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The Challenges of Corporate Financial Reporting

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Table of contents

- 1 Introduction from Oracle
- 2 Research Highlights
- 3 Executive Summary
- 4 Key Findings
- 14 A Confident Future?
- 15 Methodology
- 16 About Accenture
- 16 About Oracle
- IBC Contacts

Introduction from Oracle

Many finance professionals face serious challenges in managing and reporting their company's financial data, despite recent investments in financial reporting systems. Oracle and Accenture launched this research report to help finance professionals better understand the state of corporate financial reporting today, and why recent investments may have fallen short.

The study reveals a key central issue: Organizations have been taking a piecemeal—rather than holistic—approach to investing. Without a vision and strategy that addresses process improvement, data integrity, and user adoption software investments alone will not meet the needs or expectations of most organizations.

The research found that the majority of finance teams in 12 countries—including the U.K., USA, France, Germany, Russia, and Spain—have made substantial investments in corporate financial management processes and systems over the last three years. However, many of these solutions, which were expected to improve close, reporting, and filing processes, are ineffective, resulting in a lack of visibility, quality, and confidence in financial data.

Research Highlights

- **Seeking change:** Businesses recognize they need to invest in financial reporting to address the challenges they currently face. 47 percent of companies have made substantial investments over the last year to the financial close, filing, and reporting processes.
- **Ineffective investments:** Despite these investments, spreadsheets (72 percent) and e-mails (68 percent) are still being used daily to track and manage reporting, suggesting that new investments are falling short of expectations.
- **Increased costs and uncertainty:** The situation is so opaque that managers across the finance function are unable to fully understand the financial impact or cost implications of reporting, with 60 percent of respondents admitting they did not know the total cost of managing and publicizing their financial results.
- **Persistent challenges:** 68 percent of respondents admitted that they have inadequate visibility into reporting processes, while 84 percent of finance managers surveyed said they find it difficult to control the quality of financial data across the entire reporting process.
- **Decreased effectiveness:** 71 percent of finance managers feel their effectiveness is limited in some way by data-analysis-related issues, while 39 percent of C-level or VP-level respondents say their effectiveness is impaired by limited visibility.
- **Missed deadlines:** Due to late changes to the chart of accounts, 15 percent of global businesses have missed statutory filings, putting their companies at risk of financial penalties and potentially impacting share value.

The report makes it clear that investments made to date by these large organizations around the world have been uneven across the close, reporting, and filing processes, which has led to the challenges these organizations currently face in managing their financial data. Regardless of whether companies are using a variety of solutions or a single solution, the report shows they continue to witness increased costs, ineffectual data management, and missed reporting, which—in extreme circumstances—can impact a company's corporate image and share value.

The good news is that businesses realize that these problems persist and plan to invest further to address these issues. While they should invest, it is critical that they direct investments correctly so that data integrity issues are identified and addressed, processes are optimized, and financial reporting is improved through the application of a feature-rich, integrated financial close and reporting solution.

With guidance on how to implement the correct business processes, infrastructure, and software solutions, financial teams will find that their reporting processes are much more effective, cost-efficient, and aligned with their performance expectations.

Executive Summary

- 82 percent of companies have made substantial changes in the last three years to the close, reporting, and filing processes
- 47 percent have invested substantially within the last 12 months in at least one of these three phases
- 38 percent currently use a single software tool that covers and links all three phases—but the systems in place seem to fall short in many ways
- 42 percent use specialist financial close workflow software and 31 percent have automatic alerts; 56 percent use one of these tools—but again, such systems fall short
- 68 percent report inadequate visibility and 84 percent say it is difficult to control the quality of financial data and other supporting information
- 88 percent have experienced delays in the last 12 months when executing financial close, reporting, and filing, most of which are due to data-related issues
- Late changes have affected 80 percent of companies in the last three years, and as a direct result, 22 percent have missed formal reporting deadlines
- One in five (21 percent) has seen an increase in costs across all three phases in the last three years, but just 40 percent were able to cite a figure for the total cost of the three phases during the last fiscal year
- 86 percent of companies are likely to make a significant investment during the next five years, but 40 percent will take a modular approach

