Financial Accounting
Advisory Services (FAAS)

Connected reporting

Responding to complexity and rising stakeholder demands

EY
Building a better working world

About the research

Our research surveyed 500 CFOs or heads of reporting of large organizations (with greater than US$1b in revenue) to gain an understanding of the challenges facing them in the area of corporate reporting. The research was conducted by Longitude Research on behalf of the EY Global Financial Accounting Advisory Services (FAAS) group.

The respondents were divided between CFOs and group, divisional or regional controllers. They were split evenly across Europe, Middle East, India and Africa (EMEIA), the Americas and Asia-Pacific and Japan, and covered 16 main industry sectors.

The survey was supplemented by in-depth interviews with the following CFOs, heads of reporting organizations and EY subject-matter professionals. These interviews add texture and deeper insight.

Prat Bhatt
Senior Vice President, Corporate Controller & Chief Accounting Officer, Cisco Systems

Diederik Bossuyt
Director, Group Controller, Belgacom

June Cheryl A. Cabal-Revilla
First Vice President, Financial Reporting and Controllership, Philippine Long Distance Telephone Company (PLDT)

Jessica Chou
Chief Accounting Officer, Taiwan Semiconductor Manufacturing Company (TSMC)

Stephen Cosgrove
Vice President, Corporate Controller, Chief Accounting Officer, Johnson & Johnson

Ian Hillier
Group Statutory Controller, Coca-Cola Amatil

Linda Huang
CFO, 500.com

Badr Jafar
Chief Executive, Crescent Enterprises

Ivy Lai
Head of Finance, Greater China, Philips

Sarvy Liu
CFO, Condé Nast

Mark Minne
Vice President of Reporting & Information Service (RISE), Deutsche Telekom

Anders Pehrsson
Vice President, Group Controller, Atlas Copco

Yves Pellegrino
Corporate Finance Director, Danone

Martin Schloemer
Head of Accounting Principles and Policies, Bayer AG

Stone Shih
Chief Accounting Officer, Wistron Corporation

Neri Bukspan
Financial Reporting and Disclosure Leader, FAAS Americas, EY

Joon Arn Chiang
Asia-Pacific FAAS Leader, EY

Andrew Davies
United Kingdom & Ireland (UK&I) FAAS Leader, EY

Karsten Füser
Global and EMEIA FAAS Markets Leader, EY

Kenneth Marshall
Americas FAAS Leader, EY

Peter Wollmert
Global and EMEIA FAAS leader, EY

We would like to thank everyone who contributed their insights and expertise to this report.

In this report

Foreword

Companies face an increasingly challenging reporting environment. Globalization means that they have more complex operations spanning different jurisdictions. The pace of regulatory change is increasing, and investors and capital market participants have rising demands. And, internally, the board and senior management are requesting additional information. Three-quarters of respondents say that the reporting environment has become more complex in recent years.

Companies recognize the need for better reporting. Among respondents, 74% agree that they should improve the information they provide to external stakeholders. In addition, only a minority rate the timeliness, cost, level of compliance and efficiency of production of reporting as highly effective. Most recognize that they have room for improvement in every area, but particularly in speed of closing and degree of integration. The finance function needs to ensure that reporting is meeting the different needs of stakeholders, and that it is timely, accurate and consistent.

This report looks at the challenges companies face in their reporting, assesses the current state of corporate reporting, and examines the internal and external challenges to overcome in order to improve reporting. It also identifies a solution to address the increasing demands and complexity. Connected reporting brings together financial and non-financial information and combines internal and external reporting, resulting in greater efficiency and consistency.

Companies have to overcome obstacles when moving to connected reporting. But the effort will be highly worthwhile. The benefits include better decision-making, better relationships with investors and regulators, and a better reputation for the business. Most importantly, reporting can move beyond compliance to serve the strategic vision of the company.

I would like to thank the participants in our survey, and also those who provided interviews that added additional depth to the research, for their valuable contributions.

P. Wollmert

Peter Wollmert
Global and EMEIA FAAS Leader, EY

Executive summary

Business complexity – and therefore the complexity of reporting – continues to rise.

Globalization has led to a more complex business structure. This means that companies have to comply with a wider range of reporting standards. As companies grow, enter new markets and develop new products and services, they inevitably face greater complexity.

Organizations face a more dynamic and demanding reporting environment.

Companies face increasing demands on reporting, driven by both internal and external stakeholders. The number of reports that companies issue is growing, and reporting is expanding to include more financial and non-financial aspects. Non-financial reporting, such as sustainability, will increasingly have to be covered, and reporting will also tend to include forward-looking elements. Both internal and external stakeholders are looking for more frequent information. But they also expect that information to be accurate. Companies will need to strike a careful balance between speed and accuracy. They must also consider the needs of different audiences, and ensure that their reporting is appropriate for different requirements.

Internal and external challenges to improved reporting are considerable.

The speed of regulatory change is such that companies find it difficult to keep pace. With limits on resources, companies need to improve reporting efficiency. They can do this by integrating or upgrading IT systems, making data more consistent and widely available, and optimizing processes. Finding the right talent for reporting functions, beyond the traditional accounting skill set, is also a challenge. Downsizing of the finance function has made it more difficult to have the available resources to improve reporting, according to the majority of respondents.

Companies see substantial scope for better reporting.

They think that their reporting frameworks could be made less complex and time-consuming, and could provide better information. This would bring internal benefits in terms of greater accuracy, consistency and transparency that, in turn, would lead to better decision-making.

Connected reporting would bring a range of benefits.

Connected reporting is an approach to develop an organization's current reporting to bridge the gap between the different information requirements of internal and external audiences. It enables organizations to communicate their financial and non-financial information, using consistent data, simplified IT structures and methods, in order to reduce complexity in the reporting process.

There is a strong aspiration to move toward connected reporting. Companies recognize that this would strengthen the reporting process and the quality of reporting. In turn, this would bring benefits for relationships with investors, connectivity with regulators, decision-making and the reputation of the business. However, many find it difficult to implement connected reporting. They will need to make progress in a number of areas for this aspiration to become reality. The most urgent steps needed are to improve the availability, accuracy and consistency of data, and invest in IT infrastructure.

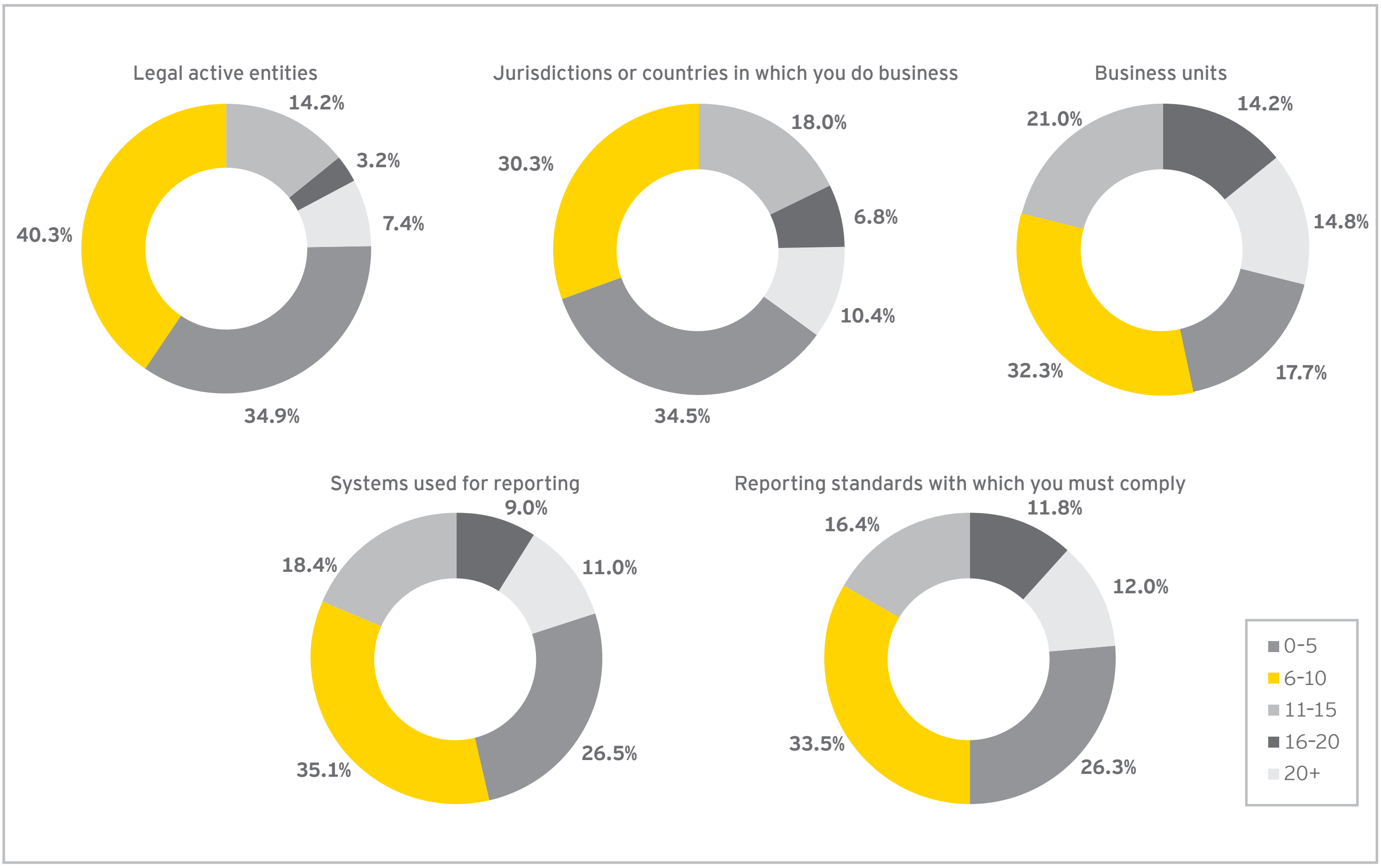
1 Business complexity continues to rise

Globalization has led to a more complex business structure. This means that companies have to comply with a wider range of reporting standards. As companies grow, enter new markets and develop new products and services, they inevitably face greater complexity.

