

Survey:
Consolidation and Reporting Functions
in European Multinational Enterprises

David JH Jones, Klaas van de Geest, Johannes Balling
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transforming results
PWC CONSULTING

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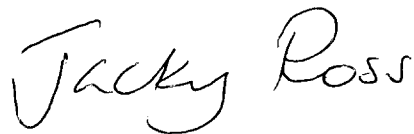
1 Foreword

This survey of Group Reporting processes and systems in European multi-nationals has proved to be very timely. Prior to the second half of 2001 the corporate centres of European corporations were already facing a number of heavy demands, for example the pressure for additional information caused by the recessionary environment, preparation for harmonisation of reporting under International Accounting Standards (IAS) from 2005 and market moves in a number of key countries to report externally on a quarterly basis. After the tragic events of September 2001 and subsequent corporate shockwaves such as Enron and Global Crossing this pressure has grown to unprecedented levels.

CFO's, Finance Directors and Group Controllers are now trying to understand how they can accommodate this unprecedented demand for high quality and timely consolidated information for internal and external customers. For many, this will involve dramatic changes to current practice but it also raises the issue, what should be changed and how?

Many in Europe look to the USA as a key benchmark for corporate reporting timeliness and frequency. Witness the achievements of Cisco, Motorola, Oracle, Dell, Wells Fargo, Citigroup, J P Morgan Chase and Alcoa who tell us they have achieved or are close to achieving what they regard as the ultimate goal for the corporate centre finance function, the "virtual close" for monthly management reporting and year end results declaration in just a few additional working days. Others in Europe say there is a need to focus on quality and content as much as speed and see a "virtual close" as an unnecessary objective whose benefit is far outweighed by the cost.

One thing is clear to us. The vast majority of European corporations will have to improve their corporate reporting processes and systems over the next few years to address these unprecedented demands. We hope this survey makes a significant contribution to the understanding of what they must change.

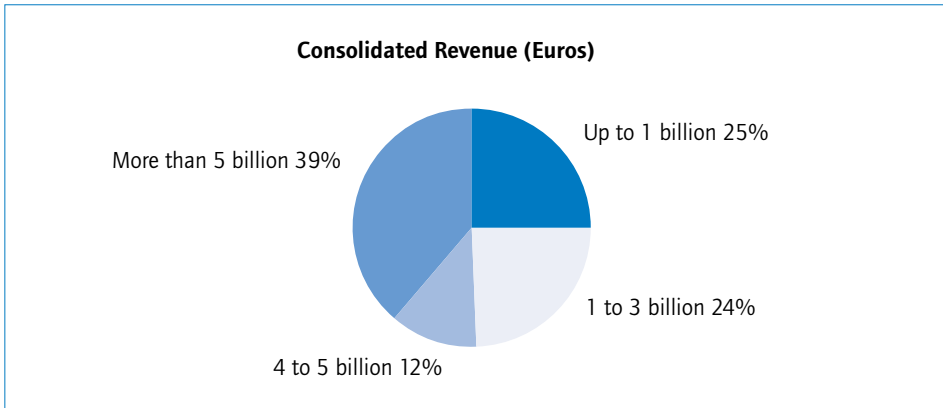


Jacky Ross

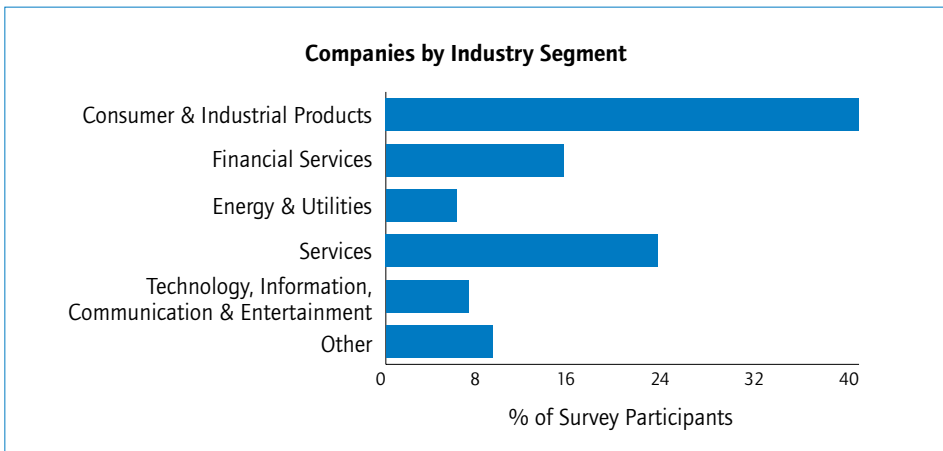
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2 Profile of Participants

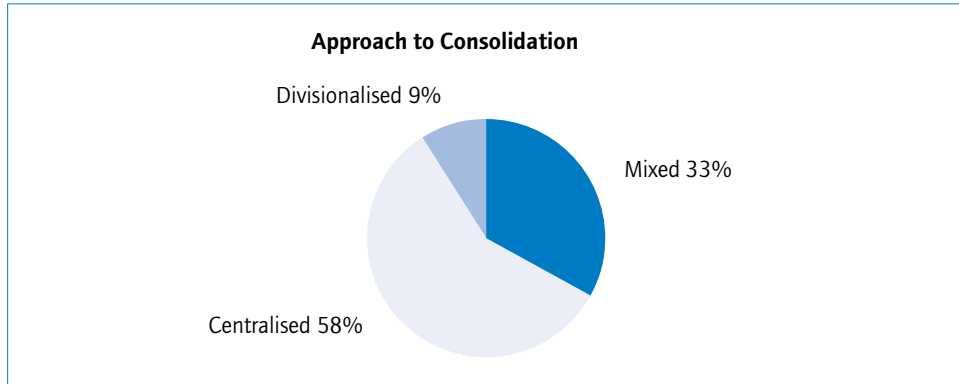
This survey reflects responses from more than 160 European headquartered organisations located in Austria, Belgium, Ireland, France, Sweden, Switzerland, the Netherlands and the United Kingdom. 39% of the participants report consolidated revenue in excess of €5 billion Euros.



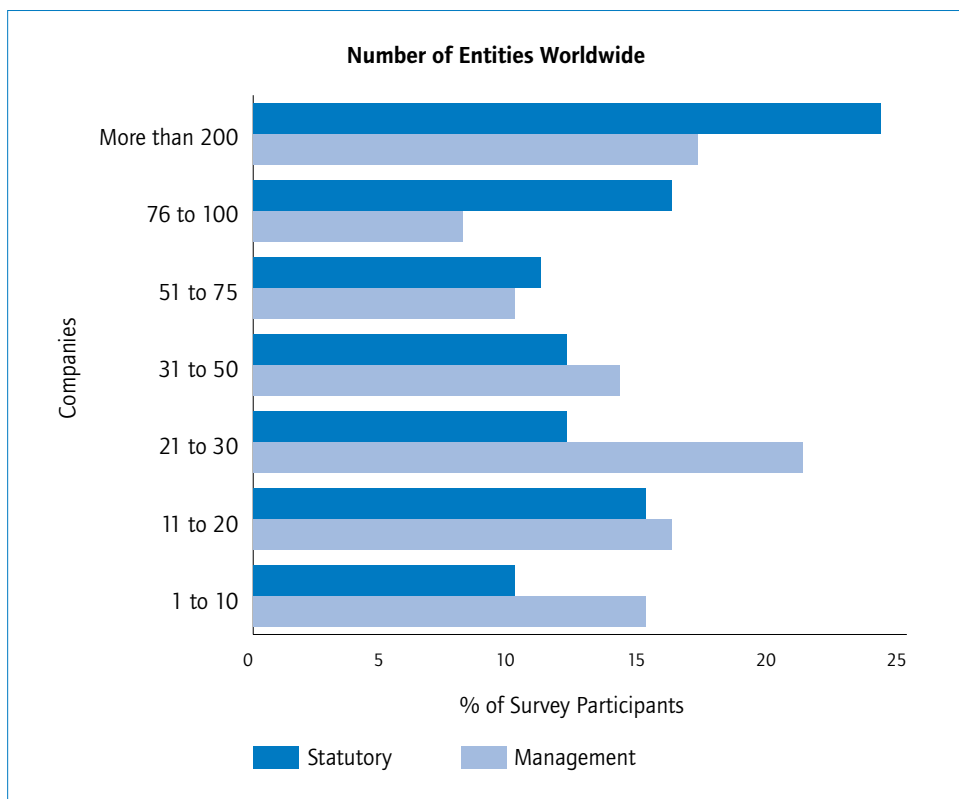
A broad range of industry sectors are represented in the survey, although 40% are in the Consumer and Industrial Products sector, Financial Services and Services industries also feature.



The key to appreciating the wider findings of this survey and their implications does not only rely on the demographics, but also in understanding the approach that the participants take to the consolidation and reporting process. Of those participating 58% have a centralised approach, meaning that all subsidiary data is collected into the head office, whereas the alternative, a divisionalised approach, where data is collected at divisions and then divisional consolidated data is submitted to head office, is represented by only 9% of the population. 33% have a mixed approach, which indicated that divisions perform the consolidation but all divisional data is then submitted to the centre. When compared with our previous surveys, the percentage using a centralised or mixed approach had again increased. This indicates that there is a move to greater transparency at the corporate centre with visibility of data across the entire group.



Of all the respondents, the vast majority (88%) consolidate multinational operations and 65% have more than 30 management reporting entities.



The survey participants include some of Europe's leading organisations, including 35% of the constituents of the FTSE100 index, 40% of the Swiss SMI Index, 20% of the Dutch AEX Index and 30% of the French CAC index.

3 Key Characteristics of the 20 Best Performers

The detailed survey analysis in this report has revealed many of the common problems in the group reporting process as well as the wide gulf between the very best performers in each area and the worst. To support our key findings from the full survey population we also looked in depth at the characteristics that are significantly different, or surprisingly similar, between some of the fastest and slowest companies for monthly management reporting.

