

How can reporting catch up with an accelerating world?

Applying innovative
technologies and new operating
models to deliver a new age of
responsive reporting

October 2016



The better the question. The better the answer.
The better the world works.

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal bar is positioned above the 'Y'.

Building a better
working world

About the research

Our research surveyed 1,000 CFOs or financial controllers (FCs) of large organizations to understand the challenges they face in corporate reporting. Forty-nine percent of the organizations were in excess of US\$5 billion a year in revenues, with 12% in excess of US\$20 billion. The research was conducted by Longitude Research on behalf of the EY Global Financial Accounting Advisory Services (FAAS) group.

Over half of the respondents (59%) were drawn from the CFO community, with 30% being Group CFO, alongside divisional and regional CFOs. The remaining 41% were Group, divisional or regional financial controllers. Respondents were split across the Americas; Asia-Pacific; Europe, Middle East, India and Africa (EMEIA); and Japan, and covered 13 main industry sectors. In this report, we compare this latest data with the research we conducted in 2015. The 2015 data was weighted to balance the sample across the survey and, in order to allow a fair and direct comparison, the same weights were applied to the 2016 data.

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

Erich Ammann

CFO and Member of the Group Executive Committee, Schindler Group

Thierry Chaumont

Senior Vice-President and Controller, Bell Canada

Richard Dinkel

Controller and Chief Accounting Officer, Koch Industries

Ron Kapusta

Chief Accounting Officer and Controller, Johnson & Johnson

Areb Kurdi

Group Financial Controller, Hikma Pharmaceuticals Group

Siddharth Mittal

President Finance and Chief Financial Officer, Biocon

Lars Sandström

Senior Vice President Group Reporting, Tax and Control, Volvo Group

Kumudu De Silva

Head of Group Financial Reporting, Dialog Axiata PLC

Walter Xue

Chief Financial Officer, United Family Healthcare

Joon Arn Chiang

Asia-Pacific FAAS Leader, EY

Kieren Cummings

Asia-Pacific Financial Services FAAS Leader, EY

Karsten Füsler

Global and EMEIA FAAS Markets Leader, EY

Kenneth Marshall

Americas FAAS Leader, EY

Nadeem Shafi

MENA FAAS Leader, EY

Shuji Suto

Japan FAAS Leader, EY

Peter Wollmert

Global and EMEIA FAAS Leader, EY

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





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Figure 1

The path to responsive reporting

Innovative technologies and data analytics

Upgrading IT and data analytics top of the reporting agenda

No.1

“Upgrading IT and financial data analytics tools” is the number one priority in corporate reporting for finance leaders worldwide



Legacy IT puts brake on operating model change

50%

of finance leaders worldwide say the complexity and cost of tackling the legacy IT environment is the main challenge to operating model change



Financial controllers focus on operating model transformation

55%

of Group financial controllers (FCs) say that transformation of the corporate reporting operating model to drive reporting excellence is a major focus for their role



A more nimble and centralized operating model

Centers of excellence for reporting business-as-usual for large companies

51%

of large companies over US\$10b annual revenue use centers of excellence for reporting today



Outsourcing on the rise

67%

of Group CFOs expect to see an increase in the use of outsourcing arrangements to support corporate reporting over the next two years



Americas to pioneer leading-edge blockchain technologies for reporting

One in five

reporting leaders in the Americas expect to invest in tools to leverage blockchain innovations





Foreword



In today's fast-moving world of corporate reporting, speed of reaction is everything. Not only is the volume of data increasing, but also the velocity. Reporting teams are expected to deliver – with speed – data-driven, forward-looking insight of the highest quality and accuracy. The regulatory environment never seems to stand still. And the role of the chief finance officer (CFO) is changing fast to keep up with finance leaders embracing new strategic and operational areas in addition to their core finance and reporting responsibilities.

In our earlier studies – in 2014 and 2015 – we examined many of these issues, looking at how organizations are responding to the need for connected reporting and the growing expectations of stakeholders, from regulators to supervisory boards¹. In this latest survey, involving 1,000 finance leaders around the world, we turn our attention to how leading organizations are transforming how reporting is delivered. In particular, how corporate reporting can become more responsive – able to quickly pivot and respond to this fast-changing reporting environment.

For many reporting organizations, agility and speed of response are a challenge. Fragmented technology makes it hard to harvest and analyze large data sets. Cumbersome reporting processes result in slow reaction times. Reporting teams around the world may duplicate effort, taking up precious time that should be devoted to generating forward-looking insight.

How, therefore, can finance leaders plot a path to a more responsive corporate reporting capability? In our view, there are two imperatives. The first is to create forward-looking insight through sophisticated data analytics and new quantitative methods such as the use of machine learning to interrogate data sets. The second is to reimagine and streamline the operating model for corporate reporting, making strategic use of arrangements from centers of excellence to outsourcing, and preparing for a future where Artificial Intelligence and robots will replace humans in reporting's back office, allowing smaller teams of highly qualified reporting professionals to focus on the needs of their stakeholders and deliver responsive, real-time reporting.

Corporate reporting is the foundational capability of the finance function. And, in our view, reporting will look very different in the future – smarter, highly automated and digitized, more streamlined, and increasingly forward-looking. By focusing on innovative technologies, and a more flexible and nimble operating model, CFOs and reporting leaders can design and deliver the responsive reporting capability required for a world that will continue to accelerate.

Peter Wollmert
Global and EMEIA FAAS Leader, EY

¹ *Connected reporting: Responding to complexity and rising stakeholder demands*, EY, 2014; *Are you prepared for corporate reporting's perfect storm? Why trusted relationships, innovative technology and world-class talent matter*, EY, 2015.

Figure 2

Feeling the strain: heightened complexity, increasing demand and fast-changing technology a perennial issue for reporting

Heightened complexity

2016 vs. 2015

More organizations today say they have 16 or more legal entities, business units, and reporting systems than was the case in our 2015 research

Increasing stakeholder demands for reporting information

64%

of Group CFOs report an increase in the number of financial reports issued



Fast pace of technology change the major external reporting challenge

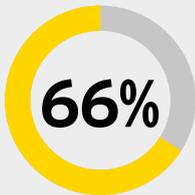
No.1

'Changes to technology' is the number one challenge to today's external reporting environment across the Americas, Asia-Pacific, the Middle East and Japan

Reporting effectiveness increasingly challenged in 2016 compared to our 2015

research: Accelerating pace of data and complexity compromising the effectiveness of reporting

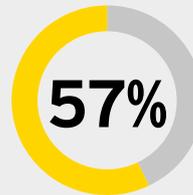
2016



of respondents worldwide say the increasing volume and pace of big data is having a significant impact on the effectiveness of reporting



2015



68%

say the complexity of the regulatory environment is having a significant impact on the effectiveness of reporting



57%

Executive summary

This report examines how forward-thinking organizations are overhauling their technology and data tools – and their operating model and processes – to prepare reporting for a more responsive future.

Going beyond reporting the data: why sophisticated data analytics is key to driving reporting insight

Many reporting teams do not have the information systems and data tools they need to extract forward-looking insights from large, fast-changing and wide-ranging data sets. Leading organizations are looking to make the right investment decisions in more agile technologies, addressing their technology and data analytics skills gaps, and actively exploring the future of reporting technology, including blockchain, artificial intelligence (AI) and robotic process automation.

Fine-tuning the reporting engine: why the reporting operating model is ripe for redesign

Many reporting teams are not set up to meet their stakeholders' needs for real-time information, delivered at speed and with no errors. Delivery challenges – from fragmented processes to time-consuming manual workarounds – are slowing their response. Leading organizations are making increased use of more streamlined and centralized operating model arrangements, from centers of excellence (CoEs) to shared service centers (SSCs); pursuing greater agility and tackling complexity; and driving process excellence and harmonization.

