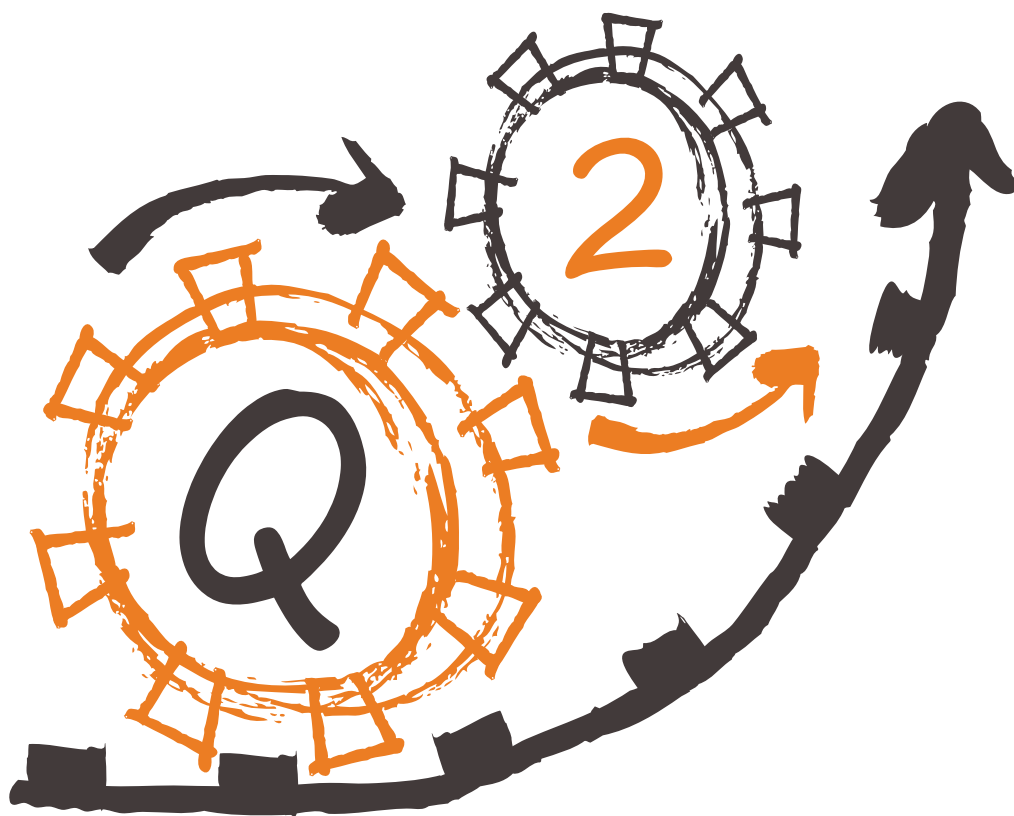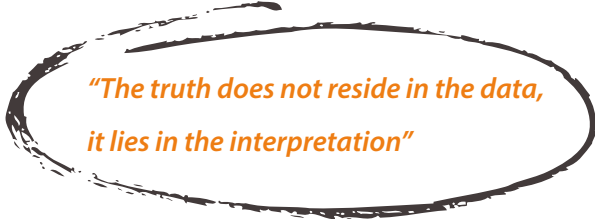# Q² Exponential Financial Insight

Fully Integrated Quantitative + Qualitative Financial Reporting

Summary

Given the wealth of information and technological possibilities available, one of the most surprising aspects of today's reporting landscape is that we declare "mission accomplished" in our quest to achieve a "single point of truth" the moment we have secured a single version of the *numbers*.

"The truth does not reside in the data, it lies in the interpretation"

While there is no doubt that a single version of the data represents a necessary condition for arriving at "the truth", it is far from sufficient and leaves us well short of achieving our objectives of driving optimal decision-making, accountability and control.

