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Top Ten Mandates:
THE FINANCIAL REPORTING IMPERATIVE

A white paper by Tad Leahy

INTRODUCTION

Are my numbers accurate? Are they current? Do I have a consistent way to compare my business today with my business three quarters ago? When I look at a piece of information, do I have access to all the knowledge that contributes to that information? Have I overlooked any questionable actions by management?

Diligent CFOs have always asked these kinds of questions when evaluating the quality and control mechanisms surrounding their financial reporting. Yet these days, in the wake of corporate accounting scandals and new reporting requirements, such questions carry more weight and consequence than ever before. CFOs are being held more accountable by their boards and investors than ever before. That fact has led more than a few to inquire about basic matters such as: What do I report now and how do I report it? There's a greater sense of uncertainty about how to proceed, or where to turn.

New regulations and revisions to existing ones have given companies of all sizes and composition more direction about what they should be doing to follow proper review and control procedures. While the legislation has served as a way to formalize those procedures and made it easier for investors to make sense of company information, it's also raised the specter of losing control on a number of fronts.

For public companies, the complex accounting standards and disclosure rules can make preparing financial reports more difficult and time-consuming. Yet finance managers are being told they'll have less time to generate quarterly and annual reports. Hurrying through the process to meet shorter deadlines raises stress levels and increases the possibility of mistakes and errors.

In addition, CFOs must disclose material changes to a company's financial condition "on a rapid and current basis"; that is, whenever it arises and becomes available. They're no longer able to wait to disclose the information until the next scheduled quarterly or annual report. Even for private, closely held companies that have a need to report on a more rapid basis and be aware of material changes in the business, this requirement demands a higher level of monitoring and analysis than ever before, adding more duties to the CFOs growing list of chores. As a result, concerns grow over how to find the time to do it all.

There's also pressure on all CFOs to understand what's happening at the grass roots level of their companies, to know more about the company's business than virtually anybody in the company. Yet in the wake of trends such as globalization, along with an increasing number of mergers and acquisitions, keeping track of all the company's diverse activities has never been so challenging.

Further, financial statements must portray, more clearly than ever before, what investors need to know to make informed decisions about potential risks and returns. It's up to the finance department to articulate that information.

To add to this, when management asks for different reports, a new format, better analysis or reports for a newly acquired company or corporate organization, there's a feeling that there's either no time to accommodate all these new requests, or the reporting tool simply can't respond to the requests. As finance managers feel pushed and pulled in new directions by regulatory requirements as well as managerial demands, ultimately it becomes a feeling that the control they used to have over the financial reporting process is slipping away.

Among their biggest worries:

- Uncertainty about data accuracy
- Lack of time for analysis
- Dependence on IT to produce timely reports and respond effectively to changing reporting formats and requirements
- Feeling handcuffed when it comes to responding to management requests for new financial reports, models and analysis
- Concerns over how to deliver more value to the organization and play a more strategic role in corporate decision-making

TOP TEN MANDATES FOR A NEW REPORTING ERA

Here then are the top enablers for meeting the demands of a new reporting era:

1. To guarantee corporate integrity, make sure there's consistency with numbers and transparency across the organization. That includes finding ways to facilitate the gathering and reporting of accurate information.
2. Promote greater collaboration and communication among different departments, and put an end to the 'silo' mentality that keeps business functions from communicating with each other.
3. Create more transparency inside the company, so virtually any employee can identify a mistake or questionable activity before it has time to fester and become a major issue.
4. Ensure that everyone involved in the company's governance processes is knowledgeable and informed. That includes enhancing the board's understanding of how the company reports financials. Recognize that the board wants to know what the numbers mean, including the metrics supported by the numbers.
5. Develop a heightened responsibility for detecting and correcting financial reporting anomalies, inaccuracies and omissions.
6. Report non-financial performance to give investors a better picture of how the company is doing when it comes to: productivity levels, operational quality, overhead, customer satisfaction and loyalty, work force loyalty, even measures like the level of innovation within the company, or the value of its brand names. Ideally, CFOs will gain a tighter handle on what people who are interested in the company really want to know, and then articulate that information to them, helping to build credibility in the process, while maintaining control over strategic information.
7. Install a tighter system of checks and balances to reduce the chance for errors. Maintain accuracy and integrity in an environment where shared responsibility requires additional controls.
8. Hold budget makers more responsible for the financial numbers that have been reported. Give them empowering technological tools that can help increase their budgeting/forecasting accuracy.
9. Implement financial software to help strengthen controls within business units.
10. Communicate with investors in a consistent, frequent manner.

