DRIVING PERFORMANCE

# 3 New Approaches — to — Unlocking Deeper Financial Insight

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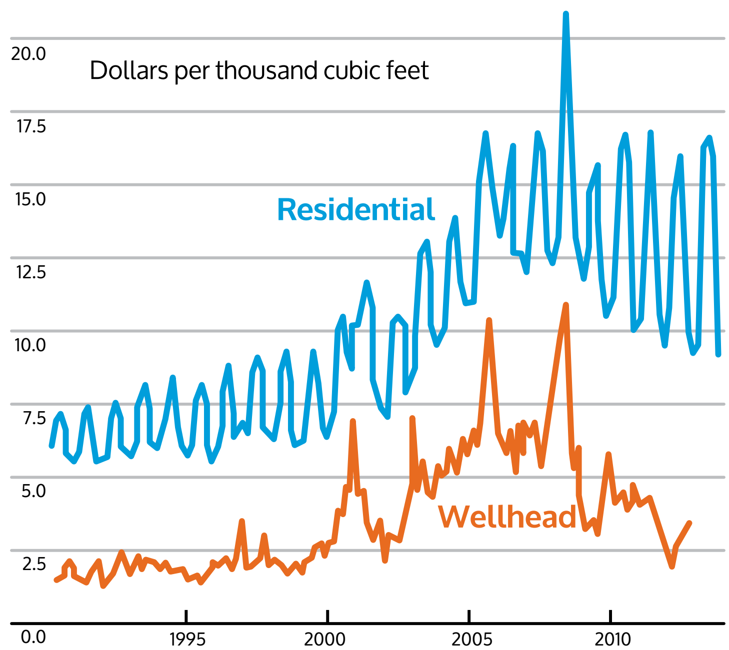
BEYOND THE NUMBERS

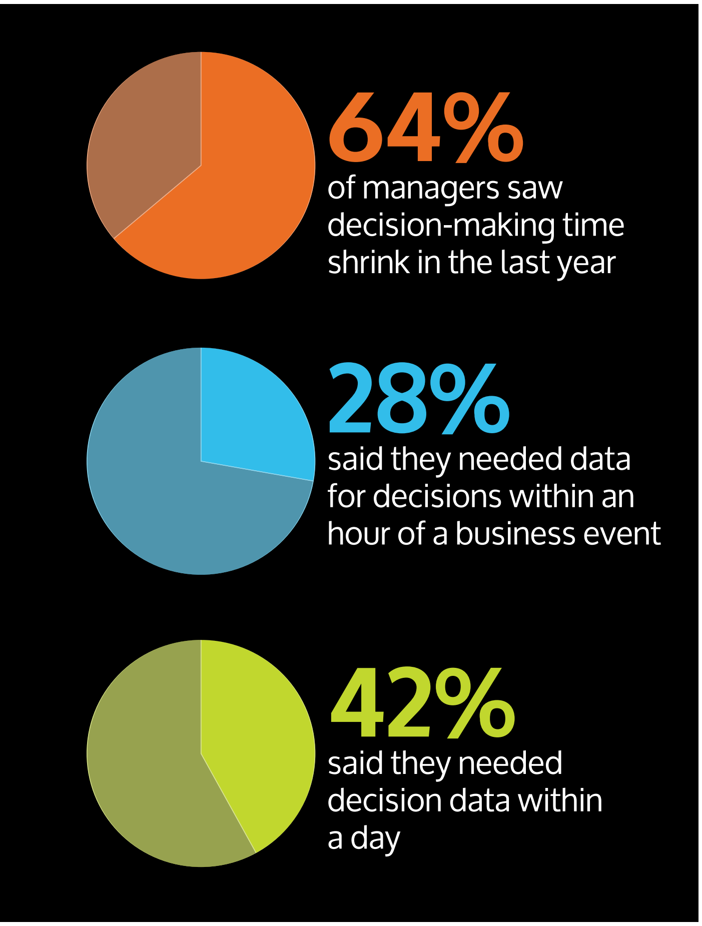
## Introduction

Intuitively, many of us recognize that the decision window for executives has been shrinking with each passing year. Information dissemination has become real-time and on-demand; however, the challenge for many finance functions is to try and keep pace with all the modern sources of insight and analysis that internal and external stakeholders are receiving.

