The Future of Financial Reporting

Survey 2017

Insights from the FSN Modern Finance Forum on LinkedIn

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The Modern Finance Forum

workday.

Mark Nittler
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Dear Colleagues,

Workday is pleased to partner with FSN to sponsor the "Future of Financial Reporting" 2017 Survey. The report provides insights from almost 1,000 senior Finance leaders across no fewer than 23 different industries. In this piece of research, we focused on respondents' attitudes and approaches to one of the Finance sector's perennial challenges – reporting.

As the report uncovered, many CFOs have lost their grip on reporting, and, the majority are now living in a 'spreadsheet spiral.' To quote directly from the research, 'the reporting process keeps 97 percent of CFO's awake at night.'

Here are a number of areas I found particularly interesting:

- 75 percent of CFOs are yet to make the move to real-time reporting in the board room.
- 69 percent of CFOs rely on spreadsheets to plaster over their reporting process (strongly agreed + agreed)
- 50 percent worry that all documents and disclosures have not been updated with latest changes to accounts
- 40 percent of respondents were unable to agree that their data is always trustworthy and accurate.
- 36 percent of CFOs can't see the status of the reporting process at any given time.

From a Workday perspective, I believe that the main challenge facing financial reporting comes from CFOs who believe they have a reporting problem, when in fact it is a data problem starring them in the face. The underlying factor is that the majority of legacy financial systems do not provide the business with the reports they need to be successful today. Businesses must rely on a mixture of spreadsheets, connections, and messy integrations to piece together data from disparate systems – a perfect storm for inaccuracy, cost and a lack of business agility. The more dynamic the business needs to be, the greater the challenge as reports are written and rewritten.

We hope you enjoy the report.

Best,

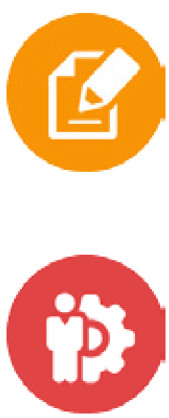
Mark Nittler, VP Enterprise Strategy, Workday

Executive Summary

Financial reporting is a window into the corporate center, providing internal and external stakeholders with their most regular, thorough and visible perspective of a company's financial performance. A CFO's reputation rests on delivering accurate and timely financial reports, because despite the raft of new strategic responsibilities they are taking on, financial stewardship remains the cornerstone of their role. The ability to close the books, consolidate group results and publish statutory accounts and insightful management accounts in ever decreasing timescales is widely regarded as a good proxy for good corporate governance, a 'tight ship' and a competent finance team.

In the main, statutory reports are delivered on time, board reporting packs inform directors sufficiently and business continues as usual. But FSN's survey of almost 1000 CFOs and senior finance professionals has exposed the less than solid foundations on which the financial reporting process is built. Across the process there are inefficiencies, inexpert fixes, delays and lax controls that cause CFOs sleepless nights and force them and their teams to spend untold hours manually checking and ensuring the veracity of the reports. Over half of respondents said reporting involves huge amounts of manual checking every time a change is made, and 60% believe they spend too much time cleaning and manipulating data. Their willingness to burn the 'midnight oil' to ensure the financial reports are delivered accurately and on time is admirable, but it isn't sustainable.

Figure 1:



*More than **50%** of respondents said reporting involved huge amounts of manual checking every time a change is made*

***60%** of respondents said they spend too much time cleaning and manipulating data*

To make the difficult strategic decisions required to remain competitive, organizations and the boards they are accountable to need trustworthy reporting that is agile enough to adapt as business models change, but the survey reveals a very different picture.

Only 3% of the survey respondents slept soundly. The rest worried about all manner of reporting obligations, including looming deadlines, lack of adequate controls, the prospect of unanswerable questions in the boardroom and whether an unexpected error will be discovered in a critical spreadsheet. Almost half of respondents shared this last worry, which was correlated highly with a litany of other flaws in the reporting process. These included a high degree of manual checking, delays in data collection, difficulty accommodating changes in information requirements and failing to remove redundant information from reporting packs.

The report finds finance functions stuck in a spiral of multiplying spreadsheets that stems from a lack of agility within the reporting process and an over-reliance on under-resourced IT departments. 43% of the senior finance executives surveyed don't even know how many business critical spreadsheets are in use. Productivity is low because of antiquated technology, and time-poor senior finance executives are still having to manually check or chase data.

Figure 2: ***CFOs caught in a spreadsheet-spiral ™***

43% *of the senior finance executives surveyed don't even know how many business critical spreadsheets are in use.*

***40%** of boardrooms do not have a complete view of the business.*

In an attempt to alleviate some of the time pressure CFOs have prioritized the implementation of self-service reporting in order to delegate responsibility. But the failings within the process will only be exacerbated by introducing even more users. Instead, their top technology priorities of self-service reporting and producing automated documents with version control and electronic signatures, should actually be last on the list of process improvements. First should be the implementation of a unified environment, either a modern ERP or CPM system that can change with the organization. In a unified environment, with autonomy in the cloud, finance functions need no longer rely on IT to adapt to organizational changes. Finance professionals can halt the proliferation of spreadsheets to cover gaps in reporting, and implement proper governance and controls, which will go a long way to reducing manual checking, data delays and redundant reports.

Only then is self-service reporting and automated document production a feasible solution for CFOs looking to devolve reporting responsibilities.

The effect in the boardroom will be significant too. According to the survey, only 60% of boards have a complete view of business performance, which means 40% are under-informed. But implementing changes at the heart of the finance function will ensure more visibility of a business's actual performance, uncluttered by redundant or unread reports, and board packs that reflect the current market environment rather than that of three years ago. CFOs have the opportunity, if they choose to embrace it, to turn their backward-looking financial reporting process into a meaningful indicator of future financial performance.

Chapter 1

CFOs are not ready for an era of self-service reporting

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55% of respondents are concerned about whether their internal controls were working during the reporting period, raising serious questions over the integrity of the data in circulation.

As the financial reporting burden grows, CFOs are seeking solutions to give themselves some breathing space. Even though financial stewardship is the cornerstone of the CFO role, they also must find time to be strategic advisors, business partners and technology evangelists.

In their quest for a workload reprieve, it should come as no surprise that senior finance executives see the enablement of self-service reporting as one of their top priorities over the next three years. Self-service reporting disperses the workload by empowering individuals to support decision making. It enables a wider number of users to query data and produce the information and reports they need, when they need it.