In the following table you will see that we have analysed some of the key characteristics of the 20 respondents with the fastest and slowest management reporting timetables in our survey population and who have more than 30 management entities to consolidate. The difference in average speed of monthly close between the fastest and slowest is dramatic: 5 working days for the fastest and 25 for the slowest!

A glance at the table quickly reveals the areas where there are significant differences while looking more closely at some of the data reveals its key messages.

Does the size of the organisation significantly impact the ability to have fast and effective monthly consolidation?

Size does have an impact, as does the number of legal entities; there is a large difference between the fastest and slowest organisations, which correlates with the consolidated sales revenues of the participants. But, the problems of size are not insurmountable – the fastest participants at management reporting actually have more management units to consolidate on average than the slowest.

Does data standardisation impact the speed of consolidation?

Clearly and unsurprisingly in this analysis it does. More of the fastest consolidate monthly balance sheets and so have a more standardised set of data across each reporting month, more of the fastest have adopted IAS or US GAAP as their reporting standard, more of the fastest also have time to collect KPI data such as inventory turnover and sales analysis by product, and finally, more of the fastest have adopted a standard chart of accounts (SCOA) at the local reporting entity level. This last point is an interesting one as the overall survey population (see section 5.1) does not show significant evidence to support the theory that a SCOA equates with a Fast Close. It may be that those who are fastest have exploited the standardisation that SCOA brings to much better effect than the average performers and support this with an ERP standard solution. One additional and interesting observation on the data is that those performing rolling forecasts are more likely to have slower reporting, perhaps indicating that rolling forecasts consume much of their reporting resource.

Do the fastest need more resources and do their resources perform the same mix of tasks as the slowest?

The fastest employ less staff in the consolidation and reporting function, on average, and significantly, have been more likely to reduce the number of staff in the function over the last three years. The staff in the fastest companies spend less time correcting errors, chasing late work, producing reports, re-keying data and posting journals. They spend more time analysing data. They

have clearly shifted the balance between low value added activity and higher value added activity and often with fewer staff. The survey supports the theory that a big benefit of fast close is squeezing out low value added activity to spend more time on analysis and from a lower cost base. One key factor in achieving this change has been a focus in the fastest companies on measuring the performance of their reporting functions and a more proactive approach to using this data as a process improvement tool.

Is there a “silver bullet” in the systems area that will dramatically improve the speed of reporting?

There is no clear message from our survey on this. In the fastest 20 companies there is a marginally higher likelihood of finding an OLAP, Custom Consolidation or ERP package. A similar percentage of the fastest and slowest use some automated interfacing to general ledgers. The overall conclusion from an analysis of systems used in the Top 20 is a clear case not of which category of system is used but how it is used.

So, this comparison between the fastest and slowest at management reporting has helped to highlight that it is not just one factor that changes in making organisations fast. The successful organisations are demonstrating that they have managed to improve the closing and consolidation process across multiple areas.

Profile of Respondents by speed of Management Reporting	Fastest 20	Slowest 20
Consolidated Sales Revenue €	11.22bn	17bn
Avg. no of reporting entities for management	495	467
Approach to consolidation – Centralised/Mixed	90%	90%
Global chart of accounts		
Use of Standard Chart Of Accounts (SCOA) at the reporting entity level	65%	40%
Resources		
Average no. Full Time Employees	9	12
Decrease in Full Time Employees	55%	40%
How time is spent		
Significant time spent on: – correcting errors	60%	75%
– requesting late work	50%	80%
– report production	55%	70%
– re-keying data	20%	35%
– on journals	40%	60%
Timetables		
Number of business days for units to submit data from close date	3	16
Number of business days to report to management from close date	5	25
Under pressure to reduce Management Timetable	65%	75%
Data Content		
Type of Key Performance Indicator collected – Days Sales Outstanding	70%	25%
– Inventory Turnover	50%	15%
– Sales by Product	85%	45%
Do you collect monthly balance sheet data	75%	45%
Use of Local GAAP to report to market (now)	40%	70%
Use of IAS/US GAAP to report to market (now)	60%	30%
Process		
What causes problems? – local accounting systems	25%	50%
– translation from local GAAP	15%	35%
Do you record the frequency of errors from business units?	90%	80%
Do you use recorded errors in measuring and improving process quality?	90%	60%
Forecasts prepared on a monthly/quarterly basis	45%	30%
Managing change		
What Process Change would improve matters – Process Automation	45%	65%

4 Key Survey Findings

There is a wealth of detailed information in this survey report on current group reporting processes and systems and they are well worth reading in detail. But what are the key conclusions and findings we can draw from the survey?

Firstly, on a positive note, we have seen much improvement in the key group reporting metrics such as speed of close, since our earlier UK and European surveys. Clearly much time and effort has been invested by group finance functions in making improvements over the last few years.

However, the world does not stand still and this general level of improvement has actually sharpened the contrast between the very best and the worst organisations in our survey. Events in the last twelve months have brought into even more critical focus the need for organisations to have fast access to good quality, comprehensive, transparent data about the performance of their global operations. Markets and regulators no longer have the patience to wait for the accountants to grind out sets of actual and forecast numbers over months. They want accurate data now.

The key findings of our survey, therefore, show that there are many organisations that are faced with the challenge of making significant improvements to their group reporting processes and systems as a matter of some urgency. There are variations of degree across the four major countries surveyed (France, Switzerland, the Netherlands and the United Kingdom) and between industry sectors and organisation sizes, but this key message does not change. Let's look at some of the specific areas which highlight the need for group finance functions to change.

- The move to IAS and introduction of quarterly reporting by markets such as Euronext and the Dax has clearly spurred many European companies to take a long hard look at their group reporting processes and to improve them dramatically. This leaves a very stark contrast in countries such as France and Switzerland where a huge gap has opened up between the fastest, who have typically adopted IAS or US GAAP, and the slowest, which are typically on local GAAP. The contrast with the USA remains the same as for several years, US companies are still reporting more quickly for both statutory and management purposes, however the gap is closing. The proposed introduction of harmonised IAS across the European Community by 2005 will have a big impact on groups over the next three years; it provides both an opportunity to achieve significant improvement as well as being a threat for those who fail to prepare for it.
- In a decade dominated by the themes of cost efficiency and global competition we were very surprised in our survey to see that the number of staff working in the consolidation and group reporting area had grown in the last three years at 50% of our survey participants. Our US survey expressed surprise three years ago to see an increase in the US of 29%. Of our survey participants the extra burden of quarterly and regulatory reporting and the growing needs of Group Directors for more detailed information are clearly taking their toll in terms of resources and the cost of group reporting. But further analysis of the figures reveals some interesting additional conclusions about the staff deployed in Group Reporting. The fastest in our survey are actually more likely to have reduced headcount in the last three years than to have increased headcount and it is clear that speed of reporting is not the necessary result of adding more human resources! Much of this

additional resource seems still to be deployed on low-value added activity, because systems and processes are not efficient. If processes are simplified and standardised, systems more automated and data sets made consistent, organisations in our survey achieve much faster and higher quality reporting with less resources.

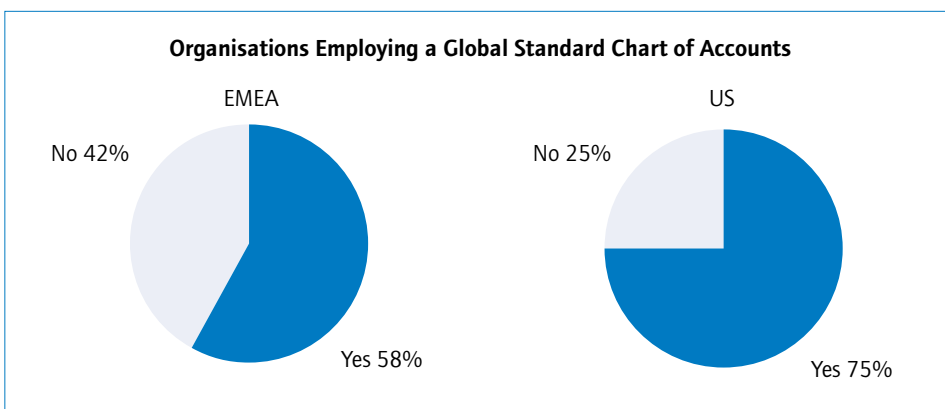
- The extent to which group finance staff are still engaged in low value added activities is also quite surprising, as it was in our US survey. Over 50% of our survey participants still spend significant amounts of time on reconciling inter-company balances, chasing late work, reconciling data, posting journals and producing reports and over 30% still spend significant amounts of time re-keying data between systems. Organisations must continue to focus on squeezing these low value tasks out of the information supply chain. This message is reinforced when looking at the key reasons for delays to the reporting process (late delivery, data with errors, inter-company reconciliation). Many of these low value added activities are focused on resolving quality issues with data; companies need to focus on measuring the quality of their reporting process, standardising these processes and data sets and increasing the amount of time they spend on coaching and training subsidiary finance staff to attack the root cause of these quality issues.
- Many of the systems investments made, both at the reporting entity level and the corporate centre are not being fully exploited. There is still much data re-keying at the reporting entity and a desire for much greater levels of process automation at group to assist the efficiency of the group reporting process. Our detailed analysis of the levels of importance attached to key functional systems requirements for group reporting and the level to which they are currently met by the systems in use illustrates the gaps which still exist and that vendors need to fill. There is still a large expectation gap in areas such as report writing, financial controls, organisation hierarchy management and handling the varied data types (text, ad-hoc requirements, non-financial KPI's) required for today's reporting.
- Our analysis of the systems used for consolidation leads us to conclude that it is the beginning of the end for spreadsheets as a core consolidation engine, but they are playing a critical role in filling the functional gap for additional ad-hoc information and flexible reporting and still play an important role in the data capture process. While take up of the ERP solutions for consolidation is still low, it is increasing and we believe this uptake will accelerate over the next few years as the group reporting functionality of ERP systems improves and matures.
- While the overall use of the web in consolidation and in particular reporting is still at relatively low levels, the growth in using the web and/or wide area networks (enabled by tools like Citrix) for data collection is an established trend. We believe the use of the web will accelerate dramatically over the next few years. This is a result of the growing maturity of the web-enabled group reporting products and the many functional and process advantages they bring to re-engineering group reporting.