These guidelines are far more than a wish list. They're the reality of financial reporting today. And they call for more accuracy, speed and competency than ever before.

OUT WITH THE OLD. IN WITH THE NEW.

Today's competitive business environment calls for more advanced capabilities and tools than traditional approaches to reporting have been able to provide. Many finance professionals don't have the time it takes to meet the monthly, quarterly and yearly financial reporting deadlines demanded of them. Adding to those pressures is the struggle to close the books in record time, which increases the likelihood that data accuracy might be compromised. In addition, the amount of time available for financial analysis shortens. Ever-changing reporting requirements, dependence upon an over-burdened spreadsheet guru or IT department, and the extra stress associated with accommodating all of those last-minute requests for new, customized financial reports, all impact the ability to deliver the best and most accurate information on time.

In particular, spreadsheets and general ledger-based reporting capabilities have proven to be cumbersome to maintain and difficult to use. **For example, shortcomings include:**

- unreliable extraction of data for reporting
- inability to view financial information in a hierarchy that represents different organizational views, and to distribute information based on the attributes of the hierarchy.
- lack of an audit trail, and lack of data integrity.
- continuous need to massage and manipulate data on the worksheet.
- typically difficult to use, very narrow in their application, and frequently require more IT support than a company can afford to spend, especially as it relates to general ledger based reporting functionality.

What's needed is a solution that can keep pace with the way reporting is being done today. **That means an application that can:**

- consolidate data from multiple systems, provide reporting and ad hoc analysis, and distribute the financial information over a secure Web-based platform or via email.
- eliminate the need to manually print, copy and distribute financial reports
- be implemented rapidly, and learned easily. Ideally, it should include the features and functions that make it simple for an accountant to understand and use.
- increase the amount of time that can be devoted to analysis by eliminating the need to check formulas and links, gather and verify information, wait for answers and manually distribute reports.
- instill a higher degree of efficiency and effectiveness, and accelerated decision making.

Having such an application is the difference between flying by sight versus flying by radar. The result: a comprehensive reporting process that shortens the close cycle, reporting flexibility to compare operating results and productivity of different business units, and common metrics for decision-making which are consistently applied across the board.

WHAT FRONT LINE MANAGERS WANT FROM A FINANCIAL REPORTING SYSTEM

Different levels of management want different levels of detail. However, they all want it in an easily accessible form. Managers want access to their internal financial reports through the internal Web site or off the network, be able to review their own performance with current information, and pull down the data they wish with a simple point and click. **They want:**

- A more responsive reporting system where anyone in the department or business unit can get the information they need in one place, and where all the data is together, including charts and graphs, so the user can see it in a concise format.
- Information they can act on because they get it when they need it. Also, a balance of information volume that doesn't overwhelm them and a clear understanding of how the data will be used, so there are no redundancies in what they're receiving.
- The time to test assumptions, perform what-if scenarios, and determine optimum reporting structures, along with the ability to change their reporting structure.

The solution developed for an organization's own improvements in reporting and performance measurement should reflect the company's vision, major goals and key performance indicators. Here's how some companies have been able to take control of the financial reporting process and move their company forward.

KEEPING PACE AT KURDZIEL INDUSTRIES

Kurdziel Industries, Inc. is a manufacturer of large counter-weights, which are used to offset weight shifts in cranes at construction sites, and a supplier of gray and ductile castings. Those two business niches, along with exemplary customer service and an astute company growth strategy, have served the company well since its inception in 1937. However, they've also presented challenges when it came to maintaining the financials.

One of the biggest burdens was the financial department maintaining two separate environments in order to track the financials for each of its two major product lines. In addition, the company was taking financial data from each of its eight plants

and plugging it into spreadsheets, which were becoming increasingly difficult for the finance department to track. The result: insufficient control over the reporting process, according to Dorianne Kittridge, staff accountant for Kurdziel, who was responsible for maintaining the spreadsheets.