On the face of it, self-service reporting appears to be an effective solution to the time-sapping requirements of producing ever-expanding reports, by giving more people the tools to develop those reports themselves.

But it can only work when it is built around a reporting process that is controlled, transparent and efficient, and many CFOs and their senior executives just aren't ready for an era of self-service reporting despite a strong desire to implement it.

Reporting in disarray

If CFOs are going to hand the keys of the data room over to a larger pool of users, the integrity of the information – both within the system and what might be added by self-service users – must be assured. For a good proportion of survey respondents this isn't yet the case.

55% of respondents are concerned about whether their internal controls were working during the reporting period, which raises serious questions over the integrity of the data already being circulated. A further 46% worry about unexpected errors being identified in a critical spreadsheet, and 40% don't believe that their data is always trustworthy and accurate. For those CFOs whose data is in various stages of disarray, it would be prudent not to add several more users to an already fragile system.

Finance executives also need to consider how agile their reporting process is, because the restrictions of a rigid reporting structure will only be compounded by more users in the process. The survey found that 60% of respondents spend too much time on data cleaning and manipulation, and 54% spend too much time battling fragmented systems which require data from multiple sources.

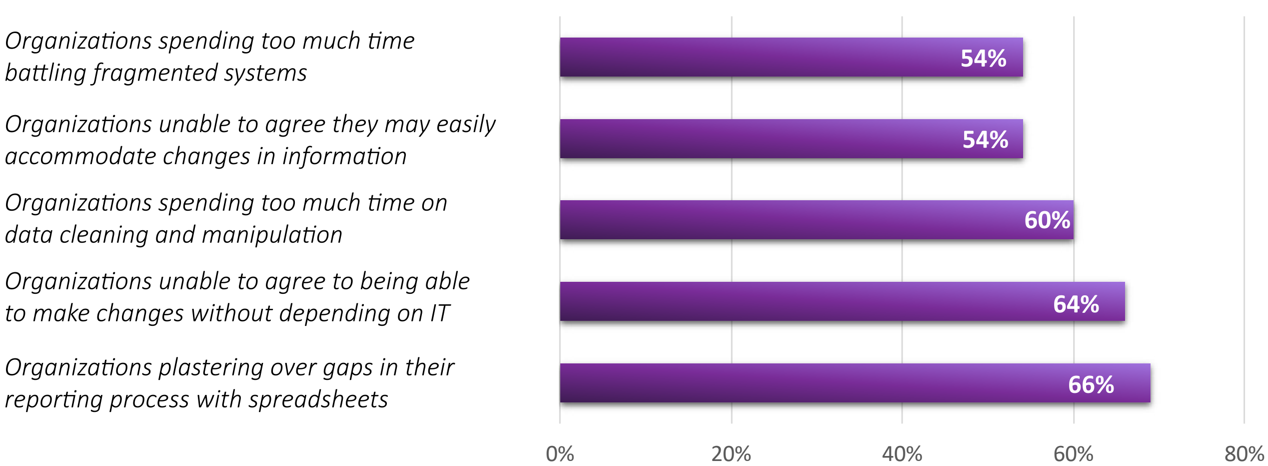
Only 46% of respondents said they could easily accommodate changes in information requirements, and only 34% said they could make changes without depending on IT. So when gaps in reporting appear, 69% of CFOs plaster them over with spreadsheets.

Preparing for self service

Offering a self-service option when control of data and processes is poor and the environment they operate in is too fragmented to support a system of self-service reporting, will only create problems further down the line. The low quality of data will mean more questions from users, negating any time gains, and if they're not asking questions they could be populating reports with errors to begin with.

To prepare the ground for a self-service solution, senior finance executives must start with a unified, controlled environment which will serve as the central repository and engine room for all self-service users. With data proliferating exponentially, from the "Internet of Things", social media sources, sales and customer information, organizations need a central repository into which the data can be fed, and then accessed by all relevant users.

Figure 3: ***CFOs grappling with a rigid reporting process***



But CFOs must also consider the users of self-service software when preparing the organization for the move. Spreadsheets are often demonized for proliferating input errors or confusion around multiple versions of reports, but for some users they are the preferred method of report generation and data entry. When considering solutions, CFOs should look for a self-service choice that allows each user to engage using their preferred reporting tool, but that will still enable a unified environment in which to work. This will encourage self-service take-up and increase the likelihood of its successful implementation.

"The reporting build-outs are drag and drop, which allows the finance department the ability to build out our own reports. This is critical to ensure we meet deliverables and remain flexible for ad hoc requests." -

Dustin Cramer, Director of Finance, American Automobile Association of Northern California, Nevada *& Utah*

The fact that for the most part, real time reporting isn't on offer in the board room suggests that few organizations are ready to embrace an era of self-service reporting. Real time reporting in the board room is an indicator of a CFOs ability to serve up relevant and timely information to stakeholders, but three quarter of respondents are yet to make that move. CFOs and senior finance executives ranked self-service reporting as one of their top priorities for financial reporting over the next three years, but they need to be ready. If they are bogged down by fragmented systems, manual checking, poor controls and constant worrying about errors, self-service is likely to exacerbate these issues. Instead they must empower finance teams and managers with a unified environment, enhanced controls and a user-friendly self-service system. Then CFOs can spend more time adding strategic value to the business.

Reporting technology has evolved into a complex melange of data marts, middle ware, integrations, spreadsheets and reporting tools bolted on top of core financial systems. The multiple layers of technology required to meet today's reporting needs today means the process is often more akin to a complex IT architecture project than a smooth reporting system. Until we rationalise the complex reporting architecture and technologies which underpin it, self-service reporting will remain nothing more than a distant vision.

Chapter 2

CFOs have lost their grip on reporting

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Financial reports are being weighed down by unnecessary information as finance professionals fail to get a proper grip on an increasingly bloated and convoluted reporting ecosystem. At a time when the volume of available data is increasing exponentially, there will invariably be a rise in the type and amount of information corporate boards and shareholders will require. Externally, organizations are being compelled to add more data to their financial reports by regulatory requirements, while internally companies trying to stay ahead in their industry will be keen to track and monitor more diverse information.