- There are two key findings in the area of data standardisation. There is still a significant number of organisations not adopting a SCOA (Standard Chart of Accounts) at the entity reporting level, and although the percentage is growing it remains well behind the levels seen in the USA. Such data standardisation does help in improving the efficiency and effectiveness of the close process, as can be seen in our profile of the fastest survey participants. Organisations need to look again at the viability of introducing a SCOA and its cost benefits, particularly as some organisations have managed to achieve it without the need to invest in significant global ERP implementation programs. Another area of interest in data standardisation is the low take up of the leading-edge performance methods such as KPI's (key performance indicators) and the BSC (Balanced Scorecard). Surveys on performance management by PwC Consulting and other organisations tend to indicate that the take up of such measures should be much greater. Our result may be because the corporate centre sees less value in having this information and still prefers to focus on the financials, or it may be that the group finance function is being by-passed in the production of this data at group level, which would be a worrying trend for Group Financial Controllers.
- Finally, the survey has highlighted that continental Europe has been catching up with the UK over the last few years by investing comparatively more effort in improving group reporting processes. Currently UK Corporate Controllers do not feel as much pressure for a faster close for statutory or management reporting having met the UK Accounting Standards Board 60 day best practice recommendation, but there is evidence that the UK is now in danger of slipping behind the rest of Europe as it fails to recognise the significance of harmonisation onto IAS (International Accounting Standards) and the growing prevalence of quarterly reporting.

5 Summary of Survey Results

5.1 Global Chart of Accounts

Across EMEA we see a clear trend towards imposing a global standardised chart of accounts (SCOA). Interestingly, looking at a correlation across the whole survey population between companies that impose a global chart of accounts and their respective speed of close, there is limited evidence that introducing a standardised chart of accounts can help to speed up the closing process. Analysis of the fastest 20 and slowest 20 however, shows much stronger evidence of such a correlation. This suggests that SCOA on its own does not deliver a fast close but in combination with other changes can be a significant enabler. Interestingly, the percentage of 58% using a Global chart of accounts is well behind the US where, with 75%, we see a much higher adoption rate. Based on our review of the organisations in the survey implementing SCOA it would seem clear that it is being implemented as part of global ERP programs and in some cases shared services programs. Over time we would expect to see these programs deliver significant benefits, including, over time, faster and more transparent group reporting.

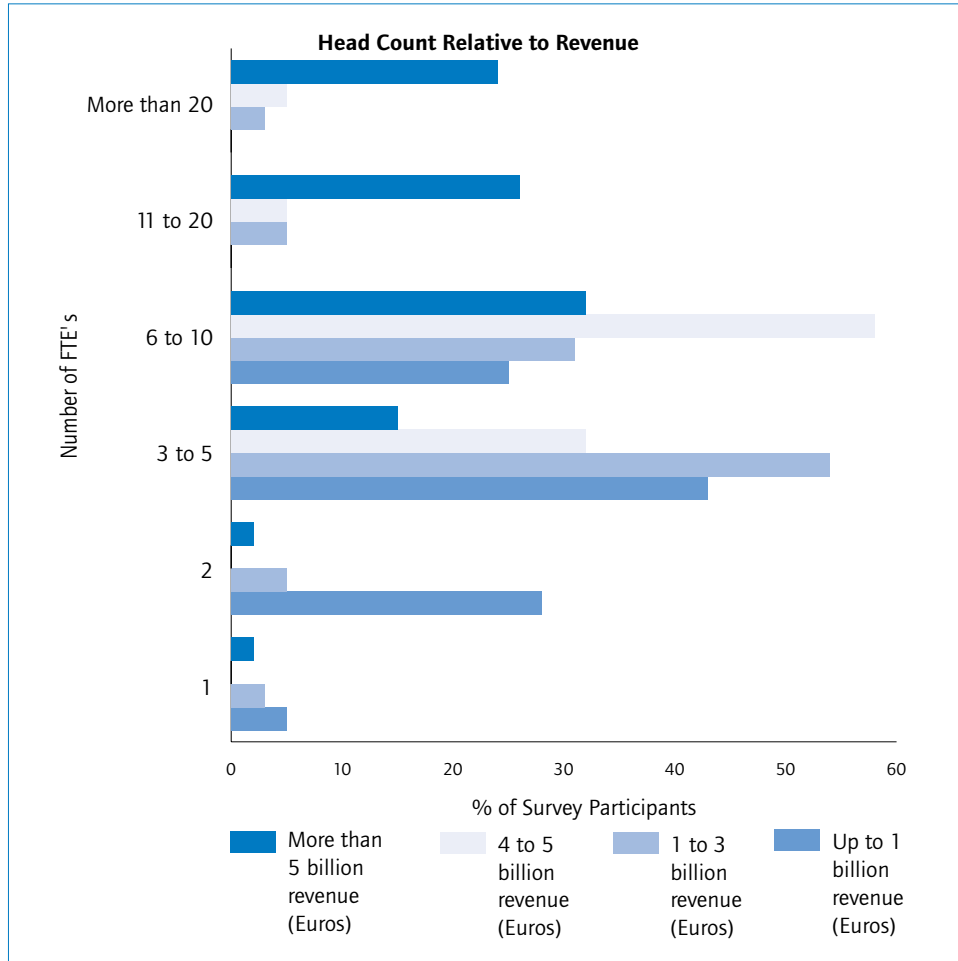


5.2 Resources

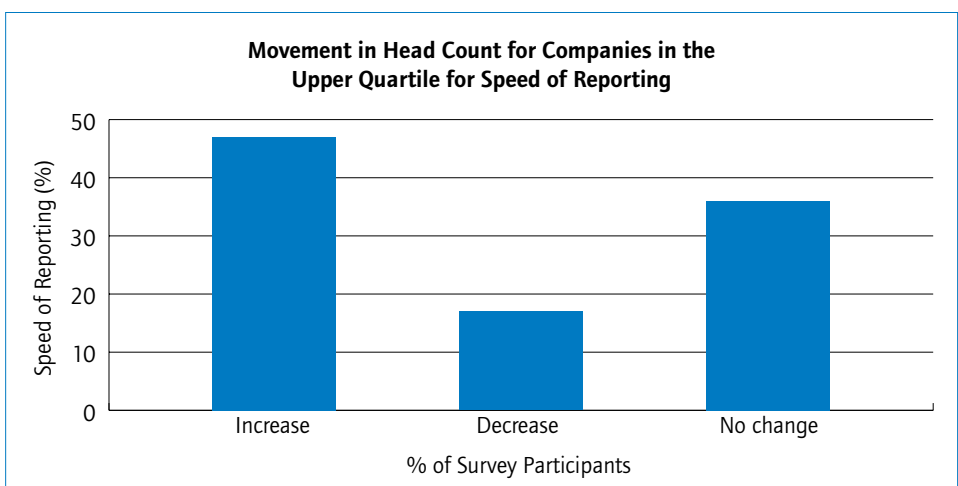
The average headcount in today's group finance function is somewhere between 3 and 10 full-time equivalent employees (FTEs). Only companies with consolidated revenue of more than 5 billion EURO's employ more than 20 FTEs within group finance.

However, the most interesting result here is the trend over the last three years. Given the general focus in the last few years on reducing central head office costs, we were surprised to see that so many groups had increased the number of staff in their head office group reporting teams. A full 50% of participants have increased headcount over the last 3 years whereas for the US the percentage is only 30%. If we reflect on the growing pressures on the corporate headquarters, such as increased disclosure, quarterly reporting and faster close, it is easy to see why headcount may have increased. So the important question is, how are the additional resources being used?

	EMEA	US
Full Time Equivalent Employees Increased	50%	30%
Full Time Equivalent Employees Decreased	16%	39%



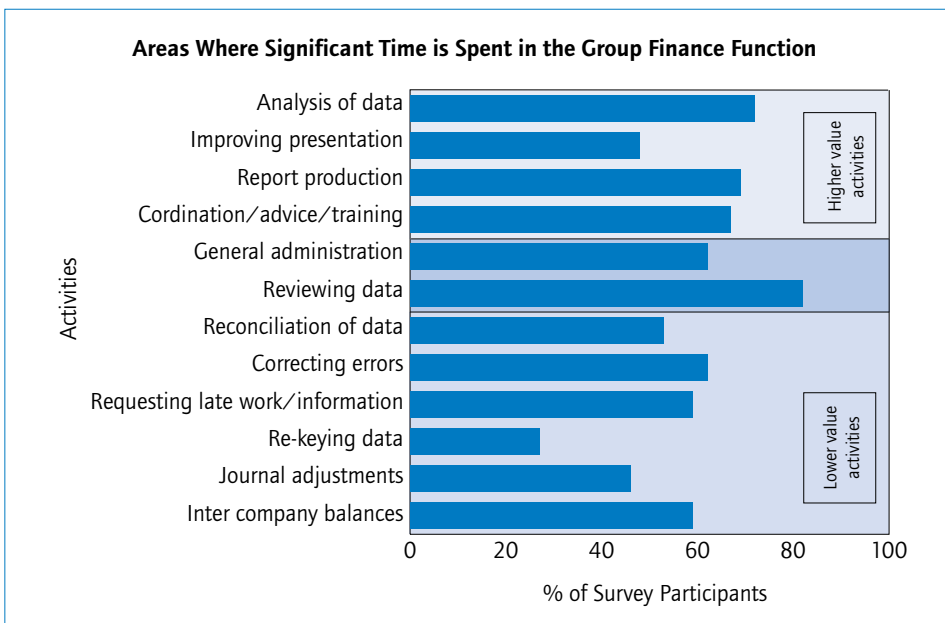
There is no strong correlation between the increase in headcount and the speed of the closing process as the following chart illustrates. Companies that have increased staff in the group finance function over the last 3 years do not necessarily close their books earlier than organisations that have decreased or maintained headcount.



