THE ROAD TO FINANCIAL TRANSPARENCY

A Strategic Approach to Agile Financial Reporting and Analytics

Jeff Lovett, Director, FPM Solutions – Teradata
Tom Crawford, Senior Vice President – Microgen
The drumbeat of calls for increased financial transparency has become deafening for CFOs in virtually every industry. With the impact of the recent global financial crisis still fresh, regulators and stockholders alike are demanding that corporations do a better job of providing clear reporting, mitigating risk, and increasing compliance. Yet all this must be done on restricted budgets, and often with IT infrastructures that are not designed to meet these goals.

Leading CFOs are finding new ways to meet these conflicting goals. By deploying highly streamlined, automated next-generation finance system architectures and embracing best practices, these executives are simplifying existing IT infrastructures while meeting stakeholders’ transparency demands and providing better analytic insights to the business.

This white paper examines three key building blocks for next-generation financial reporting and analytics. It also reviews the ways in which a common data foundation can be deployed to help create an optimal finance systems architecture. Case studies illustrate how leading customers have deployed these solutions for significant, quantifiable business benefit.

THE CHARGE TO THE CFO: “DO MORE WITH LESS”

As the global economy adjusts to a “new normal” in the wake of continued political and budgetary uncertainty, most CFOs are experiencing growing pressure to expand their capabilities without impacting the department’s cost structure. Stakeholders are demanding greater transparency, improved analytics, and expanded consultative services to the business – along with increases in corporate financial controls and reduced costs. New regulations require more frequent, detailed reporting.

Most finance chiefs have already taken conventional steps to increase efficiency – by deploying new ERP systems, launching shared service centers, and implementing point solutions for consolidation and planning. Yet savvy CFOs must do more to effectively serve and advise the business.
Although ERP systems are valuable for recording business transactions, they are not designed to provide robust analytics or deliver the insight needed to navigate rapidly changing regulatory and management mandates. Seeking a quick fix, some companies install reporting and analytics point solutions. Often this investment is counterproductive, adding to costly, complex IT infrastructures. In fact, over 50% of finance executives surveyed by CFO Research Services say their decision-making is limited by symptoms of IT complexity, such as overlapping, conflicting data stores, multiple disconnected ERPs and poorly linked financial and non-financial data.1

For CFOs striving to deliver enhanced reporting transparency, the need for change is clear: they need a lower-cost, agile IT environment built to support current and future analytic needs.

FINANCE CHALLENGES – INDUSTRY EXAMPLES

Financial institutions: The 2008 financial crisis revealed inadequate processes for gauging financial positions and risk exposure. Even now, the processes of many institutions fail to provide real transparency into the business. As a result, new reporting requirements threaten many institutions’ ability to maintain a competitive edge. The cost and effort of complying with new regulations threaten institutions’ bottom line and burden their financial systems.

Media and entertainment: Traditional financial systems are not designed to manage today’s dynamic portfolios of intellectual property and digital assets. M&E enterprises are vulnerable to risks such as unbilled or lost revenue, incorrectly recorded royalty and residuals liabilities, missed revenue recognition opportunities, and an inability to prioritize rights, contracts and profitable customers.

Utilities: Complying with new energy trading regulations for over-the-counter derivatives requires a high degree of insight. Utilities companies also struggle to recognize revenue at the most granular level or to implement dynamic pricing, which supports margin management.

Health Insurance: To limit their exposure under new medical loss ratio, reinsurance and risk-related regulations, health care payor enterprises need insight into administrative expenses and operating costs.

BARRIERS TO EFFICIENCY

Which technology and human resource issues keep CFOs from creating the agile, transparent IT systems that would increase operational efficiency in the finance department? Recent studies point to four core shortcomings:

- No Time for Analysis: According to a recent TDWI study, over 60% of respondents say that finance spends too much time on data collection, validation and reconciliation.2 As a result, “financial analysts” in these organizations might more appropriately carry the title “data jockeys.” Leading organizations are seeking to automate these manual data integration tasks, hoping to free these analysts to perform the more valuable tasks for which they were hired.