In many cases this additional data is helpful, adding clarity, nuance and competitive edge in response to volatile market conditions. But it must be managed properly within the financial reporting process otherwise it can get unwieldy and overwhelming. And it appears that many senior finance executives have surrendered to the fact that the number of reports in circulation will continue to grow.

Too much information

According to the survey, 50% of finance teams do not remove redundant information from their reporting packs and 41% don't remove reports that are no longer used, even as the number of reports grow. This makes the reporting pack cumbersome and can unhelpfully mask what relevant information remains.

__50%__ of respondents do not remove redundant information from their reporting packs.

The issue may stem from an inability to understand which reports are helpful within or outside the organizations – 34% of respondents were unable to tell which are actually used.

Filling packs with redundant or obsolete reports may be one way for uncertain CFOs to try to ensure that critical information won't be excluded, because 43% of senior finance executives don't know how many business-critical spreadsheets are in use.

Overwhelmed and under resourced, over a third of survey respondents were unable to see the status of the reporting process at any given time. When finance executives can't see the wood for the redundant trees, don't know where their reports are in the process or how the process is progressing, they become vulnerable to the 'spreadsheet-spiral™', a self-perpetuating trap of spreadsheet overuse.

The spreadsheet-spiral™

***71%** of respondents depend on spreadsheets for collecting data across the majority of their business units.*

According to the survey, 71% of organizations depend on spreadsheets for collecting data across the majority of their business units. While the proliferation of spreadsheets is not a new phenomenon, few have been able to articulate why it is happening. This research pinpoints the two principle causes for the very first time.

Firstly, the inability of some ERP and CPM systems to change as the business changes and secondly the high dependency that most finance functions have on the IT function for even the simplest of systems changes. Only 29% of senior finance executives reckon they can change their organizational structure without major delays to their reporting timeline. And only 34% could make any required changes without IT intervention. So instead they turn to spreadsheets to paper over the cracks in the reporting process, with 69% of survey respondents resorting to this inefficient solution. And this reinforces the high dependence they have on spreadsheets in the first place, leading to a uncontrollable spreadsheet-spiral™.

As businesses are increasingly having to respond to new competitive pressures and new technology disruptors, reporting must remain efficient and easily adapted to new circumstances. For the vast majority, relying on the IT function to enable change just introduces unacceptable delay and means senior finance executives turn to more spreadsheets to paper over any gaps in order to avoid the convoluted process of getting something changed.

That's not to say spreadsheets are no longer fit for purpose, but an over-reliance on them can make it much harder to be agile, and accurate. Because in today's rapidly changing corporate environment, companies are having to improve their business models and change their corporate structure to stay competitive.

As the number and complexity of reports grows, using spreadsheets to track and manage financial reporting is increasingly ineffective, and sometimes downright obstructive.

Figure 4: ***The spreadsheet-spiral™***

Losing control

Without control of the proliferating report cycle, CFOs will find it even harder to track and refine their financial reports. More than half of CFOs confess to spending too much time manually checking each time a change is made, and in 57% of cases only one person can work on the report at a time.

This loss of control affects the integrity of the reporting process, and senior finance executives leave themselves open to severe reputational damage if errors are overlooked.

Despite the difficulties CFOs and senior finance executives have maintaining control of their processes and reacting to changes in the corporate environment, getting on top of their reporting situation is still low on their priorities. In a ranking of reporting priorities over the next three years, 'ensuring that critical spreadsheets are identified and controlled', and 'reducing the size and number of reports in circulation' were ranked fourth and fifth on their priority list.

The proliferation of alternative technology, the reliance on spreadsheets and the dogged inability to clear out old data remains a substantial stumbling block to an improved reporting regime. To make matters worse, ignoring basic housekeeping duties like clearing out redundant reports may indicate that controls in other areas of the financial reporting cycle are not entirely robust.

While papering over the cracks with yet another spreadsheet may keep the wheels on for another reporting period, it can't last indefinitely. CFOs are doing a disservice to their new strategic role by offering up obsolete or obscured information when the board and shareholders really need more clarity to compete effectively.

Information consumers can be an impatient bunch. If the reports they get from finance don't meet their needs they will strike out on their own to produce the reports they need – literally dis-integrating business and finance controls and information. When reporting technology and architectures are too heavy, complex and slow, users take things into their own hands, meaning finance loses control and has a struggle on its hands to get things back on track.

"Workday will allow Accuride to create a single financial view of our global operations for planning, financial consolidation and reporting. It will also give us a seamless way of integrating this information with our global talent management. With a robust reporting and collaboration platform, key stakeholders at our manufacturing plants and within our corporate office will have the ability to focus on the real-time performance of the business, and our team to plan for future growth"

Paul Wright, Chief Information Officer, Accuride Corporation

Chapter 3

Unexpected error anxiety may be more serious than CFOs realize

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90% of respondents were concerned about two or more aspects of the reporting process.

Corporate reporting is not static. Changing regulatory requirements and the abundance of new data to inform the corporate story continuously affect the content, speed, and efficacy of financial reports. From this quagmire, CFOs must create order and process to ensure the board and investors get the right information, on time and without error.

Which is why it's no surprise that senior finance executives are losing sleep over their financial reporting. Worrying isn't necessarily a bad sign. It can mean CFOs are invested in their responsibilities and will be more motivated to find solutions to their issues. And there are invariably many things senior finance executives can lose sleep over, from time pressures to accuracy concerns to compliance and control worries.

In fact only 3% of survey respondents weren't losing sleep over their reporting processes or deadlines, and 7% only worried about one aspect of the process. Which means 90% were worrying about at least two financial reporting concerns, and in some cases the worries were actually part of a larger pool of misgivings and process failures indicative of a malaise in their entire financial reporting system.

