

IOMA White Paper

Internal Reporting is Best Way to Boost Corporate Value

The intense spotlight on corporate reporting has catapulted it to the foremost financial technique to enhance a company's value. In today's age of abundant information, financial managers are leveraging this data into more meaningful and timely reporting to management. This gives them the tools to make more informed decisions that can lead to a more valuable company.

This is revealed in our latest analysis of hundreds of responses from corporate financial professionals who told us the ideas they used over the past year that have had the most impact on firm value. On an overall basis, expanding and enhancing reporting to management is the top approach for companies in both the manufacturing and non-manufacturing sectors, cited by 72.2% of respondents (see Table).

Most Effective Financial Techniques Used to Enhance Corporate Value Over the Past Year

	<i>By Co. Size</i>		<i>By Industry</i>		Overall
	Up to 250	250 & Over	Mfg.	Non-mfg.	
Expanded/enhanced reporting to management	71.7%	74.6%	70.4%	72.7%	72.2%
Enhanced/changed approach to budgeting and analysis	75.0	60.6	63.4	71.2	67.4
Changed/enhanced corporate financial/strategic planning	53.3	54.9	47.9	60.6	54.2
Adopted or migrated financial applications to Web (i.e., eG/L)	50.0	36.6	47.9	36.4	41.7
Instituted benchmarking/added new performance metrics	38.3	43.7	38.0	43.9	39.6
Revised analysis of new projects (i.e., payback, ROI, B/E, NPV)	30.0	35.2	33.8	34.8	34.0
Analyzed special projects (i.e., re-engineering joint ventures)	30.0	33.8	33.8	33.3	33.6
Used new valuation/analysis (i.e., EVA, balanced scorecard)	18.3	25.4	23.9	18.2	21.5
Analyzed new e-commerce opportunities	21.7	21.1	14.1	30.3	20.8
Expanded/enhanced reporting to external users	18.3	14.1	21.1	10.6	16.0
Changed accounting practices (i.e., revenue, tax shelters)	18.3	14.1	18.3	13.6	16.0
Adopted new FASB, IRS, or SEC reporting requirements	10.0	15.5	14.1	10.6	12.5
Revised how we analyze M&A candidates	1.7	5.6	4.2	6.1	4.9
Other	3.3	4.2	5.6	1.5	3.5

(Source: IOMA)

HOW REPORTING IS IMPROVED

What are the best ways to improve internal financial reporting? Respondents in this latest survey have had success with a number of strategies – ideas similar to those mentioned by respondents to the last survey we did on this topic in 2002. They are:

- o leveraging technology;
- o developing key metrics;
- o speeding up the process;
- o presenting more useful data; and
- o reducing information overload.

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Leveraging Technology

Automated financial reporting and analysis tools have come a long way—and they can yield significant benefits.

"We've leveraged off of our Oracle ERP to accommodate our changing business needs and to automate and streamline much of our management reporting needs." (Controller; Financial Services; 4,200 employees)

The use of Web-based tools has also transformed the reporting function.

"We use the Internet and company intranet to improve the communication of daily financial information. The organization can now respond quicker and more accurately to variances from the operating plan." (Controller, Manufacturing; 400 employees)

State-of-the-art financial analytic tools can yield significant benefits, as many respondents noted.

"We implemented a business intelligence/data warehousing and mining tool. Data from disparate databases (such as inventory system, billing system, and so on) is standardized and extracted to the data warehouse. A browser-based query tool permits multi-tier analysis of customer sales, margins, product mix, and so on. This information is now vastly more accurate and easier to obtain." (Treasurer; Manufacturing; 569 employees; RI)

"Since acquiring new software, we have the capability of generating detailed reports, including some complicated financial reports that are very useful in making management decisions. We are now able to evaluate and analyze sales, costs, and department expenses, as well as detailed inventory transactions. We can explain, compose, and project our financial statements." (Manager of Financial Reporting; Manufacturing; 400 employees; CA)

We should point out that you don't have to buy new software to use some of the ideas that respondents offered—they can be implemented with technology tools you already have.

"We achieve more timely reporting of financial results and trends via e-mailing a Power Point presentation monthly." (Controller; Manufacturing; 500 employees; PA)

"We are in the beginning stages of using the corporate intranet to provide data to management. At present, only statistical data is available on labor hours and patient census." (Controller; Health Care; 580 employees; CT)

The use of technology to enhance reporting is not confined to the finance and accounting area. It can be deployed throughout the organization, as one respondent mentioned.