- The “Excel Wars”: Nearly 70% of TDWI respondents stated that their finance departments “do most of their work in Excel.” This is the result of years of inadequate data integration, which commonly drives a proliferation of Excel spreadsheets and other isolated analytic tools used by an ever-growing “Excel Army.” Non-integrated data often creates clashes over which revenue, cost, or expense numbers are correct. It also breeds a culture where data is “owned,” hoarded and used as a weapon rather than shared as an organizational asset.

- Beyond ERP – the Data Granularity Challenge: Although ERP systems can create significant transaction processing benefits, they do not typically improve finance’s ability to address current analytic challenges. A major reason: considerable quantities of insight-provoking granular data (such as profitability,  

2 TDWI Research, Transforming Finance: How CFOs use Business Intelligence to Turn Finance from Record Keepers into Strategic Advisors, 2010
operational and risk drivers) reside outside the ERP system, in transactional source systems, data marts, or within analytical modelling engines.

- **Connecting the Dots – Transparency Limitations between Transactional Systems and the General Ledger:** Increased demands to analyze key drivers of performance – at greater levels of granularity, across multiple dimensions of the business – necessitate access to data that lies outside the General Ledger. Pressure for greater transparency between aggregate General Ledger balances and the underlying transactional data that generated them is driving a need to link the transactional data and General Ledger in a clear, auditable manner that can be queried and reported upon.

The fragmented operational processes used to generate GL entries – often operating as “black boxes” running on the operational systems – are an additional obstacle to growing transparency requirements for both accounting rules and journals. The resulting fragmentation results in an inability to drill from a General Ledger journal entry to the underlying transactional detail. With this disconnection, users struggle to reliably reconcile the detailed transactions maintained within a data warehouse with the General Ledger-based financial performance data reported to stockholders.

**THE WAY FORWARD: COMMON GOALS FOR CFOS**

Faced with these shortcomings, leading CFOs are working to transform their departments’ capabilities by pursuing:

- **Reduced Cost and Complexity via Simplification and Data Centralization** – World-class CFO organizations focus on standardization and centralization of data as well as accounting and reporting processes, according to consulting firm The Hackett Group. These firms are employing a centralized data repository to reduce the inherent complexity of integrating multiple finance applications and data sources. According to Hackett, these leaders are realizing lower costs (measured by finance cost as a percent of revenue) and are outperforming their competitors (as indicated in their Indexed Return on Equity).

- **“Single Version of the Truth” Data Strategy to Drive Reporting Consistency** – Of the TDWI survey respondents, only 16% stated that their finance departments were highly effective at “delivering consistent data via reports.” Leading firms are seeking to build and maintain a centralized data warehouse containing all key operational and financial data, which can be leveraged by all finance and non-finance constituents. Leaders in this area view the CFO organization as the owner and champion for defining, developing and maintaining a consistent set of data, metrics, and self-service reporting capabilities that drive measurement and analysis of all key aspects of the business.

- **Transparency, Reconciliation and Linkage of Financial and Management Reporting** – As new and evolving statutory and regulatory reporting requirements continue demanding greater levels of granularity, many CFOs are realizing that General Ledger and planning platforms are insufficient to meet the future reporting and management requirements of the business. Leading firms are seeking to integrate and reconcile the systems, data definitions, data flows, and business processes used to report the business to shareholders, regulators and internal constituents. This requires rationalizing various fragmented processes and systems currently in place. Companies must also architect a future state, one that enables a consistent approach to linking operational systems to the General Ledger. This approach must also enable consistent reporting and analytics across varying levels of business granularity and dimensionality. By doing so, these firms are reducing the number of integration points, increasing transparency across transactional source systems and ERP systems, and providing greater reporting consistency, while improving operational flexibility.

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3 The Hackett Group, Best Practices Conference Enterprise Presentation, 2011
RATIONALIZING THE FINANCE ARCHITECTURE

To achieve these goals, many leading CFOs are deploying highly streamlined, next-generation finance system architectures. At their foundation, these architectures share a centralized data repository that integrates transactional, ERP, sub-ledger, and other data. This repository enables data sharing, which supports external statutory and regulatory reporting as well as internal management reporting and analytics. It also provides transparency between externally reported results and the transactional drivers of those results.

