financial Management: General Accounting and Reporting. The focus here is on the number of days it takes to close the books and release financial results. The top performers, those in the top quartile, run the quarterly earning course in half the time it takes the bottom quartile.[3] As for releasing annual information, the top quartile performers move more than twice as fast as the bottom performers.

Days Needed to Release Earnings[4]

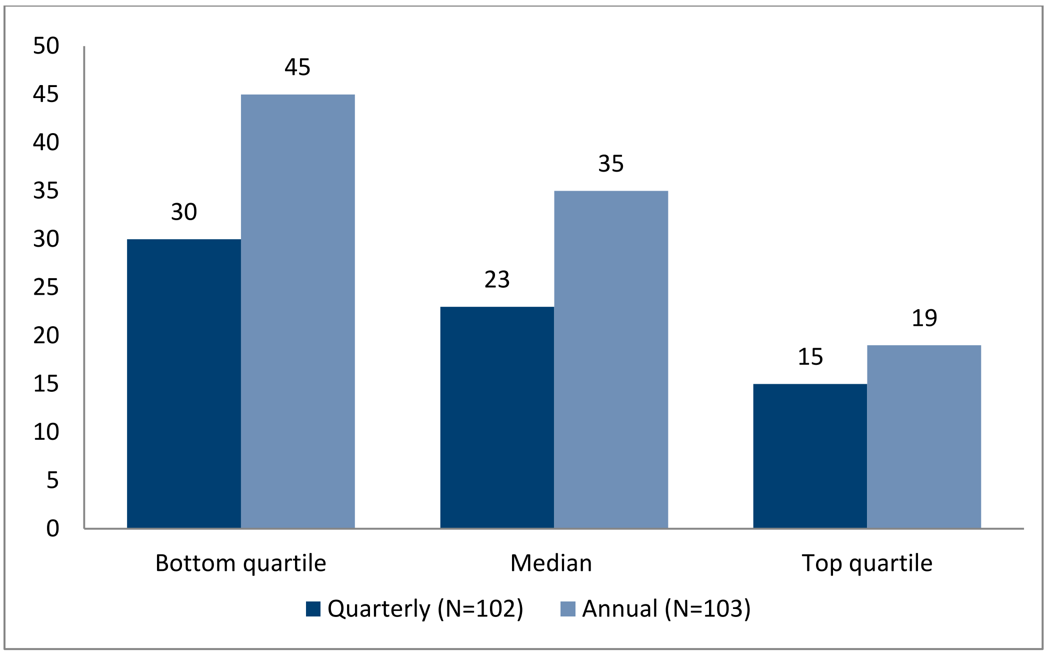

Figure 1

FAST REPORTERS SHINE IN OTHER RESPECTS

Expanding this view of relative performance, APQC has identified two groups that deserve accolades and one group that truly needs attention. The first group, which we call the **all-around top performer group**, outpaces other contenders when it comes to the number of days required to release earnings, *both* quarterly and annually, after all financial data consolidations have been completed. The **second-best performer group** includes companies with top quartile

[3] The top quartile is the performance level above which 25% of all responses occur. The bottom quartile is the performance level above which 75% of all responses occur. The median is the middle value in a set of values that are arranged in ascending or descending order.

[4] After all financial data consolidations are completed.

performance in *either* quarterly or annual release times. The **laggards** have the slowest speed when it comes to releasing either or both quarterly or annual earnings.

Figures 2 and 3 below show that the all-around top performer group outshines the other two groups in terms of both staff productivity and costs related to the process of providing financial reporting. The all-around top performers deploy just 1.2 full-time equivalents (FTEs) per $1 billion in revenue, and they spend just 16 cents per $1,000 of revenue to get the job done. The second-best performer group deploys 1.5 FTEs and spends 54 cents, respectively. The laggards, we now see, are not only terribly slow in reporting results; they also need 10.3 FTEs, and they spend $1.09, to perform this very basic financial management chore.