Figure 1: U.S. Natural Gas Prices




We can layer on an incremental challenge in many industries where the business environment changes more often and more dramatically than ever before as well. Take for instance commodity prices, which have seen increasing levels of volatility in recent years. Imagine you are a company impacted by the price of natural gas (Figure 1) and consider the implications these price swings can have on your business model. That is but one example of a changing strategic driver. Consumer tastes and demands can shift virtually overnight. Everyday, new technologies and new business models replace old technologies and old business models. The luxury of time is something few executives have anymore when it comes to making decisions.




An Aberdeen study found that 64% of business managers have seen their decision-making time shrink over the last year. In another study, Aberdeen found that 28% of business managers said they needed data to make decisions within an hour of a business event; another 42% needed information within a day. That doesn't provide much time for finance to supplement the decision making process with supporting analysis.

Decision-making processes have relied, and should rely, on fact-based, data-driven management information. Historically, executives would depend on monthly financial reports and a plethora of other off-line operational reports originating from outside the finance function to monitor the health of the business.

Financial reports and other real-time operational data are often lagging indicators of performance. These metrics, although perhaps lacking precision, may have been sufficiently effective in the past; however, they are less so now because they lag the current cadence of information dissemination and business volatility today.

Instantaneous and deeper financial insight is required more than it ever has at any point in history to respond to these challenges. What is required is an analytical approach that enables management to monitor and measure the development of the important strategic drivers and make decisions with confidence.

In this whitepaper, we will explore how organizations are transitioning from a periodic, ad hoc reporting paradigm to real-time reporting.

## The shortening of the reporting cycle and challenges of keeping up

Traditional financial reporting focuses attention on results over varying periods of time. The annual financial statements are the universal

standard, but have always been presented with the external financial stakeholder in mind.  Quarterly financial statements served a similar purpose, but now also include the Board of Directors who commonly meet four times a year to review financial performance. Monthly financial statements have historically been used by management as one of the primary gauges of organizational performance; after all, most operational issues show up at one point or another in the financials.

The preparation of each of these annual, quarterly, and monthly financial statements relies upon a financial close process. The financial close process is designed to achieve an accurate cut-off and validate the balances in the general ledger. The accounting staff will undertake a variety of checks and balances and account reconciliations to ensure financial reporting integrity is protected – but all this takes time.

The close process is frequently measured in weeks, and less often in days. However, intuitively we recognize that the pace of the business no longer aligns to a monthly, quarterly, or annual reporting cycle. Business moves more quickly than this. So, the challenge for finance is to find ways to accelerate the dissemination of information without eroding credibility.

## Ad hoc reporting is failing to fill the gap

Real-time reporting has evolved to fill in the gaps created by these time lags and supplement the content of standard financial reports with operational data. Ad hoc reporting often follows a process as depicted and described in Figure 2.

Figure 2: Process for developing an ad hoc report

This sort of approach gives rise to a number of issues that erode the overall effectiveness of ad hoc reporting, including:

1. **Lacking in timeliness** – This sort of process necessitates hand offs between a user, finance, and IT. This takes time and the final analysis may be ready several days or weeks after the initial request is made. Often the urgency of the decision passes or the decision gets made in the absence of evidential analysis.

2. **Lacking in consistency** – The questions asked often come up again and again. The ad hoc analysis must be repeated and updated with each passing period. This activity consumes the resources of those people working in finance and IT.

3. **Lacking in control** – As data is plucked from various systems and brought together in a spreadsheet, the connection to the underlying data is often broken. One slippery finger or a change to the underlying data can invalidate the analysis. This necessitates additional manual reconciliation controls to ensure the ad hoc analysis remains valid. Many times this step may get neglected altogether giving rise to credibility issues between different sources of information.

## 3 new approaches to attaining deeper financial analytical insight

If the old ways are now less effective, then what ideas and technologies are replacing them? Industry leading finance teams are using the following three approaches for achieving a timelier, higher quality analysis and reporting paradigm:

In the sections that follow, we will briefly explore each of these three approaches more.



1. Seeking to achieve a faster close by redefining the reporting cycles using weekly, daily, and real-time reporting targets.
2. Focusing on developing flexible and repeatable ad hoc reports, which update automatically and are available on-demand to users.
3. Designing and deploying interactive executive dashboards of key performance indicators (KPI) to monitor the status of the organization throughout the period.