"I was beginning to feel that we were losing control of the process because we were unable to consolidate financial information from the two environments in a timely manner," says Kittridge. "It was a reporting process that took too much time because of all the data manipulation we had to do. It became clear that we needed to find an alternative solution that allowed for consolidation."

Kittridge became aware, through an International Financial Management (IFM) course, of a financial reporting solution that was offered through her general ledger and ERP provider. Assisted by a representative from that provider, the company chose to implement the solution. The representative worked with the company's IT group to get the new financial reporting software uploaded without undue delays. After implementation had been completed, Kittridge found creating her first financial report on the new system to be quick and easy.

"I felt very confident going into the first major financial report that the new system would be able to support our specific needs," says Kittridge. "The finance team and all the users can drill down to transaction-level detail to more closely examine financial data. No matter which plant the data is sent from, it can be incorporated into financial reports, and information from each plant can be compared and contrasted. We can get information to the people who need it more quickly and with more efficiency." She adds that the company's financial reports are presented in a format that can be read easily by anyone within the company who needs access to the information.

MAJOR UPGRADES AT MAMMOTH MOUNTAIN

Mammoth Mountain is one of the premier ski resorts in the United States. Located in Mammoth Lakes, California, this mountain hospitality company has expanded by leaps and bounds over the past several years, adding new ski runs and terrain parks to its already extensive facilities. In the process, it realized that it had outgrown its old financial reporting system, which consisted of a GL-based report writer and spreadsheets. The resort was looking for a solution that would give them more control and greater accuracy than those kinds of tools could provide.

"The unpredictability of the weather conditions causes the number of visitors to fluctuate, which in turn causes fluctuations in our cash flow," says Mike Guy, the company's controller. "Our cash flow depends not only on snow, but on holidays and a number of other contributing factors. It's a very unpredictable business, but we need to be able to present financial information to our department heads consistently and in a way that makes sense to them." That challenge appeared formidable. The company has 90 different departmental heads. One department head wanted to see the information broken out one way, while another wanted to view it in a different manner. Guy, faced with the impractical prospect of customizing the reports for each one, was looking for answers.

In addition, as a non-revenue producing department, finance had to remain "lean and mean", according to Guy. So while the company was growing in size, the finance department was not. To meet all of these demands, the decision was made to replace the company's old reporting system, which was one-dimensional, required a lot of manipulation and made it difficult to distribute crucial financial information to the division heads. The goal was to increase reporting accuracy by eliminating any discrepancies in cash flow, and at the same time create reports that were easy to understand and were multi-dimensional.

"After we received training on the use of the new tool, we set out to develop eight different reporting formats to accommodate different user needs, which are updated monthly," Guy said.

He adds that the department heads appreciate the drill-down feature along with the visuals and graphics that bring the company's financial reports to life, in a way they hadn't seen before. With the new tool, they can share information with each other faster than ever before, making it easier for the company's accountants to anticipate and prepare for fluctuations in cash flow, adding a level of control to the process that had been previously out of reach. In addition, the finance department can track capital expenditure information showing how much has been spent to date, how much more is available to spend and when it needs to be spent.

"The tool is user-friendly and flexible, and it's made department heads more familiar with the financial statements and more comfortable with their own financials," Guy said. "It's also given them a better understanding of what's going on within their particular business area, including how their actuals compare versus their budget and how well they're performing in relation to their performance targets."

POWERFUL REPORTING AT XANTREX TECHNOLOGY, INC.

Xantrex Technology, Inc. is a world leader in the development, manufacturing and marketing of advanced power electronic products. The company's products convert raw electrical power from any central, distributed, or backup power source into high-quality power required by electronic and electrical equipment.

While the company has been successful in the power business, its financial reporting system used to be anything but powerful. At one time, Xantrex was using six different reporting systems and six general ledgers, with any reasonable amount of control over the process slipping away fast.