The art of the possible: overcoming the IT and organizational barriers that stand in the way of more responsive reporting

Reporting leaders will need to manage a range of significant challenges as they plot their path to more responsive reporting. They will need to tackle the complex legacy IT environment, using innovative new technologies – such as robotics – to find agile answers to systems and data fragmentation, and make use of the flexibility offered by cloud and software-as-a-service (SaaS). They should strike a balance between central control and local needs and regulatory requirements, ensuring they engage key local stakeholders in the transformation process and building the pool of finance business partners.

Strategy and vision, technology and data, and talent will be key to a new future for reporting

Three areas are critical to creating a more responsive delivery model for reporting – strategy and vision, technology and data, and people. First, organizations should define a bold strategy and vision for the future operating model for reporting. Second, they should create a future-proofed technology and data strategy for reporting that exploits the potential of innovative technologies and data analytics tools. Third, they should build skills and capability in critical new areas, from predictive analytics to the intersection of AI and reporting.



1 Going beyond reporting the data: why sophisticated data analytics is key to driving reporting insight

The expectations on corporate reporting are changing as the volume and velocity of data increases and stakeholders increasingly expect higher levels of technology sophistication from business functions.

Fast-changing technology landscape a major issue in emerging markets

“Changes to technology” is the number one external challenge for both developed and emerging market respondents in our survey, but is particularly keenly felt in emerging markets. Over a third of respondents (35%) in emerging markets said it is a challenge. The importance of the technology landscape to emerging market respondents could reflect the fact that many companies in this segment while not burdened by the legacy systems of their developed market peers continue looking to drive strategic and operational advantage through their ability to stay ahead of technology changes and quickly exploit innovative new developments.

Reporting teams are no longer just seen as the stewards of reporting data – they are seen as the analyzers of data, able to extract forward-looking insight from large, fast-changing and wide-ranging data sets. They are expected to deliver advanced and predictive analytics, delivering granular reporting information more quickly, with more insight and with no room for error. At the same time, they must also protect and secure that data, as the regulatory and reputational cost of data breaches is a significant risk.

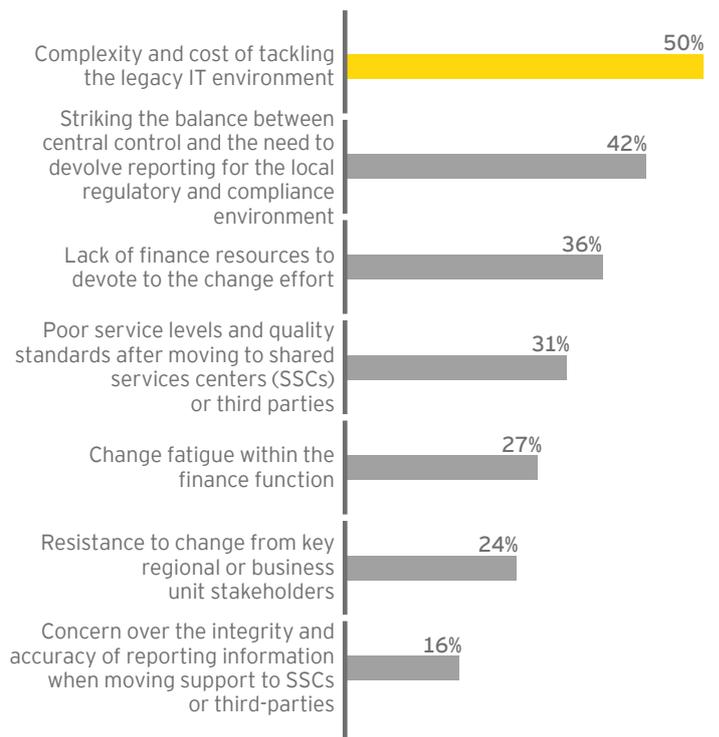
For Peter Wollmert, Global and EMEA FAAS Leader, EY, finance leaders face an increasingly disrupted environment and should prepare themselves now for what the future holds. “All firms are struggling with increasing automation, the advent of smart, connected devices and Industry 4.0, and the need to utilize new technologies and harmonize systems,” he says. “We have increasing complexity on the table and the need to be compliant with the tax and regulatory environment. Social media is creating new levels of transparency. And, at the same time, the pressure on costs has not gone away. CFOs should think through these trends and the implications for reporting and accounting. They should get much more prepared for Industry 4.0 and all of these disruptions.”

The impact of fast-changing technology is echoed in our research. When we asked respondents to identify the major external challenge to corporate reporting – ranging from “the pace of regulatory change” to “satisfying differences in reporting standards” – they actually identified “changes to technology” as the number one challenge they faced.

Chart 1

IT challenges are the main brake on operating model change

Question: What are the main challenges of transforming the operating model for corporate reporting?



When we look deeper at the specific technology challenges that organizations face, we find teams struggling with systems that do not talk to each other, lack of automation, and reporting systems proliferation (see “Top technology challenges in reporting”).

Nadeem Shafi, MENA FAAS Leader, EY, points out that the changing regulatory environment has contributed to systems complexity, as firms introduced manual workarounds to deal with the latest regulatory requirement. “On average, systems have been implemented some years ago,” he says. “There have been a lot of ad hoc add-ons to take care of increased reporting requirements. Also, with the increased demands for more data and more insights from organizations, there has been a lot of workarounds. Organizations need to get smarter – using advanced data analytic techniques and getting more out of their platforms – without spending too much on new systems.”

To address this gap between the tools that reporting teams have at their disposal, and the innovative technology they need, three areas are key:

1. Investing in more agile technologies, such as cloud-based enterprise resource planning (ERP), which can help increase integration and automation without the need for complex rationalization of on-premise systems
2. Finding and building the technology and data analytics skills necessary to exploit the potential of innovative IT
3. Exploring the future of reporting technology, including blockchain, robotic process automation and AI, exploiting the ability of new technologies to pull data from disparate systems

Top technology challenges in reporting

1	Lack of integration between IT systems (34%)	=4	Ensuring cross-border data meets security and privacy laws (28%)
2	Lack of automation across systems (30%)	=5	Dated IT architecture (25%)
3	Number of reporting systems (29%)	=5	Dated IT systems (25%)
=4	Inconsistency in data (28%)	6	Poor quality data (22%)

Question: What are the main challenges of transforming the operating model for corporate reporting?

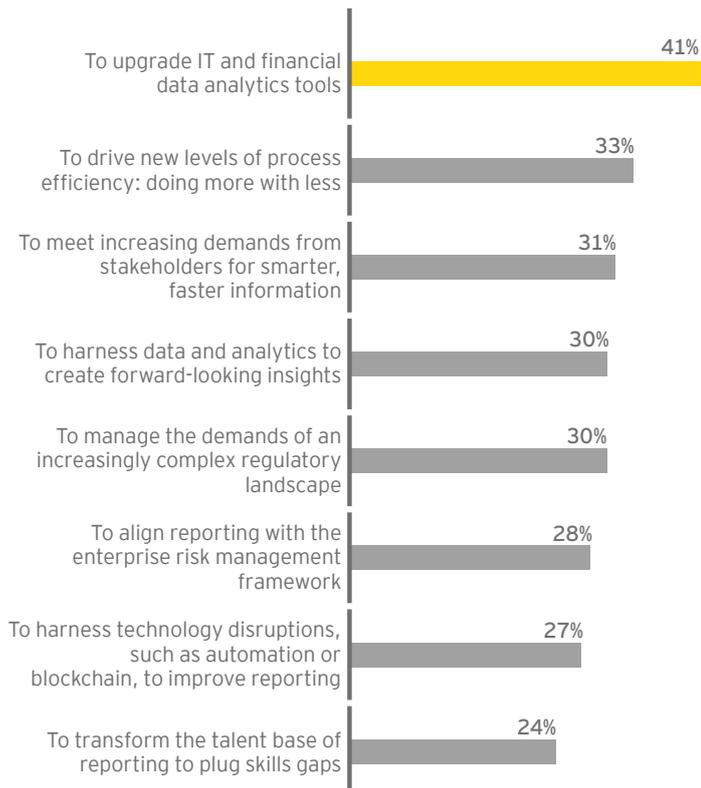
1. Investing in more agile technologies

According to respondents, updating IT and financial data analytics tools is the stand-out priority in corporate reporting, outweighing other factors such as the need to drive further efficiencies or the need to align reporting with enterprise risk (see chart 2).

