FSN Executive Briefing

"How can CFOs

balance the needs of the corporate center and reporting entities for consolidation and planning?"

FSN
Professional & Technical Publications

ONESTREAM
GET BACK TO BUSINESS

"How can CFOs balance the needs of the corporate center and reporting entities for consolidation and planning?"

by Gary Simon

Gary Simon is Group Publisher of FSN Publishing Limited and Managing Editor of FSN Newswire. He is a graduate of London University, a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the British Computer Society with more than 27 years' experience of implementing management and financial reporting systems. He is the author of four books, many product reviews and whitepapers and as a leading authority on the financial systems market is a popular and independent speaker on market developments. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

Introduction

Most CFOs know that when it comes to consolidation, budgeting, planning and forecasting applications there always seems to be a tension between satisfying the needs of the corporate head office and fulfilling the diverse operational needs of local management. In many cases this leads an unsatisfactory compromise in which neither the center nor local management have complete visibility of the business. Or worse still it leads to separate applications, wasted effort, inefficient processes and lingering doubts about data quality.

A 2012 study, by Oracle and Accenture points to some of the issues underlying current levels of dissatisfaction, chief among these is a piecemeal approach to process improvement rather than a holistic approach. And although the survey says that 47 percent of companies have made "substantial" investments in the financial close, filing and reporting processes, 84 percent of finance managers surveyed said that they found it difficult to control the quality of financial data across the entire reporting process. Unsurprisingly, 71 percent of companies say that their effectiveness is limited in some way by data analysis related issues. And more specifically, 15 percent of global businesses say that due to late changes to the chart of accounts they have missed statutory reporting deadlines, putting their companies at risk of financial penalties and potentially impacting share value.

Budgeting, planning and reporting suffer from similar data quality problems with many enterprises using spreadsheets to paper over the cracks. And crucially, if one element of corporate performance management (CPM) is inefficient it drags down the rest of the performance management cycle. In effect performance reporting can only proceed at the pace of the slowest element.

So what is going wrong and what can CFOs do to re-balance the sometimes competing reporting and information needs across the enterprise?

Data governance is a major stumbling block

Metadata is the 'DNA' of consolidation as well as budgeting and planning applications. It defines the structural information, such as organizational hierarchies, account codes, time periods and product group dimensions that constitute the 'shape' of the business. Just like DNA it acts as a blueprint that has to be propagated perfectly throughout financial reporting and other processes such as budgeting if the enterprise is not to face unwelcome delays in consolidation and doubts over data integrity.

However, the shape of the metadata in reporting units is usually different from the group company because the metadata in subsidiaries' operational systems reflects local reporting needs whereas the metadata in a group consolidation application is designed to satisfy specific statutory and management reporting needs at the corporate level.

Furthermore, the relationships between these structures can be relatively complex as elements in one structure may not have an equivalent position in another structure, particularly as local operational systems are typically at a much more detailed level of granularity than the group systems.

The gap between local and group reporting becomes particularly pronounced in a heterogeneous group, for example, an industrial conglomerate which spans several different industries compared to a homogeneous enterprise that focuses almost exclusively on one business sector. A hotel group, comprising hundreds of properties throughout the world may be able to introduce a standard group chart of accounts, whereas this is rarely feasible for a geographically dispersed conglomerate, with manufacturing, sales and service organizations spanning several market sectors. So the consolidation of budgets and actuals in a heterogeneous group is several orders of magnitude more complex than in a homogeneous group.

Adding to the complexity in recent years has been the growing depth and breadth of information requirements exacerbated by frequent changes in regulation and accounting standards. With companies placing increased value on business intelligence and performance management to gain deeper insights into trends and factors affecting the future performance of the business, there is an understandable reluctance to archive or delete historic data, so that data volumes have grown in tandem.

In addition, more exacting performance measures, such as profitability reporting by a variety of different dimensions, for example, customer, product or geographical business segments means that the underlying data has to be analyzed to multiple dimensions. Furthermore, the segment information can vary from account to account. For example a sales account may need to be analyzed across sales regions (where the sale was made) and customer regions (where the customer is situated) whereas an expense line, such as administration, may only need to be analyzed across management regions. So multidimensional data adds considerably to the challenge of data governance.

