Beyond Numbers: The challenge of telling your company’s story

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THE CFO AS STORYTELLER

Tasked with reporting on what has happened in the business – such as the revenue results of the past quarter or a full year’s worth of earnings – Chief Financial Officers have traditionally acted as history keepers. Their calculations have served as reports of what has occurred at a company and its current state. But in recent years, as companies have become more complex, the CFO role has expanded, investors have become more demanding, and technologies have quickly advanced, past results are no longer enough, and these results are not simply just facts and figures. Added to these complexities, the increasing demands and expectations with external and regulatory reporting mandates have been pushed upon the organization.

Simply providing the “numbers” just doesn’t cut it anymore. What stakeholders want and those in internal management need, is a better understanding of what all the numbers mean. They want a story around those numbers, the story of what has occurred, with a possible explanation behind what’s driving the numbers, and how they affect the future. “Sure, you can learn from past mistakes, but you need to know more quickly whether the future is at risk,” a finance manager working in the public sector told CFO Research for a 2012 study done in collaboration with IBM Business Analytics on narrative analysis.

CFOs are filling the role of company storyteller as the narrative analysis that accompanies their reports – both internal and external – continues to expand. Six out of ten finance executives responding to the CFO-IBM survey said they are spending more time developing narrative analysis than they have in the past. These narratives show up in management discussion and analysis (MD&A), footnotes, and variance analysis. They have moved financial statements and annual reports beyond a collection of numbers to helpful, informational narratives that give a full picture of a company – past, present, and future. But the analysis doesn’t just benefit external constituents; the majority of the respondents (85%) to our online survey of 200 U.S.-based financial executives, said their management benefits from the analysis and insights developed from the close and reporting process. And 69% said narrative analysis is just as useful (43%) or even more useful (26%) for management than it is for investors, shareholders, and analysts.

Indeed, narrative analysis can help CFOs with their planning before quarter’s end and help them get others on board with tackling key issues. Moreover, it provides “information which adds value and is not found elsewhere,” said one of the CFO Research survey respondents.
While finance executives see a benefit in developing a story around data points, they also find the process quite challenging due to data collection activities from disparate systems, and the lack of coordination and usage of manual reports contained in individual spreadsheets. This process takes time, which means CFOs and their team lose precious time devoted to data analysis just by having to manually assemble the reports in independent Word, Excel and PowerPoint files. As it is, our respondents reported, nearly nine out of ten companies spend either a moderate or a substantial amount of the staff’s or management’s time on preparing the narrative portion of financial reports.

Also playing a role in the stress of “the Last Mile of Finance” is the time to close. Without a substantial amount of time between a reporting period’s end and the submission of financial results, a substantial and accurate narrative can’t happen. For that reason, finance organizations are constantly looking for ways to improve, to build in more time and efficiencies, by looking for how they can better integrate and standardize their systems and processes mostly with limited manual intervention. To draw a line between financial data and substance (in other words, non-financial information), a Vice President of Finance at a manufacturing company said what’s needed most is “more automation, more variance analysis/explanations, and less keying of information into spreadsheets.”

Ah, spreadsheets. Finance’s long-held grasp of their personal productivity tools, whether it is the Microsoft Office Suite or another application, can reduce the organization’s ability to provide reliable and swift disclosures. Just over two-thirds of respondents said the use of such tools make it more difficult to maintain data security, and 62% said ensuring accuracy of data is made more difficult. Similarly, those who use personal productivity tools are more likely to report their staff spends more time on putting together narrative analysis – the lack of automation cuts into the critical turnaround time. It is true that on an individual level Microsoft Office applications have definite advantages, but due to lack of scalability, and increased accountability, and a need for collaboration at stake at a higher level, these tools on a departmental or enterprise level are inefficient. Companies that rely on Excel at an enterprise level have serious complications and a lack of confidence in the final reports published.

The interest in improving the financial close process is increasing at the
same rate as financial risks and penalties. As with CFOs’ relatively new entry into storytelling, it’s a work in progress that will continue.

To further explore the issues and challenges surrounding the narratives that accompany financial data, CFO Publishing recently hosted a webcast sponsored by IBM. Gary Simon, group publisher with FSN Publishing Ltd., and Pat Calitri, worldwide Business Unit Executive in the Financial Close and Disclosure Management division of the IBM Software Group, discussed the evolution of disclosure management, the issues in combining process and workflow, and how companies can realize improvements. An edited transcript of their talk follows.