Key Findings

Background and Introduction

This research set out to investigate the ways in which large companies throughout the world are managing their finance function and the processes associated with financial close, reporting, and filing. The questions relate to one or all of the three phases of the financial close and reporting process, defined here as:

- 1) **Financial close** (closing subledgers and general ledgers, collecting and consolidating financial results)
- 2) **Financial reporting** (preparing and generating financial statements for internal and external publication)
- 3) **Financial statutory filing** (creating, formatting, tagging, and submitting regulatory filing to external agencies)

The research explores each of the three phases in detail and the relationships and levels of visibility among them. The findings (covering 12 countries) show that, despite considerable effort and recent investments, finance departments are still struggling to deal with the diverse array of information needed to present accurate and timely financial results on behalf of their companies.

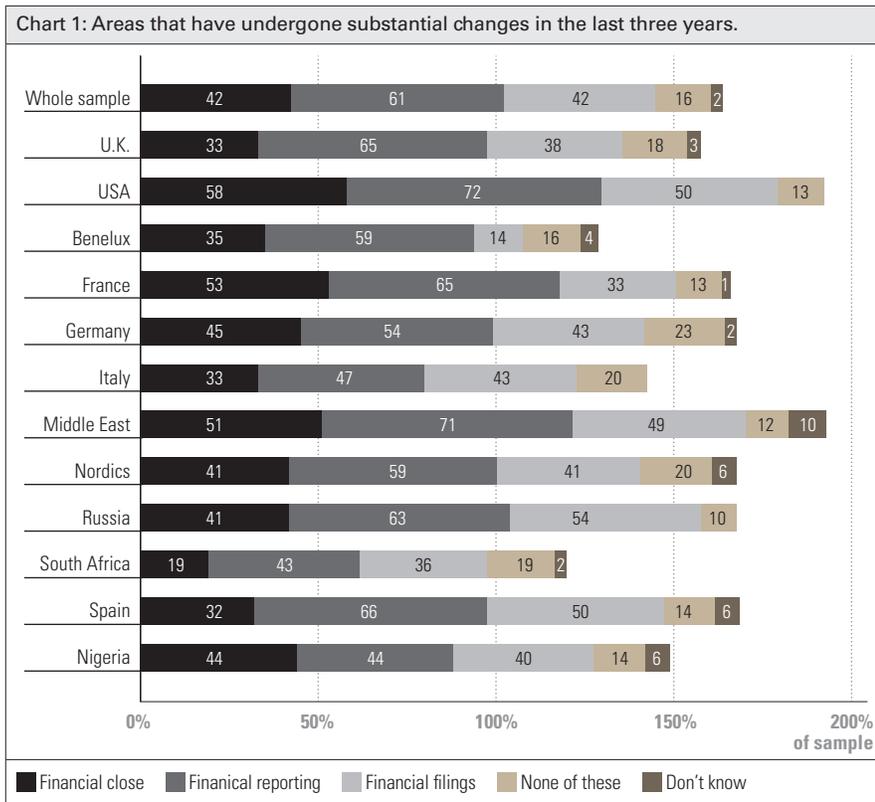
Times of Change

Changes in the last three years:

82 percent of the large companies surveyed have made substantial changes in the last three years to the way they approach and manage the three phases of the financial close and reporting process (close, reporting, and filing).

40 percent have addressed just one of these elements, while 21 percent have changed two. 21 percent have tackled all three—and this all-encompassing approach has been more common in the U.S. (32 percent) and the Middle East (43 percent) compared to the Benelux countries and South Africa (both 6 percent). Industry sectors where an all-or-nothing approach has been more common include manufacturing and engineering (26 percent) and financial services (23 percent), compared to the retail sector (13 percent).

However, for the whole sample, the financial phase most commonly changed is the reporting element (61 percent), while equal proportions of companies have changed the financial close and filing processes (both 42 percent—see chart 1).



Recent investment:

Such change seems to have been backed by investment, with 47 percent of companies having invested substantially within the last 12 months. 12 percent have invested in just one of the three phases during this time, and 10 percent have invested in two of them. 25 percent have invested in all three.