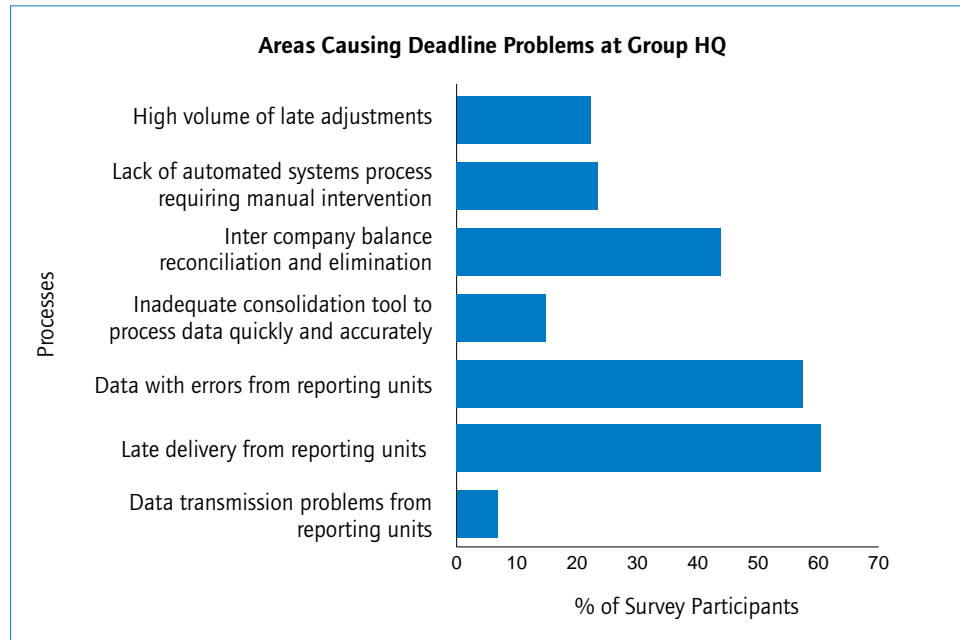
5.3 How Time is Spent

The survey asked how group finance staff spent their time. The list of activities contains a mix of those that are perceived as being higher value added and those that are perceived as lower value-added. In seeking to improve Group Reporting in the organisation effort should be focused on squeezing out the lower value added activities and increasing the time spent on higher value added activities. Indeed, this is often cited as one of the key business benefits of a fast close project. Unfortunately, there is still a predominance of the lower value-added activities in organisations and the traditional “bug bears” of life in Group Finance are still very much present. There is still a great deal of effort put into chasing late data, correcting errors, reconciling inter-company balances etc.

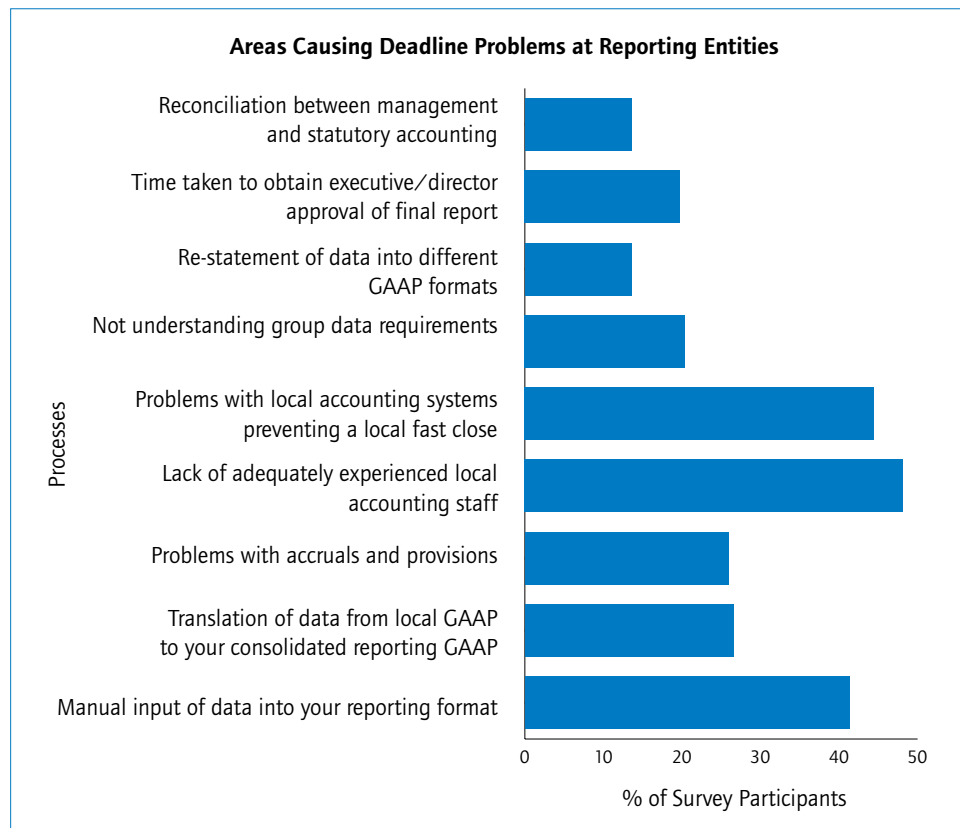
If you are spending significant portions of time on these tasks they are obviously areas to attack with process and systems improvements. It is good to see “re-keying data” coming in with a low score. With today’s more integrated technologies this really should be at a minimum.



In the view of group finance, by far the most dominant issue that causes problems in the head office function in meeting reporting deadlines is late delivery from reporting units, closely followed by data with errors and the age old issue of undertaking the process of inter-company reconciliation and elimination. We call these the “big three” obstacles to effective group reporting. They need to be attacked with process improvements and also with supporting system improvements. These findings show that a successful fast close cannot be achieved by focusing on the head office alone. Subsidiaries and their local timetables play a significant role and need to be embraced if radical improvements are to be made.



We also asked Group Finance what they thought the major problems at reporting entities were. The result reinforces the findings above. The biggest issues for all survey participants relate to systems and people. Problems with local accounting systems has a high score, and this indicates a lack of system integration. An interesting observation is that manual adjustments to local data to get it into the group reporting format still seems to be an issue – a task that can be highly automated with today's ERP technology. Another high-scorer is the lack of experienced local staff, reinforcing the need for group finance to find time to coach and train. Moving towards an effective group finance function does mean to a large extent including the subsidiaries in the process.



5.4 Timetables

One of the highest profile benchmarks in any group reporting survey is reporting timetables. We asked about both monthly and annual reporting timetables.

We have divided the results into quartiles while also indicating how the “best” and the “worst” organisations are performing.

“Best in class” corporations across Europe present their monthly figures to management in far less than 8 working days. There are no significant differences between the different countries. We can, however, see that only the Netherlands and Switzerland are on a par with the US in the upper quartile (but the US data is three years old and we would suspect this quartile would have tightened further in the last three years). France and the UK are marginally behind the US.

The other key observation is that France and Switzerland have by far the widest ranges of reporting timetables. From the results and our knowledge of the survey participants we are able to draw a simple conclusion. French and Swiss companies who are “globalising” and have typically adopted US GAAP or IAS as part of the process tend to have much faster close times than those French and Swiss companies who have not gone through this process. Four of the five French companies in our survey Top 20 are using IAS or US GAAP.

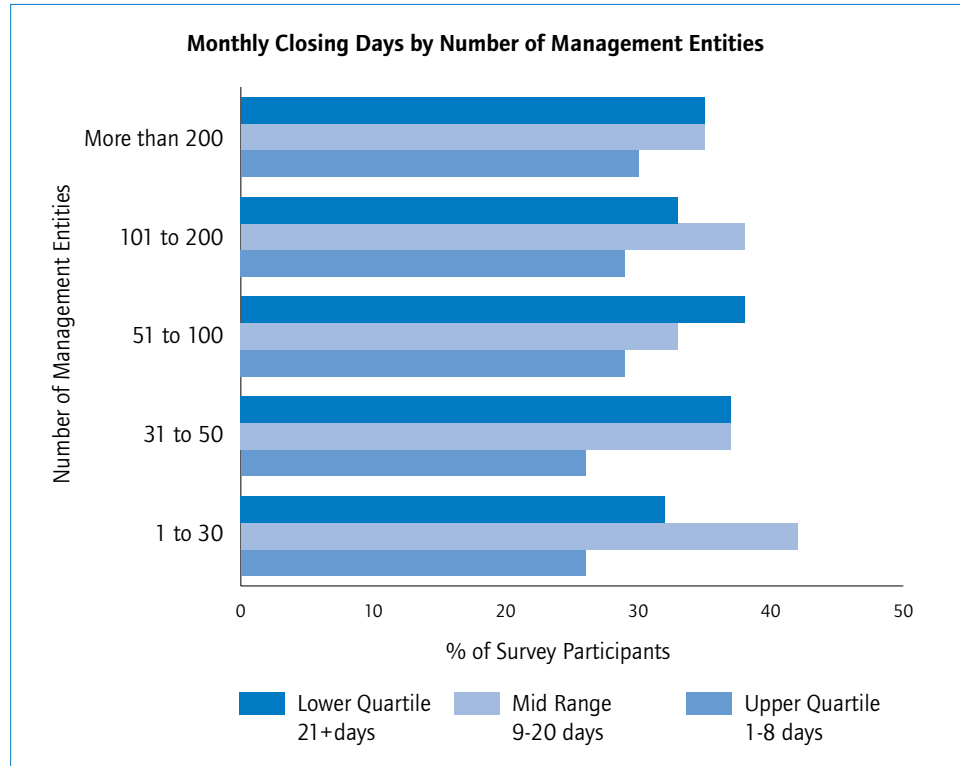
Speed of Close for Management Reporting (working days)