Chart 2

Systems and data tools are the critical corporate reporting priority

Question: Which of the following do you consider to be your main priorities from a corporate reporting perspective?



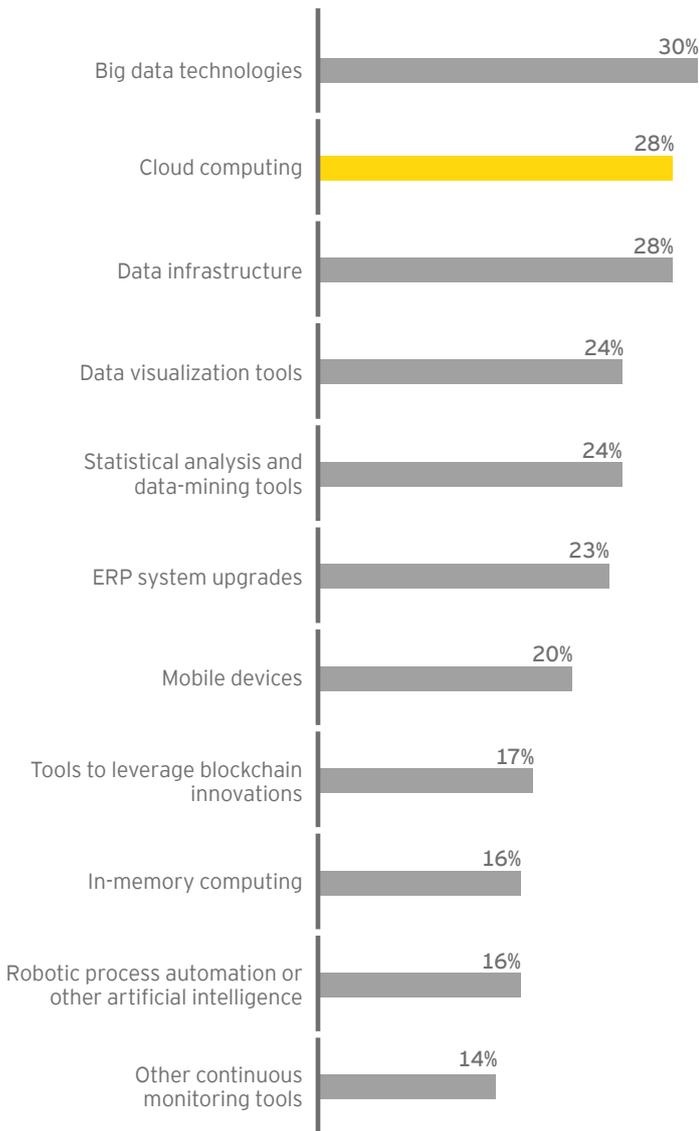
The importance placed on systems and data tools is reflected in investment patterns, with 84% of organizations worldwide expecting to increase investment in reporting technologies over the next two years. Close to a third (29%) expect significant investment increases of more than 10%, which is a slight slowdown on last year's research, where 33% of organizations fell into this high investment bracket. This perhaps reflects uncertainty over the macro-economic environment.

As chart 3 shows, agile technologies – in particular the cloud – are considered to be a major focus area. Cloud technologies can allow organizations to respond more quickly and smartly to their technology requirements and changing business needs. Using cloud-based technologies, for example, means that reporting teams only pay for what they need, and can increase or decrease the number of applications they use. Cloud-based ERP can counter the need for highly complex and time-consuming rationalization of on-premise ERP, and allow different teams to access a single source of data. If the organization makes an acquisition, the new business can be integrated quickly into the cloud ERP system.

Chart 3

Focus on agile technologies

Question: Which of the following tools and technologies do you expect to prioritize as part of that investment increase?



Karsten Fuser, Global and EMEA FAAS Markets Leader, EY, believes that agile and innovative technologies will be critical to driving insight from data. “As cost pressures continue, organizations should be looking at smart investments: intelligent data capturing and interfaces, cloud technologies, and AI for the analysis of the data,” he says. “For finance leaders, analytics is the refinery of the business and data is the oil, but many lack the underlying competencies or even capacity. They should consider investing now in technology and analytics and focus more on predictive analytics.”

For Lars Sandström, Senior Vice President Group Reporting, Tax and Control, Volvo Group, it is critical that his team actively investigate and debate the breaking technologies that could allow them to get more out of existing systems. “It would be much easier if we were a start-up, of course, but we don’t have that luxury. We have the systems we have, and have to plan how to transform within our systems environment. We have a constant dialogue on that. We have meetings where we go through the systems map, to look at what we have today and what the future looks like. What kinds of tools and opportunities do we see, and what are the requirements when it comes to the world of accounting, reporting, and business control? We have to work on that: trying to look into the future and decide our investment plans.”

While cloud technologies are an attractive proposition for driving agility, reporting leaders should be mindful of the key risks that need to be managed, including the need to check that cloud-based systems provide data security and are compliant with different regulatory regimes.

2. Data analytics skills are at a premium

Reporting leaders need people with the requisite skills to master the new technologies that are driving reporting innovation and analytics. But as chart 4 shows, technology and data-related skills are at a premium in the reporting function, with IT infrastructure skills the most in-demand requirement. And there is intense competition for the best people.

Building technology and data skills at Koch Industries

At Koch Industries, one of the most renowned privately owned companies in the US, Richard Dinkel, Controller and Chief Accounting Officer, outlines how the finance organization uses secondments to build that rare combination of IT and finance skills.

“It’s one thing to have technical skills but you have to marry the technical skills up with somebody that’s got a finance and accounting perspective,” he says. “The people that are really effective at this are the people that have a really good blend of information technology skills and accounting skills. We really encourage our accounting and finance people to take a track through the information technology group, and that creates a really powerful skillset.”