Businesses today inhabit a more complex environment than at any time in history. Over the past few decades, globalization has meant a dramatic expansion in the scope and reach of many companies. Even if companies are not selling their products in every region of the world, it is likely that they have complex supply chains reaching into distant markets, shared service centers and a range of other operational entities.

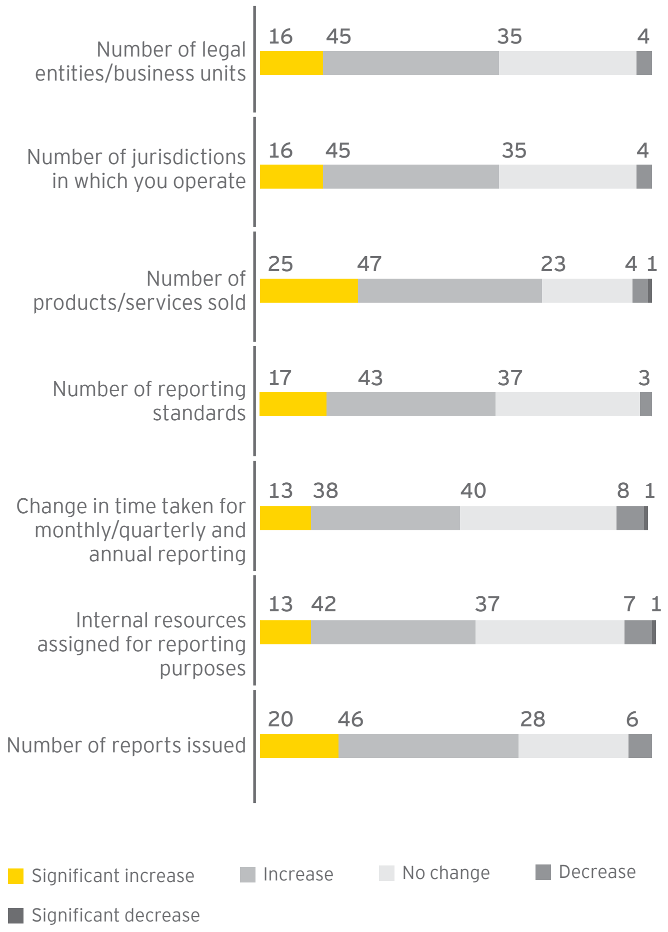
Among the 500 companies that EY surveyed for this report, half have more than 10 business units and one-third are active in more than 10 countries. More than 60% have seen their number of legal entities and jurisdictions in which they operate increase over the past three years. Companies are also diversifying into other market segments. Over the same period, more than 70% have increased the number of products and services they sell.

Chart 1
Companies are operating in an increasingly complex environment



Greater business complexity is mirrored by greater reporting complexity. Among our respondents, three-quarters have more than five reporting systems, and a similar number must comply with more than five reporting standards. More than two-thirds have increased the number of reports they issue over the past three years.

Chart 2
In the past three years, what change has there been to the following aspects of your business?



Increased business complexity inevitably complicates reporting. Wistron, a design manufacturer headquartered in Taiwan, has more than 70 legal entities globally. This poses considerable challenges for moving to its target of one-day monthly closing. "It's just the fact that the nature of the business is so different in each country," says Stone Shih, Chief Accounting Officer at Wistron Corporation. "We have to go through all the legal entities' accounting statistics. We discuss the target and the difficulties they will encounter, and we have to try to solve them one by one. Sometimes, the system can be an issue. So we also need to get the IT people involved to understand the local accounting process and look for an IT solution."

Business growth also brings other challenges for reporting, as Neri Bukspan, Financial Reporting and Disclosure Leader, FAAS Americas at EY, explains. "As they become larger and more global, companies experience a dramatic rate of change in regulations and investor expectations, and face greater scrutiny from auditors, boards and institutional investors," he says. "Investors and others demand more information, and expect it to be robust, controlled and timely."

Therefore, as complexity rises, companies face the need to upgrade their reporting infrastructure. "Our reporting basis is becoming bigger and more complicated, because of organic growth and acquisitions," says June Cheryl A. Cabal-Revilla, First Vice President, Financial Reporting and Controllership at the Philippine Long Distance Telephone Company (PLDT). "We really need the reporting infrastructure to go with the growth. So there are so many things to do in terms of upgrading our systems and looking at new models to improve our reporting."

At the same time, this increased complexity presents companies with opportunities. With more data and information at their disposal, they are better able to understand their business enabling better insights, and can better align their internal reporting and management processes with what they report to external stakeholders. This can strengthen decision-making, and provide information that gives them a competitive edge. "There are more and much better ways to analyze information now than there have ever been," says Karsten Füser, Global and EMEIA FAAS Markets Leader at EY. The question is how you take all this information, synthesize it and make it actionable."

> "As they become larger and more global, companies experience a dramatic rate of change in regulations and investor expectations, and face greater scrutiny from auditors, boards and institutional investors."

Neri Bukspan, Financial Reporting and Disclosure Leader, FAAS Americas, EY

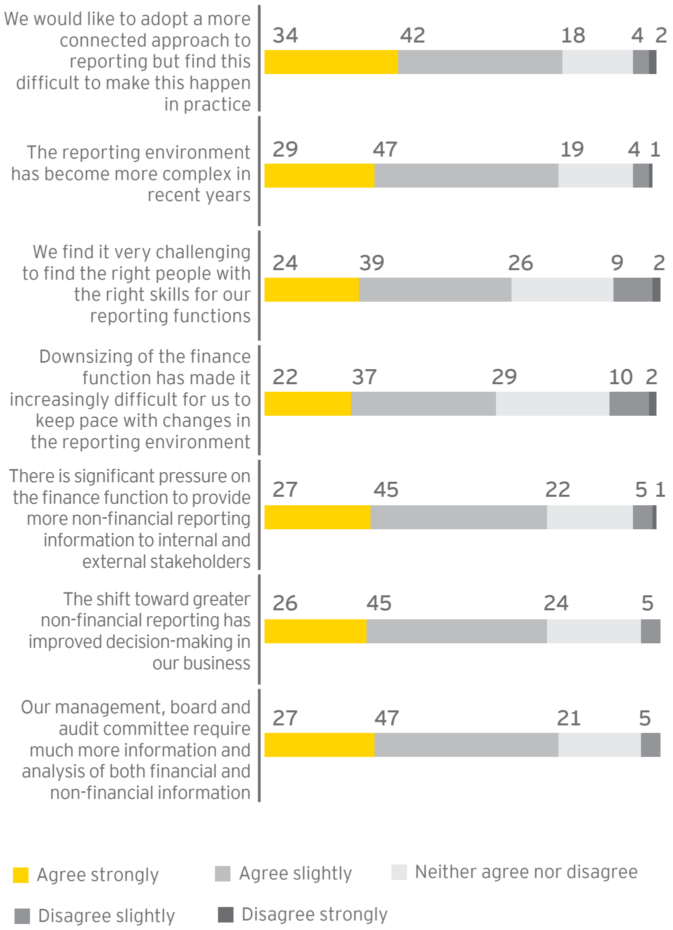
2 Organizations face a more dynamic and demanding reporting environment

Companies face increasing demands on reporting, driven by both internal and external stakeholders. The number of reports companies issue is growing, and reporting is expanding to include more financial and non-financial aspects. Non-traditional areas, such as corporate responsibility and sustainability, will increasingly have to be covered, and reporting will also tend to include a forecasting element.

> "We've got tougher requirements set by the authorities on the one hand, and by the stakeholders on the other."
>
> **Mark Minne,** Vice President of Reporting & Information Service (RISE), Deutsche Telekom

Growing business complexity is coinciding with an increasingly complex reporting environment. Companies face more varied demands than ever from external stakeholders. For example, they must comply with a constant flow of regulatory and accounting requirements. Three-quarters of respondents agree that the reporting environment has become more complex in recent years.

Chart 3
Please indicate whether you agree with the following statements



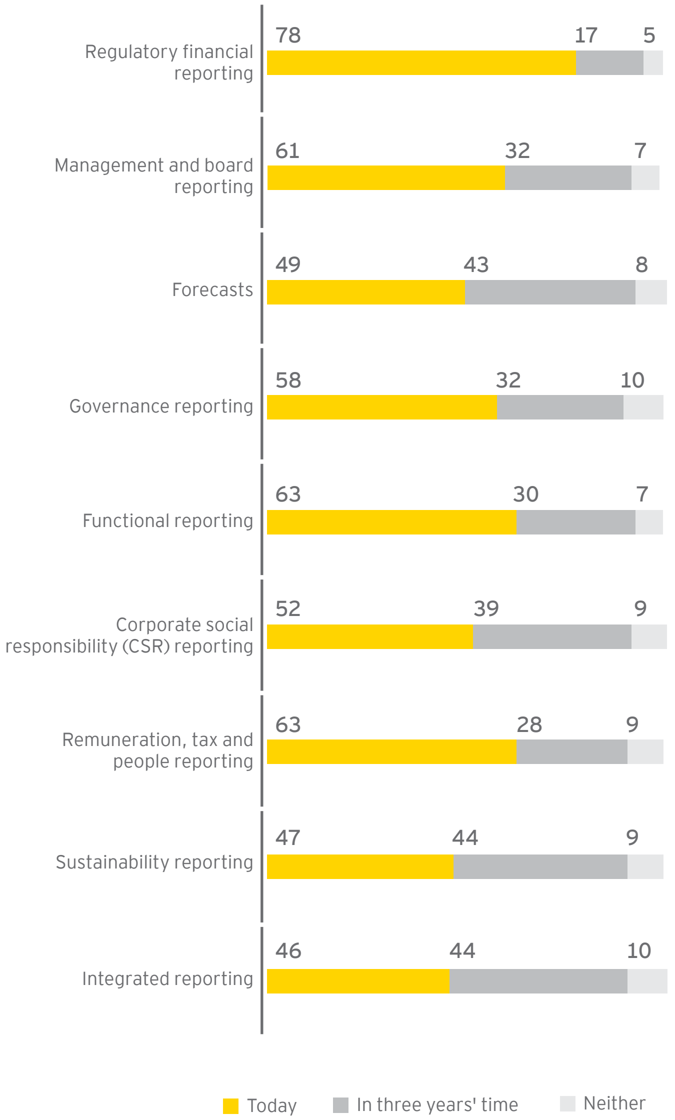
"We've got tougher requirements set by the authorities on the one hand, and by the stakeholders on the other," says Mark Minne, Vice President of Reporting & Information Service (RISE) at Deutsche Telekom. "We've also high pressure due to limited resources, requirements regarding data quality, and last but not least, increasing compliance demands."