	Upper Quartile	Middle Quartile	Lower Quartile	Best	Worst
United Kingdom	<9	10-13	>14	4	28
France	<8	9-30	>30	2	>31
The Netherlands	<7	8-13	>14	3	20
Switzerland	<6	7-20	>21	3	>31
Europe	<8	9-20	>21	2	>31
United States	<7	8-15	>16	1	22

Speed of Close for Statutory Reporting (working days)

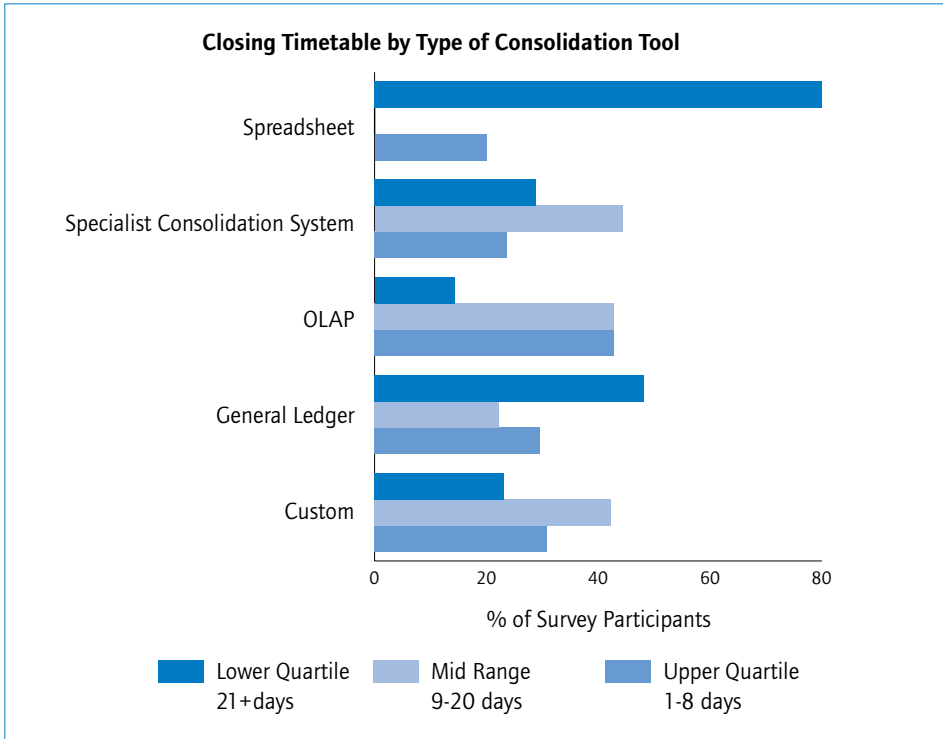
	Upper Quartile	Middle Quartile	Lower Quartile	Best	Worst
United Kingdom	<30	31-50	>51	18	90
France	<15	16-31	>32	6	120
The Netherlands	<20	21-50	>51	10	55
Switzerland	<30	36-70	>71	5	100
Europe	<30	31-60	>61	5	120

We also looked at whether there is a correlation between the speed of close and the number of entities in the group with the assumption that it takes longer to consolidate a large group. Surprisingly almost the opposite is the case. Amongst the participants with more than 200 entities 30% fall in the upper quartile for speed of management reporting, whereas only 25% of companies with 30 entities or less fall in the upper quartile.

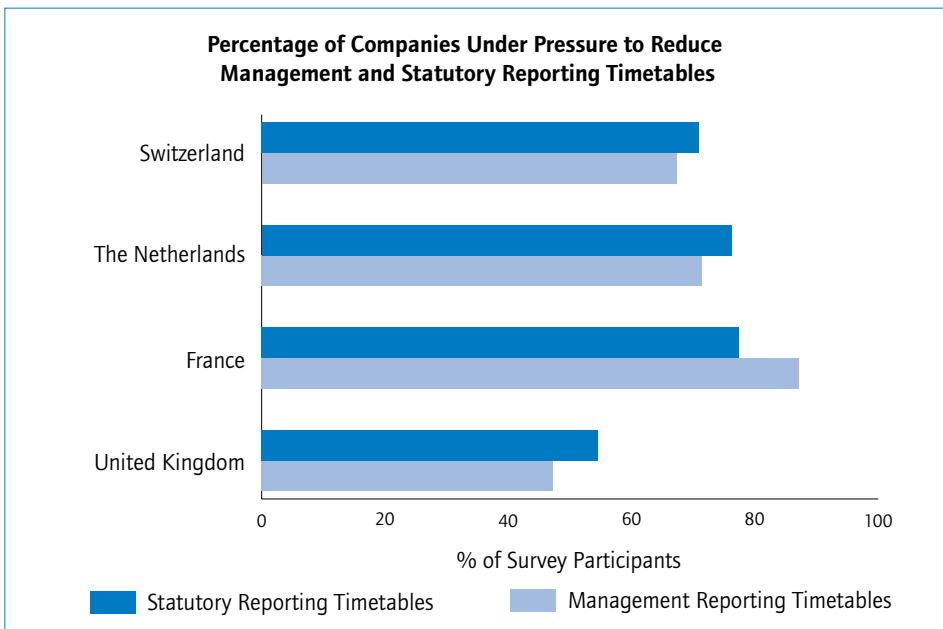


The next issue to consider is the possible relation between the system type used and the speed of close. It is not surprising that 40% of all companies using spreadsheets for consolidation can be found in the lower quartile. There are three additional very interesting observations here:

- a) more than 40% of all OLAP package users close their books in the upper quartile
- b) almost 50% of ERP package users can be found in the lower quartile
- c) the vast majority of companies are now using specialist consolidation systems



So, do European companies feel the pressure to further speed up the close? Our survey results show that there are strong pressures to improve both statutory and management close timetables. Thus highlighting the need for faster external reporting for investors and faster internal reporting for decision makers. While still not competing in the top global league of fastest closing companies, UK corporations feel much less pressure for reducing reporting timetables than their colleagues on the continent. It is also interesting that those companies in countries moving to IAS and quarterly reporting most quickly are under most pressure to accelerate the close. The UK seems more relaxed.

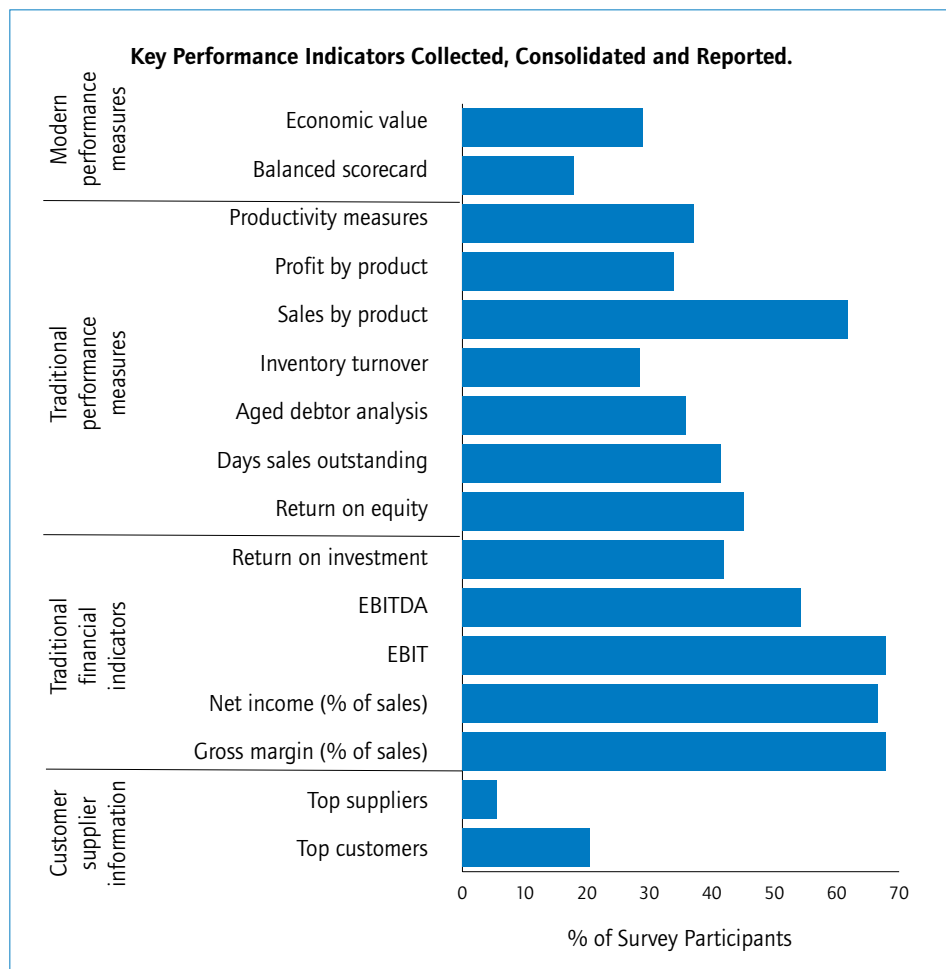


5.5 Data Content and Performance Measurement

We asked questions in our survey about the type and frequency of data collected. First, let's look at performance measures.