CFO: Why is disclosure management important?

Gary Simon: The simple answer is that to the outside world, reporting on time and reporting accurately are good proxies for an effectively run organization and a very competent management team. Conversely, earnings releases that are wrong or late can readily give rise to huge consequences, including a falling share price and damage to one’s reputation.

How has this process changed?

Simon: Consider the history of “the reporting supply chain,” which some people call the record-to-report process. It runs from data capture of actuals from subsidiaries during or at the end of their close locally through to electronic filing with the Securities and Exchange Commission and other regulators, the publication of the annual statutory reports, or perhaps half-year and quarterly disclosures and filings, depending on where you are in the world.

It’s a linear process. You can’t really progress without doing the preceding tasks. The accuracy of whatever you disclose at the end is completely contingent on what has happened in the earlier phases. No matter how perfect your disclosure management arrangements are, if there are any errors in the earlier phases, then they will be effectively propagated right through the reporting supply chain and end up in erroneous filings to external stakeholders.

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And this process has become significantly elongated over the course of time. In recent years, there have been considerable regulatory mandates around XBRL and other disclosures that have increased the burden on the corporate finance department in terms of reporting. At the other end, the presence of large Enterprise Resource Planning (ERP) vendors and their initiative in seeking to integrate the reporting supply chain back into the ERP system has extended the whole reporting supply chain in that direction, as well. So what we’ve seen is a reporting supply chain that is in a constant state of flux, not only because of these external influences but also because of changes within organizations in reporting requirements.

An annual report is just one example of a deliverable from a disclosure management system. It looks on the face of it to be quite simple. But actually behind this is a huge amount of activity. In an annual report, there are graphics and tables, elements coming from Excel, from Word, from PowerPoint, and perhaps other applications as well – this has a multitude of different file formats that have to be brought together effectively into one document.

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But it’s not just multi-formats and multi-file formats. It’s actually multiple stakeholders, as well. If you imagine in the last throws of reporting who’s involved, it’s certainly going to involve the corporate finance department. It’s going to involve investor relations. It could involve internal audit. It could involve a design house. It could involve external printers and publishers. There are a number of stakeholders in this who have an interest in the completion of this document.

These are not static documents. Adjustments are being made very close to the wire, so people are making last-minute adjustments, and those need to be reflected accurately within the document. Typically the last mile process is made up of a whole range of different personal productivity tools, word processing systems, Excel, graphics systems, charts, and loads and loads of people, all involved, running around furiously, trying to get the document completed on time.

To what extent have organizations implemented a disclosure management system?
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**SIMON:** Most people are using personal productivity tools to manage the Last Mile of Finance, as it was called, and do not yet own disclosure management products.

Through its acquisitions, IBM has probably the leading and first disclosure management product in the world. It’s been in the market for about four years, and most organizations will have implemented some disclosure management system in the last few years.

**What’s the difference between document management and disclosure management?**

**SIMON:** By document management, I mean the ability for people to work on a single document, to control its iterations and its versions, to bring the components of a document together, to track the changes within that document and to authorize them. For a lot of people, document management is a significant advance compared to throwing a lot of different files at designers and asking them to put the statutory accounts together. But it’s very much a limited view of what’s required in full disclosure management.

What is vital is content management. International oil and gas company BP produces an annual report, a sustainability report, a social responsibility report, and a summary report. They have a lot of the same content, but they are prepared for a different audience. The challenge is maintaining consistency of information between those documents and cutting out the duplication of effort in reusing content. The idea of content management is that you maintain multiple documents at the same time across multiple stakeholders and you maintain version control.

What I’ve described is the typical first-generation disclosure management environment, where people try to manage the whole of disclosure management but are using different products for each element. But imagine that we’ve got a suite of furniture that actually doesn’t match. So we’ve got one product, one lounger for document management. We’ve got a different product from a different stable for XBRL. And then, finally, we’ve got this document management.

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Ideally, document management, XBRL, and content management should reside in a single environment, which is what I call disclosure management. In other words, the last mile of finance was this haphazard arrangement of different products and personal productivity tools, and then suddenly in disclosure management, you've got a uniform environment in which to bring these things together.

