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AMPLIFY THE VALUE OF PERFORMANCE REPORTING

LEADING PRACTICES TO SUPPORT DECISION-MAKING AND SUSTAINABLE REPORTING

The finance team serves two types of stakeholders. External entities—including investors, creditors, and regulators, among others—look to the finance function as the authoritative source of information on historical performance and the future of the business. Internal managers and the board of directors count on finance for performance measurement and analyses to support decision-making and business planning. By embracing technology and workflow automation, finance teams can take full advantage of the data embedded within their companies and serve stakeholders' information needs with timely, sustainable performance reporting and robust decision support.

Great technology enables the fulfillment of finance's mandate to serve its external and internal stakeholders, but it does not ensure it. By developing meaningful KPIs with line of business management and automating the preparation, review, and use of financial statements, finance teams can serve more effectively as the authoritative voice of business performance and advisor to business management.

This white paper offers guidance for the office of finance on:

- How to master the sea of data from business transactions, processes, and activities
- How to develop performance metrics and key performance indicators (KPIs)
- How to compose and document a company's performance story
- How to use technology and structured business processes to deliver accurate, insightful performance reporting and decision support to stakeholders quickly and repeatedly

Master the Sea of Data

Companies are awash in data on their financial and operating activities.

Consider this simplified example: Every day companies receive customers' purchase orders calling for a defined combination of products to be shipped in particular quantities, to known locations, at stated costs. Procurement teams meanwhile document their purchases of inputs, along with the supplies and equipment, which are used to develop and make products. Twice monthly, companies disburse payments to staff composed of salaries, hourly wages, commissions, T&E reimbursements—not to mention payments to taxing authorities, insurers, and retirement plans.

Go deeper into an organization and you'll find vast amounts of data on the complex activities of envisioning, developing, making, and marketing products and services. Step outside an organization and you'll find its suppliers, customers, creditors, debtors, peers, competitors, and regulators—each of which carries data that an enterprise uses when developing strategy, planning for the future, managing risk, running the business, and reporting performance. The volume of data can seem so vast as to be immeasurable. The sources, availability, and utility of data are so diverse that financial and operating activities may seem unmanageable.

Yet, every day finance teams and their colleagues elsewhere in a company work together to measure, manage, and ultimately master this sea of data. Their investments in technology go a long way toward bringing order, structure, and discipline to company data. The ideal state of a single repository for all enterprise data—the single version of the truth—is at many companies unrealistic, due often to the installed base of disparate legacy systems. Nonetheless, having one primary data repository with a limited number of connected secondary databases will serve companies well in their efforts to assemble the data required for robust, sustainable reporting and decision support.

However, well-ordered data is hardly sufficient to support business decision-making, day-to-day operational oversight, or performance reporting. These fundamental management activities require synthesis of data into meaningful performance metrics that managers, investors, and others can use to make good decisions and avoid bad ones. Doing so requires performance metrics that convey a meaningful story about a company's performance and the strengths and weaknesses of its business. Developing such a story—a clear and unambiguous narrative of performance—calls for a tight focus on the audience and the decisions it seeks to make.

GOOD KPIs DRAW ON KNOWN, RELIABLE SOURCES OF INFORMATION, **MEASURED IN UNITS THAT DECISION-MAKERS UNDERSTAND.**

Focus on the Right KPIs

Great key performance indicators (KPIs) are as diverse as the economy and the companies that compose it.

KPIs are measurements that managers use to understand how well their enterprise performs in relation to its strategic goals and objectives. They expose whether an organization is on track to meet its objectives and, taken together, shed light on where and why it's doing well or poorly. Designed well, KPIs lessen the complexity of performance analysis by distilling the sea of financial and operating data into a manageable, comprehensible group of measurements. Designed poorly, KPIs can become yet another source of administrative dysfunction, organizational entropy, and expense.

Nonetheless, the right KPIs to manage a business have a few common attributes. They're linked directly to company strategy. They provide information that a stated audience needs in order to make a decision that contributes to the success of the strategy. Good KPIs are readily understood, using common business language and expressing an idea that decision-makers comprehend intuitively. Finally, good KPIs draw on known, reliable sources of information, measured in units that decision-makers understand.

If, for example, a technology company seeks growth through aggressive but profitable market expansion with a new product, its KPIs might gauge the direct and indirect cost per unit as a function of cumulative production. This KPI will allow product marketing and sales to optimize prices during the life of the new product, perhaps by charging a premium in the first months after its release and offering discounts as cost-per-unit falls.