By supporting data integration and data management across applications and business processes, a rationalized finance architecture sets the stage for success. As AMR research director John Hagerty observed in a Teradata Magazine article: “Internal transparency and external disclosure should both be driven off the same engine. There may be internal and external versions with different levels of details, but they really need to come from a single source... It is very important for companies to have a unified view of all information that serves multiple masters.”

KEY BUILDING BLOCKS FOR NEXT-GENERATION FINANCIAL REPORTING

Firms seeking to transform their finance architectures often struggle to define the appropriate role for key applications across the architecture. It can also be difficult to establish how those applications should work together, so that the architecture doesn’t create new data management challenges.

Three key building blocks for improved financial transparency and best practice reporting are:

- **Accounting hub** – Provides transparent, consistent rules based treatment and reconciliation between transactional source systems, GL and the data warehouse

BEST PRACTICES FOR A NEXT-GENERATION FINANCE ARCHITECTURE

- Make all required data available from a single data repository
- Leverage a data warehouse(DW)-centric accounting hub for automatic, drill-down data reconciliation between the GL and transactional systems
- Centralize calculation engines on a single platform for detailed cost allocations that inform profitability insights
- Implement a robust sub-ledger using a warehouse-centric approach, maximizing the granular detail available
- Integrate finance and risk reporting using the data warehouse as a common source of truth
- Harness exploding data volumes with a warehouse-centric solution that can handle hundreds of millions of weekly transactions
- Centralize calculation engines on a single platform for detailed cost allocations that inform profitability insights
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- Integrate finance and risk reporting using the data warehouse as a common source of truth
- Harness exploding data volumes with a warehouse-centric solution that can handle hundreds of millions of weekly transactions
- Produce key reports and analytics through a common portal, hierarchies and delivery processes
- Institute end-to-end data lineage and governance to ensure quality, transparency and traceability

- **Calculation engine platform** – Enables the creation of custom metrics as well as allocation of costs and revenues based on both transactional and GL data
- **Hierarchy management** – Provides the ability to analyze the business based on a multi-dimensional view

The following sections describe each of these key building blocks.

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Figure 1. A next-generation finance architecture seamlessly integrates eight key elements required by a leading-edge finance analytics platform:

1. **Data Warehouse Foundation**: Consisting of the finance-specific elements of an enterprise data environment, a finance data warehouse (FDW) is uniquely capable of serving as a systems integration platform that links financial details to the operational data and simplifies provision of consistent data to countless applications and users.

2. **Data Sourcing**: User confidence is ensured by moving data from source systems into the FDW where it is transformed. This provides the transparent audit trail needed to tie exact copies of source transactions to the transformed data in the FDW.

3. **Hierarchy Management**: Increasingly, firms need the ability to view and manage the business at varying levels of detail, aggregated across multiple dimensions or classifications, while ensuring these different “views” reconcile and are driven from a common core set of data. To support financial reporting, business users must be able to flexibly view and manage these dimensions and hierarchies and change the underlying data structures that drive reporting across the broader architecture, without IT involvement.

4. **Accounting Hub**: To ensure integrity of the FDW, it must reconcile source transaction and journal line detail reliably to the GL. An accounting hub enables control, consistency, audit trail and transparency in the complex accounting rules, treatments, mappings, sets of books, reporting dimensions and aggregations that turn operational system transactional data into summary, automated and substantiated, postings in the GL.

This provides for a three-way reconciliation among the FDW, GL and operational systems while providing major efficiency improvements from having your accounting treatments centralized and managed consistently in one point in the architecture.

5. **Financial and Human Capital Management Analytics and Data Integration**: General ledger, human resource and other key enterprise resource planning (ERP) data are critical elements of financial analysis. Data integration and analytics capabilities source and organize this data in the FDW into a business context for different finance functions (e.g., GL, procurement, or payroll) to speed analysis and report generation.

6. **Calculation Engines**: A complete infrastructure must integrate pre-packaged software applications and highly flexible calculation engines with powerful business rules that deliver enterprise-wide profitability, risk, planning, forecasting and allocation capabilities. By leveraging the same data model and strategic platform, these calculations can be shared across the enterprise to gain a competitive business insight edge.