Losing sleep over unexpected errors

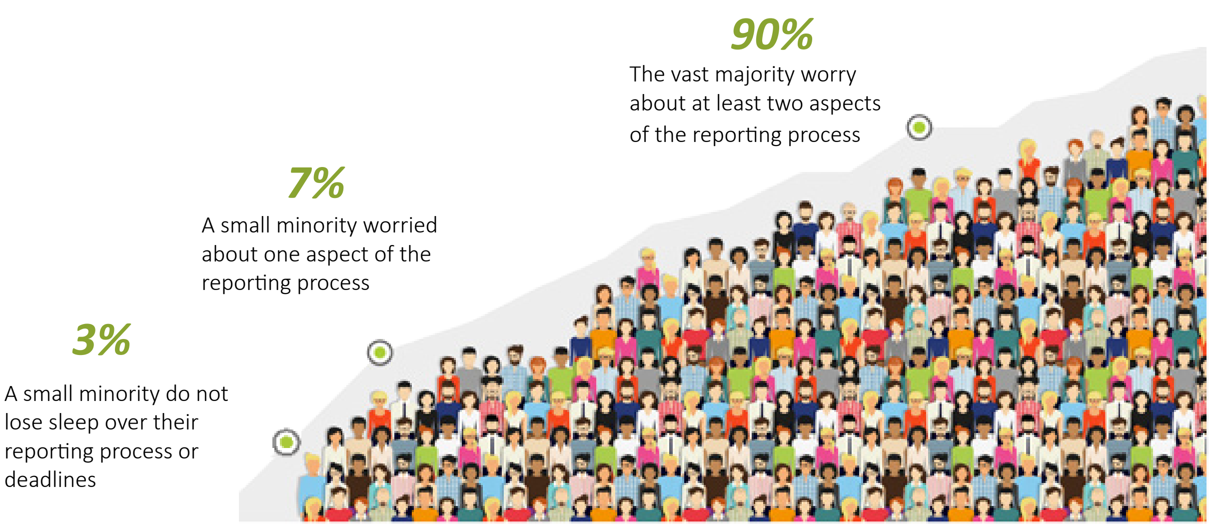
62% of respondents worried about missing reporting deadlines.

Meeting deadlines is the top worry amongst senior finance professionals, affecting 62% of survey respondents, indicating that the time pressure evident with an increasingly diverse and strategic workload remains an issue even where financial reporting comes in.

This is followed closely by process concerns, with 55% worried about whether financial controls are working and whether all documents and disclosures reflect the most up-to-date changes to the accounts. Coming fifth on a list of six nightly worries is this: "will an unexpected error be discovered in a critical spreadsheet." Nearly 46% of senior finance professionals agreed or strongly agreed that this worry kept them up at night. On its own this may look a simple anxiety, however, it was strongly correlated with a series of further concerns or shortfalls indicating lax controls, inefficiencies in data collection, a lack of agility in the reporting process, and a lack of understanding of which spreadsheets were critical in the first place.

Almost all (93%) of these error-prone worriers lacked the confidence that controls were working during the reporting period. This compares with more than half who weren't prone to worrying about errors and therefor confident of their own controls. Worrying about unexpected errors in critical spreadsheets also meant these organizations were prone to more manual checking, their data collection took up more time, they were less able to accommodate changes in information requirements and they didn't remove redundant information from their reporting packs.

Figure 5: ***The reporting process keeps 97% of CFOs awake at night!***



"To deliver the best services and solutions to our clients globally, it's important to have a technology foundation that unifies our people and costs so we can gain the insights we need across our business. Overseeing accounting, financial reporting, and compliance for a large global organisation requires a comprehensive understanding of our day-to-day financial performance. Workday will enable us to have more control over financial performance, with timely insights into the current state of the business and continuous innovation to help ensure we are always up-to-date with new standards and regulations for each region in which we operate."

Laurel Meissner, Global Controller, Aon Service Corporation

A system in crisis

The litany of other issues that dog organizations with concerns about unexpected errors is symptomatic of a reporting ecosystem in crisis. These organizations are hindered by the weakness of the reporting process and boards are delayed from making critical business decisions over concerns about the accuracy of the data.

They struggle for time, are less likely to spend the right amount of effort on data collection and analysis, and while they're spending extra time manually checking their data, they have less time to spend on controls and compliance, exacerbating the weaknesses in their processes.

The received wisdom is that if a problem is substantial, tackle small amounts of it piece by piece. But reporting is a linear process. It is only as robust as its weakest link, and a bottleneck or jam in one place will affect the entire outcome. Which means CFOs and senior finance executives can't fix these issues piecemeal.

A solution for more peaceful nights

The survey results imply that issues and errors are not isolated and the remedies for them shouldn't be either. To address the root causes of these myriad issues, organizations need to create a unified environment, centralizing ERP data and workflow processes from which all stakeholders can draw from and upload to. This doesn't mean throwing out all the spreadsheets, but it does mean developing a central repository where data can be stored and analyzed, and from which reports can be generated.

These days a robust corporate performance management (CPM) tool will do all these jobs – ensure stakeholders can easily and timeously input the data, establish the veracity of the data, accommodate changes to the information requirements by adding new parameters to the system, and generate timeous reports. This will ensure trust in the accuracy of the data and remove doubts that could delay decision-making.

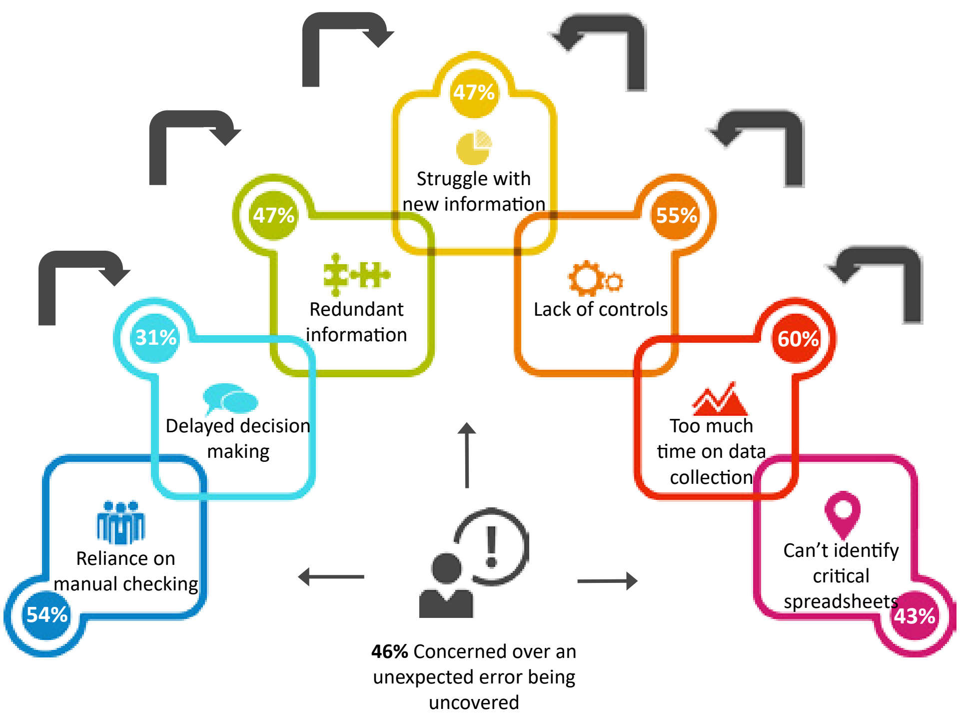
A robust CPM system will enable CFOs to identify the business-critical data and ensure the most vigorous controls are in place to protect the accuracy of generated reports.