Looking across the countries in the last 12 months, investments have been especially common in the U.K. (58 percent), Russia (64 percent), and Spain (58 percent). They have also been more common in the financial services sector where 64 percent have invested during this time compared to the other sectors (30 percent to 46 percent). Indeed, more respondents in the financial services sector (37 percent) have invested in all three phases during this time, compared to almost all the other industry sectors (4 percent to 23 percent).

Table 1: Timing of Most-Recent Substantial Investment

Phase	Ever invested?	Invested in last 12 months?	Invested more than three years ago?	Average time elapsed	Median time elapsed
Close	85%	38%	17%	3.3 years ago	3 years ago
Reporting	86%	36%	16%	3.2 years ago	2 years ago
Filing	78%	33%	13%	3 years ago	2 years ago

For the whole sample, a greater proportion of companies have invested within the last 12 months in the close process (38 percent) than in reporting (36 percent) and filing (33 percent)—see table 1. However, reporting and filing have received investments slightly more recently than the close process, on average. This research also shows that a minority of companies have not invested in these areas for more than three years (13 percent to 17 percent).

Tools in place:

What have these organizations been spending their money on? The research shows that 98 percent of finance organizations use some sort of software and/or system to assist with the financial close, reporting, and filing tasks. One-third of the companies (33 percent) use specialist financial consolidation software and 37 percent use specialist financial reporting software, while one in four (24 percent) use specialist software to assist with statutory filing.

However, another 38 percent say they use a single software tool that covers and links all three phases of the process. A comparison by country finds that one in two companies (54 percent) in Russia use such a tool, compared to one in four in the U.K. (25 percent). Among industry sectors, such a system is most common in the utilities sector (47 percent), but it is least common in retail (29 percent) and telecoms, high tech, and communications (27 percent).

However, even with these specialist systems or solutions in place, 67 percent of companies still use spreadsheets, and 8 percent use spreadsheets and nothing else to assist with tasks in financial close, reporting, and filing. Interestingly, while more people with three separate solutions use spreadsheets (73 percent), a significant 59 percent of people with a single solution also use them.

Outstanding Challenges

It's all about the data:

A key part of a finance professional's job is to gather financial data; however, on average, just 65 percent of the data needed for regulatory filing, for example, is financial while 35 percent is actually nonfinancial. But there is significant variation among companies, with as many as 28 percent saying over half the data needed is nonfinancial.

One of the issues that finance professionals face is consistency, and the more disparate a company is the harder it is to control this aspect. Indeed, one example is the chart of accounts, where 88 percent of finance managers say changes to them cause problems across the business for the finance team when it comes to closing the books. On average, it takes a company 21 man-days to reconcile and update the chart of accounts, and the average figure is much higher for companies with international offices (26.8 man-days), compared to those with just national offices (13.5 man-days).

It is not surprising then that 84 percent of finance managers say it is difficult to control the quality of financial data and other supporting information across the entire process, from close to filing.

Managing the process:

Responsibility for keeping track of the people, processes, and data seems to fall mainly on the CFO or VP of finance, although finance and nonfinance managers at other levels of seniority are also involved.

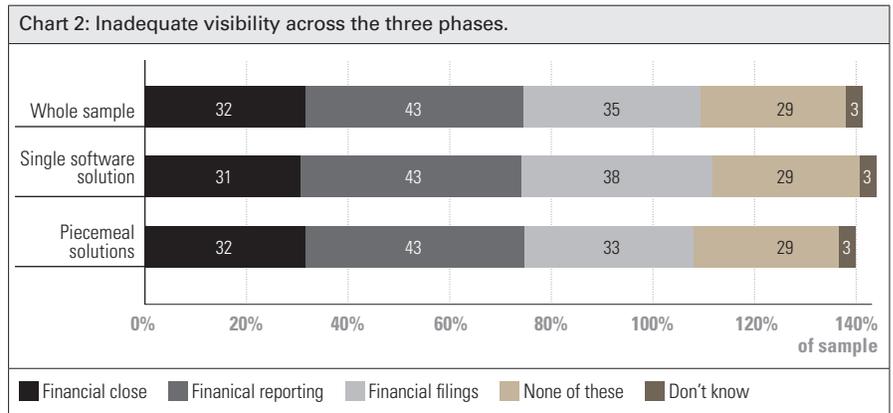
The research shows that to manage this process, 42 percent of companies use specialist financial close workflow software, which is especially common in Germany and Nigeria (both 58 percent). In addition, 31 percent have automatic alerts to show when deadlines are in jeopardy, and alerts of this nature are more common in the U.S. (41 percent) and in financial services companies (38 percent). Indeed, 56 percent of companies have one or the other of these specialist tools, but only 17 percent rely on just these two and nothing else. Another 40 percent use specialist project management software (such as Microsoft Project).