FTEs Involved in Financial Reporting per $1 Billion in Revenue

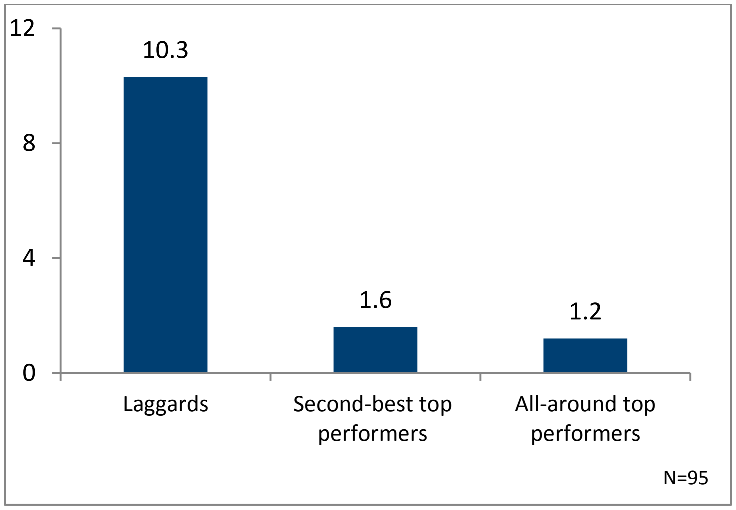

Figure 2

Total Cost of Financial Reporting per $1,000 in Revenue

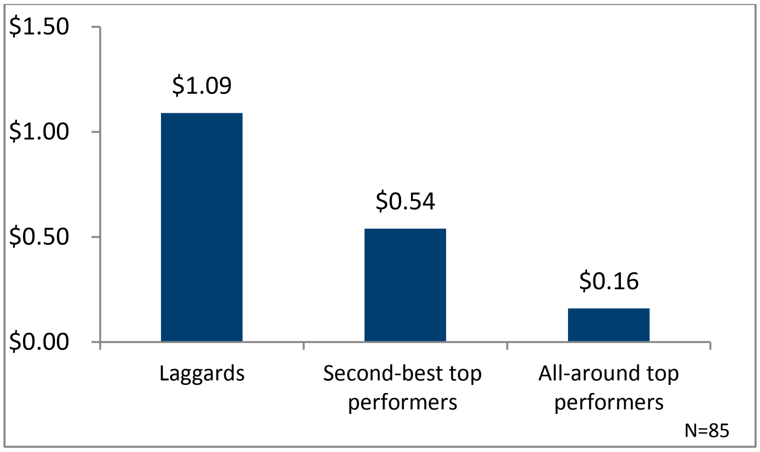

Figure 3

FAST REPORTERS HANDLE MORE COMPLEXITY

Figure 4 demonstrates that all-around top performers that excel in cycle time for preparing both quarterly and annual financial statements are also adept at handling complexity. They cope with a relatively heavy load when it comes to the processing of intercompany transactions. The all-around top performers manage this chore for 51 business entities[5]. Now, consider that the second-best performer group handles 30 entities, and the laggards on average handle only eight.

Number of Business Entities for Which Intercompany Transactions are Processed

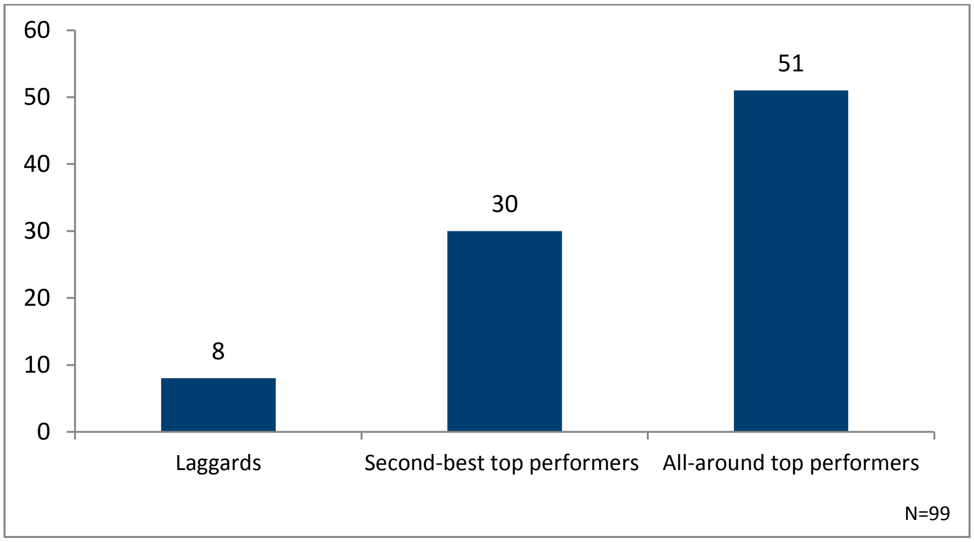

Figure 4

This performance by the speediest group is quite a feat, given the need to do things such as validate account reconciliations, secure missing data, double-check calculations, make a variety of management adjustments, among other last mile of finance chores. Meanwhile, this view of process complexity is a stinging indictment of the laggards. It suggests that laggards are simply not prepared to compete and manage risks today or in the foreseeable future.

