Atradius Collections

3 Ways financial leaders create an impact with reporting

Credit Management Insights

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Making financial reports standardised, transparent, and timely gets financial leaders closer to being strategic partners to their organisations.

The role of financial leaders has grown to entail two contrasting functions: the day-to-day, transactional work and the long-term, strategic responsibility. Many aspire to achieve the latter in their careers, and may, unknowingly, start to slack off on the former and fall short. When asked about the telltale signs of poor finance directors, the majority of surveyed financial professionals point out: poor financial reports (nearly 70%), lack of attention to detail (over 50%), and late reporting (50%) [(1)].

The overlap of three out of the top four is financial reporting – a function that traditionally falls more on the operational side than on the strategic side.

These days, it's no longer about presenting transactional data gathered by a company's shared service centre (SSC), global business services (GBS), or business process outsourcing (BPO). Financial reporting reflects the financial health of an organisation and reveals what the next steps should be. This is a compass for executives, board members, and investors to make decisions on capital allocation. Inaccurate, inconsistent, or late reports could therefore affect any financial leaders' careers.

Below are three ways financial leaders can implement to create an impact with their reporting.

1. Establish and enforce one set of standards

The global standardisation of accounting started in 2002 with the convergence of the Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS). However, this movement has slowed down and there is no sign of any further significant changes.

In practice, the choice isn't just between GAAP or IFRS. A report of 1000 financial leaders reveals that nearly half of them had to comply with more than 10 sets of standards, and a third worked with over 15 reporting systems [(2)]. For multinationals, there is another layer of complexity. Assume all local operating subsidiaries prefer IFRS to their local accounting standards; and yet, what they actually use can differ from what the International Accounting Standard Board (IASB) set up. Especially in emerging markets where compliance is poor, it's common for local subsidiaries to make their own versions of the IFRS by adjusting it to their countries' regulations.

As a consequence, it's particularly difficult for the SSC, GBS, or BPO to compare and consolidate accounts. In accounts receivable, cash flow problems might be obscured due to the substantial discrepancy between countries with different practices.

Bridging the accounting gaps between all local entities requires extra operational capacity from financial leaders. Many of them already state the lack of time as their greatest concern and opt for delegation. To make this work, the delegated partner needs to be familiar with the international financial standards and to understand the specific reporting systems adopted by the organisation in question. For accounts receivable, the delegated partner is usually an external partner with global reach and professional expertise. Based on the input from the financial leaders, the partner works with each local subsidiary to ensure that any unpleasant surprises are mitigated and coherence is created.

2. More attention to the right details

Next to the conventional role of recording and gathering data, financial leaders nowadays are expected to provide business insights that inform decision making at board level. The high level of detail and rigour needed to make such decisions could cause financial leaders to overly focus on their short-term goals and overlook certain areas.

One example is not including, or not including entirely, bad debt expense in financial reporting. Despite the fact that most of the write-offs that are left out are small in value, their high volume could put a strain on any cash flow when they accumulate over time. More importantly, bad debt expense is a moving number that should be monitored throughout the year. When an SSC, GBS, or BPO doesn't record this properly in their reports, their shareholders would mistake the omission for a surplus. In worse case scenarios, this could cause an operating deficit.

Although necessary, tracking and processing such transactional data could easily snowball and leave financial leaders no room for undertaking strategic initiatives. This isn't ideal since two thirds of the executives surveyed agree that the best way for financial leaders to ensure their companies' success would be to spend more time on strategy [(3)]. In order to do this, they can assign operational workload such as collecting and reporting on past due accounts receivable to a trusted external partner.

At Atradius Collections, there are robust systems that store and analyse accounts receivable data with transparency and integrity. For every issue that might arise, Atradius Collections provides explanation and solutions to iron out all details.

This is beneficial not only to the financial leaders, but also to their shareholders who now know that they have the complete picture of the cash flow.

3. Anticipate the full story and announce it on time

In the example above, if the bad debt expense is not only omitted by one financial leader, but also by their peers and teams at their SSC, GBS, or BPO, the cumulative magnitude of the shortfall could become insurmountable.

Even when all the details are laid bare, financial leaders have to think ahead with their reporting in time of tough economic environments. For instance, in the area of cash flow, they might want to consider their company's exposure to liquidity risk and credit risk, and make sure they monitor the company's position regarding the financial market volatility.

Most importantly, financial leaders should get their reporting across in a timely manner. A cautionary tale is Marconi's drastic fall, which happened partly because its board did not receive the warning information on time [(4)]. There was simply no time, and thus no chance, for them to act. Ideally, the information is made available in parallel with the business aspects it addresses. Then executives and board members could plan and take action to get the business on the right track. Just as their content, the timing of financial reports is crucial to both the operation and strategy of an organisation.

In the case of outsourcing non-core work like accounts receivable, a third party could help maintain a data hub that is accessible and consistent across all the local entities of a multinational. When financial leaders know where to get reliable data, their reporting's insight and speed are often improved.

More than a compliance exercise, financial reporting helps strengthen corporate governance. It isn't an end in itself, but a means to the chain of actions that sustains a business and creates value for shareholders. 74% of the surveyed companies say that their managers, board members, and investors were positive that they could make informed decisions enabled by good financial reporting [(5)].

Even though there are considerable benefits, it's common for many companies to struggle with the basics of gathering data and producing sound financial reports.

Matters like achieving accuracy and transparency across all the local operating subsidiaries through SSC, GBS, or BPO require considerable effort. At the same time, financial leaders need to be selective about which functional activities truly add value and which don't, and who they can delegate the latter to.

It's reported that financial leaders who made a difference invested more time on commercial insight, and less time on transactional work [(6)]. This type of workload, including standard analytics and reporting, could be entrusted to a third party that is able to handle great volume with high efficiency.

For instance, when a multinational has high days sales outstanding, an external partner could manage the collections process from end to end whilst requiring fewer resources from the financial leaders. In Atradius Collections' case, our global presence and extensive expertise help get results. The connectivity and continuity between all local operating teams and SSC, GBS, or BPO are also maintained. This improvement of the accounts receivable process is both cash- and cost-effective. A 35%-46% reduction of costs was recorded from improvement and automation across key finance processes [(6)].

To lead an organisation's financial health and performance, financial leaders can make changes today by improving their next financial reports and reconciling information from their local operating entities through their SSC, GBS, or BPO. Once the reports are delivered promptly with detailed business insights, the financial leaders move one step closer to being strategic partners to their organisations.

Source

(1) https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/what_makes_an_outstanding_fd.pdf

(2) https://www.ey.com/Publication/vwLUAssets/EY-do-you-define-your-cfo-role/$FILE/EY-do-you-define-your-cfo-role-or-does-it-define-you.pdf

(3) https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-cfos-role-in-the-pursuit-of-growth

(4) https://money.cnn.com/2001/07/05/europe/marconi/

(5) https://www.ey.com/Publication/vwLUAssets/EY-disclosure-effectiveness-report/$FILE/EY-disclosure-effectiveness-report.pdf

(6) https://www.pwc.com.au/consulting/assets/finance-effectiveness-benchmark-2017.pdf

Would you want to improve your accounts receivable reporting and management?

Our Atradius Collections teams around the world have decades of experience in helping multinationals successfully manage and collect their accounts receivable.

We could support your SSC, GBS, or BPO in:

- Collecting your outstanding accounts receivable amicably (third-party collections)
- Managing part of or your entire accounts receivable portfolio (accounts receivable outsourcing)
- Covering other aspects of your collections and accounts receivable management

Please contact us to discuss ways we can help improve your accounts receivable.

Contact us

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