As Finance professionals we are unrelenting in our pursuit of automation, centralization, accountability and rigorous quality and process control with respect to the numbers. So why do we accept that the qualitative information (i.e. commentary) crucial to our ability to accurately interpret this data, take the most appropriate and effective action and keep everyone accountable is still managed in a disjointed, highly manual and inefficient process of separate documents that lacks many of the governance standards we apply to the data?
The natural bias of our professional for "exact" (i.e. quantifiable) information certainly plays a role in stimulating this "qualitative information blind spot".

However, the inertia in tackling this issue is greatly enforced by the continued use of generic Business Intelligence (BI) and out-dated Excel-based reporting tools where commentary is at best an afterthought.

Whatever the reasons, this numbers-only approach fails on two counts:

✓ **Insight:** It fails to optimally capture the essential business insight on which accurate interpretation and optimal business decisions depend and relegates finance teams to the unenviable role of palaeontologists trying to deduce the truth from historical remains.

✓ **Control:** It lacks the formal governance, process management and audit trail essential to ensuring fast close (a process is only as fast as its slowest component) and optimal accountability (including aggravating the risk of controllers "going native" and undermining the critical interplay between strong business ownership and neutral controlling oversight).

Remedying this and ensuring truly optimized decision-making, accountability and control requires a stronger focus on interpretation and a fully balanced quantitative/qualitative approach to reporting.

We refer to this as Q2 insight and it implies the full fusion of quantitative data and qualitative commentary into a single optimally efficient integrated financial reporting and consolidation process and system to achieve what is truly "a single point of truth".

The good news is that the path to Q2 success has been cleared by pioneering peers supported by tested and tried, specialized financially intelligent Q2 reporting tools that fully leverage and optimize the Oracle Hyperion, SAP BPC/BW, IBM TM1, Microsoft SSAS and Tagetik installed base:

⟲ Supporting all key types of commentary (e.g. from comments at the report or line-item level and the capturing of follow-up commentary and personal annotations to the full support of all types of attachments and external information).

⟲ Providing strong commentary process management (e.g. audit trail, central locking, efficient roll-up and copying along the hierarchy and between periods).

"Unleash the full financial intelligence of your team, your systems and your organization and exponentially increase your Q2 insight."

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[1] The truth does not reside in the data, it lies in the interpretation

If there is such a thing as a "Holy Grail" in the world of financial reporting, it surely is arriving at a single point of the truth. And doing so in the most efficient manner possible (the famous "fast close") in order to achieve the two key objectives of reporting:

- driving fast and effective decision-making;
- ensuring strong accountability and control (incl. all aspects of quality and risk management).

This is why it is so surprising that so many of us declare "mission accomplished" the moment we have optimized the financial data close process and secured a single version of the data.

On the one hand, we are unrelenting in our pursuit of automation, centralization, accountability and rigorous quality and process control with respect to the numbers.

On the other hand, we accept that the crucial qualitative information (i.e. commentary) that drives our ability to accurately interpret this data, take the most appropriate and effective action and keep everyone accountable is still managed in a disjointed, highly manual and inefficient process of separate e-mails, documents, files and personal scribbles that runs parallel to the data it pertains to and lacks many of the governance standards we apply to the data.

One can argue whether this is cause or effect, but the nature of the tooling used by most companies for their financial reporting processes plays a major role in this skewed situation. Too often, this process is still managed, not via specialized Financial Reporting tools, but using generic Business Intelligence (BI) or Excel-based native Enterprise Performance Management (EPM) reporting tools where commentary is at best an afterthought. Not surprisingly, this only enforces the "qualitative information blind spot" and finance office inertia when it comes to tackling this critical gap. Whatever the reasons, this data-only approach fails on two counts:

✓ Insight: It fails to optimally capture the valuable, deep, detailed and often iteratively-developed (over time and multiple organizational levels through follow-up questions and answers) business insight on which an accurate interpretation of the data and optimal business decisions depend. There are simply too many possible explanations for any given data trend.

Without this essential qualitative insight to help them zoom in on the most likely explanation ("the truth"), finance teams are relegated to the role of palaeontologists, trying to form hypotheses by looking at the fossil remains of past events (i.e. the data).