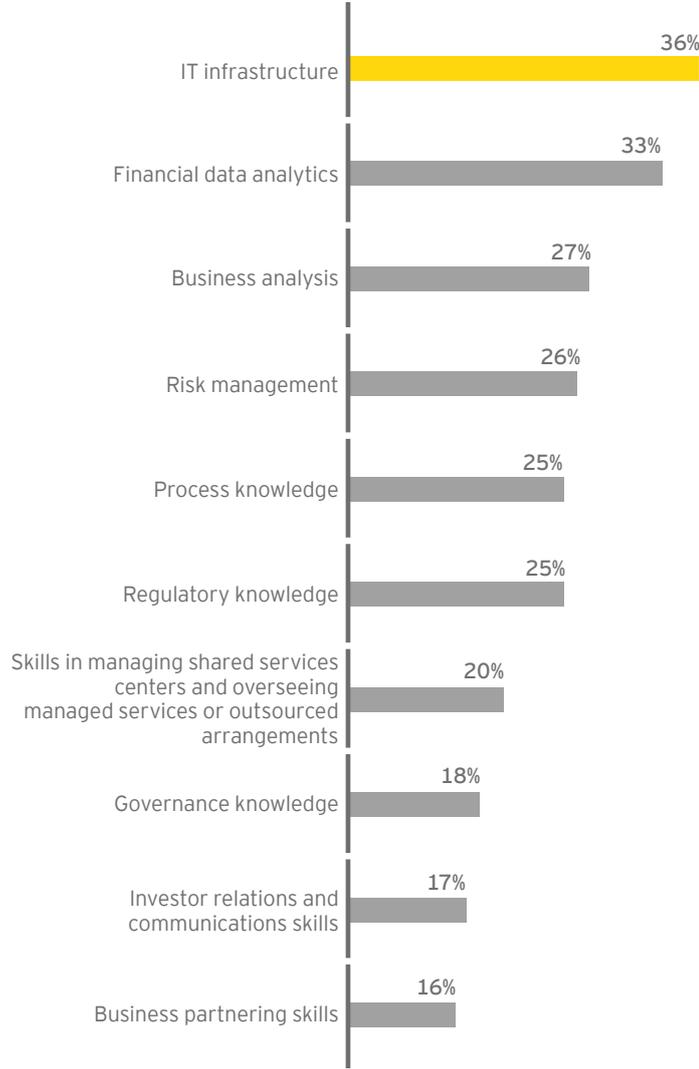
And to build data skills in reporting, the company encourages data analysts to rotate through finance, so that learning is transferred. “It’s hard for people to learn how to fish unless somebody shows them how to fish,” says Richard Dinkel. “We are starting to experiment more with bringing in data scientists and trying to strategically place those people throughout our company, including in the finance areas. This is to help our people to see what analytics can do, how it can bring value, and how they can start building their own competencies in that area.”

At the same time as competition for the best people intensifies, the talent pipeline into finance and corporate reporting is being disrupted by the increased use of arrangements such as shared services centers (SSCs) and outsourcing. In our research, 52% of finance leaders worldwide said that “the increasing use of shared services centers, managed services and outsourcing will disrupt the future talent pipeline of finance leaders in the business.” Finance functions traditionally have access to a pool of finance graduates who are hired into transactional processing roles before rising through the ranks. But, as organizations move activities into arrangements such as SSCs, that traditional pipeline is diminished.

Chart 4

The tech-savvy reporting professional

Question: Which of the following skills are you prioritizing to improve your reporting processes?



To address these issues, reporting leaders should take a strategic look at the talent they will need to drive reporting agility and extract value from technology, not just in the immediate term, but also over the next few years. For Areb Kurdi, Group Financial Controller at Hikma Pharmaceuticals Group in Jordan, this means striking a balance between hiring in fresh blood from outside and developing existing team-members. "It's really a balance of both," he says. "You cannot hire everyone from outside, because you have to develop your people. At the same time, you cannot depend solely on your people. You have to bring some knowledge from outside that will engage your people and accelerate their knowledge."

For Siddharth Mittal, President Finance and Chief Financial Officer of Biocon in India, this also means finding finance people who do not just produce data, but also deliver insights for those who will consume the data. "Unless you know how to use that data in decision making, the data or the report itself could be redundant," he says. "As a CFO I can have my analytics team go on a wild goose chase and give me 20 reports, but I really need to know how I am going to use those reports before I create all that data. Today, analytic tools are becoming very powerful, but people still don't know what to do with the data."

3. Exploring the future of reporting: blockchain, AI and robotic process automation

As traditional reporting back-office tasks are automated, the need for large numbers of full-time employees is likely to disappear. Instead, in the next-generation of reporting back-offices, robots will replace humans, with reporting professionals focused on sophisticated, predictive analytics and managing their stakeholder relationships.

Kieren Cummings, Asia-Pacific Financial Services FAAS Leader, EY, says that many organizations in the region – particularly large ones – are investigating robotics, with outsourcing suppliers forced to confront the impact of robots on their business model. "There are a number of robotic systems that mean just about anything that is standardized and is capable of being put into a set of procedural steps can be robotized," he says. "That's driven either by organizations onshore or by offshore partners who are being challenged to move down this path."

As we saw in chart 3 (page 10), pioneering reporting leaders are expecting to make investments in a range of leading-edge technologies:

- ▶ 16% expect to invest in robotic process automation or AI
- ▶ 17% expect to make investments in tools to leverage blockchain innovations

In the Americas, for example, more than one in five (21%) organizations expect to invest in tools to leverage blockchain innovations, making it the most pioneering region worldwide in terms of exploring this technology.

Leading-edge organizations are exploring how blockchain – the digital ledgers that emerged as the technology underpinning bitcoin – can have wider application. Blockchain could have a truly transformative impact on the finance function and reporting. For example, instead of having to reconcile the internal system of record with information from suppliers and partners, finance leaders will be able to pull data from multiple blockchains to create their system of record.

Of course, reporting leaders should manage the potential risks of these new technologies, including data security. But at this stage, they can begin to explore how these new technologies could transform corporate reporting by running pilot projects, seeking outside perspectives, and building an early understanding of the skills they will need to build, or recruit, to exploit these new systems.

Can CFOs and Group FCs collaborate to redefine corporate reporting?

Recent research from EY into the changing nature of the CFO role – *Do you define your CFO role? Or does it define you? The disruption of the CFO's DNA* – explored the changing nature of this role, including how CFOs are taking on increasing strategic and operational responsibilities, and often delegating further financial management responsibilities to their FCs.

That finding is echoed in this research, where 67% of Group CFOs said that “financial controllers will take on increasing amounts of reporting responsibility that were formerly the remit of CFOs.” And a majority of Group FCs – 51% – also believe this to be the case.

For that migration to happen, there needs to be alignment between these two leaders. However, as our profiles of Group CFOs and Group FCs shows, these two finance leaders do diverge in terms of the emphasis they place on different facets of corporate reporting's future direction.

Figure 3



¹ *Do you define your CFO role? Or does it define you? The disruption of the CFO's DNA*, EY, 2016.





2 Fine-tuning the reporting engine: why the reporting operating model is ripe for redesign

Reporting teams are expected to deliver granular reporting information, quickly, and with zero defects. This insight is critical to allow reporting's stakeholders to interpret, and make sense, of a fast-changing world. Ad hoc requests are common, and expectations are high, putting a strain on already stretched teams.

Playing this role requires a transformation of how reporting is delivered – its operating model. Reporting teams that have sub-optimal operating models – fragmented processes, complexity and unclear governance, duplicative efforts, time-consuming manual workarounds – will likely not succeed. While operating model transformation represents a significant effort, which will consume considerable leadership time, it is now a strategic priority.

In our research, three themes emerge:

1. Organizations are increasingly using more streamlined and centralized operating model arrangements for reporting, and a further wave of transformation is expected in the near future
2. Operating model change is seen as key to generating forward-looking insight, cutting through complexity and delivering a more responsive approach to reporting
3. Organizations are using operating model transformation as an opportunity to drive process excellence and harmonization, and warn against a pure “cost play” transformation

1. More streamlined and centralized operating model arrangements taking hold

CFOs and senior finance leaders have been transforming the function's operating model through arrangements such as shared services and outsourcing for many years now. By moving transactional finance processes into arrangements such as shared services, organizations have driven greater efficiency and effectiveness and freed their best people to focus on higher-value tasks. Today, however, organizations are looking to increase the functional scope of operating model change, transitioning additional activities – such as corporate reporting – into these arrangements, even though reporting is clearly not a transactional activity, and requires judgment, insight and deep knowledge.