## New Approach 1:

### Close faster to enable real-time reporting

The faster close has long been an objective of many finance functions. A fast close is one that minimizes the time to release monthly or quarterly financials after the period ending date. However, leading organizations have realized that many of the techniques used for achieving the fast close actually enable even more frequent levels of reporting.

Achieving the fast close often requires a change in mindset as a first step. Instead of waiting for the calendar to turn over to begin closing the books, those executing the fast close are proactively reconciling and reviewing key accounts on a more frequent basis (weekly, daily, or automating integrity checks into the system). This approach identifies


errors earlier and alleviates the amount of work required at month end. However, the added benefit is the organization has reliable data of the transactional activity that can be accessed to create more timely intra-period reports.

A second enabler of real-time reporting and analysis arises with the deployment of a cloud-based solution that can pull in data from different entities and sources. This eliminates the time-wasting hand-offs of information that slow down all forms of financial reporting.

When the databases are updated and available in real-time, reports of various sorts can be issued more frequently. Frequent reporting can take pressure off the month end financial report, as managers are able to identify problems and act earlier to find solutions. This ability to monitor and react improves performance.

## New Approach 2:

### Aggregate data from disparate sources to improve analysis

Today, leading financial systems address many of the shortcomings of the traditional approach to ad hoc reporting. These systems enable operational data from outside of the financial system to be integrated with the other disparate systems where the data resides. This live connection is continuously updated and maintained in real-time. When cloud solutions are deployed, these connections can span different entities and geographic locations seamlessly.

Leading financial systems have the tools ready-built to aggregate and analyze data for user-defined periods and parameters. Using an analysis tool that is built into the system, instead of using an external spreadsheet, enables the development of real-time reports to meet the specific needs of the users without breaking that all-important connection to the underlying sources of data. These real-time templates can be saved and the analysis repeated with the passage of time without any need for redoing the set up or the need to reconcile information between different sources.

# New Approach 3:

## Implement dashboard reporting to monitor the financial pulse of the organization

Executive dashboards are to businesses what cockpit control panels are to pilots. It's the business equivalent of dials and meters, all designed to provide a user with a snapshot of the status of the business using KPIs.

The KPIs should be a mix of financial and non-financial indicators, which means that data from outside of the financial system is leveraged with financial data to provide a more insightful perspective of performance. This would include information about volumes, pricing, shipments, utilization, etc. Most organizations find they are able to identify 8-10 key performance indicators that really drive performance and these become the metrics that populate the dashboard.