7. **Business Intelligence and Reporting Tools**: To field ever-evolving information requests, analysts need an ad-hoc environment that provides access to data from multiple sources. If several BI tools exist within an enterprise environment, a common data warehouse foundation where metrics and calculations are managed helps drive consistent results across tools.

8. **Data Management**: To ensure that analytic recommendations are as sound as possible, firms need transparency, data quality, and common rules application throughout the data lifecycle. A well-executed data management strategy secures an auditable trail from source to end report.
ACCOUNTING HUB

The escalating demands for reporting transparency are forcing CFOs to tackle a long-standing struggle: to effectively reconcile source systems, GLs and any related data repositories upon which Finance relies for accounting, reporting and analytics. Today the processes for generating automated GL journal entries from various operational systems are often fragmented. These systems include those that generate and manage the transaction-intensive portions of the business, such as point-of-sale, call detail records, back-office banking and trading systems, and various partnered and online sources. What's more, these processes provide limited transparency, have inconsistent accounting treatments that are difficult to maintain and update, and inhibit analysis across the GL and the transactional systems.

Many firms are considering technology solutions that address these fragmented processes. By serving as the sole linking interface between source, GL and other potential data repositories, an Accounting Hub or Accounting Rules Engine ensures control, consistency and drill down from the summary financial data in the GL into the detailed financial data that analysts and power users leverage for deeper analytics. Key benefits of using an accounting hub include:

- Reduced Cost
  - Supports move to consolidation of systems and service centers
  - Offers flexible, cost-effective method of adjusting accounting changes from a single, centralized location
  - Eases addition/incorporation of new operational systems
  - Reduces time spent investigating reconciliation issues
- Increased Control
  - Improves transparency and auditing
  - Ensures consistency between Finance, Risk and Liquidity reporting
  - Enables drills from summary balances, to detailed balances, to transactions
  - Increases automation of key tasks

CASE STUDY: STRENGTHENING THE LINKAGE BETWEEN TRANSACTIONAL SYSTEMS, GL AND THE DATA WAREHOUSE

Customer
One of the world’s largest consumer banking institutions

Task
Implement a new set of core transactional banking systems which support risk analytics

Challenges
- Replace existing, costly interfaces used for account mapping and rules creation between core systems, GL and a pre-existing data warehouse
- Create a solid data foundation that can provide reliable, transparent business intelligence on credit risk and accounting
- Incorporate an accounting hub in the solution, avoiding the significant implementation costs and license fees required by the ERP vendor

Solutions Deployed
Highly scalable Teradata Warehouse and the account mapping and rules creation capabilities of Microgen Aptitude and Microgen Accounting Hub

Benefits
- Transparent, account-level visibility into core credit risk and financial data underlying the GL and group financial statements
- Reduced implementation risk for creating mapping and accounting rules between core banking systems and the GL
- Significantly faster transaction processing with major infrastructure cost savings, thanks to the single, integrated Teradata warehouse platform
An Accounting Hub provides a common platform for transparently administering product life cycle, accounting rules, logic and mapping from all transactional sources to the GL. This approach persists the linkages in each step of the process in a common data repository with the transaction detail and reference data. Users can easily drill through from GL journal line items to the underlying accounting events and transactions associated with the entry. Figure 2 depicts how a simple mortgage payment transaction on a financial institution’s books would be handled through the accounting treatment process within an accounting hub. This approach ensures transparency in financial reporting and consistent analytics across the enterprise.

Figure 2: Data Warehouse-Based Accounting Hub
## THE ROAD TO FINANCIAL TRANSPARENCY

### DO-IT-YOURSELF ACCOUNTING HUB
- A financial validation database which is collaboratively built by internal finance and IT resources.

### ERP-BASED ACCOUNTING HUB
- A packaged database solution which uses an accounting rules engine to validate transactions and perform transformations for posting to an ERP application.
  - Examples:
    - Oracle Fusion Accounting Hub
    - SAP Bank Analyzer

### DATA WAREHOUSE-BASED ACCOUNTING HUB
- An integrated data warehouse based solution which uses an accounting rules engine to validate transactions and perform transformations for posting to the G/L
  - Features a true double-entry sub-ledger for full financial transparency.
  - Example: Microgen with Teradata.