As chart 5 shows, more than 40% of organizations around the world say they are currently using either CoEs or onshore and near-shore SSCs to support corporate reporting. Organizations are currently less likely to use more remote arrangements – such as offshore SSCs or outsourcing – to support corporate reporting today.

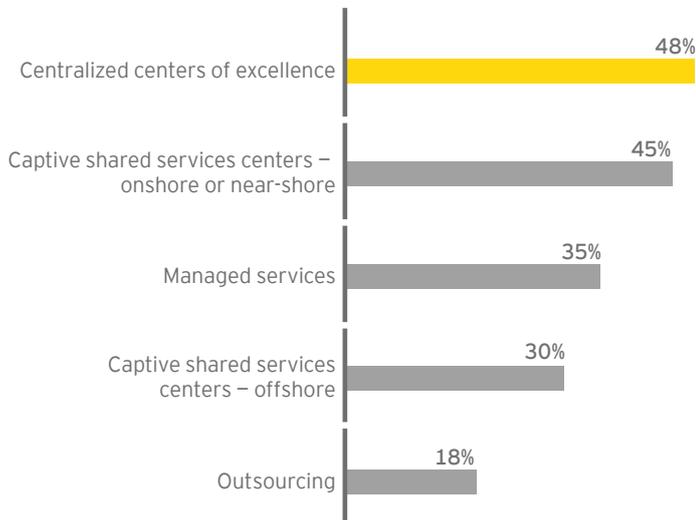
Erich Ammann, CFO and Member of the Group Executive Committee, Schindler Group, believes that near-shore models are more appropriate for corporate reporting than offshore models, including meeting stakeholders' expectations. “We would not ship corporate reporting to India or to China,” he says. “Although we have excellent people in our Chinese or Indian organization, I would feel uncomfortable if the main data of the Schindler company was prepared there for example. It doesn't mean that Schindler would not be open to place shared services centers off shore, but not for Group reporting. We would remain either in Switzerland or near-shore.”

Kenneth Marshall, Americas FAAS Leader, EY, also points out that regulatory compliance and quality remain a non-negotiable for any reporting leaders considering changes to the reporting organization. “The creator of the financial statement is, in the US, a very highly valued and skilled person,” he says. “It's a high value-add capability, not least because of the regulatory consequences of getting it wrong. The complexity of the role and the regulatory consequence of potential failure mean that organizations should think carefully when transitioning responsibility for steps of the process or introducing new technologies.”

Chart 5

Reporting joins the operating model revolution

Question: To support corporate reporting, which of the following arrangements does your finance organization currently use?

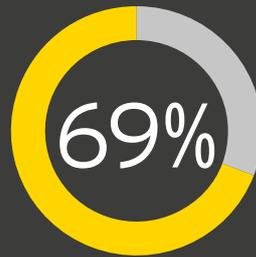


The use of different operating model arrangements also depends on the organizational context (see “Large organizations and headquarter teams focus on CoEs for corporate reporting”).

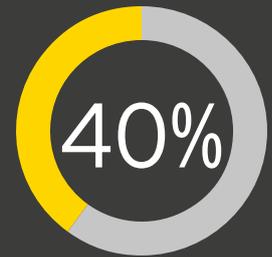
Figure 4

Large organizations and headquarter teams focus on CoEs for corporate reporting

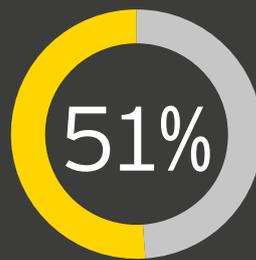
To support corporate reporting, we make use of CoEs



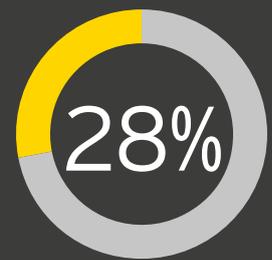
Group CFO



Divisional or Regional CFO

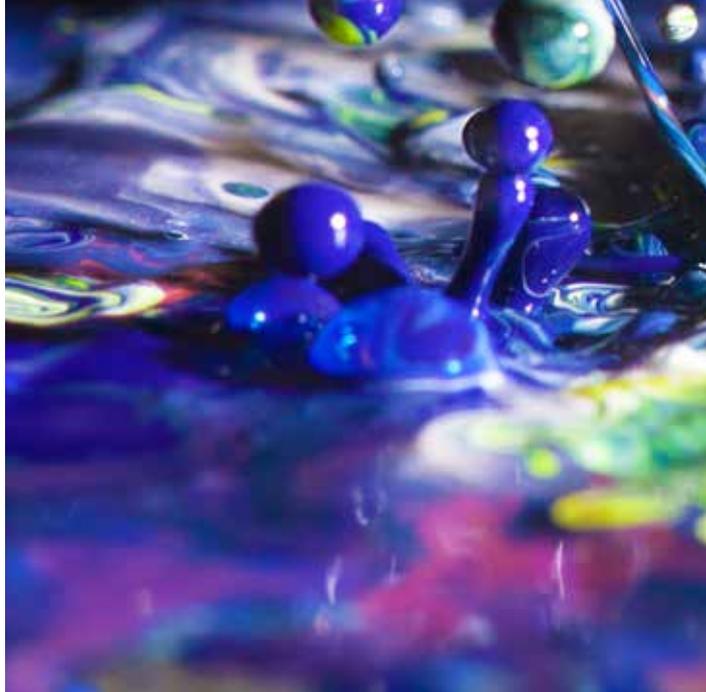


Large companies
(greater than US\$10b)



Smaller companies
(between US\$500m and US\$1b)

The increased determination of larger organizations to use entities such as CoEs reflects their need to make complex and perhaps bureaucratic processes more agile and to remove the duplicative effort that so often afflicts large companies, where different business units build their own back offices for reporting.



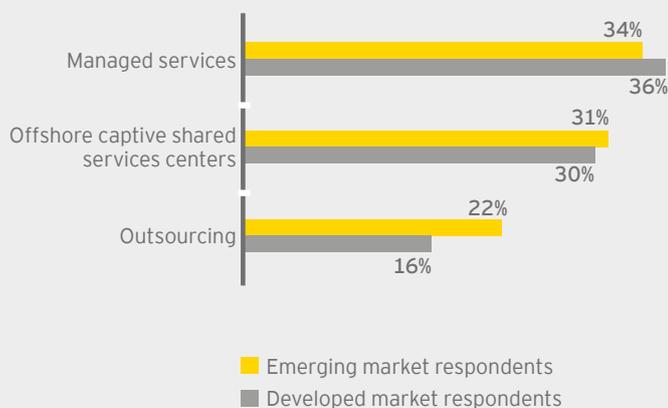
The rise of managed services for reporting

The high value placed on corporate reporting can be seen in the take-up of managed services compared to more remote offshore or outsourced arrangements. This trend is consistent across the world – in both emerging and developed markets (see chart 6).

Chart 6

Corporate reporting managed services exceeds more distant arrangements

Question: To support corporate reporting, which of the following arrangements does your finance organization currently use?



Often, reporting leaders would rather use a partner, offering tailored and flexible services, than they would a distant offshore center, even though that center is captive to their own organization.

Japan: retaining close central control of reporting

In Japan, our survey found that only 5% of organizations are using outsourcing to support corporate reporting today. This makes it the region where outsourcing has the least penetration at this time. In EMEIA, for example, 23% of respondents currently use outsourcing arrangements. For Shuji Suto, Japan FAAS Leader, EY, this reflects the fact that reporting is often handled at the center in Japan, though outsourcing could increase in the future. "At Japanese companies, corporate reporting tends to be handled by finance teams at the corporate center," he says. "While many tasks related to accounting are carried out by centers of excellence or shared services centers, major decisions regarding corporate reporting are made by finance teams. While I feel it's becoming more common to outsource parts of these tasks, most companies are still handling them internally."