✓ Control: It lacks the formal governance, process management and audit trail essential to ensuring fast close (The closing process is only as fast as its slowest component) and strong quality-control, traceability and accountability ("I didn't say that").

[2] Momentary points of possible truths and half-truths

"We believe numbers don't lie, especially when interpreted advantageously."

While a single version of the data is clearly a necessary condition for getting to "the truth", it is far from sufficient. A single accurate and uncontested, universally shared version of the data of course eliminates the most frequent source of corporate wasted time, energy and frustration (the discussions about "who has / what is the right data?") and creates one less place to hide from accountability. However, the scope for erroneous interpretations and, by consequence, sub-optimal decision-making remains largely undiminished.

This is true with the best of intentions. In the messy and uncontrolled experiment that is daily business, there are just too many possible explanations for any set of data or data trend ("multiple potential truths"). Moreover, it is simply too easy and too tempting for executives in the complex social-political landscape of large organizations to make data fit the most advantageous conclusion.

And not surprisingly, this phenomenon is strongest in exactly those situations where the need for accurate and rapid analysis and action is most acute (i.e. areas that are underperforming and in need of the right urgent action). The negative impact to the company of erroneous interpretation – willing or accidental - is therefore many times higher than its actual share of executive behaviour.

Taking this together, we would argue that many of those claiming to have a "single point of truth", neither structurally possess a single point (i.e. data and commentary are only momentarily united in stand-alone documents that are difficult to retrieve for comparison in the future); nor is it likely to be the truth.

The necessary and sufficient condition for successful interpretation – and by consequence of optimal decision-making, action and accountability – is therefore to take the proper holistic view of arriving at "the truth" by ensuring commentary and data are treated with equal importance and rigor.

We refer to this as Q^2 insight and it implies the full fusion of quantitative data and qualitative commentary into a single optimally efficient integrated financial reporting and consolidation process and system to achieve what is truly "a single point of truth".

[3] Q^2 reporting processes and systems

So what are the process and system requirements for Q^2 insight? We will look at this from two perspectives:

- **Types of qualitative information:** What different types of information need to be captured?
- **Process management:** What is critical to ensure the optimal consolidation and reporting on qualitative information?

Together, these form the requirements for what any Q^2 reporting system should provide:

- All types of qualitative information can be managed within the system;
- All qualitative information is stored and managed centrally (i.e. in the same manner as happens with the data).
- Data and qualitative information are fully and precisely linked and stored on the basis of exact reporting inter-sections, dimensions, hierarchies and user-access/security profiles.

1. Types of qualitative information and "comments"

We distinguish four major types of qualitative information:

1.1 **Formal comments.** These are explanations added to the reported Enterprise Performace Management (EPM) data and which, in a non Q^2 process, are often manually entered or cut and pasted alongside the data tables in Word, pdf or Powerpoint reporting packs.

While comments can be "free format", most companies collect these using templates that ensure consistency and comparability of comment across the organization, as well as ensuring that explanations are always provided for certain key areas (e.g. financial, commercial, HR etc.). We distinguish two main types of comments:

- ⊘ Report or Point-Of-View (POV) comments
- ⊘ Line-item comments

1.1.1. Report or Point-Of-View (POV) comments

Formal comments at the report or "point of view" level. For example, a summary of the key dynamics of the Profit & Loss (P&L) statement ("on target to meet end-of-year EBITDA, but still a strong risk around sales performance in Europe due to slower than expected economic recovery").
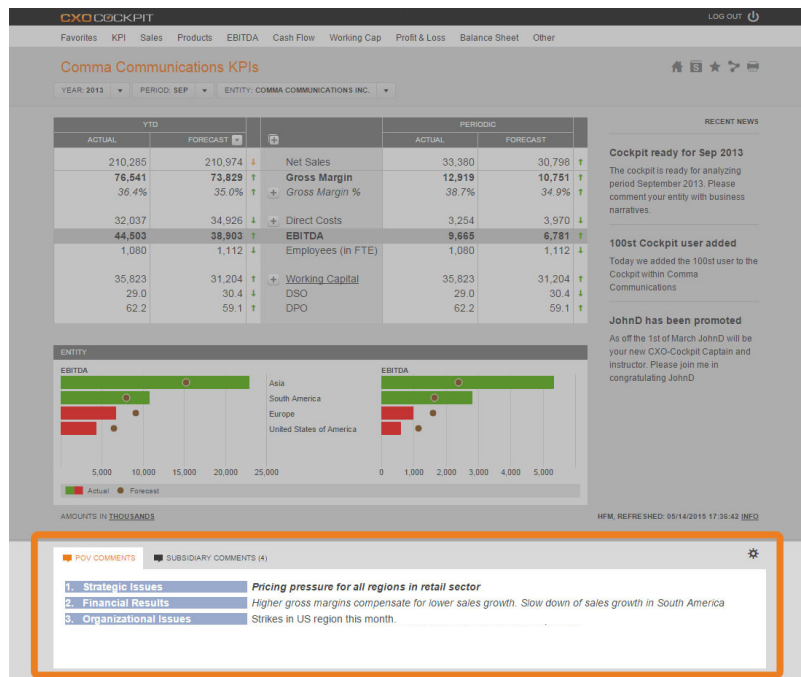

Image: Formatted Point of View Comments in CXO-Cockpit™

1.1.2. Line-item comments:

Individual formal comments attached to a specific row, column or item in the report. For example, individual explanations provided for specific lines in the P&L where outlying variance can be observed (e.g. "international sales are below budget due to exchange rate effects", "HR costs are below budget due to delayed recruitment").

Image: Column-Specific Line Item Comments in CXO-Cockpit

Image: Row-Specific Line Item Comments in CXO-Cockpit

1.2. Follow up comments ("Why…").

These comments are usually less formal and arise in a second phase, as a reaction to the formal reports (round one of reporting), including:

- requests to explain further;
- comments on items not covered in the formal comments;
- requests for action;
- etc.
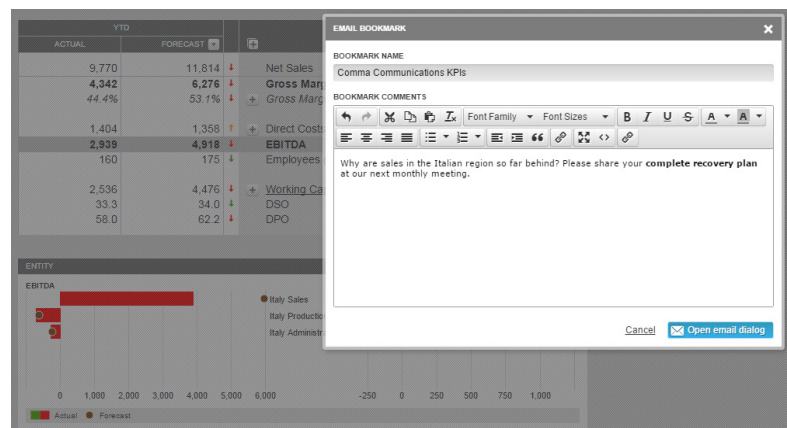
Image: Sharing Bookmark Comments in CXO-Cockpit

Typically these bypass the formal reporting process entirely and reflect the discussions that take place after the reports have been distributed. More often than not, this commenting flow takes the form of e-mail discussions/threads. These types of comments provide critical additional insight and are essential to tracking accountability on any agreed follow-up actions. A Q^2 reporting process and system makes sure that these follow-up comment flows are also captured within the reporting system and attached to the relevant reports and data they pertain to.