CFOs and finance executives who are freed from the spiral of spreadsheet analysis, haphazard controls and untrustworthy data will be able to refine their output by removing redundant information and quickly respond to changes in requirements without worrying whether the changes have percolated through the corporate reporting structure.

A simple worry can turn into a much bigger headache for CFOs and senior finance executives who don't get a proper handle on their financial reporting ecosystem.

Any system with lots of components, connectors, layers, and intersections is going to leak – and that is a recipe for sleepless nights. Reporting systems are no exception. The more moving parts in the process, the more likely you are to experience errors. Minimising the moving parts and simplifying the architecture i.e. by implementing a finance system that inherently unifies transactions and reporting – in turn minimises the errors and gives the CFO greater confidence in their data.

Figure 6: ***A reporting ecosystem in crisis***



Percentage of respondents concerned over different aspects of the reporting ecosystem. The survey found that the concerns tended not to be isolated and 90% of respondents were concerned about two or more aspects of the reporting process.

Chapter 4

Productivity is under threat

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Time-poor CFOs are struggling to keep up with their growing list of responsibilities. The only way they can take on the more strategic role their position now demands is to make the most productive use of their time, but this survey shows they aren't managing to do that with their financial reporting duties.

Mired in manual reporting methods like spreadsheets, Word and PowerPoint, CFOs spend their time worrying about errors and delays because their processes are technologically archaic.

CFOs can no longer ignore the impact of outdated technology on their financial reporting process and the case for investing in back office technology needs to be brought to the table.

Back office - front of mind

__54%__ of survey respondents said their reporting process involves huge amounts of manual checking every time they make a change.

Front end systems have been lavished with resources for many years now. Customer-facing applications that enable sales or improve customer service and retention have been the principal beneficiary of technology allocation, and for good reason. In a highly competitive market, organizations need to generate sales and grow revenue to stay in the game. But a lack of investment in back office systems is becoming a serious hindrance to productivity, and in the case of financial reporting could be the source of a major error leading to reputational damage.

For financial reporting, the technology failings that are putting a strain on productivity are often quite basic. According to FSN's survey, 34% of respondents had difficulty merging different document types into one report. If the issues are unresolved finance staff may end up spending time manually transferring the data, which is an unproductive use of their time.

In addition a similar percentage don't automatically link and update documents from underlying spreadsheets and word documents. This means all changes must be filtered from source documents into the final reports manually. This may be why 54% of survey respondents said their reporting process involves huge amounts of manual checking every time they make a change.

57% of survey respondents said it is difficult for more than one person to work on the same report during the process of putting together the financial accounts.

To be sure, manual checking will at least provide peace of mind for worried CFOs who want to ensure the data in their reports is correct and distributed accurately throughout the financial report. However, it is an incredibly inefficient way to do it and indicative of a process that isn't well controlled or transparent.

Inefficiencies also arise when the process is inflexible. 57% of survey respondents said it is difficult for more than one person to work on the same report during the process of putting together the financial accounts.

The root of the issue may be the fact that almost three quarters of companies surveyed still use manual methods like spreadsheets, Word and PowerPoint for reporting. Limiting the number of users working on each report is designed to limit errors and avoid the issue of multiple copies in circulation, but it is inefficient and can hold up the whole process if each user doesn't timeously 'release' the report back into circulation.

Headcount heading down

Productivity concerns are being compounded further as CFOs struggle with headcount reduction and growing pressure to reallocate resources to fuel the management reporting engine. One quarter of respondents had reduced their finance headcount in the last three years, and 40% had kept headcount flat in the same period. When reporting relies so heavily on manual checking and processing, reduced headcount only makes the issue worse.

Figure 7: ***Finance functions under pressure due to headcount reductions***

25% of organizations have reduced their finance headcount over the last three years.

40% of organizations have kept their finance headcount flat over the last three years.

A technical solution

It seems CFOs know they have a productivity problem because they ranked improved productivity through standardization and automation as their top reporting priority over the next three years. Standardizing and automating simple tasks within the financial reporting process is a very good place to start improving productivity targets. Ensuring all stakeholders are using standardized technology will enable automatic merging, linking and updating of reports which will clear some of the manual backlog.

The most up to date systems will also likely include social networking benefits, like in-app chat and collaborative tools designed to engage stakeholders and improve the reporting process.

But CFOs should go further. New technology is widely available that will enable multiple users to work on reports, ensure data integrity in a centralized environment and raise productivity standards so that finance executives are adding value rather than checking facts. There are other simple fixes that CFOs and their executives can do to take back control of productivity, like reducing the number of reports being produced. FSN's research found that senior finance executives don't always take redundant reports out of circulation, even as new report requirements add to the growing density of reporting packs. Back office technology solutions that improve the visibility of the process and the data underlying it will allow finance executives to recognize the critical reports and exclude the redundant ones.

The most up to date systems will also likely include social networking benefits, like in-app chat and collaborative tools designed to engage stakeholders and improve the reporting process. Admittedly this often requires a substantial shift in corporate culture, but it will improve visibility and collaboration in the reporting process, help resolve issues and queries quickly, and improve productivity overall.

"One of the challenges we had prior to Workday was multiple charts of accounts. With Workday, we have been able to consolidate all of the member organizations into one chart of accounts, and we haven't lost any functionality or level of detail. As a matter of fact, it has enhanced the level of detail that we're able to achieve with financial reporting."