Regulatory requirements add to the challenge. Rather than simplifying reporting, they make it more complex and substantial. "Fifteen years ago, our main report was a leaflet of 30 pages, and now it is a big book of 400 pages," explains Yves Pellegrino, Corporate Finance Director at Danone. "Even in the last few years, the number of words is increasing by around 10% per year. But I'm not sure to what extent this reporting keeps on being fully useful to all the stakeholders, because it's become very complex."

Reporting is set to become yet more wide-ranging. There are now many aspects of reporting: regulatory financial; management and board; forecasting; governance; functional; corporate social responsibility (CSR); remuneration; tax and people; sustainability and integrated reporting. Each one may give rise to a portion of a report or a separate report.

Today, more than half of companies do not report some of these aspects, and the proportion that does is less than two-thirds for all areas except regulatory and financial. In three years' time, however, the proportion of companies expecting not to report on these areas is less than 10% for each area. The biggest increases will be in forecasting, sustainability, integrated reporting and CSR.

Chart 4
Which of the following topics or elements does your current reporting cover today, and which do you expect it to cover in three years' time?



Different stakeholders with different needs

Almost 70% of respondents agree that it is very challenging to satisfy the different needs of external stakeholders with corporate reporting. For example, on the one hand, regulatory requirements demand highly detailed reports with a very high degree of data accuracy to fixed timetables. On the other, investors may require much more accessible, short-format information on key performance indicators (KPIs) on as frequent a basis as possible. "As both regulators and financial reporting standards require a significant volume of data to be presented in financial statements, it can often be difficult for shareholders or investors to identify the information they require," argues Andrew Davies, UK&I FAAS Leader at EY.

One of the big challenges is keeping financial reports relevant to the users. "If you're reporting lots of insignificant facts, you risk people walking away, confused as to what's really going on with the business," says one senior finance executive from a major multinational. "External stakeholders want simpler language in reporting. They don't want as much accounting language being used, and prefer to have things stated in more easily understood terms."

Another key challenge is that most companies have a highly diversified investor base, all of whom expect slightly different information. The detail and emphasis required by a long-term pension fund investor, for example, is likely to be quite different from the information needed by an investor with much shorter time horizons. Equity investors need different information from debt investors. Satisfying the needs of all types of investors within a single reporting framework can be extremely challenging. "Some investors may not be interested at all in sustainability reporting whereas, for others, it may be a critical component of their investment policy," says Martin Schloemer, Head of Accounting Principles and Policies at Bayer AG. "Sustainability is very important for some long-term investors such as state funds, for example."

Investors also now often require much more specialized data that is not necessarily found in a US GAAP standard or an IFRS standard. "The sophistication of end users, and their ability and desire to try to differentiate between peer group companies, has changed over time," says Kenneth Marshall, Americas FAAS Leader at EY.

> "I think frequency would certainly be up there as a key challenge. Not necessarily for financial statements or full balance sheet P&L, but the key numbers that a company's investors may consider important."
>
> **Joon Arn Chiang,** Asia-Pacific FAAS Leader, EY

"Some now require more specialized data, by industry in particular. Often, that data is not necessarily lifted directly from a financial statement."

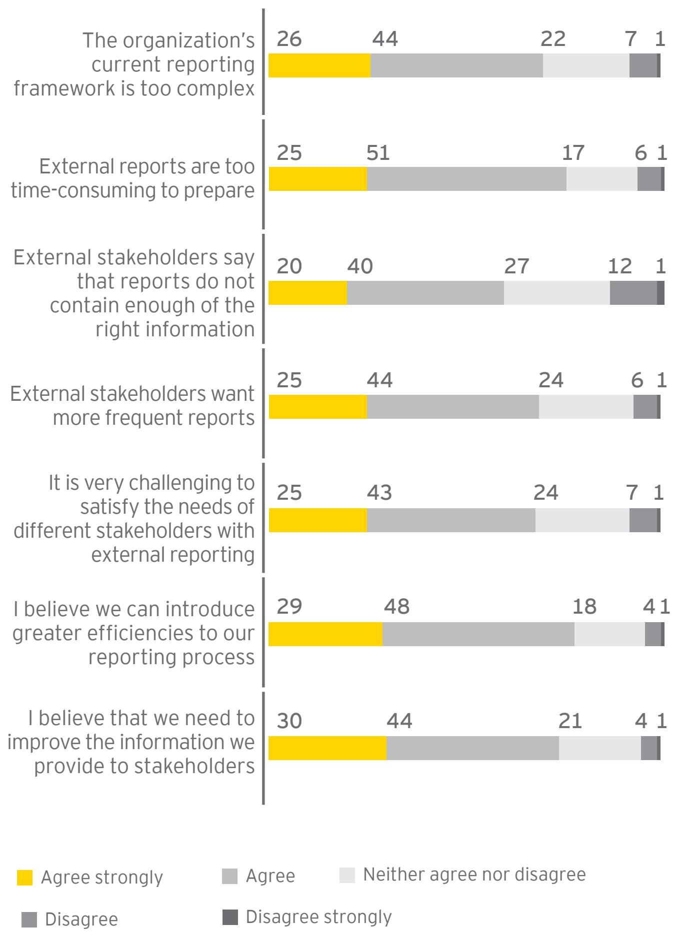
This poses challenges in terms of collecting the information and ensuring its accuracy. Companies may be used to applying high standards to the regular financial data they report, but there is a risk that additional information is treated with less rigor. " I think investors would like to see more formalized reporting of non-financial information and how it relates to the financial statement." says Peter Wollmert, Global and EMEIA FAAS Leader at EY.

Irrespective of their specific needs, investors in general want information that gives them genuine insight into the opportunities and risks facing the business. "Investors want to understand not just where the company is, but where the company would like to be," says Bukspan. "They want more information about strategy. They want to understand more about risks and not necessarily just about the risks themselves, but about how they are being managed. These risks are not only financial risks, they could also include operational risk, cyber security and others, none of which you would expect to find in a financial report."

Demands for frequency

The pace of business is increasing, and companies are attracting groups of investors with ever-shorter investment time horizons. Therefore, doubts are growing about whether the current reporting cycle is fit for purpose. Increasingly, the standard reports, such as the annual report, are regarded as reference materials. They have less and less bearing on the investment decision-making process and rarely result in market-moving information. More than two-thirds of survey respondents agree that external stakeholders are demanding more frequent reports.

Chart 5
Please indicate whether you agree with the following statements



"I think frequency would certainly be up there as a key challenge," says Joon Arn Chiang, Asia-Pacific FAAS Leader at EY. "Not necessarily for financial statements or full balance sheet and P&L, but the key numbers that a company's investors may consider important. For example, cash burn, revenue growth, margin or costs associated with revenues. Also, non-financial information, such as number of customers and acquisition costs per customer."

"They [investors] want more information about strategy. They want to understand more about risks and not necessarily just about the risks themselves, but about how they are being managed. These risks are not only financial risks, they could also include operational risk, cyber security and others, none of which you would expect to find in a financial report."

Neri Bukspan, Financial Reporting and Disclosure Leader, FAAS Americas, EY

The result of companies trying to satisfy the needs of different stakeholders for both more specific and more frequent data, while simultaneously facing increased regulatory complexity, is a dramatically increased volume of reporting. "You've got a situation where our clients need to be presenting information that is digestible, on a real-time basis, and meaningful to their investor communities and their constituents, while having to comply with regulatory statutes. Therefore, you get a cacophony of financial data," says Marshall.

Moreover, current reporting cycles simply may not be serving investor needs. For example, take a company whose financial year closes at the end of December. In some jurisdictions, although it may make preliminary announcements, it may be two to three months before the annual report is finalized, depending on exchange, or similar, requirements. "How useful is that, three months down the line? The time lag is not insignificant. I think one of the greatest challenges is how relevant is this information that's being put out into the public domain a relatively long time after the period to which it relates," says Davies.

There is also pressure on companies to shorten the reporting cycle, so that external stakeholders receive information more quickly after the books close. Wistron, for example, decided to implement one-day monthly closing for their global operations. Shih explains that this was driven by two factors. "The first is external benchmarks. Some of our competitors in Taiwan already had one-day closing schedules. The second is the internal pressure. We were taking five to ten days to finish the closing, and following that, we would have a review meeting with each business group. They were complaining that, by the time we'd finished reviewing, it was very close to the next month. And where a managerial response was needed, it was too late. So we moved the closing and review meeting to as early as possible."

However, shortening the cycle puts considerable pressure on the finance function. "It condenses the reporting period into a much shorter period, and gearing the entire machine to issue a report on a particular day becomes very challenging when you have to roll up information from multiple regions and divisions, and then republish that information to investors in different parts of the world, and include your management synthesis and analysis of that information," says Bukspan.

"It's important to strike the right balance. Sometimes, we are too obsessed with the precision of the information, because achieving this precision takes time and, by then, the information is arguably obsolete."

Yves Pellegrino, Corporate Finance Director, Danone

There are important trade-offs to consider between speed and level of detail. "If you want a very high level of granularity combined with high frequency information, then that would be very challenging to achieve," says Pellegrino. "It's important to strike the right balance. Sometimes, we are too obsessed with the precision of the information, because achieving this precision takes time and, by then, the information is arguably obsolete. If you gave me a choice between information that was 80% accurate today, or 100% accurate in three months' time, I can tell you that I would, in most cases, take the information that is available today."