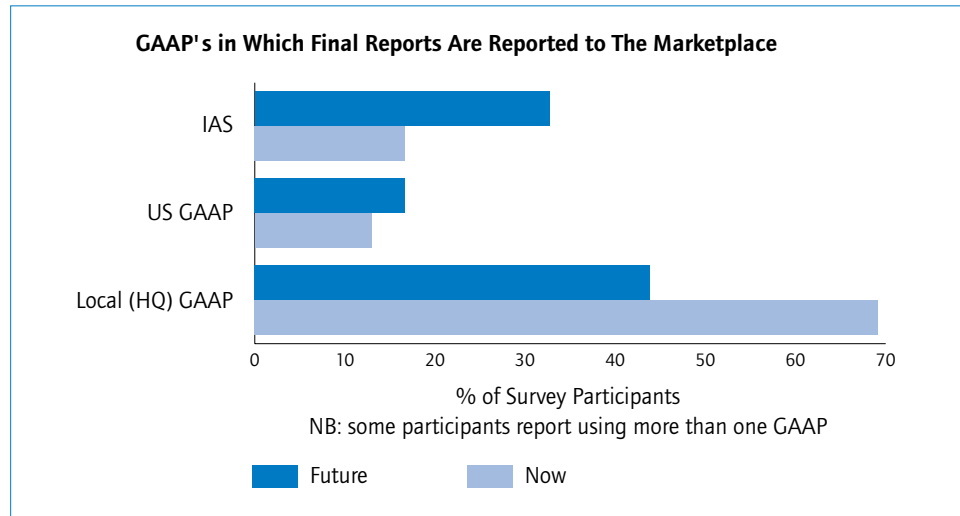
Traditional performance measures remain dominant in the data sets collected and consolidated. Among these traditional performance measures, financial indicators are the most widely used: 68% of our participants use at least one of them. Among them, Income Statement based indicators are consolidated and reported more than Balance Sheet based indicators. Less than half of respondents report Balance Sheet based indicators such as Return on Equity or Return on Investment whereas nearly 68% of respondents report EBIT or Gross Margin. Then come Traditional Management Indicators with a clear emphasis on Sales by product (used by 62% of organisations). Other indicators are much less common: only 34% of organisations consolidate Profits by product. This clearly does not help decision makers to define specific approaches among their lines of business.

There seems to be a very low level of organisations collecting and consolidating Economic Value Added (EVA) or Balanced Scorecard (BSC) data in Europe. This compares unfavourably with the penetration of these measures in our previous US survey. Either survey participants are simply not using these measures at the corporate level or the collection and reporting of these types of measures is bypassing the group reporting function, clearly of concern to the forward looking financial controller. We know from other PwC Consulting studies that the Balanced Scorecard and EVA measures can make a big difference to performance measurement in an organisation and we believe the group finance function should be supporting the processing of them with the same rigour and control as financial numbers. Customer/Supplier Information is scarcely consolidated and reported with only 20% of respondents collecting Top-customers Information and 6% Top-suppliers Information. The same conclusion for EVA and BSC applies: either groups are not using such measures at the corporate level or reporting of such indicators is bypassing group finance. This might be a critical point for groups especially if they deal with global clients or suppliers and illustrates that group finance may be struggling to keep up with the pace of globalisation in their business.

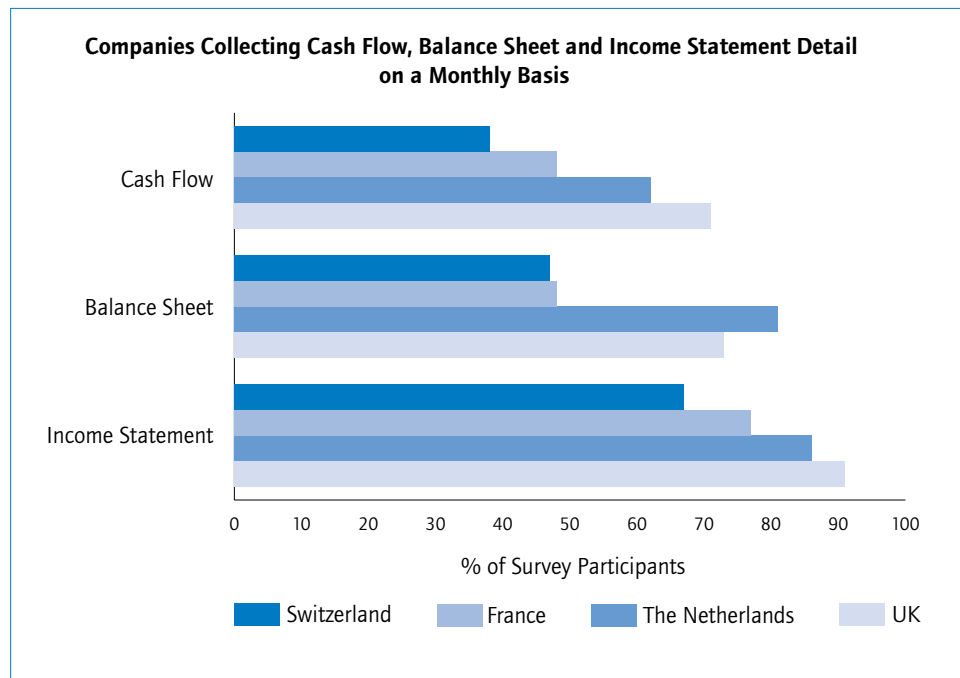


The use of these new measures is of considerable interest for management reporting, as is the GAAP being used for financial reporting. The majority of companies (70%) are using their local GAAP for consolidation and reporting now, reflecting local requirements to publish accounts in local GAAP. Interestingly, there is a clear message from global organisations that three years into the future the majority will have moved from their local head office GAAP. Furthermore, the European Union expectation of harmonised European International Accounting Standards (IAS) by 2005 suggests the vast majority of these will move to IAS.

All groups should be thinking about the impact of IAS and should consider that this might have consequences earlier than anticipated. In 2005, accounts from year 2005 but also years 2004 and 2003 will have to be produced in accordance with IAS. Groups might therefore be strongly encouraged by local Accounting Boards to publish accounts on IAS as soon as 2003. Secondly, it will affect systems and processes significantly and the work involved will be substantial.



We have summarised below the percentage of organisations in our survey from each of the major territories who collect key schedules monthly and quarterly. There are some clear observations. Firstly, the practice of collecting balance sheet and cash flow information monthly is now well established. This is particularly clear in the UK and the Netherlands although less so in France and Switzerland.



The standardisation of monthly data sets to include balance sheet information facilitates three clear areas for process improvement in group reporting:

- Using a consistent chart of accounts across the legal and management reporting cycles, with supplementary balance sheet data being added for legal reporting cycles and monthly to provide KPI information.
- The implementation of standard interfaces between the consolidation tool and the local companies' general ledger systems. This is cheaper to do and more worthwhile if there is a consistent approach to data sets collected across the reporting cycles, reporting entities only have to build one map.

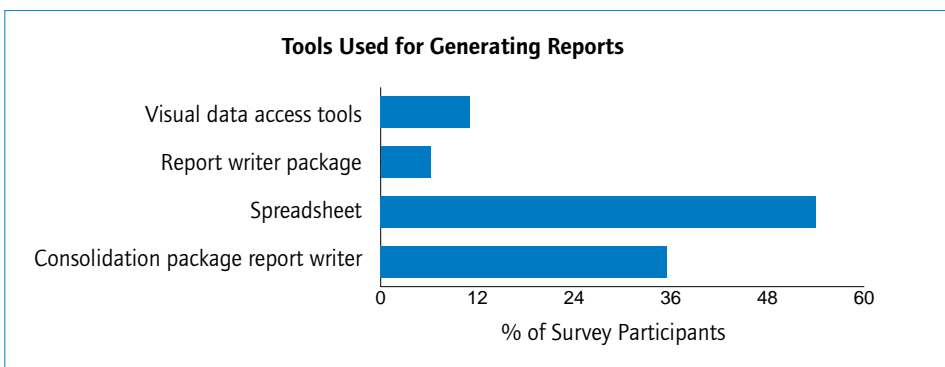
- Group Finance teams redesign of key processes so as to limit the number of iterations or mistakes in the reporting process. The more standard the process and the more frequently reported, the better the quality of data produced.

As the era of quarterly reporting to European stock markets approaches we believe the trend towards monthly balance sheet reporting will continue as will the standardisation between data sets across the different reporting cycles. This standardisation should help improve the efficiency and timeliness of the close process.

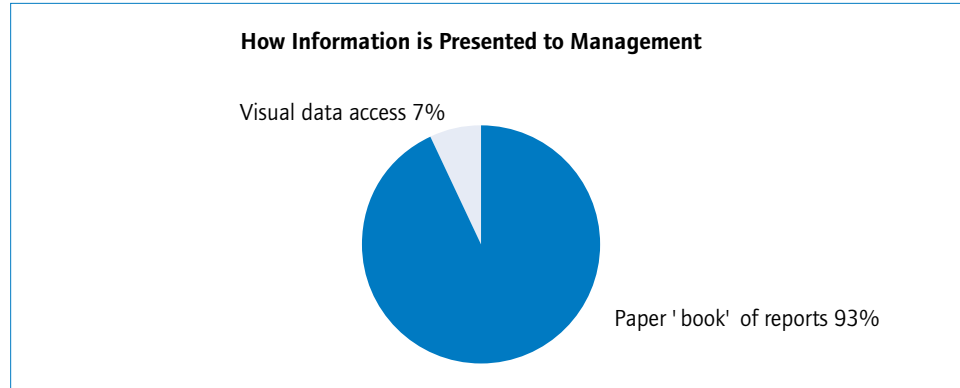
5.6 Reporting

In our survey we asked about report production and distribution. Clearly, the generation of reports is still dominated by the use of spreadsheets, which are used by 81% of respondents for generating reports. This is undoubtedly due to the familiarity of most controllers with tools such as Microsoft Excel. It is also a flexible report-writing tool, even though it lacks the full integration with the consolidation tool that a package report writer might have.

Nevertheless, Excel is decreasingly used to the exclusion of other tools for reporting. (In our survey, respondents could choose more than one answer to this question, as can be seen since total answers are greater than 100%.) For instance, 52% of companies surveyed use a consolidation package report writer to generate reports, alongside the 81% who also use spreadsheets.