### DESCRIPTION

<table>
<thead>
<tr>
<th>DO-IT-YOURSELF ACCOUNTING HUB</th>
<th>ERP-BASED ACCOUNTING HUB</th>
<th>DATA WAREHOUSE-BASED ACCOUNTING HUB</th>
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<tbody>
<tr>
<td><strong>DESCRIPTION</strong></td>
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<tr>
<td>A financial validation database which is collaboratively built by internal finance and IT resources.</td>
<td>A packaged database solution which uses an accounting rules engine to validate transactions and perform transformations for posting to an ERP application.</td>
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<td><strong>PROS</strong></td>
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<td>Companies can dive in quickly and take a phased approach</td>
<td>A user interface supports the auditable building of rules for various accounting events</td>
<td>Provides flexible rules templates for auditable management of accounting treatments from source systems to GL</td>
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<td>The familiarity of internal resources with corporate operations allows the team to “build to order”</td>
<td>Users can drill back from the specific balances in the GL or sub-ledgers to the supporting transactions</td>
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<td><strong>CONS</strong></td>
<td></td>
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<tr>
<td>Project time frequently underestimated</td>
<td>Increased data movement and need for operational data store add to cost</td>
<td>Legacy ETL (extract, transformation and load) processes may need revision</td>
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<td>Many specialized skill sets are scarce</td>
<td>Accounting rules are costly to build from scratch and maintain</td>
<td>Fewer system integrator options for implementation exist as compared to the ERP-based accounting hub option</td>
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<td>Maintenance of the tool often requires hiring of high-cost third-party consultants</td>
<td>Poor scalability and speed prohibits companies from retaining detailed history</td>
<td>Data warehousing may be an unfamiliar technology to the enterprise</td>
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<td>Functionality becomes “black-boxed,” opaque, and dreaded by IT</td>
<td>System components are not well integrated</td>
<td>Data warehouse may not be suited to the high availability service level agreements demanded for the environment</td>
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<td>Costly to re-engage resources to amend the self-built system when new regulations emerge</td>
<td>The ERP-based hub sub-ledger is not a true double-entry accounting environment</td>
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**TERADATA**

THE BEST DECISION POSSIBLE

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CALCULATION ENGINE PLATFORM

Most finance organizations have multiple calculation engines in their IT infrastructures. Establishing a shared, unifying platform underneath these engines is possible with data warehouse-based engines and accounting solutions.

Best-practice calculation engines that share a single, integrated data source offer the following features:

- **Inbound and outbound royalty engines**: These engines break down transactions, revenues, schedules or sales reports to their lowest component, owner or right. This improves the ability to manage and apply contract terms, rates, and business rules to generate data on expected revenue (inbound), distributions (outbound), financial accruals, and analytics across parties, products, content, contracts, and periods.

- **Revenue share, intellectual property and content engines**: Once inbound and outbound contracted royalties and residuals have been calculated down to their lowest components, calculation engines can process revenue share rules and calculate accrued revenue. These calculations can be performed for channel products. They can also be used to manage the IP, content and rights utilization of assets by product or sales channel, generating insight that helps companies maximize financial performance.

- **Dynamic pricing, billing and revenue-recognition engines**: These engines can be extended to focus on more dynamic pricing and scenario modelling calculations. Companies can better predict and manage margin impacts and effectively un-bundle revenue streams, so they can more accurately and quickly recognize earned revenue.

- **Accounting and allocation engines**: An accounting engine and hub can be applied to output from business events generated by the other calculation engines. With these engines, companies can create a multi-dimensional, transparent sub-ledger of accounting balances, movements and GAAP treatments. This data can support financial, regulatory, thin GL and profitability analytics and management reporting uses.