An emphasis on forward-looking information

The emphasis on non-financial reporting is also increasing. Nearly three-quarters of respondents say that there is pressure on the finance function to provide more non-financial reporting information to internal and external stakeholders. This includes areas such as governance, CSR, remuneration and sustainability reporting that many companies now recognize to be highly important for their external image.

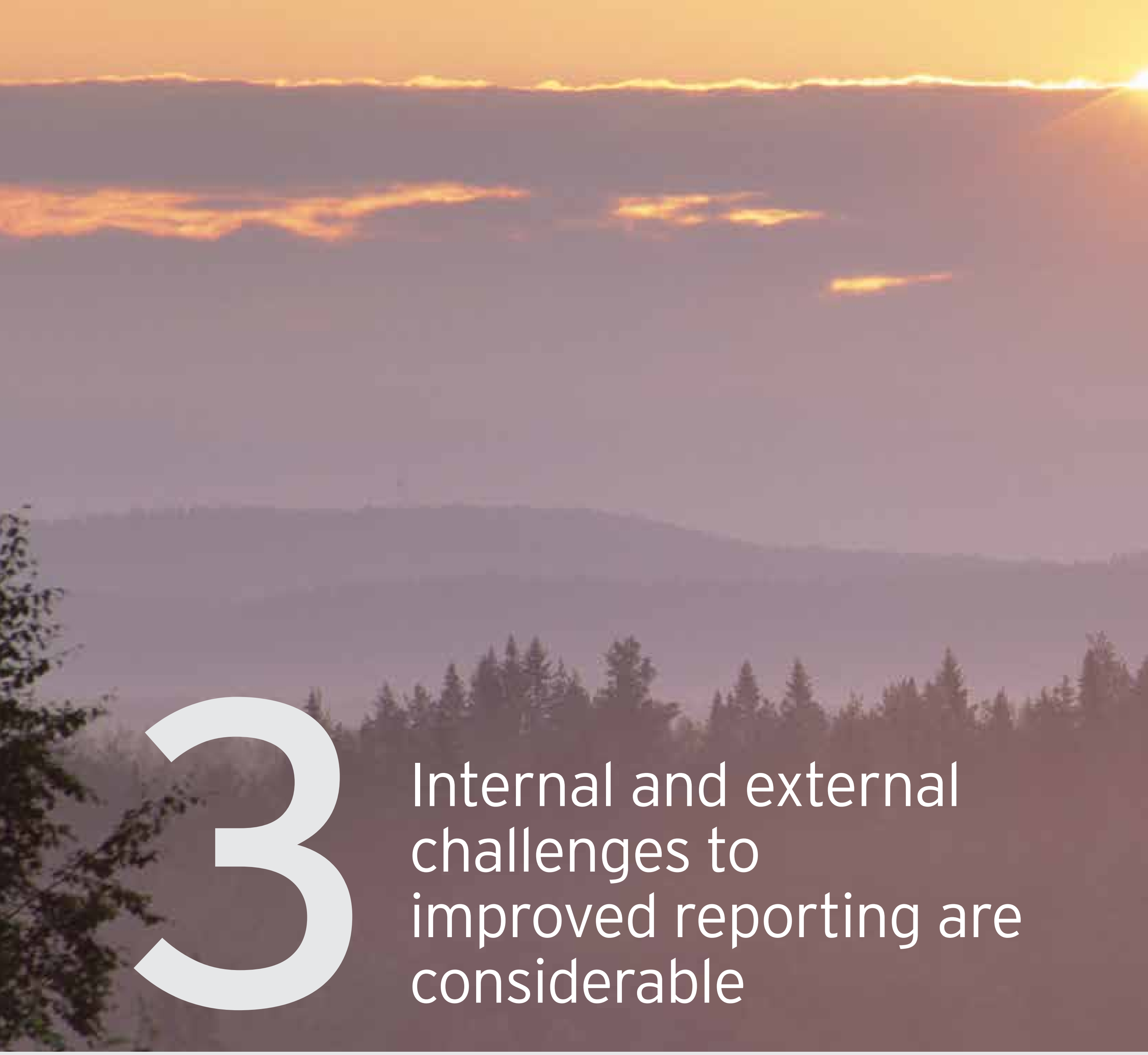
Investors are increasingly looking for more forward-looking, actionable information, including information about strategy, sustainability and how risks are being managed. "External stakeholders are constantly requesting forward-looking information about the business plan," says Jessica Chou, Chief Accounting Officer at the Taiwan Semiconductor Manufacturing Company (TSMC). "The financial reporting is important to our business because, not only is it the basis to earn stakeholders' trust, but also the best way to gauge the operating result against the business plan and provide a basis for assessing the opportunity for further improvement."

This trend mirrors the broader evolution of the finance function. Diederik Bossuyt, Director, Group Controller at Belgacom, notes that, as finance evolves from a controlling, backward-looking function to a more strategic, forward-looking one, the philosophy around reporting will change, too: "As a result of this shift, there is a greater emphasis on leading indicators than there was in the past, when the focus was more on variance analysis."

At the same time, there are also internal demands on reporting. In a more complex and volatile environment, management's need for information, supported by analysis, on which to base their decision-making, is increasing. Three-quarters of respondents say that the management, board and audit committee require much more information and analysis of both financial and non-financial information. "Internal users are always requesting more detailed information, down to the customer and project level," says Shih.

This potentially presents opportunities for synergies. "If investors are interested in this, then in most cases, executive management are going to be interested in it as well," notes Füser. "This highlights the importance of tying together your external and internal reporting processes into a continuum, and ensuring that it is built into the DNA of your organization. By thinking of this information in a similar way, you have a much more effective process to re-purpose information, whether it's for internal consumption, external consumption, your board, management, investors, risk committees or others."

A forward-looking focus requires a much more granular level of data. "We don't just need to know how many products we are selling. We also need to know how many customers we have compared with last month, what their profiles are, how we acquired them and so on," says Bossuyt. "The granularity of the data that we need in order to get to that synthetic layer that enables us to provide insightful, forward-looking information is exponentially higher."



3 Internal and external challenges to improved reporting are considerable

There are substantial challenges to improved reporting. The speed of regulatory change is such that companies find it difficult to keep pace. With limits on resources, companies need to improve reporting efficiency, especially by integrating or upgrading IT systems, strengthening the consistency and availability of data, and optimizing processes. Finding the right talent for reporting functions, beyond the traditional accounting skill set, is also a challenge. Downsizing of the finance function has made it more difficult to have the available resources to improve reporting, according to the majority of respondents.

External challenges include the speed of change

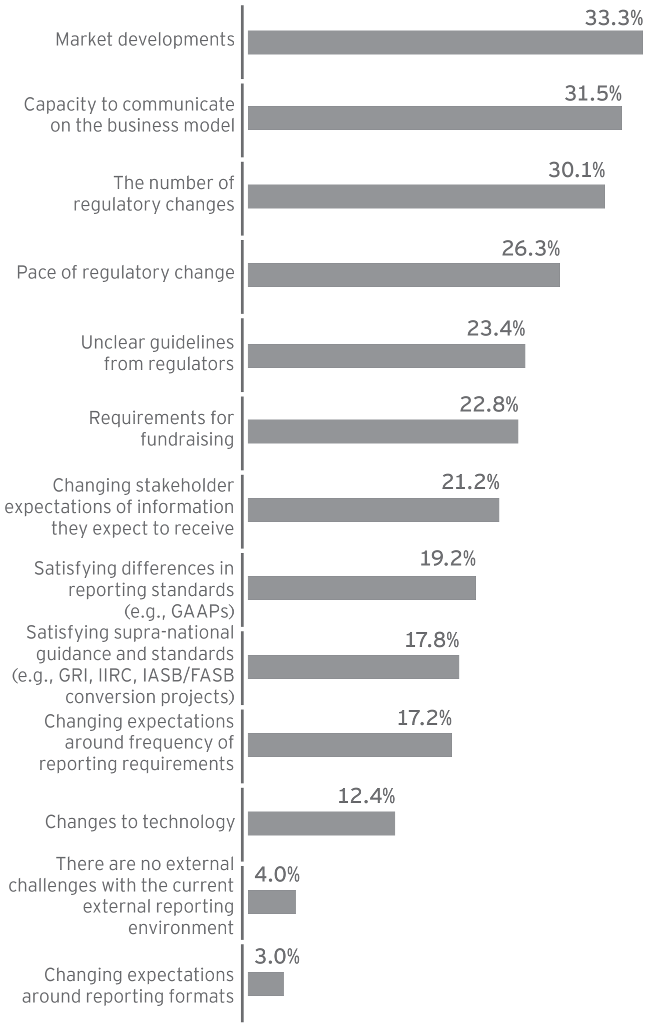
A fluid, dynamic market environment is the number one external reporting challenge, according to respondents. The pace of market change means that it is difficult for the finance function to provide sufficiently rigorous data that is not swiftly out-of-date. "Today, in any kind of business, if you start a budget cycle, already a few months later the conditions may have completely changed, so this raises questions about the very principles of the budget," argues Pellegrino. "Therefore, the key challenge is to have a very frequent update of the information needed to pilot the company."

Companies also say that they find it challenging to develop the capacity to communicate the business model. Schloemer of Bayer explains that this is a vital part of the company's reporting framework. "We need to be able to demonstrate what is attractive about our business to investors," he says. "It is not only our growth story which is important to the investors and their decisions but also about the fact that we have a sustainable long-term business model. You have to transfer this knowledge so that these stakeholders are able to understand our business model, combined with the risks. This is only possible with very transparent reporting."

For complex businesses, presenting the company's activities in an accessible way can be a major challenge. "Particularly for companies with as many moving pieces as ours, it's hard to put into brief snippets, to bring out what's important," explains Stephen Cosgrove, Vice President, Corporate Controller, Chief Accounting Officer at Johnson & Johnson. "It takes a lot of thought and effort, and you have to be very focused on what's happening in the business."

Chart 6

What do you consider to be the main external challenges of the current reporting environment?