Angela Hammack, Vice President of Special Projects, System Administrative Services, LLC

Investing in technology to improve financial reporting productivity will solve the problem of disparate document types, allow more than one person to work on documents at the same time without threatening the integrity of the data, and reduce the time spent on making and checking changes. With the right tools, financial reporting can become a collaborative, accurate process, but CFOs will need to invest in a unified environment so the back office can become as productive as the front.

Generally the simpler the system the more efficiently it operates. Sustaining, or worse exacerbating, the current trend of addressing reporting needs by adding yet another reporting component to an already heavy and inefficient reporting architecture is not the answer. Instead, the approach will continue to negatively impact the productivity of the already over-burdened finance resources

Chapter 5

Problems in the boardroom

Problems in the boardroom

While CEOs and their executive management team take on the daily running of the business, they are answerable to the board members, who take the financial reports as their primary source of insight. At this level, the information should reflect a rounded view of the company, enabling them to make well-informed decisions for the good of all stakeholders.

But financial reporting is consecutive, and the board is at the very end of complex process, fraught with challenges and risks that will impact on the dependability of what is reported in the boardroom and affecting the ability of the board to make effective decisions. Only 61% of senior finance executives say the board always has a complete view of business performance. This means many corporate boards are making their decisions with one hand tied behind their back.

The survey also found that only half of CFOs can immediately answer ad-hoc questions about performance in the boardroom. If the board isn't getting all the information it needs from their reporting pack, it follows that in some cases the gaps won't be filled by asking questions.

***Only 61%** of senior finance executives say the board always has a complete view of business performance. This means many corporate boards are making their decisions with one hand tied behind their back.*

Meanwhile board packs are not keeping pace with the changes in business models and the competitive environment. Only 57% of respondents have changed their board pack in the last three years. Considering the relentless pace of innovation and change in every sector of the market, it is unlikely that the static board packs can be as relevant in today's corporate environment. This reflects the issue, previously raised, of redundant information and unused reports clogging up the reporting pack, muddying the waters for board members who really need clarity and insight.

Even if the reporting pack can be kept free of extraneous information, CFOs are not providing the board with progressive data. 55% of respondents have yet to include more forward-looking information in their reporting packs, encumbering boards with historic information that doesn't provide the foresight necessary to help them make competitive decisions. This may be because even the backward-looking data is not entirely trustworthy. 30% of respondents have delayed their decision-making because of doubts over the quality of their data.

To remain competitive in a fast-changing market, organizations need timely insight and foresight, but 75% of boardrooms don't have real-time access to information. Reports are already outdated by the time boards meet, and board members are not challenging the antiquated methods of reporting that are hindering the quality and timeliness of their corporate information.

Boards work for all stakeholders, internal and external, and it behoves them to challenge the status quo of the reporting process so that they have the right information to make strategic decisions for the good of the organization as a whole.

***77%** of respondents believe investors need more frequent but simpler reporting requirements in order to properly understand the performance of the business.*

Statutory reporting falling short

Even as the survey identified substantial shortcomings in the boardroom, reports for external consumption aren't exactly meeting stakeholder needs either.

Almost half of senior finance executives believe the statutory reports are too complex for investors to understand, while 64% say the information in them is too late to be relevant to investors. To this end, 77% of respondents believe investors need more frequent but simpler reporting requirements in order to properly understand the performance of the business.

And if investors have questions about the contents of the report, over half of senior finance professionals who took part in the survey believe they should be able to query the statutory reports themselves. This is essentially what XBRL was supposed to do, but 46% of CFOs say XBRL has not made the impact it was expected to.

The limitations of statutory reporting should come as no surprise to corporate veterans. Over the years there have been many efforts both globally and nationally to simplify statutory reporting and, as far as possible, to give external stakeholders the same view of performance as internal stakeholders. Yet despite global efforts of accounting standards bodies backed by political will, the financial community remains frustrated with the overly complex, backward-looking statutory reports they are required to produce quarterly.

While these convoluted statutory standards remain in place though, it should be the CFOs mission to build an uncluttered board reporting pack that provides real insight and foresight about the organization and the market it is operating in.

Reporting is hard. Reporting in a constantly changing statutory and management environment is really hard. Reporting failures, including management reports that don’t match GAAP/ IFRS reports or a balance that is questioned at board level but cannot be supported with detail is embarrassing. This level of inefficiency is also highly costly to manage and is increasingly likely when transaction, accounting and reporting are all operating independently in separate technologies held together with duct tape and middleware.

Figure 8: ***Statutory reporting falling short***

47% 47% of CFOs believe the reports are too complex for investors to understand

XBRL 46% 46% of CFOs say XBRL has not made the impact it was expected to

64% 64% of CFOs say statutory reporting is too late to be relevant to investors

77% 77% of CFOs say investors need more frequent but simpler statutory reporting to understand performance

52% 52% of CFOs say Investors should be able to query statutory reporting for themselves

Chapter 6

CFOs are overwhelmed and looking for a quick fix, but their priorities are back to front

CFOs are overwhelmed and looking for a quick fix, but their priorities are back to front

If CFOs try to implement quick fixes at one end of the process when they face challenges across the board, they will be building on shifting sand.

The finance function, this survey has revealed, faces three major obstacles to an efficient, effective and economical reporting environment, namely;- the self-perpetuating spreadsheet-spiral™, a matrix of problems within the reporting ecosystem, and trouble in the boardroom.

CFOs are overwhelmed by the growing number of reports to be produced, the delays owing to antiquated systems and the increasing workload demanded by their more strategic corporate role. Their technology priorities suggest they are looking for quick fixes to free up their time. They rated their top concerns as being able to produce automated documents with version control and electronic signatures, and setting up self-service reporting- both of which are designed to devolve responsibility and free up time.

But the reporting process is linear, and it's only as fast or efficient as the weakest link. If CFOs try to implement quick fixes at one end of the process when they face challenges across the board, they will be building on shifting sand. The solution is to tackle the problems holistically, from the ground up, from spreadsheet-spiral™ to boardroom.

Fixing The Spreadsheet Spiral

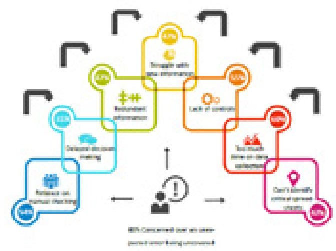
To tackle this fundamental issue at the very base of the reporting pyramid, organizations must put in place unified transaction and management information systems that can change with the organization. Modern ERP or transactions systems, as well as CPM or performance management systems, are able to take organizational change in their stride, but many enterprises are saddled with decades-old solutions that are inflexible to change. If the system can be maintained and changed by the finance function all the better, as this eliminates a frustrating bottleneck at the IT department.