'Old' CPM systems failed to deliver

Many of the established CPM suits are unable to cope with data complexity of this magnitude and this frequently leads to an unwelcome compromise in information requirements or systems architecture. For example, given the restrictions of most leading CPM solutions many heterogeneous groups find it impractical to maintain a single data model that can govern an enterprise-wide budget. This often leads to the creation of loosely coupled data models that cater separately for local and group needs but inevitably drive up the cost and complexity of metadata management. In these situations it becomes impractical to make quick changes in response to new information requirements because of the difficulty of propagating the effect of changes through multiple models.

In the case of statutory consolidations there is frequently no room for compromise. The corporate center dictates the information requirements and subsidiaries have to fall into line. The same approach to management accounting frequently leaves subsidiaries disenfranchised and unable to use the system for local reporting needs. In effect the work of reporting entities is duplicated since they are required to satisfy the information needs of the corporate center and then create a separate solution to serve local reporting needs.

So is there a better way?

Extensible dimensionality

The early CPM suites did not anticipate the complexity of metadata management in the modern finance function but second time-around developers of CPM are designing a new generation of applications that are developed from the outset with complex structures in mind. OneStream Software, whose founders were at the forefront of the previous generation of CPM suites, for example, Hyperion HFM, typify the new breed. They have taken what they have learned from first generation applications to develop a new generation of unified CPM applications with "extensible dimensionality" baked into the design.

OneStream XF's Extensible Dimensionality® is a unique feature that lets the corporate center maintain a standard chart of accounts and dimension structure while business units can extend these dimensions to fit their specific ways of managing and analyzing the business. But crucially, this eliminates the need to build and maintain separate applications to house additional solutions or specific business unit reporting requirements. The corporate center and the local reporting entities can both have 'their cake and eat it' because the two sets of requirements can coexist in the same application environment.

Extensible dimensionality applies to both vertical and horizontal dimensions at the same time. For example, each business unit can have its own distinct chart of account structure (a vertical dimension), unconstrained by another business unit's needs. Their unique requirements are maintained in the same accounts dimension but they only see the members of the dimension (account lines in this case) that are relevant to their business.

Similarly, each entity can uniquely maintain its own set of horizontal dimensions, for example, budget granularity. One business unit may require budgeting at a very detailed account or product level when their actuals are collected at a fairly summarized level. Conversely, another business unit may build the budget up at a similar level to the corporate standard accounts. Both budget solutions can live in the same application and deliver relevance to each business unit. Allowing each business unit to have its own unique combination of vertical and horizontal dimensions allows the application to absorb infinite complexity yet accommodate it all within a single unified business model. This also confers great flexibility. Corporate and local dimension structures coexist harmoniously in one unified environment, avoiding data replication, integration risks, and any need to reconcile between applications or modules. Furthermore, the simplicity of a single data model, reduces maintenance effort and IT complexity. Ultimately this promotes stronger data governance and a more dependable environment in which data integrity is no longer in doubt, regardless of application, for example, budgeting, planning, forecasting or financial consolidation. And with 'horsepower' (hardware performance) no longer being a practical constraint, global 2,000 companies can confidently run huge data models without obvious degradation of performance.

Summary

Despite the large sums of money lavished on financial reporting systems there is a high level of dissatisfaction with the quality and visibility of financial information. At the root of the problem are ageing consolidation and planning applications which are unable to accommodate complex hierarchies and multi-dimensional analysis in a single data model. This has resulted in widespread compromise between the needs of the corporate center and reporting entities leading to dysfunctional reporting, duplicated applications and constant doubts about data integrity.

However enlightened CFOs are beginning to deploy second generation applications, from ground-breaking vendors such as OneStream Software which offer "Extensible Dimensionality" that allows organizations to cater simultaneously for the unique requirements of diverse groups rebalancing the different budgeting, planning and reporting needs between the corporate center and subsidiaries. Such a unifying approach eliminates the need for multiple data models, encourages 'straight-through' processing, accelerates core financial processes and provides management with better visibility of performance at all levels of the group hierarchy.