1.3. Annotations

These are personal notes that serve as reminders and footnotes for later follow up or review, such as personal handwritten notes on a printed version of the reports. Indeed, this is often one of the most-quoted reasons for executives to stick to paper and not go 100% digital. While not relevant to other users of the reports, they are key to the individual reporting user that makes them (e.g. his/her preparatory notes for formal review meetings).
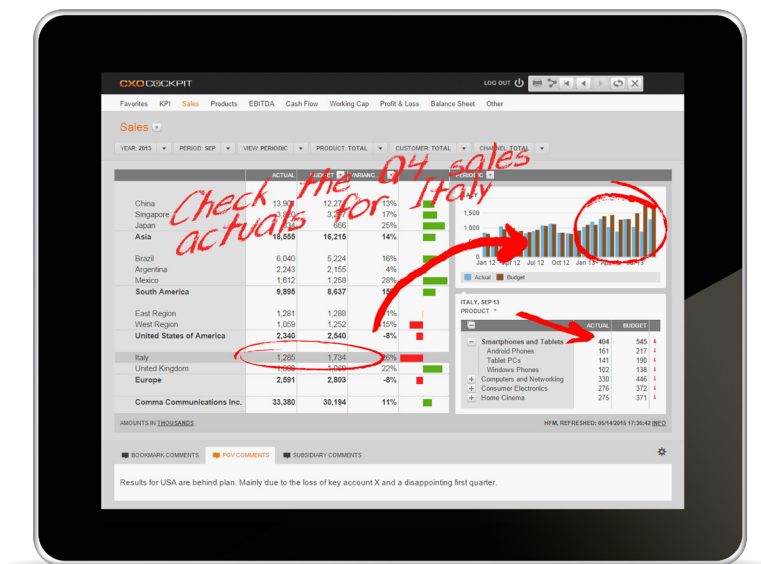
Image: Annotation in CXO-Cockpit Viewer™

As such, it is critical that they remain stored along with the relevant report. A Q² reporting process and system offers annotation functionality that allows free drawing and highlighting on reports and dashboards to fully support the analysis process in the way controllers and CFO's are used to doing this today. The only difference: no more chaotic stacks of paper, no more trying to find back that version of the report with "my notes", but everything neatly accessible at any time, any place on your tablet.

1.4. Attachments

Along with the formal commentary around the reporting process, there are usually a wide range of other internal and external documents, presentations and reports that a relevant to, and should be included in, the reporting pack. A Q^2 reporting system provides full flexibility to include and embed these images, attachments, files and additional sources of qualitative information within the reporting pack and ensure that they are centrally stored along with all other information.

2. Qualitative informational process management

Supporting the full spectrum of commentary types is critical to ensuring all value-added qualitative information is captured, increase the probability of correctly interpreting the data and, as a consequence, ensuring optimal decision-making. This is not enough, however. The other critical component of a Q^2 reporting process and system is strong and optimized process management, governance and automation to ensure water-tight quality control and support a fast close by minimizing time wasted on manual, repetitive and non-value-added activities. It is therefore critical that a Q^2 reporting system supports the following types of process management aspects:

**2.1. Audit trail / Version control -** A Q^2 reporting system ensures a 'Single Point of View' with financially intelligent commenting governance. Audit trails are normally only created for quantitative reporting (i.e. the numbers, in consolidation systems). But what about the qualitative reporting audit trail? Who added which comment when? Is this the final, reviewed version approved for publication or still in draft?