In traditional disclosure management, we see organizations loosely couple those three elements of the furniture together in one environment, but what is sometimes lost is the traceability through the reporting supply chain. For example, if something is changed in an original file submission from a subsidiary, then you want to ultimately see those numbers reflected in the final document. Similarly, if corporate changes a number in the final document, you want to see that reflected back into the original submission from the relevant reporting entity.

A lot of money has been spent by people on disclosure management, but it tends to be spent in pockets. Right now 68 percent of organizations complain about the lack of visibility of the process, 15 percent have declared that within the last year they have missed statutory deadlines, and 86 percent of organizations experience delays in the reporting process.

**How does XBRL fit into this work?**

**Simon:** XBRL is very much part of this disclosure management process. A lot of people have outsourced it to third parties to do the tagging of financial information, but that does not perform particularly well. Now a lot of organizations are seeking to bring XBRL back in-house.

There is a lot of disquiet at this moment. The SEC recently produced documentation highlighting high error rates within the XBRL tagging,
which is one of the motivations for bringing it in-house. There is a bit of a blame game going on, with the regulators not using XBRL information very much, with other stakeholders and investors not using it very much, and people blaming perhaps the lack of tools available for interpreting XBRL and reporting on it. There needs to be a debate about what needs to be done to smooth XBRL reporting as part of disclosure management.

The next logical stage is to ask: Are the characteristics of disclosure management something that could be deployed in other application areas within the enterprise? If you think about it, disclosure management is all about content management, collaboration, and control. And there are many other processes that on the face of it look as though they are amenable to a disclosure management approach, such as tax disclosure. The collection of tax and narrative or tax provisions could very well fit neatly into a disclosure management environment. So could budgeting, planning and forecasting. Multiple stakeholders need to work together to provide a final consolidated view of the budgets or the plans or the forecasts for the organization, for the enterprise as a whole.

Over a period of time, we will see more and more people apply disclosure management principles more widely through the enterprise. Once they have had a taste of it, I think they will start to see the benefits elsewhere.

**What's happening now at companies?**

*Pat Calitri*: A 2012 Hackett Group study found most companies, for every billion dollars of revenue, have approximately 44 financial applications, 91 finance staff, and 1,552 reports. We must accept that most of these reports are just numerical. For all of those reports, if they’re necessary within an organization, at some point someone is preparing them, but also someone is disseminating that information for decision-making purposes. Therefore, the most telling stat is that 82 percent of finance managers cited that the primary business application for generating these reports is spreadsheets.

As we go on in this world in disseminating data and making decisions based on data, gone are the days when finance can just prepare a book of statements and variance analysis and throw it in front of a CFO or a VP and say, “Here you go. Go ahead and figure it out and make a decision.” Finance organizations are now a value-adder, and they must provide their analysis and their qualitative feedback on the data that they present. And it is this process that is driving the changes in the disclosure management field.
In another 2012 study, IBM and CFO Research showed that personal productivity tools are being used throughout the entire organization. Sixty percent of companies use personal productivity tools in some area of their close. And the same number admit that tools increase the risks within the close process, and thus the costs associated with the audit of the close process also increases.

This is simply to say that we accept that 82 percent of reports are being done using Excel. But with 1,552 reports for every billion dollars of revenue, 82 percent of them being prepared by Excel, and 60 percent of us usually deciding that this increases the risks and costs associated with the close process, it’s no wonder that sometimes we get into meetings reviewing the results and have no idea if what we’re looking at is correct, if it’s the most up to date, or if the analysis and write-up matches the numbers that we’re actually looking at. And this is something that can’t continue in today’s world of fast-moving information and big data access.

**In terms of an integrated and automated enterprise disclosure management process, you’ve noted a lack of tools. What is IBM’s response?**

**Calitri:** In the Financial Close and Enterprise Disclosure Management area of IBM, we see this as having four different elements. There is the pre-close, with the account analysis and closing of the books; the consolidation reporting and analysis of the data set; then the compliance, regulatory and tax work that needs to be done to gather and compile other data that may not be financial or trial balance in nature; and, finally, the disclosure management, which could also include XBRL. But it includes a tagging requirement, not just a US XBRL caveat. IBM does have a complete close process offering, whether it’s in the first mile, in the consolidation, or in this last mile.