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“We implemented data collection sites throughout the plant. These sites are linked to our network, and employees utilize them for payroll, job flow, and inventory control information. Job costing and inventory control has been greatly enhanced. Information is up-to-date and available for analysis on a daily basis. Detailed budgeting is also greatly enhanced.” (CFO; Manufacturing; 57 employees; MN)

Developing Key Metrics

One way companies have simplified their reporting is to focus on those key performance drivers or metrics that represent the essential pieces of information management needs to know so it can tell how the company is doing.

“We recently began summarizing detailed reports for upper management that provides it with essential information to run the business. The project—to take extremely detailed information and to roll it up into a format that is easy to use and understand—was a joint effort between the accounting department and the MIS department. It also helped with the monthly closing process.” (Controller; Financial Services)

“We expanded our weekly analysis to include the key factors that will help us be successful. These factors include sales vs. budget, purchases vs. budget, cash receipts vs. budget, on-time shipments, productivity, and open-order monitoring.” (Controller; Manufacturing; 200 employees; ND)

“We developed a key measurements report (monthly), which is a summary of key financial, distributor, and activity volumes by lines of business. It was implemented by the finance department to focus senior management meetings on specific key issues/results/needs for improvement.” (Director of Group Financial Services; Financial; 550 employees; VA).

Speeding Up the Process

One key goal of internal financial reporting is to alert management to problems that need attention. Of course, the sooner management is made aware of these problems, the sooner it can act to solve them. Therefore, many respondents say that increasing the timeliness of financial reporting has yielded significant benefits.

“We enhanced expense reporting to managers, giving them direct access to budget variances in a more timely manner. This has allowed them to identify problem areas sooner.” (Director of Accounting; Financial services; 170 employees; CA)

One of the key goals of internal financial reporting is to alert management of problems that can be acted on quickly. Therefore, increasing the timeliness of financial reporting can yield significant benefits.

One respondent points out a common problem with the top brass that’s relevant here. The problem here may be too much information—so make sure you don’t overload execs with data.

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"We now provide more timely and detailed reports to allow quicker response time for potential problems. But management's desire to understand and use the information is somewhat less than desirable." (Controller, Equipment Supplier, 248 employees; NJ).

Increasing your reporting speed alone may not yield the greatest potential benefit. After all, reporting looks at the past—it's a historical view. Management also needs future-looking data, as the following respondent points out:

"Quicker turnaround on reported results has enabled senior management to gauge and position the company properly. Additional information—such as trending, ratios, and other analysis—has provided valuable tools to assist in plotting the future strategy of the company." (Corporate Controller; Wholesale/retail; 700 employees; CA)

In some cases, respondents report that getting reports to more department managers is successful.

"We expanded reporting to department managers and got them involved in analyzing budget variances and cost control measures." (Controller; Wholesale/retail; 85 employees; WA)

While this is a great idea, you or your people may need guidance to support it.

"In addition to sending new reports to department managers, we had one-on-one meetings with them to review and analyze the numbers prior to their financial review meetings. Not only did this help the managers better understand the financial statements, but it made for a more fruitful meeting because they could address solutions, as opposed to trying to figure out what went on." (Controller; Manufacturing; 150 employees; PA)

When increasing the timeliness of reports, don't just think about top management—think about the operating departments. That's because the people on the front lines will be able to act quicker if something needs to be done.

"We expanded reporting to lower-level managers, which has empowered them to better control and lower operating expenses." (Senior Director of Financial Planning, IT Services; 900 employees)

Speaking of the front lines, don't forget about the sales force out in the field. After all, being close to your customers is one of the most important elements of business success, and reporting can help promote this.

"We now provide daily reporting to our sales force with specific customer information. In addition, the sales force now receives weekly/monthly information it didn't receive in the past. This timely information should enable the sales force to keep better tabs on sales/customers." (Controller; Manufacturing; 150 employees; MN)

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Presenting More Useful Data

Take a fresh look at the information being sent out. Is it included just because that's the way it's always been done? Is the data being used by the recipients? Is there different information that should be included? Of course, the trick is deciding what data to include and what data to exclude. Often, management does not know what it wants—or even what data is available to them

"We began to give department managers cost information they never had before. Now, they can more effectively manage costs." (Controller, Agricultural Products, 450 employees)

As the above respondent points out, the emphasis should be on reporting on matters that are most controllable. To encourage action, keep it simple —especially when the audience is not financially savvy.

"Working with nonfinancial managers, it has become increasingly obvious that the key metrics must be limited. Also, the reporting must be more graphical in order to be better understood." (Director of Finance, Manufacturing, 350 employees)

Better data won't be fully effective if the structure of the reports is below par, as one respondent points out.

"We added structure to the quarterly financial/operational performance reports. We used standardized templates for consistency and to ensure that the right data was presented and discussed." (Vice President of Financial Planning, Manufacturing, 21,000 employees)

How expenses are reported and analyzed has made a big difference for many respondents. In some cases, this concept may be as old as the hills. But what may be an old idea to one company can be a brand new one to another.