Regulatory change poses concerns

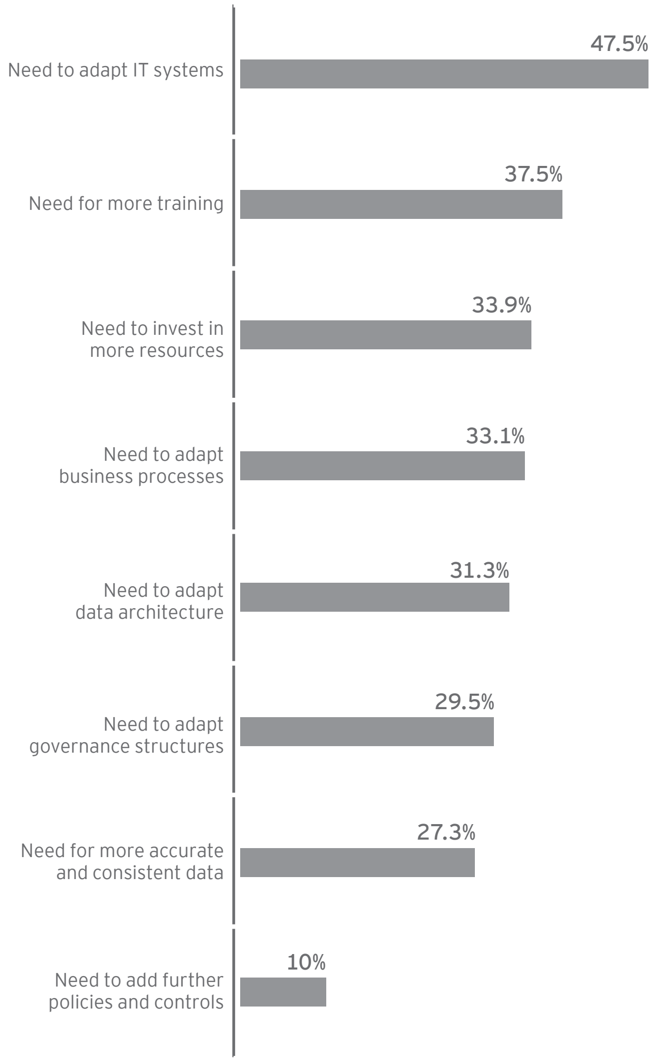
Respondents also point to the number of accounting and financial reporting requirement changes — and the pace of this change — as a key challenge. This forces them to adapt their IT systems, and invest in more training and resources to deal with the compliance challenges. "Over the past few years, we've had a huge rise in the volume of accounting standards that has meant financial reporting has become more complex," says Davies. "Changes in financial instruments, share-based payments, pensions and other accounting standards, have all increased quite dramatically the number of disclosures required."

"Over the past few years, we've had a huge rise in the volume of accounting standards that has meant financial reporting has become more complex."

Andrew Davies, UK&I FAAS Leader, EY

Chart 7

Where has regulatory change in reporting impacted your organization the most?



"We need to be able to demonstrate what is attractive about our business to investors ... not only our growth story but ... that we have a sustainable long-term business model."

Martin Schloemer, Head of Accounting Principles and Polices, Bayer AG

The convergence of accounting standards in recent years has been a huge benefit for multinational companies. "The fact that there's been a convergence of accounting standards has made life easier for us," says Cabal-Revilla. "Before, we used to prepare financial reports based on Philippines reporting, US reporting, Hong Kong GAAP and GAAP in Japan. So we used to prepare four different financial statements."

Moves by national regulators to impose new requirements independently would threaten this progress. "If, at some point, a certain region decided to carve out a new standard, say on leasing, then we will be moving away from global accounting and that concerns us," says Schloemer. "You'd likely then see other regions of the world start to apply a local accounting philosophy for certain issues and that would set us back by 20 to 30 years."

Rather, companies would like to see regulation rationalized to improve efficiency. At present, requirements from different regulatory bodies, even at a national level, frequently lead to repetition in reporting. However, companies are concerned that removing this would risk non-compliance. "Companies tend to duplicate disclosures," says Prat Bhatt, Senior Vice President, Corporate Controller & Chief Accounting Officer at Cisco Systems.

"If you take a 10-K report [US annual financial report], there are a number of opportunities for improvement — duplication being one of them. Companies don't fully optimize the document because they are satisfying the requirements and expectations of two different frameworks: the Financial Accounting Standards Board (FASB) accounting disclosure rules which cover the footnotes to the financial statements and the SEC rules that govern the Management Discussion and Analysis (MD&A). Those are not as integrated as they could be, so companies often times don't want to take the risk to remove that redundancy."

Companies face major internal challenges

The biggest internal challenge is time to produce reports. Companies are clearly struggling to gather and analyze information, and report in a timely way. This is not only because of the sheer volume of information and the need to ensure accuracy and timeliness. It is also because of internal inefficiencies and resource constraints. The complexity of the organizational structure is also a key barrier, as is managing the cost of a highly involved reporting process.

The finance function will need to build new connections to bring together the increasingly diverse information required for reporting. "It's partly about connecting the right competencies within the firm," says Wollmert. "For example, if you would like to include technical information, such as the volume of emissions, then of course you need people from the relevant technical departments to help the financial people to measure these KPIs."

The downsizing of the finance function has added to the challenge. It has made it particularly difficult to keep pace with changes in the regulatory environment. Even where CFOs have been able to keep the same level of resources, the expansion of reporting means they must do far more within those constraints. This means it is vital to search for efficiencies. "I'd like resources to increase. But, quite honestly, the pressures of the business mean we try to do what we can with the resources that we have," says Cosgrove.

Internal and external challenges to improved reporting are considerable

Chart 8
What do you consider to be the main internal challenges associated with corporate reporting?

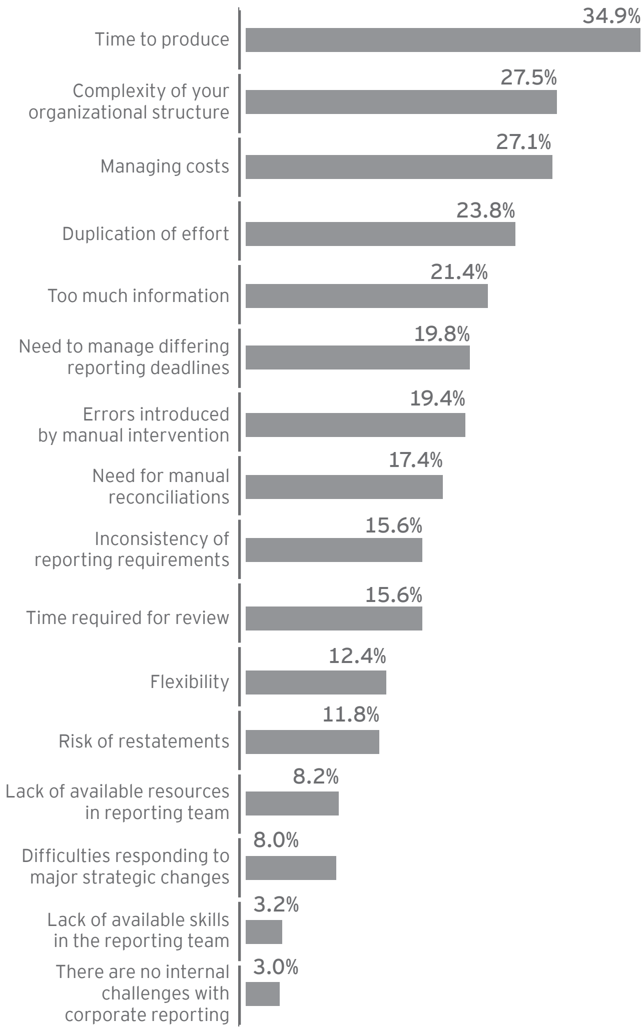
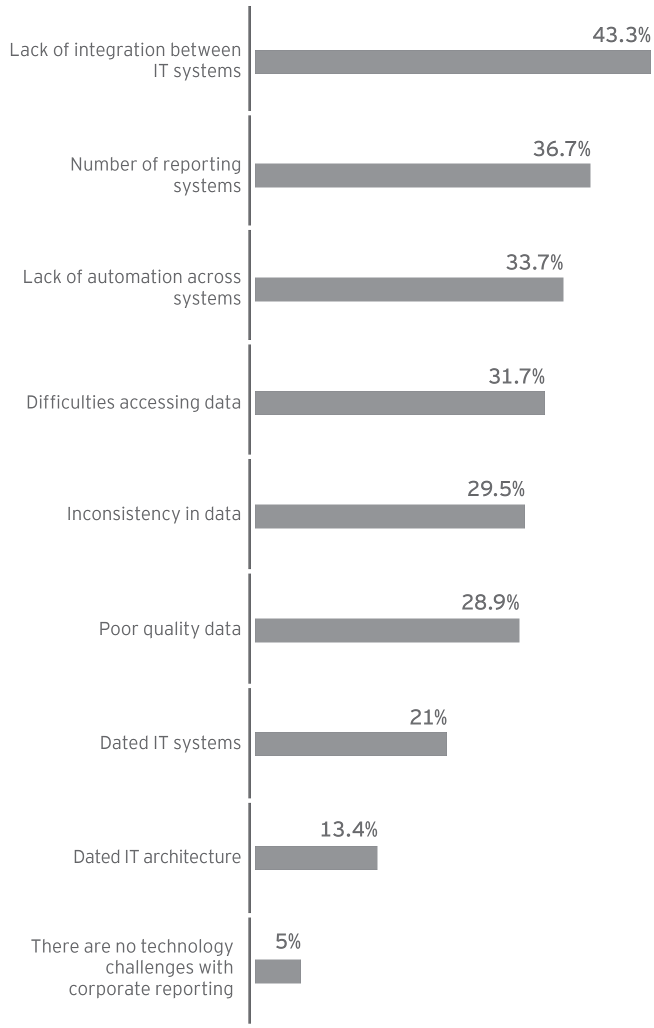


Chart 9
What do you consider to be the main technology challenges associated with corporate reporting?



> "It's partly about connecting the right competencies within the firm. For example, if you would like to include technical information, such as the volume of emissions, then of course you need people from the relevant technical departments to help the financial people to measure these KPIs."