Yet despite the specialist software in place, spreadsheets (72 percent) and e-mails (68 percent) are used predominantly by finance teams to track and manage daily progress during the three phases, and 86 percent use one or both of these methods. In addition, 52 percent use the telephone, while 54 percent schedule face-to-face meetings. 40 percent attempt to control the process using simple, manual task lists.

Visibility issues:

Given the way the process is managed, it is perhaps not surprising that 68 percent of respondents think they have inadequate visibility in at least one of the three phases. However, inadequate visibility is most common for financial reporting (43 percent), whereas 35 percent have poor visibility for the filing process and almost as many (32 percent) have inadequate visibility for the financial close process.

The research shows that visibility seems almost as poor for those with alerts and/or specialist workflow management software, with 65 percent of those with one of these solutions having visibility issues. This is slightly better than those without such technical support (72 percent).



Furthermore, whether a company has a single software tool that is supposed to cover and link all three phases or whether they have an array of piecemeal solutions (see chart 2), they have visibility problems. In fact, 68 percent of those with a single software solution have visibility problems in at least one of these phases and 15 percent experience the problem across all three.

Inadequate visibility is especially common in finance organizations in the Middle East (92 percent) and Nigeria (88 percent), but more finance managers in the U.S. (19 percent) and Nigeria (20 percent) think this applies to all three phases. Only 3 percent in Italy reported the same experience. Looking across industry sectors, the same is true for financial services (74 percent), and natural resources and oil and gas sectors (84 percent).

Limiting data:

When all the relevant data is gathered, the finance managers have to perform analysis on the data collected. 71 percent of finance managers believe their effectiveness is limited in some way by data-analysis-related issues.

At the top of the list is a limited ability to perform what-if scenarios on data (34 percent), but 32 percent feel hindered by a limited ability to perform drill-down analyses and 31 percent say their effectiveness is impaired by a limited ability to answer nonroutine, unstructured questions.