These days cloud solutions tend to offer finance functions that autonomy. They generally require less IT involvement, and the world's major software developers are now putting their R&D dollars almost exclusively into cloud-based solutions. So not only are cloud solutions likely to be more adaptable and require almost no IT involvement but they are also the main source of finance process innovation, including the latest functionality.

Implementing a unified system (transaction or management information-based) that can adapt as the organization changes, automatically reduces the number of vendors, and enables collaboration and sharing of common information. These ranked last on respondents list of technology priorities in the survey, yet they need to be tackled first to build a strong reporting foundation.

Reporting ecosystem in crisis

Resolving the spreadsheet-spiral™ is only the first step in reaching the boardroom goals CFOs aspire to when they look to implement automated document production and self-service reporting. Because underlying the reporting process is an ecosystem in crisis.



Worryingly, 46% of survey respondents were concerned that an unexpected error might be uncovered in a critical spreadsheet. This fundamental uncertainty was an indicator of a network of problems within the reporting process, with worriers more likely to rely too much on manual checking, fail to remove redundant information, fret over lack of controls and fail to identify critical spreadsheets.

Having dealt with the issue of spreadsheets spiraling out of control, CFOs can focus on governance over the spreadsheets that really matter, identifying high risk spreadsheets and monitoring them, and ensuring those that remain are pertinent, trustworthy and controlled. This will enable finance executives to identify critical spreadsheets, adopt a single chart of accounts, and start to clear out redundant reports that are clogging up the reporting pack.

The boardroom

Operating under a unified environment enables CFOs to stem the proliferation of spreadsheets and encourages them to control the reporting environment with the right tools. In turn the impact this has on the problems in the boardroom is far reaching. It enables senior finance executives to present a much more complete view of the business to the board, which will help the 40% of organizations that currently can't see their organization from all sides. With centralized information, CFOs can finally move towards automated document production and disclosure management, and can be more confident in devolving responsibility through self-service reporting tools. Real-time reporting becomes more feasible and there should be fewer delays in decision-making over data quality concerns.

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The technology priorities listed by the survey respondents suggest a frustration with their workload and the quest for a quick fix to free up their valuable time. They want automated document production and self-service reporting, but their systems aren't stable and agile enough to ensure it doesn't become a rod for their own backs. They might want a single chart of accounts and automated governance and control of spreadsheets, but their spreadsheet-spiral™ is out of control. Instead they should tackle their last priorities first.
By reducing the number of vendors and enabling collaboration within a unified system, they can control the spreadsheet problem, resolve the crisis within the ecosystem with proper controls and management of the process, and deliver a boardroom report that is accurate, relevant and timely.

A little bit like weight loss and career success, CFOs are looking for a quick fix, but in trying to find the Holy Grail for reporting success they are getting their priorities back to front. In reality, most if not all reporting issues are not actually reporting issues, they are data issues that cannot be solved by adding a new reporting tool into the mix. CFOs should be paying attention to the transaction level of their systems to make sure they are actually capturing the right data in the first place. If existing transaction and/or ledger sytems cannot produce the reports CFOs need, they should consider replacing these systems which will have more impact than the latest and greatest reporting tool. The closer finance can be to having a single model that encompasses the data model, transaction data and reporting tools the closer it will be to creating an agile, powerful, self-service and collaborative reporting environment most businesses require.