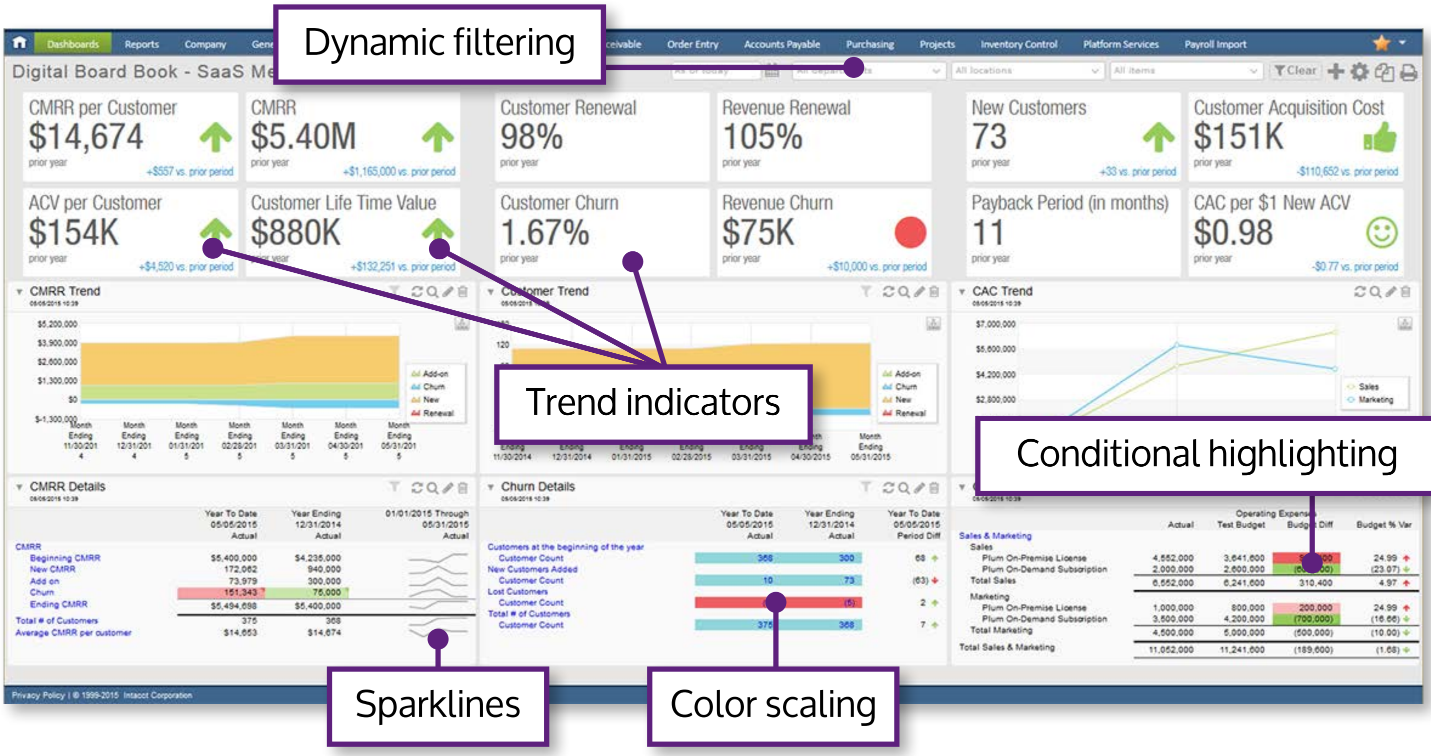

Modern dashboards are interactive for the user and add more value than a static printed report.  The true insight comes from a user's ability to drill into the various metrics on their screen and interact with the underlying data. This data can be sorted, spliced, and drilled further, all the way back to the transactional level, to give users a deeper and richer understanding of the underlying cause and effect of what has happened.

Dashboards should drive management action and decision-making. When indicators fall outside an acceptable tolerance range, dashboard indicators should make these deviations obvious to the user.

Dashboards that incorporate color scaling, trend indicators, conditional highlighting, and sparklines help focus attention on areas for a user to drill deeper and develop insight (Figure 3).

Figure 3: Attention-grabbing dashboards




When the reports are converted from a static state to a dynamic state, users have a tool at their fingertips to ask and answer their own questions.

## Changing the role of finance staff

The role of finance is to ensure that the data included on a dashboard has integrity and that the right metrics are presented. The adoption of enabling technologies enhances reporting integrity by maintaining the live connection to the underlying sources of data alleviating finance people of this time-consuming activity. As a result, these types of technology change the role of how finance people are deployed.

Finance resources spend less time gathering, reconciling, aggregating, and cleansing data. Their contribution is upgraded and now begins emphasizing the review of data to identify errors, the analysis of data to uncover insights, and establishing KPIs that measure and communicate performance. These are all value-added activities that draw on experience and business expertise, less so on base data manipulation and validation technical skills.

## Conclusion

The way organizations are gaining deep financial insight is changing. As an executive, you have a decision to make about how you choose to deploy your human resources and the extent to which technology enables your finance department to add more value across the enterprise.

A fast close mindset helps because it heightens the need to maintain data integrity throughout the period instead of just once a month. Once this real-time mindset is adopted, opportunities for more frequent weekly, daily, or even on-demand reports and analysis emerge.

Real-time reporting is greatly enhanced when the middleman, a spreadsheet, is eliminated from the equation. Disparate sources of data are seamlessly aggregated within a strong analytical tool. A tool that can sort, slice, and dice data to answer the sorts of everyday business questions that often arise.

Well-designed and implemented dashboards give you the best possible control over financial processes. Dashboards are user defined, easily tailored, drill-down enabled, and visually direct attention to the important KPIs of the business.

Are your IT and finance resources buried in ad hoc analysis? Is it a challenge to have strong, decision-relevant information at your finger tips to manage the business with confidence? Then, evaluating your own reporting systems is your next step.

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