"Our enhanced management reporting on basic salary expense and operational expenses has provided the most benefit. I realize this is nothing new or exciting, but it was for this company. We are moving to enhance control over labor expense with a companywide scheduling system." (CFO and HR Director; theme park; 435 employees; IN)

Simply increasing the reporting on all expenses may not do the trick. The emphasis should be on those expenses that are most controllable.

"Certain types of expenses are analyzed in greater detail, and more information is provided to management. The expense items we put more emphasis on are those costs that are more vulnerable to abuse. The analysis assists management in assessing priorities in the areas reviewed, primarily in the area of meals and entertainment." (Accounting Manager; Private Practice [such as law, accounting, or engineering firm]; 525 employees; TN)

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We also want to point out that some companies have discovered the value in analyzing and reporting areas of the company as profit or cost centers. This gives a different slant to the company's financial picture and can open the eyes of management because it reveals areas that are not pulling their weight.

“We started using cost-center-based reporting. This has given managers deeper insight while making them more accountable. It also prompts more questions—which can be a good thing or a bad thing.” (Divisional Vice President of Finance, Fulfillment Services, 400 employees)

Some respondents find that to portray the financial condition of a profit center accurately, overhead should be included. (While this may be useful for some purposes, we generally disagree with this approach.)

“We expanded internal reporting to include profit centers (previously reported at consolidated basis only). Also, we included overhead allocations in the budgets for the profit centers.” (Controller; Private Practice (law, accounting, engineering firm, and so on); 130 employees; VA)

One of the important revelations that come out of profit center reporting is whether making or buying is better. Similarly, it shows whether a process should be outsourced.

“We used budget reporting to discover whether a department was valuable to the company. We have our own internal manufacturing department for some parts we use. Through performance analysis and reporting, we determined that we should outsource this process.” (Controller; Other (service firm); NJ)

Reducing Information Overload

One of the downsides of having so much information at your disposal is that we can get inundated with too much data. In this case, less is better—but the trick is deciding what reports to issue and what reports should be eliminated or consolidated.

“We reduced the number of reports going out to people by consolidating particular data from several reports into one or two. We made use of MS Excel and Access to accomplish this. Now, information is passed to management faster, and decisions can be made that can affect the outcome of production or other variables before it is too late.” (Plant Accountant; Manufacturing; 800 employees; GA)

“Our standard financial statements were too complex. The income statement was simplified and provided information on prior periods. Management was pleased because it provided a better look at where the company stands this year compared to last year.” (Comptroller; Manufacturing; 42 employees; IA)

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Often, you can reduce information overload by deciding yourself what reports to send to management instead of having it decide. It often doesn't know what it wants so it asks for everything but the kitchen sink.

"We in the finance and accounting area simply decided that we would start telling upper management which reports it needs rather than merely wait for it to tell us what it thinks it wants." (Manager of Finance and Accounting; municipal electric and water utility; 185 employees; MN)

RELATED STRATEGIES

In addition to improvements to reporting, respondents cite new approaches to budgeting, changes to corporate and departmental planning, and ramping up financial applications to the Web as other top ideas.

New Approaches to Budgeting

The second most cited technique for enhancing corporate value was changing the approach to budgeting and analysis, as 67.4% say this was the most effective tactic. A number of the ideas companies are using are particularly worth noting -- namely, getting business units more involved and switching to rolling forecasts and zero-based budgeting. Also, some new approaches to budget analysis produced positive results.

Push it down: This involves doling out more responsibility for the budget down the ranks.

"We set budget targets but implemented a new system to get line managers more involved in the process. Although this took us a little longer, they became more financially aware of the budgeting and planning process." (CFO, Publishing; 4,500 employees)

We point out that while this CFO says it took more time to do this, you could end up saving time in the long run by adopting a cooperative approach and having the rank and file develop some budget numbers.

Driving the budget process down the line also increases accountability. When managers are involved and held accountable, they will be more apt to search out hidden opportunities for cost savings and to catch mistakes.

"Our best results were achieved by eliminating the 'top down' approach to budget control. This has given the functional manager ownership and, hence, more control over costs." (Controller, Manufacturing; 180 employees)

Be aware that you just can't drop responsibility for budgeting into people's laps without giving them some direction. Take steps to educate front-line managers in the basics of budgeting

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-- not only for labor, but for all expenses. Make sure you show them how their area affects the bottom line of the overall business.

Rolling forecasts: Some companies report moving from the traditional annual budget to a more dynamic process, typically in the form of a rolling forecast. Rolling forecasts enable you to track success against an updated forecast instead of a stale annual forecast. Managers can be proactive rather than reactive to changing times. Keep in mind that using rolling forecasts can require additional staffing to effectively run them and to continuously update the company's forecasts.