The next wave of operating model transformation

While today the focus of operating model transformation in reporting is on arrangements with a degree of close control, this will likely change in the future according to our research, with a new wave of activity. As service providers mature and begin to offer higher-value reporting services, more remote operating models gain in popularity.

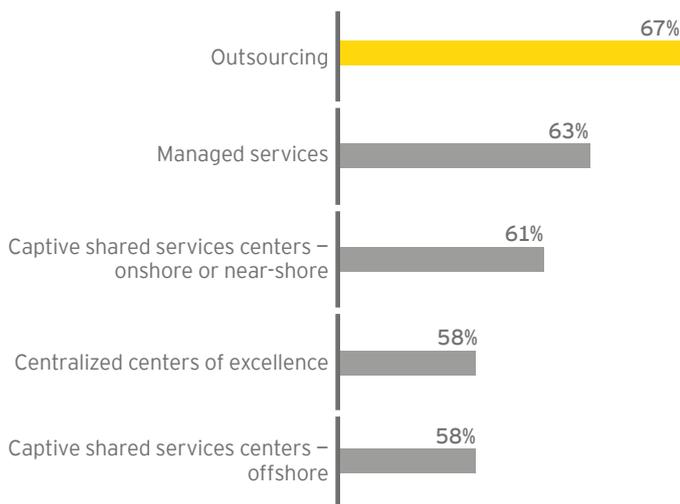
Over the next two years, for example, 55% of finance leaders around the world expect to make a significant or very significant increase in the use of outsourcing to support reporting. As chart 7 shows, Group CFOs are particularly bullish about increasing the use of outsourcing and managed services.

Chart 7

Group CFOs bullish on next evolution of reporting operating model

Question: Do you expect to see an increase in the use of these arrangements over the next two years (Group CFOs only)?

Respondents who selected “very significant” or “significant” increase

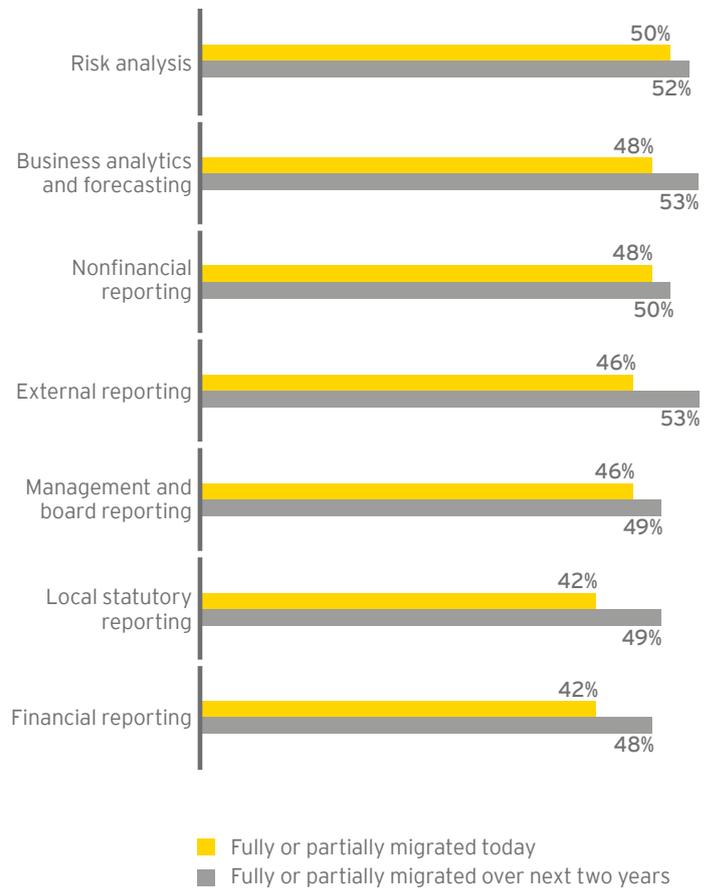


This reflects the fact that, as internal and external providers hone their reporting capability, they build up the skills and experience to begin offering higher-value services beyond the transactional, with finance leaders willing to explore moving more reporting tasks into these arrangements. As chart 8 shows, there may be a migration of reporting tasks over the next two years into SSCs, managed services or outsourcing, albeit very gradual as finance leaders seek demonstrable proof that providers can deliver to their requirements.

Chart 8

Gradual migration of corporate reporting tasks to SSCs, managed services or outsourcing

Question: To what extent do you see migration of the following reporting activities to shared services centers, managed services and outsourcing over the next two years?



Outsourcing corporate reporting: key action areas

- ▶ As outsourcing providers increasingly use robotic process automation to automate finance processes, consider revisiting any existing arrangements with outsourcers to check the positive impact of robotic process automation on costs is taken into account.
- ▶ Check that the capability and knowledge is in place to critically evaluate outsourcing decisions and contracts to deliver value, including the use of commercial arrangements based on value delivered rather than just volume of transactions.
- ▶ Check that potential sourcing partners include delivery providers who provide new and sophisticated digital- and analytics-based services.

2. Operating model change critical to cutting through complexity and delivering agility

More than half of finance leaders worldwide – 56% – say that changing the corporate reporting operating model is key to providing forward-looking insight, rather than reporting the past. Joon Arn Chiang, Asia-Pacific FAAS Leader, EY, points out that managing data in more centralized entities can allow organizations to ask different questions about how to get value from that information. “When data is centralized, you can ask ‘what can we now do with it that the business may have never done before?’ ‘How can we transform that raw data into valuable nuggets of insight that the business has never had before, because all the data was never housed under one roof?’ You can manipulate the data much more cost effectively and much more easily, because it’s all sitting in a common, consistent format in your shared services center. That can improve decision-making capability.”

In addition, 56% also say that transforming the corporate reporting operating model is essential to managing the increased complexity of today’s matrix organization.

We also asked respondents what they were hoping to achieve from making changes to their reporting operating model. The top three drivers were:

- 1** Increase the accuracy and effectiveness of reporting
- 2** Transform the use of data analytics in reporting to drive forward-looking strategic insight
- 3** Create a more flexible and agile reporting function

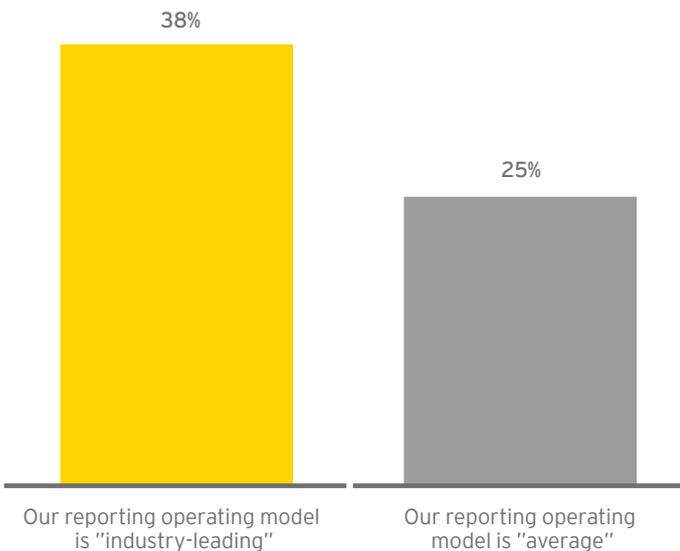
However, when we compare those organizations that describe their current reporting model as “industry-leading” against those who believe their operating model is just “average,” priorities shift.