Peter Wollmert, Global and EMEIA FAAS Leader, EY

The lack of integration between systems is not the only technology challenge facing companies. Challenges also include the sheer number of systems that many companies have in place and the variances in data these can produce. "We always have to invest a lot of resources to keep our IT up to date," says Minne. "We try to automate more and more of our information processes and deliveries, and there is more and more IT as a basis for that. We also have to bring in more staff who can work on the different IT optimization projects in reporting."

Talent is a key issue

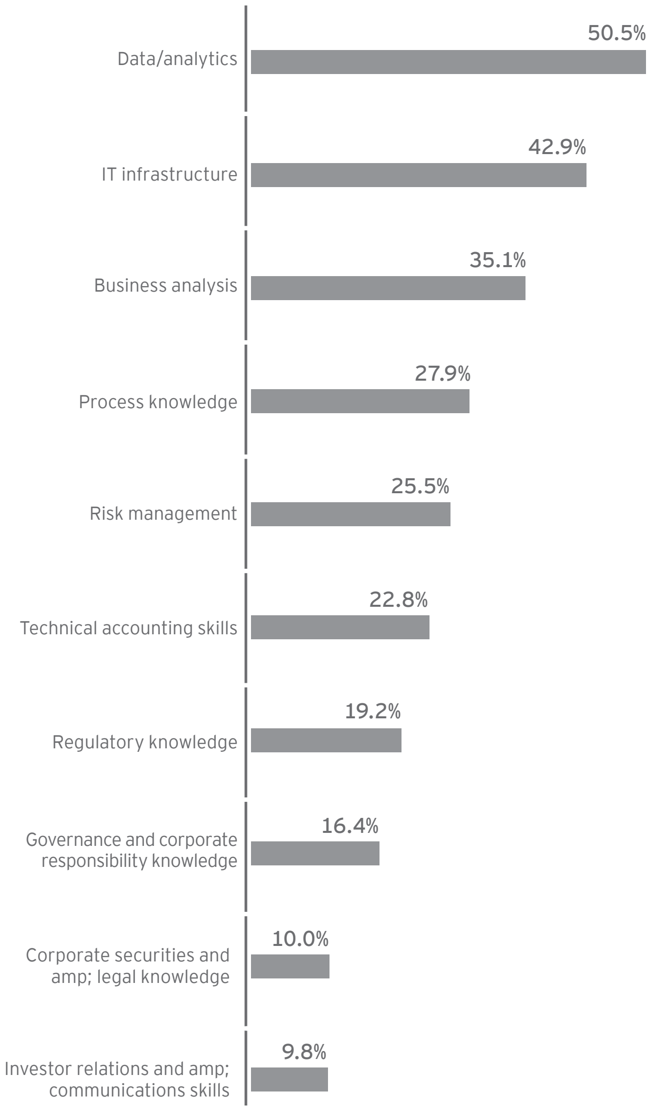
Talent is another major challenge. With reporting pressures increasing, and cost pressures on the finance function remaining intense, companies must find highly talented individuals who can work productively and strengthen reporting processes, while at the same time minimizing costs. More than 60% of survey respondents find it difficult to appoint the right people with the right skills for reporting.

The biggest skills gaps are in data and analytics. But companies also struggle to find people to handle an increasingly complex IT infrastructure, and the need for robust business analysis. "In general, the finance function is moving from a reactive function to a much more strategic, business partnering function," says Bossuyt. "So some skills are totally different. Today, a financial controller needs to have insight into the strategy of the company and the business segments, as well as the soft skills to gather people and bring them to solutions. In addition, new tools and an orientation toward much more specialized data brings new requirements on the technical side."

Bhatt agrees. "A number of years ago, we broadened our approach to external reporting. We were highly compliance-focused, but we wanted our team to have a deeper understanding of the business. So we re-tooled the team to bring in new skill sets, including people who were broader in their business knowledge. They're still financial reporting experts, but they have a deeper understanding of the business. The entire framework in which they're operating, including the integration of a robust Disclosure Committee process, is much broader and much more comprehensive than it was before."

Chart 10

Which of the following skills do you most need to improve your reporting processes?



4 Companies see substantial scope for better reporting

Companies see substantial scope for reporting to improve. They think that their reporting frameworks could be made less complex and time-consuming, and could provide better information. This would also have internal benefits, in terms of greater accuracy, consistency and transparency that, in turn, would lead to better decision-making.

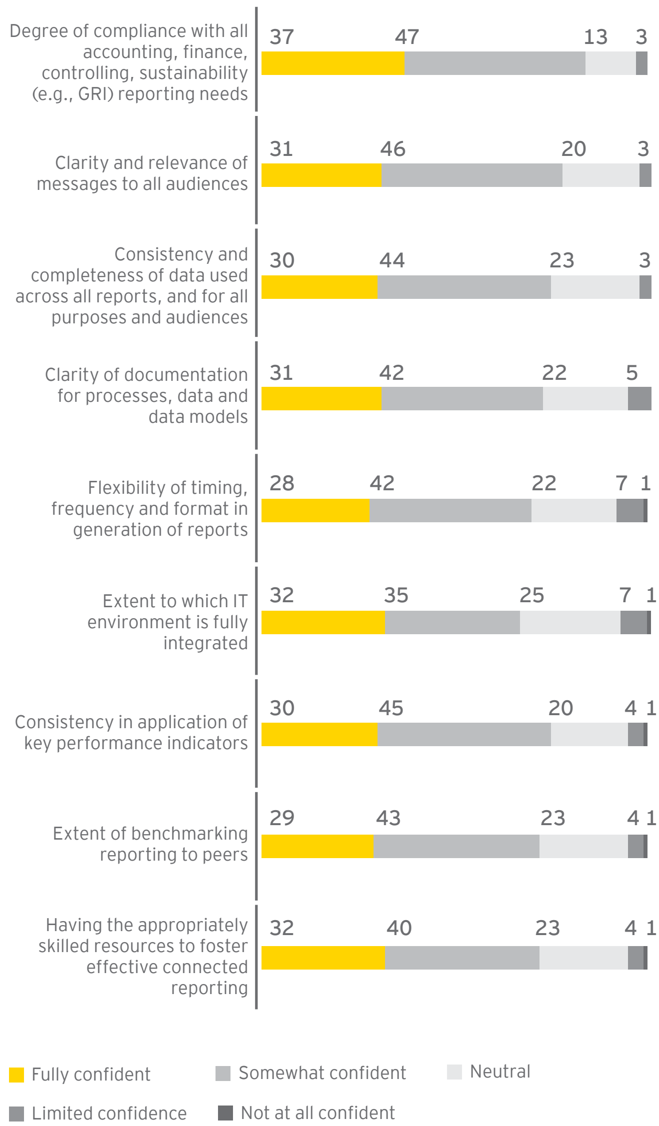
Most companies express fairly high levels of satisfaction with most aspects of their current reporting processes. Generally, they consider the timeliness, cost and level of compliance to be effective. "Most companies are not a disaster. In fact, many are quite good in many areas. But most still have much, much more output and optimization that they could achieve," says Bukspan. "It could be systems. It could be integration of different naming conventions among different divisions, the finish of and choice of KPIs, process issues, cleanliness of data or IT."

There are areas of weakness. Only 30% say that they are fully confident in areas such as consistency and completeness of data, clarity of documentation and consistency in application of KPIs. "The problem many companies face is that a lot of the data they are reporting is outside of the audited financial statements," says Marshall. "Everything else is subject to scrutiny. But often, the scrutiny of that data is not as thorough as one would find in the audited financial statements."

Among respondents, 70% agree that their current reporting framework is too complex and 76% agree that it consumes too much time. "I tend to question whether we publish too many reports," says Ivy Lai, Head of Finance, Greater China at Philips. "I think we are faced with a report overload situation. Internally, we're doing something about it by changing some reports from a monthly basis to a quarterly basis and doing away with others entirely." A similar argument can be made for external reporting. "I think a lot of what needs to happen is a rationalization, integration as well as a reduction of disclosures to make them more meaningful. Much of it is not as necessary with the level of frequency we've come to expect in the US. There could be much more of a prioritization of disclosures based on criticality of the subject matter," argues Bhatt. "At Cisco, we have a very robust disclosure committee process that focuses not only on ensuring compliance but also on how best to provide the most meaningful information to investors and stakeholders that is delivered in a way that is most easily consumed."

Chart 11

What degree of confidence do you have in the following aspects of your reporting?



Improving efficiency

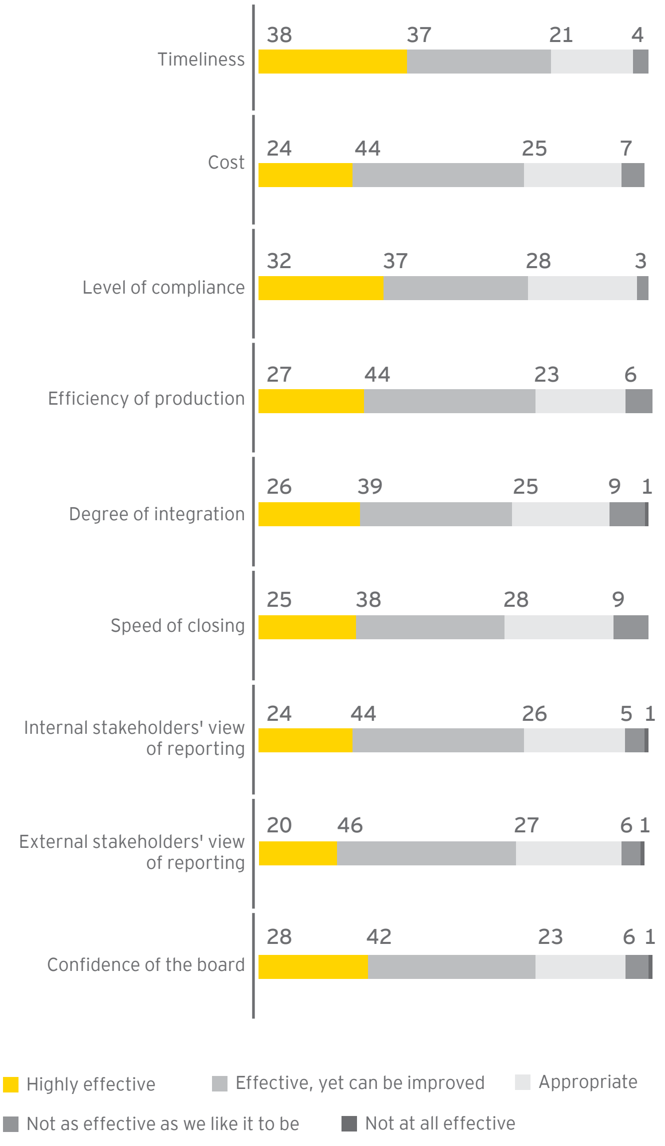
In addition, 78% agree that they could introduce greater efficiencies to the reporting process. Just 27% say that they are highly effective at efficiency of production in corporate reporting, and only 25% are very effective at speed of closing. "It's a continuous improvement process," says Cosgrove. "Each quarter, we sit down and say what worked well and what could be better. We're not making dramatic strides, but we are making incremental improvements each time we do things. We're using technology to help us. We're using simplification to help us. We are doing a lot of benchmarking and learning from others."