CASE STUDY: EXPANDING ANALYTIC INSIGHT FOR FINANCE

**Customer**
One of the world’s largest music download organizations

**Task**
Deploy a rights management system to manage rights usage, royalty calculations, accruals processing, contract management and invoice management, with full reconciliation and exception management facilities

**Solutions Deployed**
Microgen engine capabilities with primary data sourced from Teradata Warehouse as an integrated engine platform

**Features**

- Sophisticated financial management functionality, including ability to handle complex calculations, process high transaction volumes across multiple formats, and respond quickly to new business initiatives, market evolutions and regulatory changes

- Intuitive interface of the underlying calculation engine, supporting business users

**Benefits**

- More effectively manage royalty and related payments to publishers, agents, artists, writers and producers

- Store high volumes of data, including data across multiple years, tens of millions of transactions and tens of thousands of payees, thanks to the exceptional scalability of the Teradata warehouse
The Road To Financial Transparency

Hierarchy Management

To effectively support a best-practice financial architecture, companies need to choose a hierarchy management system that provides the following capabilities:

- **Multiple (or alternative) hierarchy support for each dimension:** Business users across the finance department – as well as their operational peers throughout the enterprise – have a diversity of analytical and reporting needs. For this reason, they need to be able to view data along any valid dimension – such as customer, prospect, vendor, region, location, product, or organization. The solution should support alternate hierarchies and multiple levels within a hierarchy to allow data roll-up along either finer or coarser hierarchies.

- **Balanced, unbalanced and ragged hierarchy support:** Balanced hierarchies are “normal” ones, in which all nodes within a level have something in common and are symmetrically organized. Unbalanced hierarchies contain nodes that are uneven – that is, some extend down three levels while others extend down only one or two. Ragged hierarchies include paths that skip entire levels. These three key hierarchy types each require separate, nuanced workflow, approval and reorganization processes.

- **Date-effective, time-stamped hierarchy versions:** To analyze both past performance and forward-looking scenarios, management must be able to compare today’s financial results to past periods when master data was organized in a completely different fashion. “When-effective” time stamps allow users to track master data organization as it existed at any point. With this capability, users can re-create previous reports in today’s hierarchies and prepare hierarchical changes with precise control over when updates go live.

**Case Study: Strategic Hierarchy Management Control Saves Millions in Procurement Spend**

**Customer**
Global semiconductor manufacturer

**Task**
Manage supplier spend data more effectively

**Challenges**
- Detailed spend and procurement data spread across multiple systems controlled by different worldwide organizational units
- Poor data quality, heavy data duplication, and weak management control processes

**Solutions Deployed**
Teradata warehouse and Teradata Hierarchy Management

**Benefits**
- Delivered over $300M of business value through global procurement initiative
- Cleansed and effectively managed supplier data in conjunction with ERP reimplementation
- Built flexible, business-defined hierarchies to support authorized, informed purchasing and supplier decisions
IS YOUR FINANCE SYSTEM ARCHITECTURE NEXT-GENERATION OR LAST-GENERATION?

Global market forces will continue to push firms to respond quickly to environmental changes – including both risks and opportunities. Which tests will your organization face? Heightened regulatory reporting obligations? Actively managing unprecedented levels of risk or business loss? Adapting to new business models and significant growth opportunities? Whatever comes your way, you need a financial systems architecture that can handle the challenge.

To help improve reporting transparency as well as risk and performance management, we recommend that you ask the following questions when evaluating your financial system architecture:

1. What solutions do we have in place to provide transparency and reconciliation between source systems, GL and our data warehouse?
2. Are our accountants and their IT liaisons satisfied with the visibility they have to the rules used to generate transactional journal entries? What is the reported quality of visibility into sub-ledger detail?
3. How well-synchronized and well-reconciled is the data in our various calculation engines?
4. How do the costs of creating, deploying and maintaining our various engines compare to industry best practice?
5. When a calculation engine produces results – such as cost allocations for corporate resource-to-business unit or customer service-to-product – that are surprising or concerning, do business users and management have the necessary granularity of both GL and transactional data access to effectively analyze the variances?
6. Are we equipping business users with the ability to flexibly view and manage data dimensions and change the underlying data structures and rules that drive reporting across the broader architecture?

To capitalize upon opportunities, effectively balance risk, and operate with true reporting transparency, your finance organization requires a simplified, streamlined data management infrastructure. Teradata and Microgen offer an industry-leading, innovative solution that can help you meet these goals.

For more information on developing a next-generation finance architecture, visit us at Teradata.com/BestPracticeTransparency