5 Fatal Flaws Killing Disclosure Management Processes

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Introduction

There are many ways to drive a business into the ground; erroneous disclosure is one way; producing hurried or manually generated disclosures are two more. It's one thing to have unideal numbers – product sales didn't quite make the cut or projected forecasts fell short, succumbing to outside forces. But it's another thing entirely when a finance team has exhausted its efforts on fruitless, manual tasks or when procedures have become a hazard more than a help.

Status quo disclosure is status quo because it barely scrapes by. Organizations who fit the "status quo disclosure" bill aspire only to pass regulatory requirements and avoid fines – but they also fail to recognize the strategic potential of financial reports as a means to communicate value bluntly to investors. These organizations have a Disclosure Management Cycle that is particularly susceptible to error. In fact, the effects of these poor processes may already permeate the reporting company's financial reports.

Five fatal flaws killing the success of disclosure management processes are:

1. Operational redundancies
2. Extraneous information
3. Disclosing without investors in mind
4. Errors in financial reports - narrative and data
5. Over qualified staff spending unnecessary time on menial tasks

Companies disclosing to meet the status quo often find they're stunted by these seemingly insurmountable issues. Often, these flaws are deemed, "just part of the job." With no time for analysis and even less time to incorporate strategic operational practices, these companies are stymied in logistics and cannot shift their focus beyond the manual production of reports.

Exploring the five fatal flaws killing disclosure management processes

1. Operational redundancies:

Monthly reporting, monthly reporting, monthly reporting – it's a little bit redundant. Every month, financial reports are turned in to managers. Every month, the same template gets updated with new numbers. Every month the words "increase" and "decrease" are traded, one for the other. Every month... you get the picture. Operational redundancies prominently occur in a few ways: Manual updates to recurring reports are likely the most time consuming. If you're gathering analytics or financials manually and updating reports repetitively, there's a lot of time wasted re-entering and updating data – time that could have been used on analysis or making meaningful business decisions. Wasted time, wasted resources, wasted talent – one weak process. Other operational redundancies include unnecessary back and forth between various stakeholders, searching the web fruitlessly for benchmarks and scouring regulatory sites for event driven precedents.

2. Extraneous information:

Dr. Patricia Walters said it best. "Why do we keep adding more rather than better disclosure? In one word: fear. Investors fear making bad decisions and litigation; regulators, standard-setters and legislators fear public outcries at the next market crisis; preparers fear competitive disadvantage; auditors fear increased oversight. I believe it's also sheer laziness. It's so much easier to increase the quantity of information, than to expend the considerable effort it will take us to improve its quality and transparency." What's the call to action? Cut the fluff. Extraneous information and overly complex explanations of, say, collateralized debt obligations, makes an already complex subject virtually inaccessible. You understand the impact of your decisions on financial statements and the bottom line – prove it.

3. Disclosing without investors in mind:

Are you making investors search the world with a candle for a piece of quantitative information? Making investors work is one sure way to drive your business into the ground. Simple tactics - like using tables to represent quantitative figures, organizing note disclosures so they represent the explanation of the balance sheet or income statement in its totality – can go a long way with investor favorability. One study by an investor relations firm defined successful CFOs as those who think like investors. Conversely, deficient CFOs were defined as disinterested, lacking strategic insight and failing to understand how investors assess and measure performance.[1] The lesson? Leaving investors in the disclosure dark might just turn the lights out on your company. Keep them on by thinking like your audience.

4. Errors in financial reports

The quickest way to kill your disclosure management process is by reporting incorrect data. After all, manual data entry leaves a lot of room for error. When processes are overburdened with manual intervention, the risk of error is high. This is especially true during financial reporting high season. "Close to 90% of spreadsheet documents contain errors [...] Spreadsheets, even after careful development, contain errors in 1% or more of all formula cells [...] In large spreadsheets with thousands of formulas, there will be dozens of undetected errors." [2] For accountants who've been trained to value accuracy, these statistics are unsettling; for financial reports that depend on precision, these statistics are unacceptable. When reports are inconsistent due to typos or because the numbers are outdated – missed during the update and the final review - it looks bad on the company and on the report manager.

What's the direct impact of these errors? One Deloitte study warned, "In addition to a loss of investor confidence evidenced by an associated share price decline, an organization may face a drop in credit ratings, and management changes may be effected. One study has suggested restatements can destroy up to 35% of an organization's worth."[3] The numbers speak for themselves.

5. Over-qualified staff spending unnecessary time on menial tasks

What happens to finance executives who use a reporting cycle on its last legs? They're always in a rush, maybe even slight panic, with a "get it done and get it out mentality" for every complex external or internal report. These are high value employees completing low value tasks. They're cutting and pasting data, spending countless hours scouring competitors' websites for business intelligence needles in Big Data haystack along with their complex tasks. They simply can't do it all with the utmost attention. There's just not enough time.

The best employees want to make a material impact on the company they work for. They prefer to strategize and forecast, making meaning out of the numbers. These employees are quickly lost when they're tasked with unskilled work. Not only is staff turn over a risk here, but having over qualified staff concentrate their time on menial tasks means your company is spending unnecessarily on things like data entry.

What's the solution?

Smart disclosure - also known as the perfect combination of workflow and quality. This two pronged approach brings your financial reports to life, without the fatal flaws discussed above. Smart disclosure is facilitated by an automated Disclosure Management Cycle: the systematic production of disclosures that provide investors with a thoughtful look at a company's earnings, linking numbers and narratives in a manageable and contextual way.

In **The Difference Smarter Disclosure Makes**, the winning disclosure management formula is described as a balance of the following:

1. Improved financial reporting efficiency and data accuracy for smooth reporting cycles
2. The attractive presentation of company results through quality disclosure

Everyone discloses, but the intention is different; some disclose to meet the regulatory end, while best-in-class companies see financial reports as an opportunity to appeal directly to investors – the smarter, investor-centric approach always wins.

So how do you get smarter disclosure?

1. Use a streamlined workflow to push the filing through the production phase with an understanding that there are likely multiple contributors, highly sensitive information and real-time changes.
2. Real-time data updates eliminate the need to re-key data, which only serves to bog down your finance department in logistics.
3. Accounting resources, like reporting standards, rules and regulations and peer filings, should be at your fingertips. These tools make for disclosures that are based upon regulatory successes and contextually rich with relevant information for stakeholders.
4. Communicate with investors' top of mind by having quality at the center of your internal disclosure mandate. By focusing on the quality of your narratives and the accuracy of your data, the integrity of your company's work is not lost on deaf ears and is showcased with optimal results.
5. Give your staff the tools they need to succeed so they can spend less time in the trenches and more time making meaning out of the numbers

1 "What Makes a Great CFO?" G.A. Kraut Company. N.p., n.d. Web. 3 July 2013. http://www.gakraut.com/articles/WhatMakesAGreatCFO.pdf

2 Olshan, Jeremy. "88% of Spreadsheets Have Errors." MarketWatch. N.p., 20 Apr. 2013. Web. 25 Nov. 2013. http://www.marketwatch.com/story/88-of-spreadsheets-have-errors-2013-04-17

3 "Reducing Financial Reporting Risk." Deloitte.com. Deloitte, 2010. Web. 25 Nov. 2013. http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/

CanEng/Documents/Risk%20Oversight/ReducingFinancialReportingRisk.pdf

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