Delays*Causes of delays:*

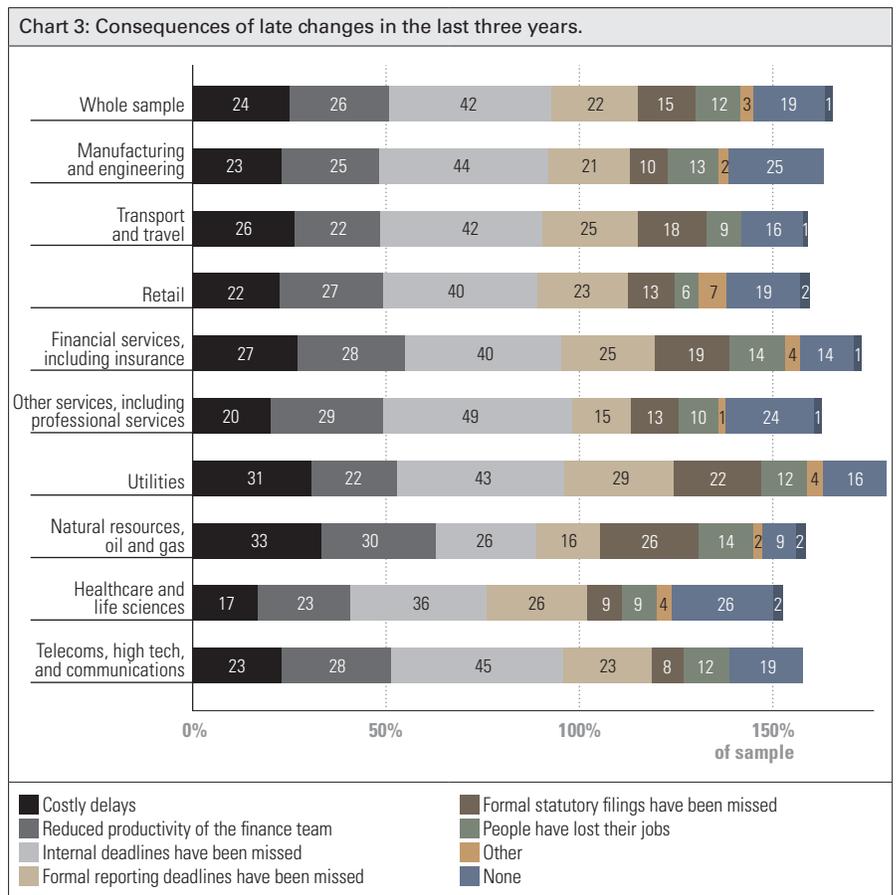
It seems finance executives have their work cut out for them, as 88 percent of companies have experienced delays in the last 12 months when executing financial close, reporting, and filing. 70 percent have suffered delays due to data-related issues, including:

- Data collection and integration (38 percent)
- Data validation (36 percent)
- Dealing with multiple data sources (31 percent)
- Integrating financial and nonfinancial data (18 percent)

The research shows that delays have been as common for those with alerts and/or specialist workflow management software (tools designed to help reduce delays), with 86 percent of this group having experienced delays in the last 12 months, compared to 89 percent of those without these technical supports. Indeed, delays have been as common for those with a single software tool covering and linking the three phases, where delays have been caused by a lack of visibility (22 percent), data collection and integration issues (38 percent), data validation (38 percent), dealing with multiple data sources (32 percent), account reconciliation (29 percent), audit trails (28 percent), integrating financial and nonfinancial data (22 percent), and XBRL/iXBRL tagging (13 percent), among others.

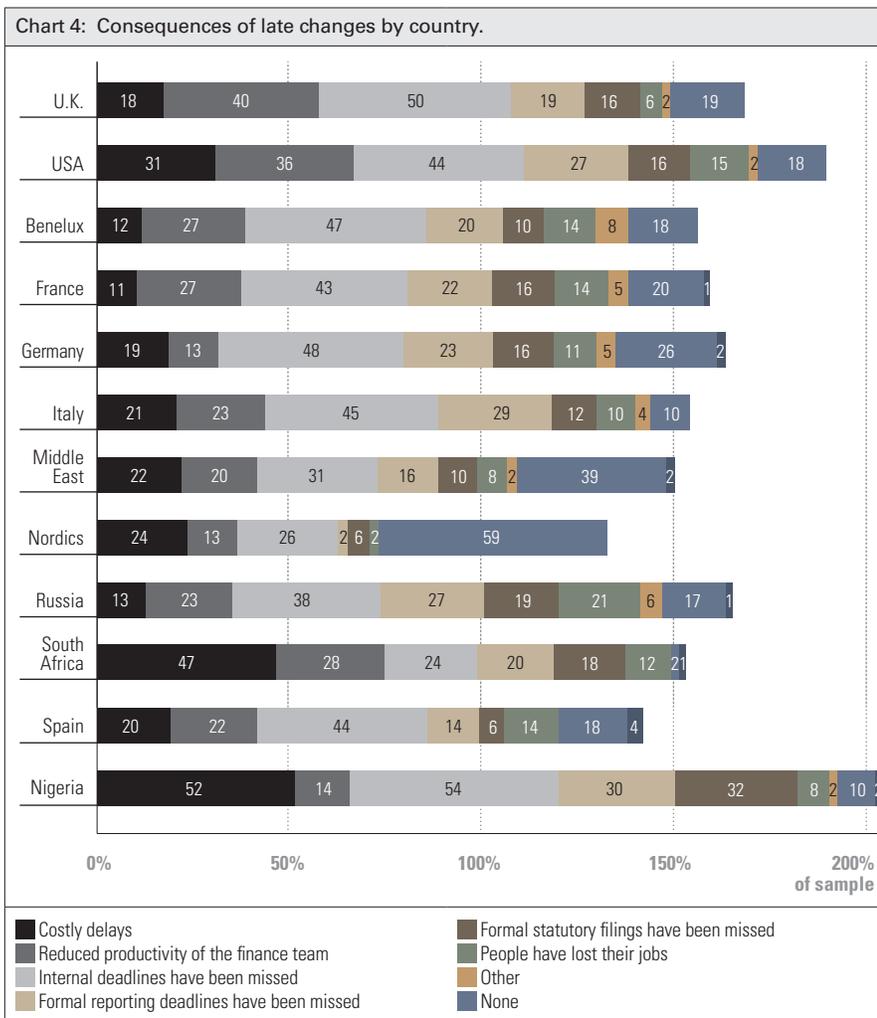
Consequences of late changes:

Last-minute changes are often a root cause of delays and during the last three years, 80 percent of companies have experienced consequences as a direct result of late changes occurring in the close, reporting, and filing phases (see chart 3). One in two (54 percent) has missed deadlines of one sort or another, while 42 percent have missed internal deadlines. 22 percent also have actually missed formal reporting deadlines.



Indeed, 32 percent have failed to meet formal financial presentation commitments of one sort or another and, on top of the 22 percent who have missed formal reporting deadlines, another 15 percent have missed statutory filing during the last three years. In fact, missed formal reporting deadlines have been especially common in the U.S. (27 percent), Italy (29 percent), Russia (27 percent), and Nigeria (30 percent). See chart 4.

In addition, 26 percent of companies say late changes have reduced the productivity of the finance team and a similar number (24 percent) say late changes have resulted in costly delays.



Concerns over missing deadlines:

Among the 80 percent of companies that have experienced problems due to late changes, 62 percent say the board's trust in the finance department has been reduced as a result. 75 percent would fear the personal impact, including backlash from the board (29 percent) and a loss of confidence in the finance team among board members (40 percent)—and the latter applies to one in two (49 percent) of C-level and VP-level respondents.

In contrast, fewer respondents (57 percent) would worry about the external impact on the company, with 22 percent concerned about the reprisal from the financial markets, 30 percent worried about bad publicity, and 35 percent concerned about the potential damage to the organization's reputation.

Cost, Time, and Effort

The research shows that costs have been rising over the last three years across the three phases of the financial presentation process (see table 2). Indeed, one in five companies (21 percent) have seen an increase in costs across all three areas.

Table 2: Changes to Costs in the Last Three Years Across the Three Phases

Phase	Have seen costs increase	Average increase	Median increase	Maximum increase	Percentage that stayed the same	Percentage that decreased
Close	35%	18%	15%	100%	45%	13%
Reporting	35%	17%	10%	100%	44%	14%
Filing	31%	15%	10%	100%	46%	14%

In detail, roughly one-third of companies have seen an increase in the cost of each of the three phases, and the average increase has been similar across each phase. Only a minority has seen a decrease, while just under half have seen costs remain static over this three-year time period.

What is the total cost burden to an organization of managing and publicizing its financial results? When asked, just 40 percent of finance managers were able to cite a figure, suggesting they actually have a poor grasp of this issue, with 60 percent admitting they do not know the total cost to their organization.

Finance professionals have a better grasp of how a company's time and effort are distributed among the three phases—and, most of the time, it's on the close process, where on average 40 percent of the total amount of time in man-hours is spent. However, this is followed closely by the reporting phase, where on average 35 percent of the total time is spent. Just 26 percent of the total time is spent on financial filing.

In terms of the future, 36 percent of companies anticipate the cost of the financial reporting phase will increase over the next five years, and this group estimates a 21 percent rise on today's costs on average. However, one in two (48 percent) believes the cost will remain static, whereas only 10 percent anticipate a decrease in the cost.