Moves to improve efficiency sometimes involve the creation of shared service centers that consolidate reporting. Deutsche Telekom, for example, combined external reporting activity with an internal group and functional reporting within a single shared service center. "This was done especially to realize more efficiency and synergy — because we needed to reduce cost — and also to align external and internal reporting more closely," says Minne.

A key challenge in centralizing reporting is how to bring in the local knowledge that is needed to support the data. Lai explains the issues for Philips. "We set up Financial Planning and Analysis Centers of Expertise (FP&A CoEs) several years ago. These CoEs started generating standardized reports centrally and performing high level analytics. Since then, the CoEs have gained tremendous experience on how to ensure that they stay very close to the businesses, markets and functions they support, to deliver on their requirements. We have also learned it is critical for the Business Partners (BPs) to fully engage, partner and team-up with their dedicated FP&A CoE counterparts. Continued customer dedication by FP&A is critical to ensure insightful and intimate analytical support towards BPs."

Schloemer says that Bayer AG has been through a similar process, moving to a global service center and accounting platform, but with a layer of local resources in each region to deal with more complex, higher-value tasks. "We have tried to generate synergies by creating standardized processes that can be handled in a service center," he explains. "At the same time, you need people located in each region who have broader knowledge and a deeper understanding of the accounting philosophy. So, in this way, we have separated pure process competence, which is handled globally, from knowledge competence, which handles more complex accounting issues within the region."

Chart 12
How would you rate the following aspects of your corporate reporting?



“We have tried to generate synergies by creating standardized processes that can be handled in a service center. At the same time, you need people located in each region who have broader knowledge and a deeper understanding of the accounting philosophy. So, in this way, we have separated pure process competence, which is handled globally, from knowledge competence, which handles more complex accounting issues within the region.”

Martin Schloemer, Head of Accounting Principles and Policies, Bayer AG

Quality of reporting content

In addition to improving the efficiency of the reporting process, 74% of respondents agree that they need to improve the quality of information that they provide to external stakeholders. A key element of this involves moving beyond regulatory compliance. Purely complying with regulators’ requirements does not tend to result in reports that are accessible and useful to other external stakeholders. “A lot of companies are just sticking to the letter of the law and producing everything that the law requires them to do,” says Davies. “They are not sitting back and saying: ‘Are there ways that we can reduce the amount of clutter, to make this more readable, to use simpler English?’ And saying: ‘While still complying with the law, are we making the reporting really useful and understandable?’.”

Companies feel that reporting resources could be better deployed to improve the quality of reporting, rather than focusing so strongly on compliance.“It’s not necessarily the optimal use of resources,” says Bhatt. “The reports are drafted by people who are often operating to manage compliance risk, as opposed to focusing on the end deliverable. If you focus those resources more on the quality of the deliverable, putting it together in a way that’s more comprehensible to users, there’s probably a substitution of resources that you can get to where they are providing more value-add.”

5 Connected reporting would bring a range of benefits

There is a strong aspiration to move toward connected reporting. Companies recognize that this would strengthen the reporting process and the quality of reporting. In turn, this would bring benefits for relationships with investors, connectivity with regulators, decision-making and the reputation of the company. Many find it difficult to implement connected reporting, and will need to make progress in a number of areas for this aspiration to become reality. The most urgent steps needed are to improve the availability, accuracy and consistency of data, and invest in IT infrastructure.

> "Financial reporting is still often seen as a compliance issue, rather than a marketing or reputational issue, when it has the opportunity to be all three."
>
> **Andrew Davies,** UK&I FAAS Leader, EY

Despite a background of increased complexity and the awareness that reporting could be more efficient, many companies have been slow to recognize the wider benefits of improving their reporting. "Financial reporting is still often seen as a compliance issue, rather than a marketing or reputational issue, when it has the opportunity to be all three," says Davies.

However, a growing number of companies recognize not just that they could be more efficient in their reporting, but also that better reporting would have benefits for investor relations and decision-making. Even when companies are interested, though, they are not necessarily devoting enough attention to this issue. "I think the percentage of companies that are trying to use reporting as strategic messaging rather than a compliance exercise is large," says Bukspan. "They really want to do it, but they haven't spent much time on it."

The benefits of connected reporting

Connected reporting offers a solution to the challenges of improving reporting. It enables organizations to meet the increased demand for consistency on financial and non-financial information. By connecting information, companies can improve both the decision-making process and the quality of the decisions they make, and provide a better picture for external stakeholders.

For Bossuyt, the close alignment of external and internal reporting has been an important goal. "External reporting is a very strong help and guiding principle in getting an aligned view internally," he says. "The expectations of external parties are very much driven by their willingness to see an alignment between what you tell them and the overall strategy. The reporting must enable the external stakeholders to see progress in achieving your strategic goals. You need to tell them a story that enables them to envision how the future will look."

Connected reporting also helps companies to address the challenges of consolidation by bridging the gap between the different requirements of internal and external audiences and objectives. By helping to simplify IT structures and automating systems and methods, it reduces complexity. This, in turn, supports the production of consistent data and thus consistent, accurate reporting process and messages. "If you have different reports, the risk is very high that, for certain reporting items, different data sources are used," says Wollmert. "This is not helpful at all. It only makes things more complicated. You get more disciplined if you have one connected report that is organized in a very consistent way and uses the same data sources."

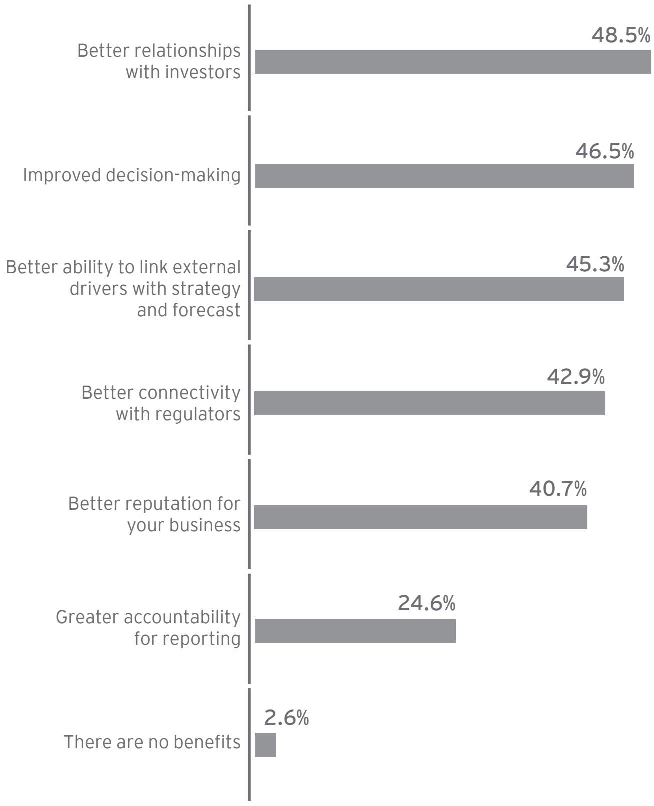
Respondents see considerable benefits in moving to a connected reporting model, with 97% believing there is some benefit to adopting this approach. For example, Badr Jafar, Chief Executive Officer of Crescent Enterprises, says: "The main benefits from connected reporting include: bridging the gap with what stakeholders expect to be reported by providing a basis for us to explain our value-creation process more effectively; providing greater transparency on the resources utilized by our organization; and enabling better communication with stakeholders on our long-term vision and strategy which in turn generates greater trust."

Survey respondents cite the following leading benefits of connected reporting: better relationships with investors, improved decision-making, better ability to link external drivers with strategy and forecast, better connectivity with regulators, and better reputation for their business.

Greater integration of reporting can lead to improved decision-making. This is because the company has a more rounded picture of the factors influencing its strategic choices. "We are moving to a more advanced system, which makes it possible to combine the data in different directions, in a better way than before," says Anders Pehrsson, Vice President, Group Controller at Atlas Copco. "It's mainly driven by internal requirements. We will understand movements in the market in a better way."

Chart 13

What would you consider to be the main benefits of a more connected approach to reporting in your organization?



Moving to connected reporting

Part of the reason for slow progress toward connected reporting, even where the benefits are recognized, is that companies must overcome major obstacles in order to implement it. The most significant of these are improving the availability, accuracy and consistency of data, and investing in updated IT infrastructure. Standardizing business processes is also crucial. Internally, it is important to connect the right competencies within the organization in order to provide all the information needed for connected reporting.

"There are two main steps that companies need to take," says Chiang. "First, processes have to be upgraded — meaning the actual flow of the information, how it gets captured, how it gets transformed, and how to push output deliverables. Second, overlay the IT system, because you want to automate as much of the capturing, accumulation, transformation and generation as possible."

The investment required will be worthwhile. It will generate considerable efficiency savings over time, and will make the company well-placed to respond effectively to future changes in reporting requirements. "There are solutions, but you need to get the money set aside within the company to invest in them," says Chiang. "And you want to get not just a minimally sufficient system in place, but a good one that is sustainable for future needs — not just known needs, but also unanticipated needs. If you make the right investment upfront, which is more sustainable from a 10-year perspective, you're saving a lot of time, money and people-cost."