It is critical that there is a full audit trail of the comments added to the report (i.e. a 'view history' functionality) along with the option for those owning the process to restore historical commenting records.
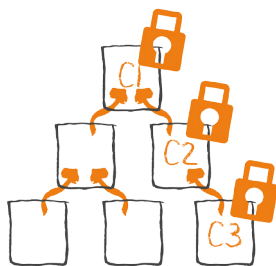
2.2. Comments lock - You do not want to be surprised by last minute and contradictory comment changes during your monthly financial review meeting with the Board. A Q^2 reporting system ensures you have the option to 'lock' comments and close the commenting process.
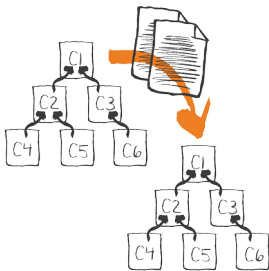
2.3. Comments copy - Especially in the monthly reporting cycle there are a lot of repetitive comments and insights that do not change from period to period. A Q^2 reporting system ensures comments from one period can be easily copied to the next; eliminating repetitive manual work.
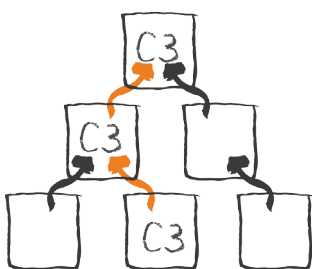
2.4. Native Parents - It is common for certain comments to re-occur at more than one location in the reporting stack. A Q^2 reporting system has a 'Native Parents' functionality that makes sure it is easy to manage a comment centrally and deploy it to multiple locations in the reporting stack.
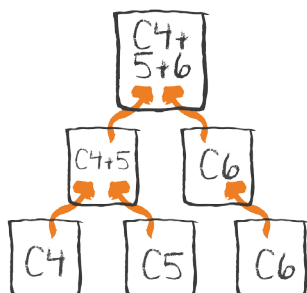
2.5. Comment Roll Up- Especially in complex hierarchically structures, you often want to summarize the comments of underlying subsidiaries on a top level to create a clear overview. A Q^2 reporting system automates the commentary consolidation and roll-up process by facilitating the copying of comments from low to higher levels, either from a certain level in the tree, or from the base of the hierarchy.

[4] Q² Finance is a better business partner without eroding the core controlling role

The qualitative side of reporting is often underexposed, but it determines the quality, value, speed and accuracy of the Finance team's performance and output and, by consequence, the speed and quality of decision-making and the likelihood of business success. More than that, it is absolutely critical to ensuring full accountability within the wider business. At the beginning of this whitepaper we already highlighted that – in the absence of full Q2 reporting - the finance team risks being relegated to the role of palaeontologists trying to form hypotheses (interpretations) by looking at the fossil remains of past events (the numbers).

The natural instinct for many of the finance teams without rigorous Q2 processes and systems with regard to the qualitative reporting information is to compensate by getting closer to – and improving their understanding of - the business. And while this is to be encouraged, it will never provide finance with the same deep level of insight of the business (for whom this is "the day job"). Perhaps more importantly, however, the "controlling" function of finance implies that it should be very careful how and when it takes the lead in providing explanations on business performance on behalf of the business (as opposed to asking the difficult questions and complementing business insight with external information and insight) as this risks eroding their own essential neutrality and independence (e.g. controllers "going native").

In addition, it erodes the accountability of the business in both negative and positive management scenarios.

Firstly, it allows executives prone to avoiding ownership to outsource this accountability to finance and use the explanations given by finance as a smokescreen or cover ("I never said that"). Secondly, it greatly frustrates those executives who do take true ownership for their business, as it limits their (perceived) ability to communicate directly and ensure 100% accurate explanations and recommendations towards upper management. Indeed, you will often hear such managers complain that somewhere along the process of collecting their commentary "finance changed things" and misrepresented or misinterpreted the actual situation.

This is source of friction in the relationship between finance and business that is wholly unnecessary, distracting and avoidable through a balanced Q^2 approach. Having made the heavy investments in getting the quantitative side of reporting under control through investments in back-office EPM planning and consolidation systems such as Oracle Hyperion, SAP BPC and Tagetik, it is high time that Finance now focus on unleashing the full potential of these systems and their data by adding the critical qualitative dimension. The good news is that the path to Q^2 success has been cleared by pioneering peers supported by tested and tried, specialized financially intelligent Q^2 reporting tools such as CXO-Cockpit™.

"Unleash the full financial intelligence of your team, your systems and your organization and exponentially increase your Q^2 insight."

"Unleash the full financial intelligence of your team, your systems and your organization and exponentially increase your Q² insight."

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Other Resources

- **Self Service Live Demo**
- **Related Whitepapers**
- **Webinars & Videos**
- **Customer References**
- **Product Overview**

Q² Exponential financial insight

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