"Our problem was that we had multiple systems and inconsistent chart-of-account structures, all of which couldn't be supported by the base ERP report writer," says Sarah Holland, the company's corporate controller. "In addition, Xantrex was using two databases, and neither had the tools for consolidation, leaving us to do all financial reporting manually through spreadsheets. Because none of our other systems in use were structured consistently, the finance team had to manipulate that respective financial data as well. It was a very cumbersome process."

Due to mergers and acquisitions, Holland faced the challenge of attempting to integrate the reporting systems of five separate companies over a seven-month period of time. These challenges spurred management to seek out a streamlined, consolidated financial reporting system that could accommodate their growth and frequent re-structuring. The solution they selected has made reporting more consistent, instilled a greater sense of control and accuracy, while meeting the changing needs of this dynamic company.

"The new financial reporting system we're using now has been especially helpful for the people responsible for departmental budgets," Holland says. "They're able to access their departmental reports online, and in a better format with more efficiency than ever before. We can distribute the reports via e-mail to any of our office locations. And, an additional function can be coupled with the e-mail file for further exploration of the report. In effect, it enables us to generate multiple reports simply by creating a single report template. It feels tailor-made, and we're able to use those functions to help us make better decisions."

A COMMON THREAD - FRx

All of the case studies relied on Microsoft® Business Solutions for Analytics–FRx®. FRx is used at over 115,000 sites worldwide to bring control to the financial reporting process. Among its key benefits:

1. FRx helps to greatly improve overall operational efficiency, giving users additional time that can be used for analysis.
2. FRx empowers each user to work smarter. Most end users can complete the reporting process with no help from technical staff.
3. Users can close the books much faster, and quickly distribute information tailored to the needs of each user.
4. The FRx® DrillDown Viewer™ software saves time and money by eliminating the need to print, copy and distribute hardcopy financial reports.

5. It helps give users complete confidence in the accuracy and timeliness of their data.
6. It's easy to use. The content and the drill down paths are easily understood and most users require no training. This is especially relevant for users outside of finance areas.
7. FRx allows you to get answers without waiting. Users can ask questions and get answers without picking up the phone.
8. FRx allows for a flexible integration approach that can extend the life of older but functional accounting systems by providing easy access to data for decision-making purposes, which is a major reason companies undergo expensive and time-consuming migrations to new accounting systems. It easily adapts to changes such as corporate restructuring, mergers and acquisitions.
9. Implementation is rapid, and total cost of ownership is low.
10. Distribution of financial reports is easy.

These days, any company still clinging to spreadsheets and general ledger-based reporting systems faces an uphill battle against competitors that have already made the move to a more responsive reporting system. The benefits of such an implementation boil down to gaining not only more control and accuracy over reporting, but saving a substantial amount of time and money in the process as well. That translates into a fairly rapid return-on-investment and makes a convincing case for taking action sooner rather than later. Companies that have done so often look back in wonder at how they were ever able to handle all of their reporting duties without the advantages of a system like FRx, especially in this new era of financial reporting imperatives.

ABOUT THE AUTHOR

Tad Leahy has written hundreds of articles for national business magazines as well as white papers, on topics such as activity-based costing/management, performance measurement and reporting, budgeting and planning, process management, change management, shared services, and IT financial management. Leahy has more than 20 years of business writing experience. He has chaired roundtable discussions at a number of national conferences, and recently wrote a book on budgeting, entitled "Better Budgeting," published by London-based Contentcan.

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About FRx Software

FRx Software, a Microsoft company and a part of Microsoft Business Solutions, is a leading provider of nancial analytic applications that work with virtually any general ledger to give you the control you need to be more effective. Our product suite, Microsoft ® Business Solutions for Analytics–FRx ® and Microsoft ® Business Solutions for Analytics–Forecaster, can improve productivity by helping you ef ciently manage your organization's nancial reporting and budgeting processes. FRx is used by more than 115,000 sites worldwide to gain immediate control of the nancial reporting process. Forecaster is a browser-based budgeting and planning application that makes it easy for organizations to quickly realize the bene ts of budgeting. Used together or separately, FRx and Forecaster provide the nancial visibility you need to actively manage your business and take decisive action. Our applications are widely available through a worldwide channel of Integration Partners and Analytics Solution Providers, who can help you quickly implement these solutions and start saving you time and money throughout the year.

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