In terms of product offerings, we do have a consolidation product within the IBM stable of products called IBM Cognos Controller. It is an application approach, application configured. It is finance operated and managed. And because of this lack of consistent dependency on IT resources to maintain and deal with it, it gives us a rapid time to value and deployment.
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It has the ability to do deep consolidation functionality, multi-GAAP reporting. It has familiar web and Excel interfaces. It does have a workflow associated with the data submission as well as working reports, numerical working reports that are available immediately, and a command center that allows you to investigate, analyze an action on group or company submissions from one central location.

What do companies need to consider when looking at their options for a new application?

Calitri: Data can come from any type of system. It could come from our general ledgers, our corporate consolidation, our ERP, or even some legacy systems. Also globally, we may need to collect additional data, like tax information, like statistical information, maybe operational indicators that you want to disclose in your MD&A. All of this information needs to be gathered, consolidated, aggregated for the various reporting hierarchies and segmentations that you want to talk about, and there are no better tools out there than looking at an OLAP repository as well as a disclosure management solution.

Disclosure management solutions need to have some type of contribution mechanism, a reviewing mechanism, document managers and approval cycle, as well as the consumers of the ultimate report. And the consumers are many different types, whether those are glossy report consumers whether they are XBRL consumers or simply just internal-management “consumers” who need presentation decks. The scenario is the same – collecting data from many people from disparate systems and aggregating, isolating, reporting, and linking those numbers into narratives for various presentation styles.

In terms of IBM’s portfolio, we have IBM Cognos Disclosure Management in our Enterprise Disclosure Management Suite. The tool allows you to do many different feature functions, all in an integrated solution. You can load and leverage from existing spreadsheets, and easily connect to any type of data, whether it’s relational, an Excel file, or disparate systems such as a G/L system, a consolidation system, a budgeting reporting cube, if you’re doing budget to actual variance reporting, or sensitivity

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analysis. It allows you to design an intelligent process and automation for the review and approval and submission of the data and allows you to integrate the numbers with narratives so that you can push this out to all of those different report consumers.

Within IBM, we don’t see one solution having the answer to all of your disclosure requirements. There’s various different elements. You have different use cases or purposes for doing this reporting, whether it’s for controllership-type reports, internal and external; regulatory, such as those tagging requirements; planning and analysis-type reports, such as sensitivity analysis, variance explanations; investor relation reports like presentations or press releases; treasury management for cash management, collection and decision-making; or tax, for schedule preparation as well as tax opinions or planning opportunities.

What do you see as the main impediment to widespread adoption of disclosure management?

Simon: There has to be a willingness in the management team to tackle the whole of disclosure management. Instead, people are tackling it in little bits, and that doesn’t work. They have invested quite large sums of money over the last three years in disclosure management but haven’t derived all the benefits because they’ve only tackled one little bit of the process. So my advice would be that the impediment to overcome is this unwillingness to look at the whole process.

Calitri: Too many folks see the need to handle disclosure management, and, quite honestly, they’re afraid. They’re not quite sure what to tackle first. So they start going after low-hanging fruit, such as, “Well, I know I have to do XBRL tagging, so I’m going to look for a piece of software or something that’s going to assist me or farm out to the printers someone that can do my XBRL tagging for me.” This is maybe a nice, easy solution as a starting point, but it really doesn’t address where the organizations are moving when it comes to disclosure management and the need to have control and agility in that process.

Finally, do spreadsheets have a role in disclosure management?

Simon: There is by definition a role for spreadsheets in terms of the preparation of certain tables and notes within the accounts, but it’s very limited. And what I think is a definite thing to avoid is using spreadsheets
A DISCLOSURE DISCUSSION to control the activities of the disclosure management process. So the answer is yes, there is limited use of spreadsheets, but don’t touch them for controlling the process.

**Calitri:** I have to agree with the starting point of Gary’s analysis. If we stick to the finance realm, you’re not going to pull these organizations away from their Microsoft Office tools, their Excel. They will cling to it until their fingernails are all rubbed down before they’ll let go.

So the goal is not to replace Excel. The goal is to surround Excel with tools, an inside of an application approach that gives you a mechanism for control, collaboration, security and a way to organize that information and have an auditability of when something is changed. A tool like Cognos Disclosure Management allows you to integrate Excel into your process, not replace it, but augment it with an application approach that gives you the security, control, auditability, and everything that you need to feel warm and fuzzy at night without having to work the overtime due to a manual system.