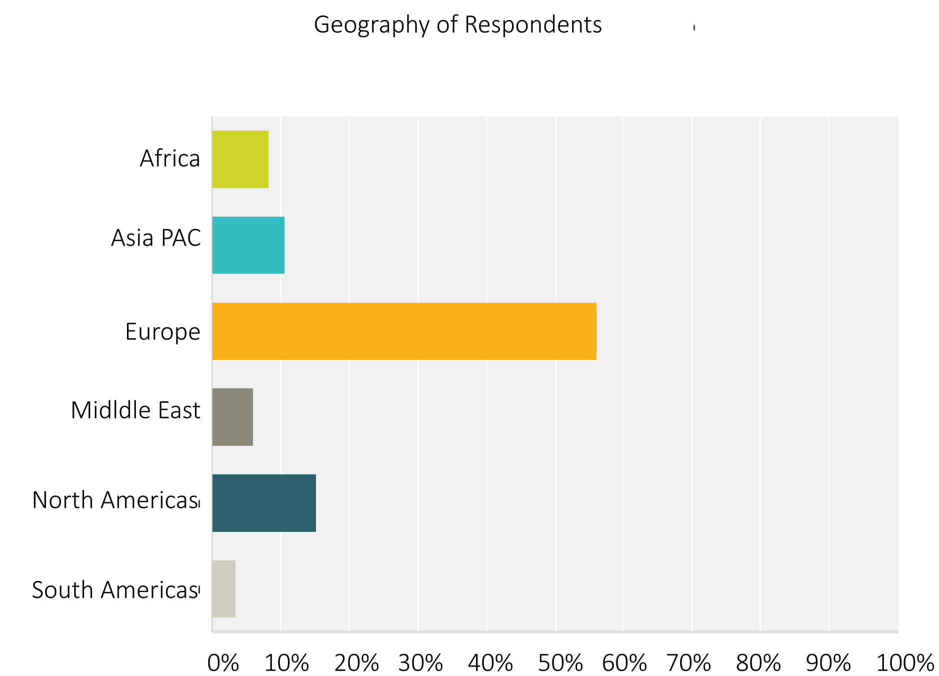
Chapter 7

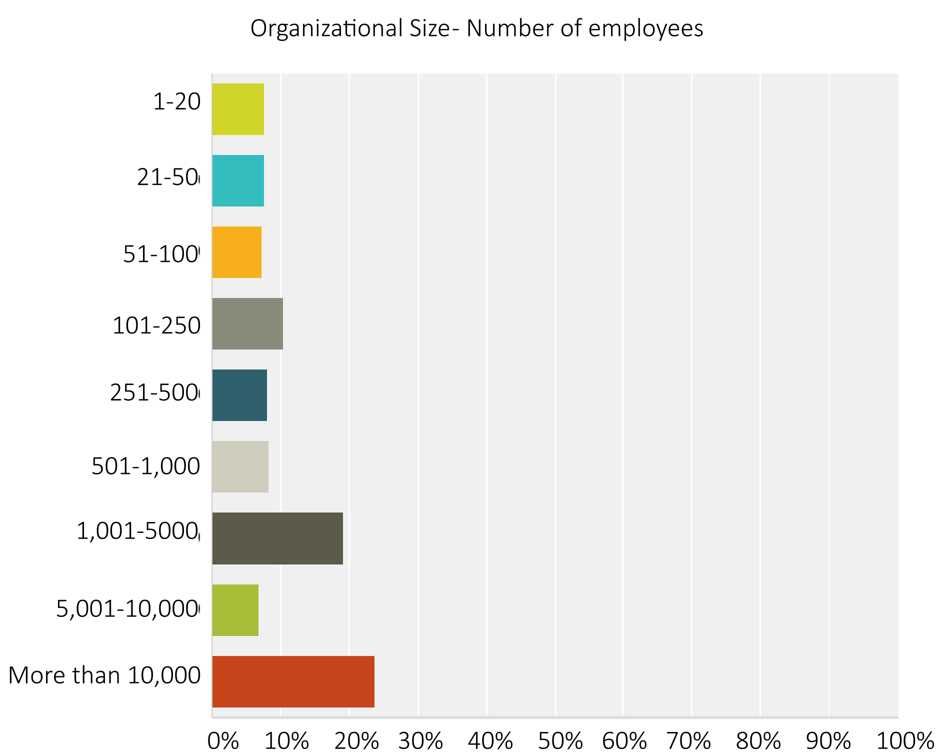
Methodology

METHODOLOGY

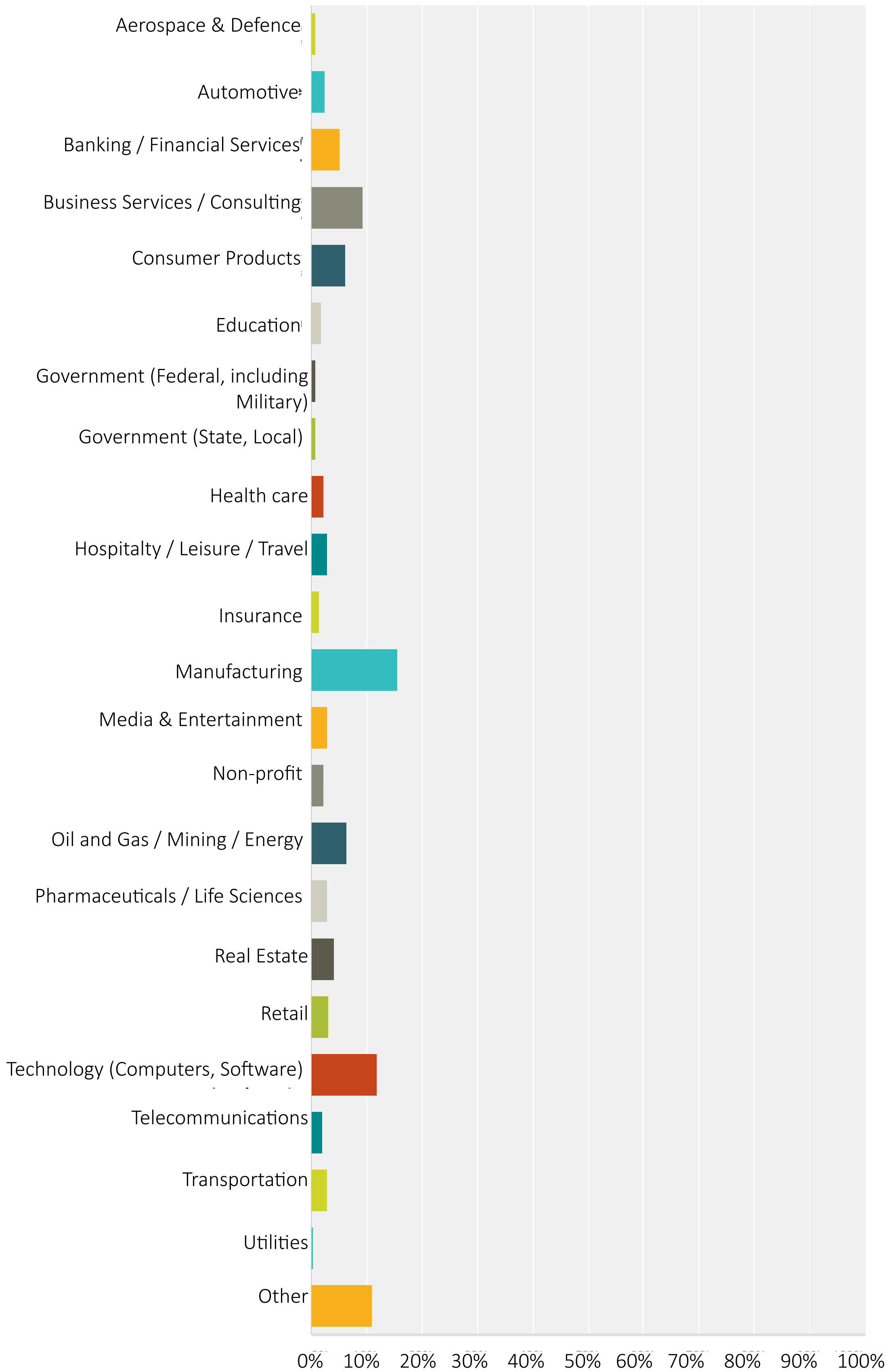
The survey drew responses from 977 international senior finance professionals from our 49,000 strong FSN Modern Finance Forum on LinkedIn.

This survey covered finance professionals across 23 different industries. 81% of these professionals were considered to have senior job titles and above.





Industry of Respondents



ABOUT FSN

FSN is a global publisher of thought leadership, research and "must-have" content for CFOs and senior finance professionals around the world. FSN's highly popular and active Modern Finance Forum on LinkedIn has a membership of more than 48,000 readers in more than 23 countries and across every major industry segment. It is also the publisher of the popular www.fsn.co.uk and www.fsnelite.com websites and regularly holds networking dinners and events for its members.

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ABOUT Workday

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