"We switched to a rolling 12-month budget and analysis time frame. This helps us spot trends that are not obvious." (CEO, Business Services; 100 employees)

Zero-based budgeting: Some respondents are quick to point out ways to capitalize on the inherent advantages of zero-based budgeting. Under this setup, you build a budget from scratch rather than layering in new forecasts on top of old ones, which could be filled with errors.

"We used zero-based budgeting, which opened our eyes to specific requirements for each department. The trouble with this technique, however, is that it takes a lot of time." (Manager of Financial Planning, Health Care; 6,500 employees)

New analytic techniques: Some respondents report success with new ways to analyze budget and forecast information.

"For the first time ever, we will know what our costs are to produce parts – and we will know profitability by part and customer. The downside was that converting to a standard cost system was very expensive." (Accounting Manager, Manufacturing; 130 employees)

"We did an operational cost analysis, which allowed us to streamline our purchasing with suppliers to create standardization. This has saved us over \$1 million." (Corporate Controller, Construction; 1,500 employees)

Enhanced Corporate Planning

The third most cited financial technique for enhancing corporate value was changing the approach to corporate financial/strategic planning, as 54.2% say this was the most effective tactic.

The main ways to make overall planning more effective is to improve top-down guidance -- and to get everyone involved. This helps ensure buy-in.

"We formalized the strategic planning process, establishing eight overall goals and numerous underlying objectives. Taking carefully planned actions now will most definitely save us money over doing things when a crisis arises. The disadvantage of this approach is to spend

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too much time on strategic planning at the expense of spending enough time working on core operations.”(CFO; Housing; 200 employees)

Although no respondents specifically mention this, we point out that there is one factor that is often overlooked in planning. That is, plans will not be effective if the goals are overly optimistic. They should be challenging -- but achievable.

Better Divisional Planning

Having the planning process reach down into the department or division level produces top results – 47.9% of companies say this is effective in enhancing corporate value.

As with the budget process, empowering business units can go a long way in improving the corporate planning process.

“We instituted a strategic planning process with a focused planning approach. This gets everyone on the same page with issues such as expense control and business growth. The downside is that this process is very time consuming.” (Controller, Financial Services; 3,400 employees)

Divisional involvement in the planning process also improves accountability, especially if compensation is linked to performance against plan.

Migrate to the Web

Internet and intranet technology has been a boon for financial analysis, planning and reporting operations.

“We implemented dashboards that give us a more real-time snapshot of key performance metrics. This has helped us make more efficient operational changes and lower labor costs. One problem with this approach is that it takes more labor to continually produce these dashboards. Also, you have to make sure all managers buy in to the concept.” (CFO, Professional Services; 240 employees)

For companies with a large travel budget, the use of the Web can help with planning and control.

“All of our sales people use a new online expense reporting system. This has provided the ability to analyze trends and identify opportunities for savings.”(Manager of Financial Reporting, Business Services; 1,500 employees)

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OTHER NOTABLE IDEAS

While the following categories did not make the top five, respondents offered some particularly good ideas:

Benchmarking/performance metrics: This involves identifying best practices both within your company and at similar companies and then comparing your company's performance with those best practices. Benchmarking your results versus others in the industry flags potential revenue sources, as well as excessive cost structures.

“Benchmarking – in combination with a balanced scorecard – has given our line managers target goals and measurements to gauge in meeting them.” (Operations Controller, Wholesaler; 325 employees)

We point out that the development of benchmarking metrics should be as specific as possible. This may take some time, but it can be well worth the effort.

EVA analysis: *“We used the Economic Value Added approach and focused on improving return on capital so that it exceeded our weighted average cost of capital. Wall Street pushed the value of our stock up 100%.” (CFO; Manufacturing; 20,000 employees)*

Portal for e-biz: *“We launched a new e-commerce portal. This increased our Web revenue by 50%. It also cut down on Web processing time by 25% and allowed real-time processing of customer requests.” (Controller; Health Care; 300 employees)*

ROI analysis: *“Enhancing our ability to analyze the ROI on projects has proved extremely helpful. Now, we want to begin reviewing our projects at critical stages to ensure that we meet or beat budgeted ROI. Doing post-project ROI analysis allowed us to understand where we missed out.” (Controller; Manufacturing; 60 employees)*

SOX implementation: *“As a private company, we adopted provisions of the Sarbanes-Oxley Act, with an emphasis on procedures at remote subsidiaries. This has resulted in better cost management, although there’s more paperwork.” (Controller; Manufacturing; 4,000 employees)*

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ABOUT IOMA

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