Despite the growing availability of visual data access from electronic based reporting tools, paper based reports are still highly dominant for presenting information to management. 93% of companies surveyed present information in a paper book of reports. This might raise a cultural issue; as to how difficult it is to change the old habits of analysing financial data on paper reports. It might also indicate that users' expectations are still not met if they wish to easily access, analyse or comment on financial data from electronic sources. It is clear to us the delivering at least key data electronically can be part of accelerating the reporting process. Delivering data more quickly and in a more targeted way than simply the "standard" book of reports. Many corporations are already exploring how to use web portals to deliver personalised information to employees. Why not apply this principle to the distribution of performance management and financial data?



5.7 Process

Section 5.3 of our survey covers in some detail how group reporting staff spend their time and the key tasks they undertake. In this section we look more closely at key specific processes undertaken in the Group Reporting function.

Firstly, we consider the issue of currency translation. Our survey shows that the vast majority of currency translation occurs at the corporate or divisional centre (76% at head office and 24% at divisions) with very few making it the responsibility of local reporting companies to perform translation. More interestingly, there are a growing number of companies who report their consolidated results in multiple currencies. Some 30% of surveyed organisations reported in several currencies. This is more common in France (58%) and the Netherlands (43%) where local currency and Euro figures were often produced along with data in US dollars (this survey was conducted before the formal commencement of the Euro on 1st January 2002). In the UK 21% report in multiple currencies and in Switzerland 12%. Most typically the dual reporting currency is US dollars and supports dual/secondary listings.

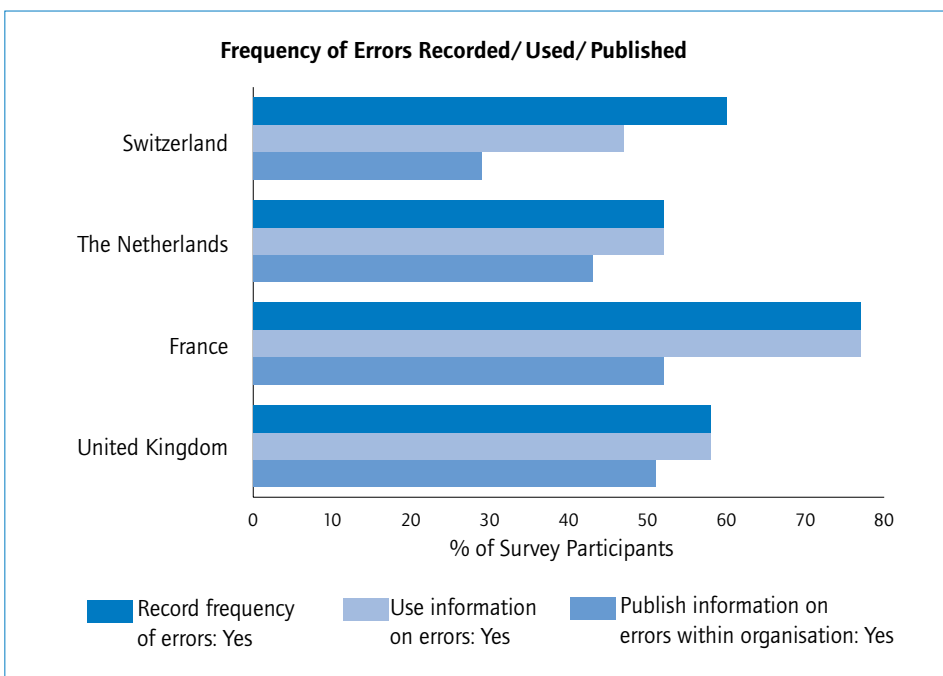
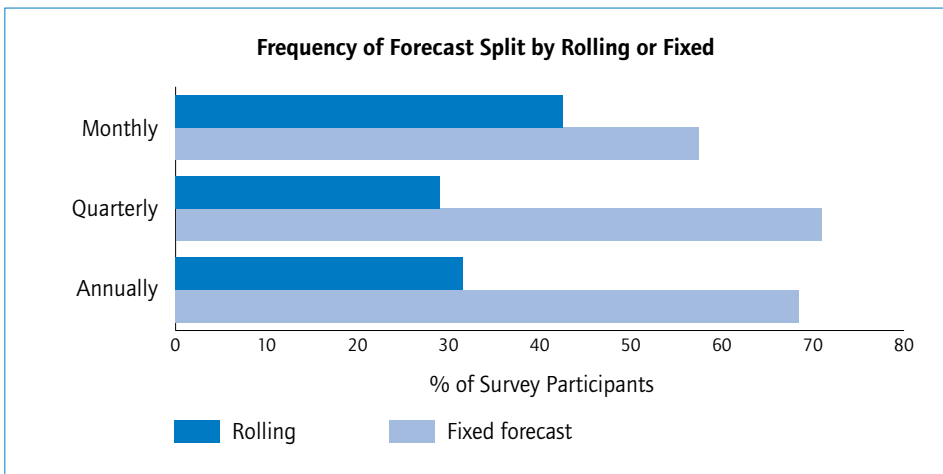
We then asked our participants about the budgeting process. Not surprisingly there was a very wide range of elapsed timings for the annual budgeting process, 20 working days to 150 working days. Clearly not everyone has yet speeded up their budgeting process. However, it was also interesting to note that only 53% of participants felt under pressure to speed up the annual budgeting cycle, far less than those seeking to speed the close.

Speed of Annual Budget Cycle (working days)

Upper Quartile	Middle Quartile	Lower Quartile	Best	Worst
<40	41-90	>91	20	150

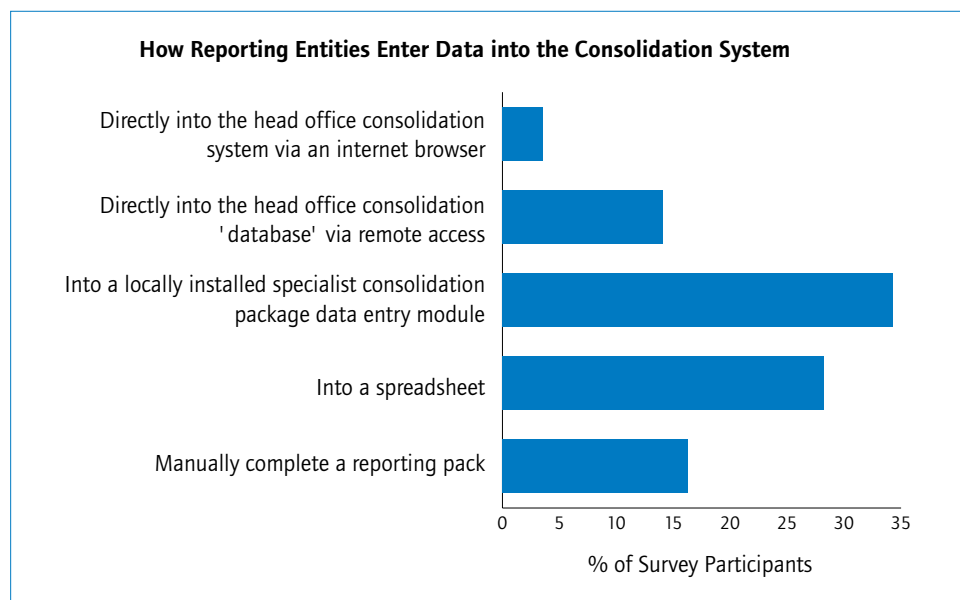
The most common form of supporting system for budgeting was Excel spreadsheets combined with the organisation's existing financial consolidation tool. Surprisingly, very few of the survey participants were as yet using specialist budgeting tools, (such as SAP SEM BPS, Adaytum, Hyperion Planning or Comshare MPC) at the corporate level, although these tools may, of course, be in use at the operational level of these organisations.

The next area of interest is forecasting. There is a clear and established trend towards forecasting within the finance function with some 87% of participants performing forecasts at least quarterly, a higher proportion than found in earlier surveys. The move to rolling forecasts is regarded by many as best practice but in our survey only 32% of those doing forecasts have yet made them rolling forecasts. This is an increase compared with earlier surveys and some 84% of participants who are not yet performing rolling forecasts said they expected to introduce them within 3 years. As our graph shows, monthly rolling is the most common form of rolling forecast. One key issue we see in our survey participants is that rolling forecasts are only effective if finance staff have enough time to make sure they are quality forecasts. Moving to a fast close for actuals often frees enough time for quality forecasting. A clear benefit of a fast close.