Chart 9

Corporate reporting agility is the critical priority for industry leaders

Question: If you plan on making operating model change over the next two years to drive corporate reporting excellence, what are the main reasons?

Respondents who are making operating model changes in order to create a more flexible and agile reporting function



3. Operating model transformation must drive process effectiveness not just cost efficiency

Operating model transformation will often have a cost reduction element, as finance leaders seek the efficiencies of moving processes into arrangements such as offshore shared services. And, in the future, as robotic process automation makes further inroads, the cost advantages of a robot over a full-time employee may be significant.

However, reporting's stakeholders are not just looking for a team that is cost efficient. Key stakeholders – from supervisory boards to CEOs – are expecting greater value: better data, sophisticated analysis, strategic business partnering, exemplary consistency and control. Moving to new centralized arrangements, such as shared services, must also be about harmonizing and improving those reporting processes. Operating model transformation becomes an opportunity to eliminate redundant processes, streamline critical processes, achieve global consistency and automate more transactional activities.

Volvo Group's Lars Sandström believes that focusing on quality is key. "When it comes to accounting, financial reporting, and these kinds of services that we have in our shared services center, there are a lot of good things you can do to drive out costs," he says. "But I think the most important is to drive quality in the processes. If you go with that perspective, to drive quality, then you will also save a lot of cost."

This is a view that resonates with Ron Kapusta, Chief Accounting Officer and Controller at Johnson & Johnson. "For a public company, external reporting is about your communications to the various stakeholders that either invest in your company, regulate your company, or otherwise have a stake in your company," he says. "It doesn't get any more important than that to me and I don't think anyone could win a debate with me around the importance of that responsibility. Therefore, while the cost is important across our entire value chain in finance and accounting and the business in general, you're not going to cut your way to greatness."

Bell Canada: The future of finance is robotic

Bell Canada's Senior Vice-President and Controller, Thierry Chaumont, believes that the advent of robotic process automation means that finance teams need to ask whether outsourcing of transactional finance tasks is even necessary. An initial outsourcing pilot for the finance team at Bell Canada, which did not deliver the results that were required, prompted this telecommunications firm to consider skipping outsourcing and looking further ahead to automation and robotics.

"We conducted a successful pilot at the beginning of this year, and we'll be going forward with further automation or mechanization over the course of the next few years," he explains. "I'm quite excited about it. It's pretty incredible what these machines can actually accomplish and the time frame in which they can accomplish it. For now, we're focused on our shared services group but I'm also looking to see if we can expand to other roles within my organization."





3

The art of the possible: overcoming the IT and organizational barriers that stand in the way of more responsive reporting

Our research shows that reporting leaders will need to manage a range of challenges in the path to more responsive reporting:

- ▶ Fifty percent of respondents are concerned about “the complexity and cost of tackling the legacy IT environment” (see chart 1, page 7)
- ▶ Forty-two percent of respondents are concerned about “striking the balance between central control and the need to devolve reporting for the local regulatory and compliance environment”

Tackling the legacy IT environment

The need to streamline and centralize the reporting operating model runs up against a significant technology barrier. Devolved business units will have bought or built discrete reporting systems and tools, leading to significant IT fragmentation. The idea of dealing with multiple ERP systems, legacy applications and non-integrated architecture can seem to be a daunting prospect.

However, innovative new technologies offer a means to overcome these problems. For example, smart robotics tools can pull data from different systems into a single federated data set, including pulling data from different ERP systems or providing a bridge between a single enterprise ERP and important legacy systems.

At Bell Canada, Thierry Chaumont outlines how investments in smart tools are enabling Canada's largest communications company to extract insights from the significant amounts of data it manages. "Our data is accumulated from a wide variety of sources and spread across a variety of platforms," he explains. "We've built up teams that are able to mine it in a way that's useful to the business. I think we're probably ahead of a number of our peers in terms of the information that we're able to capture, and we're just getting better and better as we go."

Striking a balance between central control and local needs

More than 40% of respondents are concerned about the need to strike a balance between central control and the need to devolve reporting so it is attuned to local needs. This suggests a tension between two forces:

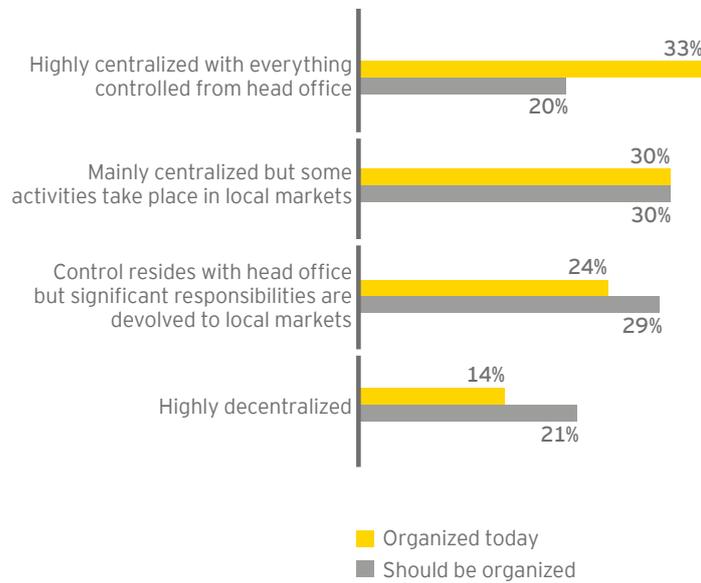
- ▶ The desire to centralize the reporting operating model for greater effectiveness and agility
- ▶ The desire to have a devolved organizational structure, facilitating reporting that is tailored to the local regulatory environment

Today, the dominant organizing principle for corporate reporting is "highly centralized, with everything controlled from head office." According to our survey, a third of organizations around the world (33%) currently adopt that organizing principle. However, when we asked respondents how reporting should be organized, the picture changes.

Chart 10

A degree of decentralization seen as ideal

Question: Which of the following statements best describes how your corporate reporting functions are organized today and which best describes how you think your corporate reporting functions should be organized?



Of course, a more centralized and streamlined operating model is not necessarily in opposition to the desire to meet local needs and regulatory requirements. Finance organizations, for example, create regional SSCs, so that streamlined teams are close to their internal customers and the regulatory environment. As finance leaders design their target operating model, they should balance the needs of local stakeholders with the imperative to drive greater centralization and effectiveness.

At United Family Healthcare, which delivers health care services through its United Family hospital system, Walter Xue – Chief Financial Officer – outlines how sensitivity to local needs is particularly important in China, as even cities can have different incentive programs. However, at United Family, centralization is still the preferred route for this growing company. “In China, each city, while 99% the same, may have a favorable incentive policy, so past management was more about local management. But, from a financial reporting perspective, we centralize the function. As we expand, that will ensure we are consistent.”

Balancing central control and local needs: key actions

- ▶ Support effective communication and engagement with key stakeholders to build an understanding of how more streamlined and centralized models can serve their needs.
- ▶ Create a pool of finance business partners who can provide an effective interface between the services provided by centralized reporting functions and the needs of business unit leaders, ensuring the services provided are tailored to local needs and compliant with the local regulatory environment. However, finding enough business partners to fulfill that role is an ongoing challenge (see “Widening the pool of business partners”).

Widening the pool of business partners

More streamlined operating models for reporting require finance business partners who can bridge the gap between corporate reporting and the needs of its key stakeholders.

In our research, 51% of respondents worldwide agreed that they “lack people with the business partnering skills to make a more streamlined operating model work.” Business partners become even more important in a reporting world where SSCs and other arrangements are increasingly the norm, as they provide the interface between these centralized service delivery functions and reporting’s internal customers.