This metric meets each of the requirements for a good KPI (see Fig. 1). The measurement—a new product's direct and indirect cost per unit over time—is linked directly to the company's strategy for profitable growth through new product sales. The KPI also has a defined audience and use—product marketing and sales will use it to set and adjust prices and discounts—and provides an answer to a question that will determine the success of the strategy. This KPI is easy to understand. It captures the accounting cost of making the device by measuring the expense directly attributable to each unit produced, and, more generally, the broader economic cost of each unit by including indirect expenses such as depreciation, shared assets, administration, etc. Finally, it draws on data sources such as the company's ERP system and uses units of measure such as dollars, units produced, and cumulative production, that managers readily understand in exactly one way.

Collaboration between the finance team and the users of its output ensures that KPIs are in fact useful performance measurements. The CFO and his or her team should work with line of business management—in this case, product marketing and sales management—to define the decisions to be made (pricing and discounting), the criteria with which to make them (direct and fully loaded cost), and the suitability of sources of information (finance and accounting systems).

Of course, the KPIs required to manage a complex enterprise extend far beyond this simple example. Nonetheless, using these core criteria for sound KPIs—a direct linkage to business strategy, a defined audience and use for the measurement, and ready comprehension based on reliable sources—will generate performance indicators that give managers what they need to make strategically important decisions. And while it's tempting to try to measure and report a great many metrics, finance teams are cautioned about the risk of relentless measurement and over-reporting. Remember, KPIs are not themselves an objective; they are the means to the strategically important end of great managerial decision-making. By focusing KPIs on strategy and the decision-makers who need them, finance teams will build the metrics that will help navigate the uncertainty that lies ahead.

FIGURE 1:

WHAT MAKES A GREAT KPI?

Linked to business strategy?	Designed for known stakeholders?	Focused on decision-making?	Sourced from objective data?
✓	✓	✓	✓
Aggressive, profitable growth	Product marketing and sales	Pricing and discounting strategy	ERP and production systems

Build the Narrative That Tells the Story

A discrete number provides little information without context. With this in mind, finance teams should assemble a mosaic of KPIs that enable managers to make strategic decisions. Some KPIs, such as the cost per unit over time example, are well suited to a particular group of decisions, such as pricing and discounting for a new offering. Other KPIs are more persistent and are likely to be tracked and reported as part of the company's normal course of business. The core financials of a company—its balance sheet, income statement, cash flow statement, and management discussion—are composed of financial KPIs that a skillful CFO or analyst uses to tell a story about the company's performance. Combined with special-purpose KPIs such as the cost per unit example, financial reporting data provides a view into a company's performance over an operating period.

Rather than simply report financial results by saying, in effect, "Here are last year's financial statements," finance leaders should take full advantage of the information embedded in the statements. Managers, investors, and analysts seek to understand the historical performance and forward outlook for the business. If the finance team doesn't offer such an understanding, you can be certain that those who need to understand the company's performance will develop a performance story on their own.

Finance teams should draw on their standard financial reports and additional KPIs when preparing the performance narrative. One useful exercise in developing this narrative is to combine the company's operating strategy with its financial statements to answer questions such as, "What did we do strategically during the period? Which values on the balance sheet, income statement, and cash flow statement changed in notable ways? What supplemental information from other KPIs can shed further light that explains the change in a lucid way?"

It can be tempting to bury performance shortfalls with an avalanche of data that highlights positive results and downplays negative news. Investors and analysts are keen to find the information they need, and modern accounting standards, coupled with incisive Q&A, are likely to reveal any misdirection or "spin" in the performance narrative. Ultimately, the finance team (and its KPIs) must support the audience's business questions and interests. Candid, brief, and logical explanation of company performance, even if it falls short of expectations, builds confidence in the finance team and its leadership. Opacity and complexity erode it.

This commitment to straightforward explanation should extend to the presentation of performance results as well. Excel and PowerPoint have made it easy for nearly anyone to prepare colorful, graphically rich reports and presentations. However, they are often the source of visual noise, distraction rather than illumination, and nightmarish version-control problems. And no matter how well these desktop tools are used, they remain ill-suited to managing the complex, deadline-driven process of financial reporting and collaborative presentation.

IF THE FINANCE TEAM DOESN'T OFFER UNDERSTANDING, YOU CAN BE CERTAIN THAT THOSE WHO NEED TO UNDERSTAND THE COMPANY'S PERFORMANCE **WILL DEVELOP A PERFORMANCE STORY ON THEIR OWN.**

Brown-Forman Corporation, one of the largest American-owned wine and spirits companies, knows the woes of version control when creating its board report.

"Our process was inefficient, in regards to who was touching it and how the data came together," says Andrew Campbell, Senior Analyst. "It was painful, to say the least."