What are some of the more common causes of poor performance in financial reporting? Three stand out:

1. lack of common data definitions and standardized documentation across the enterprise;
2. poor reporting discipline—for example, business units omit data needed to complete the process, and the reporting team must chase them down; and
3. lack of standardized systems requires manual re-keying and reliance on spreadsheets to prepare presentation documents to senior management.

Process weaknesses of this sort are not confined to financial reporting. APQC research has documented similar ills afflicting processes such as payables processing, billing, and cash

[5] This is a calculation of the average number of entities requiring processing by the financial reporting team.

collections. Although CFOs may have good reasons for delaying investing in those other areas, it is becoming harder to put off the last mile of finance. Stakeholders, especially debt and equity owners, are more skittish than ever. If questions come seemingly out of nowhere because transparency is lacking, or if stakeholders equate a slow process with lackadaisical management, the CFO's truly big headaches have just begun.

XBRL AS CATALYST FOR CHANGE

When the SEC first floated the idea of requiring issuers of securities to file financial statements using XBRL, few CFOs immediately recognized an opportunity to justify investments in process improvements aimed at the last mile of finance.

Things started to gel about three years ago when the SEC began requiring the largest corporations to use XBRL when filing information. Mark Lelyo, Executive Director of Corporate Financial Systems at Time Warner Inc., had this to say about the arrival of the XBRL mandate: "We had an added incentive to find a solution" to the slow and tedious financial reporting process.[6] The company implemented IBM Cognos® FSR™ solution in an effort to ease the process of attaching XBRL tags to every data point and table in its financial statements filed with the SEC. Beyond meeting the SEC requirement, the company aimed to improve process accuracy by moving away from what was essentially a manual financial close process. The objective was to provide information of the highest possible quality not just to the SEC, but to financial journalists, banks, vendors, key strategic alliance partners, and to the workforce population.

Time Warner claims that internal consumers of its financial statements have since gained increased confidence in the accuracy and quality of its financial reporting. Process automation has helped ensure the consistency and integrity of numbers and associated text on a repeatable basis. The company also reports that it has cut several days out of the financial reporting cycle and that staff no longer get bogged down in manual data collection and validation.

A FINAL WORD

Some CFOs will regard initiatives to improve the productivity of the financial reporting process as a mere tactical matter, one that can be readily addressed with quick fixes such as outsourcing XBRL tagging. But if you maintain too narrow of a focus, you may miss an opportunity that is undeniably strategic: meeting demands by key stakeholders for truly timely and useful performance information.

Reporting speed and accuracy are table-stakes today. But it would be wrong to assume that you have to spend more to go faster and do a competent job. How to get there? For some, the answer will be found in streamlining and automating the close-to-report process. For others, process re-design will prove to be a good start. In any event, it's no longer acceptable to keep smart finance and accounting professionals weighed down by the manual, repetitive tasks found

[6] Finance 2011—Time to Build the "Last Mile," a white paper by David A.J. Axson for IBM Corporation 2011.

in traditional financial reporting processes. It's more sensible to aim this valuable talent at strategic decision-support.

XBRL's First Focus

In mid-June 2011, the SEC's XBRL mandate became a reality for all public domestic companies and foreign private issuers that must file financial statements with the U.S. regulator. Similarly, the United Kingdom's HMRC recently mandated XBRL tagged submissions for all entities, profit and non-profit, listed and unlisted. Moreover, governments worldwide are looking to XBRL as a way to drive significant productivity gains in their regulatory activities.

For some companies, it made sense to go the outsourcing route during the first rounds of the XBRL mandate. And many turned to service firms that have long specialized in financial printing to manage the tagging chore on their behalf. After all, when using XBRL for the first time, the challenge was to review more than 15,000 tags in the XBRL taxonomy to determine which one best suited each individual line item in a regulatory document. The follow-on challenge comes in year two, when the SEC requires companies to "detail tag" their footnotes.

Today, however, arguments are being made that it's sensible to dispense with outsourcing, at a point when an internal comfort level is reached with the entire ordeal. Year over year, outsourcing will prove expensive, relative to the cost and effort of developing XBRL tagging centers of excellence in-house.

What's more, if an automated solution is implemented to assist in this tagging effort, a company can expect to capture process improvements that extend beyond the close-to-report requirement. A company can see improvements in the speed, audit-ability, ease of production, and reliability of regulatory and compliance reports, press releases, and other public disclosures as it extends usage of the report platform.[7]

[7] "The Strategic Need to Automate the Last Mile of Finance," a white paper by BPM Partners, Inc., March 2011..

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