It is critical that reporting teams tackle any confusion about what the business partner role entails, setting out a clear and consistent definition and expectations of what is expected of the partner role in reporting. Organizations will also need to confirm their business partners have the right combination of left- and right-brain skills for this critical role. As well as deep technical financial and reporting skills, they will also need softer skills, such as communicating and influencing.





4 Strategy and vision, technology and data, and talent will be key to a new future for reporting

We believe there are three essential areas in creating a new age of more responsive reporting:

1. Strategy and vision
2. Innovative technology and data
3. Talent

Strategy and vision

Operating model change creates uncertainty, particularly for internal stakeholders as well as the finance staff who will be affected by changes. Therefore, a strong and compelling strategy and vision is more important than ever to create certainty, secure the buy-in and engagement of key stakeholders, and provide the foundations of a business case. The optimal operating model for reporting will clearly vary according to a variety of factors, from the organization's geographic footprint to the demands that a reporting team faces. However, there are a number of areas to consider focusing efforts:

- ▶ Design a target operating model that sets out what reporting services will be retained at headquarters and which will be provided by other arrangements, from physical SSCs to virtual shared services.
- ▶ Put in place a clear and centralized governance and ownership model for data in the new structure.
- ▶ Exploit the potential of smart technologies to automate processes and replace manual workarounds, which are time-consuming and expose the organization to the potential of costly data errors.
- ▶ Prioritize process effectiveness over process efficiency: cutting through complex and bureaucratic processes, removing processes that are redundant, and streamlining and automating existing processes.

Innovative technology and data

Today, reporting teams are simply expected to provide complex data, quickly, and to be able to change course at speed as markets change. But this will only happen if reporting teams have access to the right data and to the right tools. There are a number of areas where action may make a significant impact:

- ▶ Exploit agile and flexible technologies, including cloud and SaaS. SaaS applications, for example, can help reporting teams keep up to speed with new data analytics tools.
- ▶ Future-proof your reporting technology by experimenting with emerging technologies and getting outside perspectives on the disruptive technologies that are emerging on the horizon. Pilot programs that explore the use of emerging technologies – such as blockchain and AI – provide use cases and begin to build skills and capability in the reporting team.

Talent

Reporting teams will need to complement deep financial management and reporting knowledge with new skills in the future, from predictive analytics to scenario modeling to the intersection of AI and finance. Reporting leaders need to reimagine their approach to talent acquisition and skills development. There are a number of priority areas where reporting leaders can focus their efforts:

- ▶ Develop a broader talent management approach for the different profiles in tomorrow's reporting function. As well as corporate reporting professionals, you will have new team-members – such as data scientists – who will require a different career path and reward structure.
- ▶ Build a consistent enterprise-wide understanding of the business partnering role in reporting and set clear expectations for what success looks like in the role.
- ▶ Rethink your approach to hiring talent beyond the traditional reporting profile, actively recruiting different profiles from different backgrounds, thereby introducing fresh perspectives and new skills, from advanced analytics to digital know-how.
- ▶ Build understanding of how smart machines will interact with, and complement, the abilities of talented reporting staff, and provide reassurance at a time when people will be concerned about the impact of robotics and AI on their jobs.

Key findings by market

IT and analysis is a priority for corporate reporting

Reporting operating model is ripe for redesign

	Top global tech challenge 1 – lack of integration between systems	Top global tech challenge 2 – lack of automation across systems	Top global priority – to update IT and financial analytics tools	Top global skills needed to improve reporting 1 – IT infrastructure	Top global skills needed to improve reporting 2 – data analytics	Uses CoE	Uses on-shore or near-shore SSC	Transforming the operating model for reporting is essential
Global	34%	30%	41%	36%	33%	48%	45%	56%
Australia	18%	30%	25%	32%	35%	45%	37%	42%
Belgium	22%	27%	33%	15%	35%	35%	27%	37%
Brazil	40%	28%	45%	40%	35%	70%	25%	60%
Canada	37%	20%	50%	60%	20%	52%	42%	68%
China	23%	30%	40%	28%	35%	87%	67%	70%
Denmark	27%	32%	33%	28%	45%	32%	42%	47%
France	23%	30%	30%	40%	25%	32%	52%	50%
Germany	27%	30%	27%	37%	30%	42%	50%	57%
Hong Kong SAR	40%	23%	45%	30%	48%	50%	53%	47%
India	37%	37%	75%	58%	45%	67%	52%	92%
Italy	47%	25%	43%	13%	20%	37%	42%	55%
Japan	22%	30%	38%	16%	16%	30%	55%	42%
MENA	40%	50%	65%	58%	43%	2%	75%	42%
Mexico	40%	32%	58%	40%	33%	45%	40%	60%
Netherlands	30%	20%	35%	35%	38%	20%	37%	47%
Norway	27%	35%	38%	20%	30%	10%	47%	37%
Poland	30%	20%	35%	32%	28%	37%	27%	35%
Russia	30%	23%	45%	32%	45%	52%	20%	62%
Singapore	37%	38%	30%	35%	28%	50%	50%	55%
South Africa	55%	35%	43%	38%	38%	50%	27%	70%
South Korea	50%	33%	40%	33%	35%	52%	42%	55%
Spain	38%	18%	35%	50%	30%	45%	42%	50%
Sweden	30%	35%	43%	40%	30%	25%	42%	45%
UK	30%	53%	43%	40%	30%	60%	37%	65%
US	30%	28%	42%	45%	30%	50%	52%	80%

A balance is needed between centralization and local needs

	Fully centralized today	Should be fully centralized	Significantly local	Should be significantly local	Highly decentralized	Should be highly decentralized
Global	33%	20%	24%	29%	14%	21%
Australia	43%	20%	20%	23%	15%	23%
Belgium	33%	8%	23%	25%	18%	40%
Brazil	40%	18%	20%	35%	23%	18%
Canada	38%	28%	18%	30%	13%	15%
China	45%	18%	18%	13%	3%	15%
Denmark	15%	53%	25%	13%	10%	18%
France	30%	8%	23%	35%	18%	20%
Germany	30%	25%	18%	35%	15%	15%
Hong Kong SAR	30%	13%	30%	23%	18%	20%
India	38%	8%	23%	33%	18%	20%
Italy	35%	20%	20%	33%	8%	28%
Japan	43%	20%	15%	40%	15%	25%
MENA	3%	78%	50%	0%	0%	3%
Mexico	25%	20%	23%	23%	15%	38%
Netherlands	23%	15%	13%	35%	28%	20%
Norway	0%	55%	20%	20%	25%	3%
Poland	18%	18%	30%	35%	23%	30%
Russia	23%	25%	45%	28%	10%	25%
Singapore	30%	15%	23%	43%	13%	20%
South Africa	30%	28%	25%	25%	23%	18%
South Korea	20%	5%	35%	24%	13%	21%
Spain	18%	23%	45%	28%	20%	18%
Sweden	43%	13%	20%	35%	15%	23%
UK	35%	23%	25%	25%	5%	20%
US	48%	20%	20%	40%	10%	8%

For more information, please contact:

Global and Europe, Middle East, India and Africa

Peter Wollmert

Financial Accounting Advisory Services (FAAS) Leader
peter.wollmert@de.ey.com
+49 711 9881 1532

Karsten Füsler

Financial Accounting Advisory Services (FAAS)
Markets Leader
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

Shuji Suto

Financial Accounting Advisory Services (FAAS) Leader
sutoh-shj@shinnihon.or.jp
+81 3 3503 1100

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EYG no. 03714-163GBL

BMC Agency
GA 0638_07035

ED None



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