One solution to error-filled presentations and reports lies in well-implemented cloud-based software that automates the generation of financial reports, management reports, investor relations documents, board reports, and talking points for executive briefings. For example, global power company AES Corporation streamlined its financial reporting process by adopting technology from Workiva that pulls together all the primary materials for quarterly and annual reporting in a single repository. The Wdesk platform from Workiva allows the company to generate its periodic financial statements faster and with less effort. AES found additional benefit from Wdesk soon after implementation.

"Immediately, we saw the opportunity to bring all investor relations into Wdesk to have one version of the truth and consistency," says Mike Farrow, senior manager at AES.

Today, the company's legal, investor relations, human resources, and financial departments each use Wdesk for different purposes—to create and store earnings materials, press releases, CFO and CEO scripts, business scorecards, proxy statements, Q&A documents, and more.

Brown-Forman Corporation also implemented Wdesk to streamline their board reporting process.

"Wdesk gives us the flexibility that we need," says Campbell. "There's no formatting involved. You just update the numbers and refresh the chart. It's a clean, simple process."

TIMELY FINANCIAL REPORTING THAT TELLS A COMPELLING STORY **ENGAGES MANAGEMENT AND EXCITES INVESTORS AND ANALYSTS.**

Ensure Data Integrity with Process Improvement and Automation

Financial reporting and performance management are risky endeavors. With the right KPIs, the finance team supports the business's ability to make strategically powerful decisions. Timely financial reporting that tells a compelling story engages management and excites investors and analysts. If a finance team gets these wrong, time and money are wasted, strategic opportunities are lost—and so are jobs.

High-quality KPIs and financial reporting require a company to gather data from many sources and to govern it carefully. Companies seeking to improve their decision-making and performance reporting rely on process improvement efforts to ensure data is gathered quickly and accurately. Improving finance processes can be a daunting task. To bring order and discipline to process improvement, finance teams are wise to adopt the customer/stakeholder-focused thinking of their peers in marketing and sales, who are masters at determining requirements and improving processes by seeking an understanding of what their customers really want.

Finance teams too often rely on well-worn historical practices and overlook changing requirements from those who rely on finance's data and analyses. With this in mind, finance teams are advised to view their stakeholders—the internal and external entities that use finance's work in decision-making—as customers. Investors need timely, audited information on company performance.

External accountants need audit-ready financials for review and attestation. Stock analysts need corporate access for detailed Q&A with management on historical performance and the road that lies ahead. Line of business managers need management reporting and KPIs that allow them to make sound operating decisions. Investor relations, the board of directors, legal, compliance, and corporate development all have their own information and reporting needs. By considering these and other groups as finance's customers, the CFO and his or her team are able to take an important step toward improving how they gather, analyze, and share information on company performance.

Technology also plays a pivotal role in finance's reporting and decision-support activities. Companies often have islands of automation in disparate systems that store performance data in ways that are inaccessible to other systems or groups within a company. As a result, data is collected more than once, perhaps inaccurately, and without thoughtful regard for how it can and should be used and reported more broadly.

New, cloud performance management technology allows companies to automate the collection, integration, analysis, and workflow of performance management, often with impressive results. According to Forrester Consulting, an agribusiness company also using Wdesk automated its financial and management reporting and earned an estimated 266% return on its investment, which paid for itself in less than nine months.[1]

In addition to the notable financial return, Wdesk has lessened finance's time spent on manual processes and workflow management. As a result, the company's finance team has the time and mandate to focus on higher-value analyses to better calibrate regional-level adjustments and improve overall operating margins.

Concludes the company's director of accounting, "I'm now able to focus people's attention on more important things because we were so caught up on doing extraneous busy work previously that we couldn't dive into real value-adds, like helping drive results as business partners."

Finance Delivers Results to Internal and External Stakeholders

By adapting these several practices in their companies, finance teams will serve their stakeholders inside and outside the company more effectively. Managers will make better decisions with KPIs designed explicitly for their use in executing business strategy. Investors will have a clearer view of historical performance and the path to value that lies ahead. Regulators, creditors, and others will have the information they need to assess the company's compliance activities and risk profile. And the finance function will approach the elusive goal of sustainable, cost-effective reporting and high-value decision support.

ABOUT WORKIVA

Workiva (NYSE:WK) delivers Wdesk, an intuitive cloud platform that modernizes how people work within thousands of organizations, including over 70 percent of the 500 largest U.S. corporations by total revenue. Wdesk is built upon a data management engine, offering controlled collaboration, data connections, granular permissions, and a full audit trail. Wdesk helps mitigate risk, improves productivity, and gives users confidence in their data-driven decisions.

For more information, visit **workiva.com.**

[1] The Total Economic Impact™ Of Workiva Wdesk: The Benefits Of Streamlining Management Reporting At A Global Agri-Business" is a June 2017 commissioned study conducted by Forrester Consulting on behalf of Workiva.