This also requires a change of culture. Companies need to be more strategic about their reporting, and decision-makers and other internal stakeholders need to buy in to that approach. "The biggest thing is the change in mindset," says Chiang. "People need to acknowledge that the world is changing. Requirements in terms of speed and depth of reporting are evolving, and we have to adapt."

Jafar explains what this adaptation requires internally. "As with all such strategic initiatives, the first and foremost challenge is one of education. The process involves developing the mindset of not only senior management but everyone within the organization. In effect, there needs to be a paradigm shift in the organizational culture to adopt and embrace this change holistically which doesn't happen overnight and, which we are working towards achieving."

> "People need to acknowledge that the world is changing. Requirements in terms of speed and depth of reporting are evolving, and we have to adapt."

Joon Arn Chiang, Asia-Pacific FAAS Leader, EY

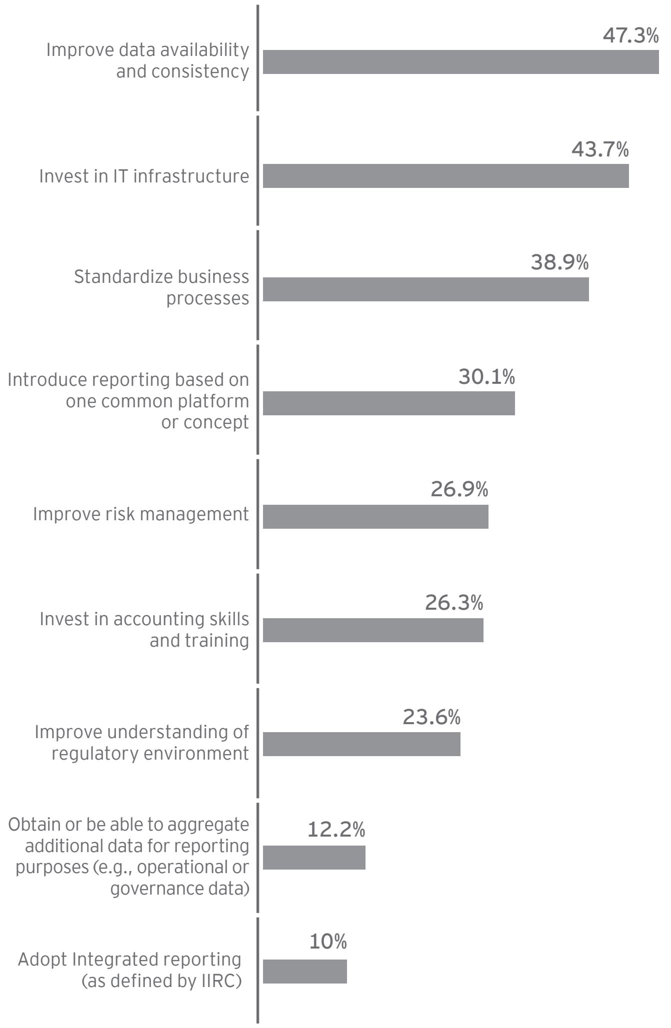
Ultimately, reporting should be seen in the context of how it can contribute to realizing the organization's strategic priorities. Wollmert explains: "Companies have a strategic perspective, and they need to analyze what that means for their reporting. This is often not done. So my recommendation would be that companies look in a more strategic way at how they would like to develop their reporting."

> "The main benefits from connected reporting include: bridging the gap with what stakeholders expect to be reported by providing a basis for us to explain our value-creation process more effectively; providing greater transparency on the resources utilized by our organization; and enabling better communication with stakeholders on our long-term vision and strategy which in turn generates greater trust."

Badr Jafar, Chief Executive, Crescent Enterprises

Chart 14

Which of the following steps would your organization need to take most urgently in order to achieve a more connected reporting framework?



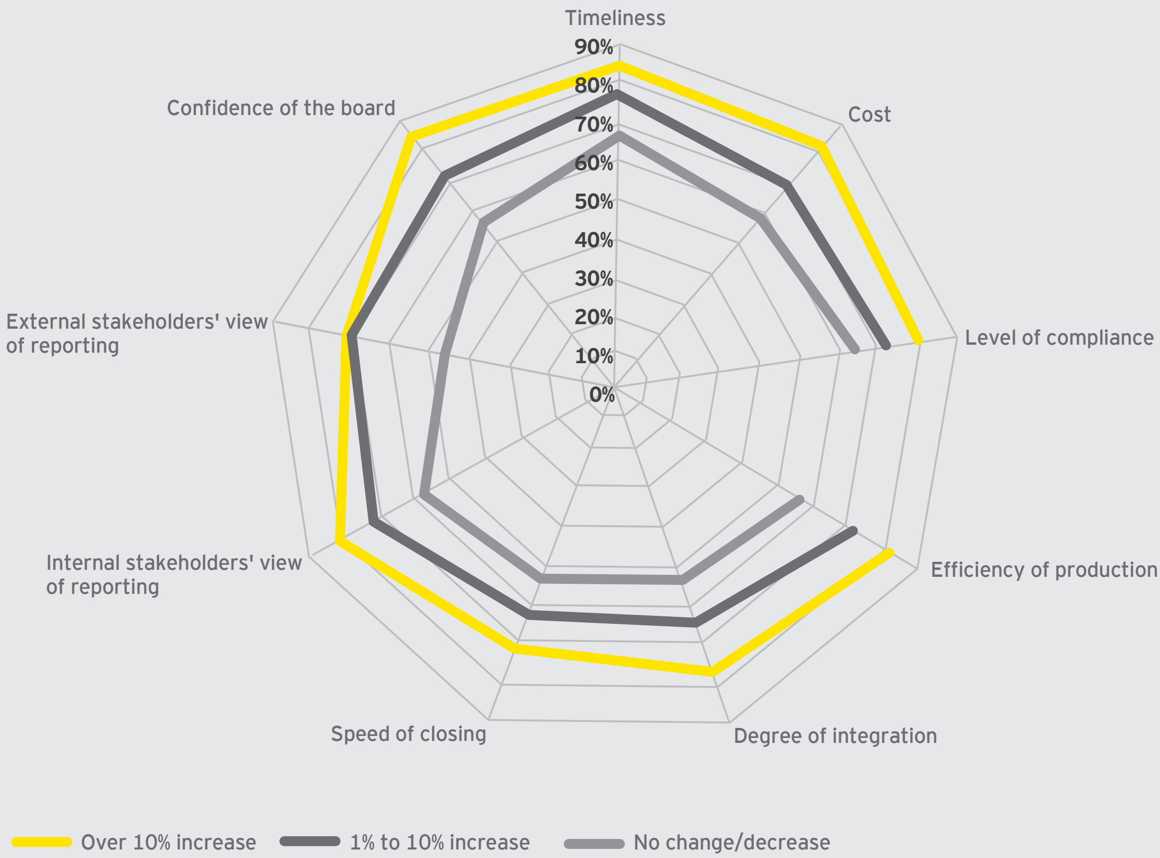
High-growth companies

We compared companies that have seen EBITDA growth of greater than 10% over the past 12 months with other companies in the survey. Rapid growth forces high-growth companies to focus on efficiency of reporting. But they still need to improve further.

Higher growth brings greater complexity, both operationally (increase in the number of legal entities or business units, jurisdictions, products and services sold), and in reporting (number of reporting standards, reports issued, time taken for reporting). Faced with these challenges, high-growth companies have gone further on efficiency of reporting. They say they are more effective in areas including timeliness, cost, level of compliance, efficiency of production, degree of integration, and speed of closing than their slower-growing peers.

But they recognize that they need to do more. High-growth companies say that their current framework is too complex and time-consuming, and that they need to improve their efficiency levels further. The challenges for high-growth companies when they seek to improve reporting, center on data, analytics and IT systems. They admit they need to improve their data and analytics. And they perceive the challenges to be a lack of integration between IT systems, the number of reporting systems, and a lack of automation across systems.

Chart 15
Infographics for high-growth companies versus others on effectiveness of reporting and the need to improve efficiency



6 Conclusion

Corporate reporting is always changing. Changes are driven by the ever-complex global business environment; the increase in data; the frequency of reporting; the type and depth of information required; new reporting regulations; and the evolving purpose and need for the information. Internal and external drivers, which affect each other, are making reporting more complex and subject to revision and change.

To be successful, efficient and effective in their reporting, companies have a number of key priorities:

- Introduce connected corporate reporting to allow the provision of robust, consistent and timely data beyond the statutory financial report.
- Report in a manner that is well connected to strategic messaging, ensuring that internal and external communications are aligned, and that the delivery is effective, impactful and actionable.
- Given the complexity and volatility of the reporting environment, and the demands that places on the finance function, make the process as efficient and cost-effective as possible.

All of this requires companies to take a broader, long-term view of their reporting, in the context of the strategic priorities of the firm, rather than just focus on compliance. This is likely to require investment in improved data analytics and IT infrastructure, optimization of business processes and executive focus.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EYG no. AU2818

EMEIA Marketing Agency
1001598

ED None

ey.com

For more information, please contact:

Global and Europe, Middle East, India and Africa

Peter Wollmert
Financial Accounting Advisory Services (FAAS) Leader
Stuttgart, Germany
peter.wollmert@de.ey.com
+49 711 9881 15532

Karsten Füser
Financial Accounting Advisory Services (FAAS) Markets Leader
Stuttgart, Germany
karsten.fueser@de.ey.com
+49 711 9881 14497

Americas

Kenneth Marshall
Financial Accounting Advisory Services (FAAS) Leader
kenneth.marshall@ey.com
+1 212 773 2279

Asia-Pacific

Joon Arn Chiang
Financial Accounting Advisory Services (FAAS) Leader
joon-arn.chiang@sg.ey.com
+65 6309 6997

Japan

Tomohiro Miyagawa
Financial Accounting Advisory Services (FAAS) Leader
miyagawa-tmhr@shinnihon.or.jp
+81 3 3503 1166