This is despite the fact that 89 percent of these financial professionals think the widespread adoption of electronic reporting standards, such as XBRL and iXBRL, is inevitable, and on average people expect this to be widespread within 2.4 years. Indeed, 18 percent anticipate such widespread adoption as soon as the end of 2012 and 61 percent anticipate such levels of adoption within the next three years.

A Confident Future?

Despite the internal and external changes imposed on the financial close, reporting, and filing processes in the last three to five years and the various problems they have encountered, most finance managers (63 percent) say their confidence level in their company's ability to produce accurate financial information on time has remained the same. But 25 percent describe themselves as more confident now, whereas just 11 percent say their confidence level has decreased.

Despite this confidence and the recent changes and investments already made, the research shows that companies have not perfected their processes and the tools they have in place to support them. Indeed, 86 percent of companies are likely to make a significant investment during the next five years in some area of the overall process. In fact, 46 percent will overhaul all three phases together. In contrast, 40 percent will take a piecemeal approach with 21 percent investing in the financial close process, while another 26 percent will address the financial reporting element and 17 percent will tackle the financial filing stage.

The research also shows that among those who will make a significant investment in the next five years by overhauling all three phases together, 26 percent have already made substantial changes to all three areas during the last three years. This and other elements of the research suggest that many of those with an all-encompassing solution or system in place have not yet taken advantage of the opportunities it offers and realize that further investment will be necessary to achieve their goals.

Methodology

This research was commissioned by Oracle and Accenture and details quantitative research with 1,123 finance professionals in large organizations in 12 countries around the world. All respondents confirmed their level of seniority prior to being interviewed. They also indicated that their company had at least 250 employees. The size of the country samples roughly reflects the size of the individual countries' economies (see table 3).

Table 3: Sample Sizes Across the Countries

Country	Sample size	Country	Sample size
U.K.	118	Middle East	51
USA	246	Nordics	54
Benelux	49	Russia	102
France	100	South Africa	101
Germany	101	Spain	50
Italy	101	Nigeria	50

The sample is made up of large companies of different sizes, with almost a quarter (23 percent) being very large corporations with annual revenues of more than US\$1 billion. Just 15 percent have annual revenue of less than US\$100 million. As with size by revenue, there is a good spread of companies of different sizes by number of employees. 48 percent have 250 to 999 employees, while 52 percent have more than 1,000 employees.

The vast majority of companies in the sample have multiple sites or offices (84 percent) and among these, 62 percent have sites or offices in other countries, apart from their own. 54 percent of companies are listed on at least one financial market, whereas 41 percent are not. The sample also covers a wide variety of industry sectors and all of these sectors are well represented.

The sample includes finance respondents at a variety of seniority levels, with 52 percent at senior-manager level or above. This includes 8 percent who operate at C level or VP level, 13 percent at director level, and 31 percent at senior-manager level. Another 48 percent of the sample operate at middle-manager level.

All interviews were conducted between February 10 and March 15, 2012. Before and during the interviews, respondents were not aware that Oracle had commissioned the research.

This research was carried out by Dynamic Markets on behalf of Oracle and Accenture. Dynamic Markets is a research consultancy in its 14th year of trading. It serves a wide variety of blue-chip B2B and B2C clients across various industry sectors. It strictly adheres to the U.K. MRS Code of Conduct.

About Accenture

Accenture is a global management consulting, technology services, and outsourcing company with approximately 236,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$25.5 billion for the fiscal year ended August 31, 2011. Its home page is accenture.com

About Oracle

Oracle (NASDAQ: ORCL) engineers hardware and software to work together in the cloud and in your data center. With more than 380,000 customers—including 100 of the Fortune 100—in more than 145 countries around the globe, Oracle is the only vendor able to offer a complete technology stack in which every layer is engineered to work together as a single system. Oracle's industry-leading on-premises and cloud-based solutions give customers complete deployment flexibility and unmatched benefits including unbreakable security, high availability, scalability, energy efficiency, powerful performance, and low total cost of ownership. For more information, visit oracle.com

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