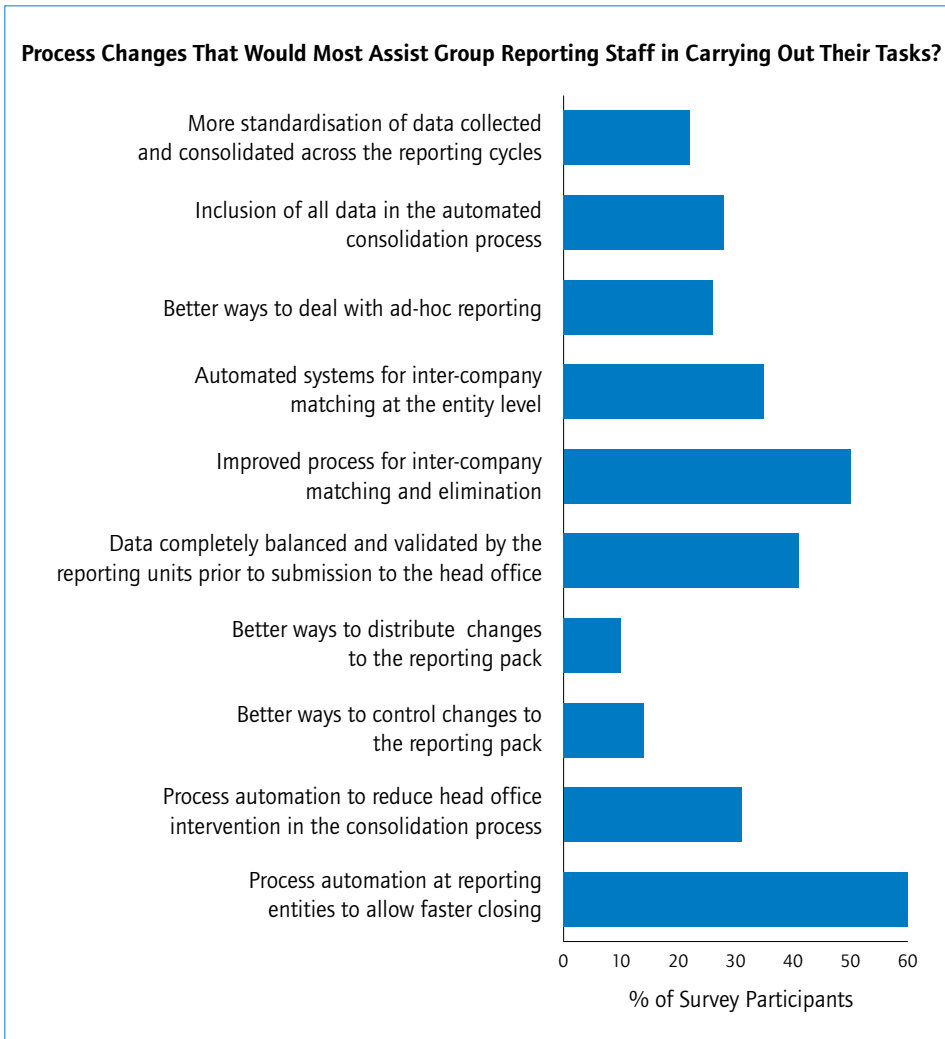


Concerning the measurement and cost control of the Group Reporting process, we have argued that a key step in achieving a world-class close is to measure and monitor the performance of the consolidation process. This message seems to have been heard, as 62% of the companies surveyed recorded the frequency of errors and omissions in the group reporting process and the vast majority of these organisations use this data to help manage and improve their reporting process. However, only 37% of organisations go to the lengths of publishing the results of this measurement within their management teams. When we looked at the characteristics of the top 20 the power of measurement as an improvement tool was clear. While being good at measuring the process, it was surprising to find that only 40% of the survey population separately identify and monitor the cost of the group reporting function.

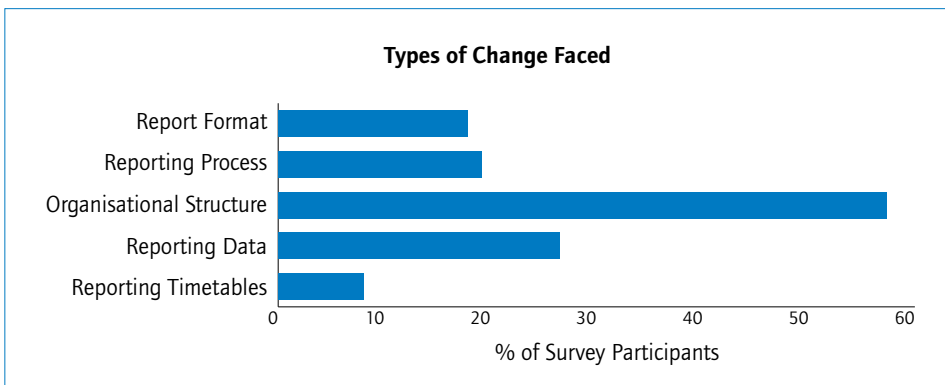
The process of collecting data is clearly also a key step in an efficient group reporting process. Thus, it was interesting to see that 61% of participants in the survey map data electronically from their local general ledger for some or all of their business units, although only 10% of companies do this for all business units. As well as electronic mapping of data there is also a need for additional data collection facilities at local sites. Our survey shows that the move to centralised consolidation databases with Internet or wide area network access from local business units is continuing. Although 34% of participants collect data via locally installed instances of their consolidation tool and 30% by locally distributed spreadsheets, some 18% now collect data into a centralised system. Currently 14% use WAN's or other web enablement tools like Citrix/Terminal Server while 4% now have fully web enabled access. This is an increase on previous surveys and is a trend we expect to continue for reasons of efficiency and cost and the growing maturity of web based group reporting applications.



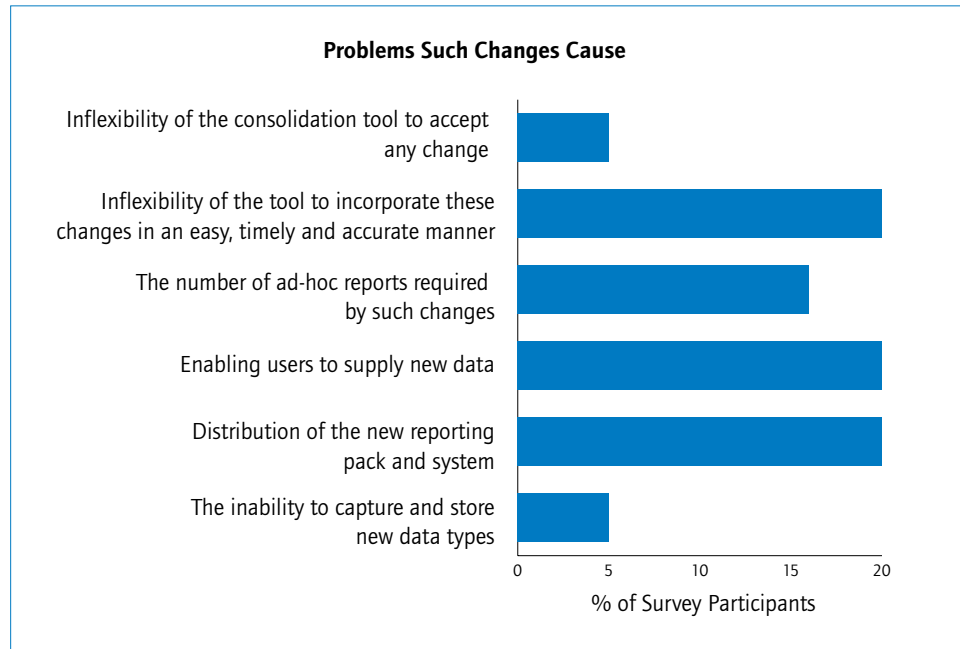
Finally, on processes, we asked the obvious question, "What process changes would most help you improve?" The graph shows the full details but once again the issues of data quality and process automation (particularly around inter-company reconciliation) are pre-eminent. Some of these process improvements can only be implemented by change in local company financial disciplines while others, such as the inter-company process, may be facilitated by improved use of technology, particularly the Web.



5.8 Managing Change



A common challenge in Group Finance is that the changes they regularly face cause significant problems in establishing a fast and effective group reporting process. So, to explore this we asked about the extent of change. It is clear that the most regular form of change is in organisation structure with over 50% of respondents facing changes more than four times a year. Changes in data, reports and process also occur with some frequency in many organisations. Given that for many there are regular changes in the key reference data it is useful to understand the typical problems that such changes cause.

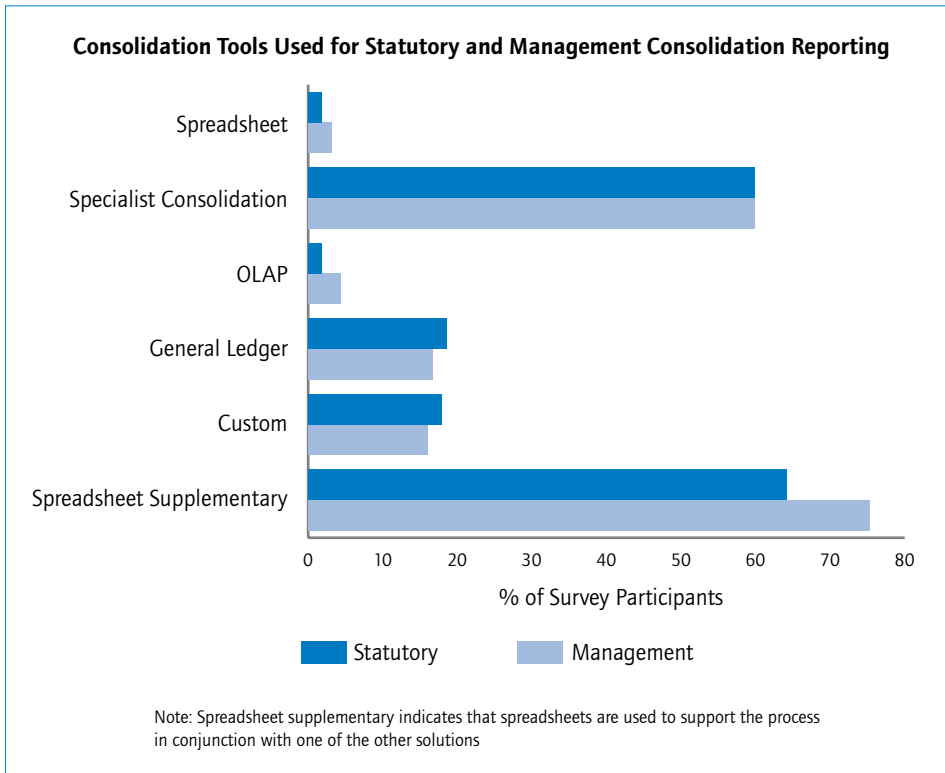


The key problems caused are at the front and the backend of the process. The most common problem is enabling the users to extract new data from local systems. Clearly a new data requirement should be conveyed to business units as soon as possible to allow them to source this data in a timely fashion and update their local integration tools. At the other end of the process another common problem is the ability of the consolidation tools to accommodate such changes quickly and easily. This is an area where vendors could put in more effort. The third most common problem is the distribution of revised systems to local units for data collection, which can be a slow and laborious process. One of the significant advantages of centralised and web/WAN enabled systems is that this process is dramatically simplified.

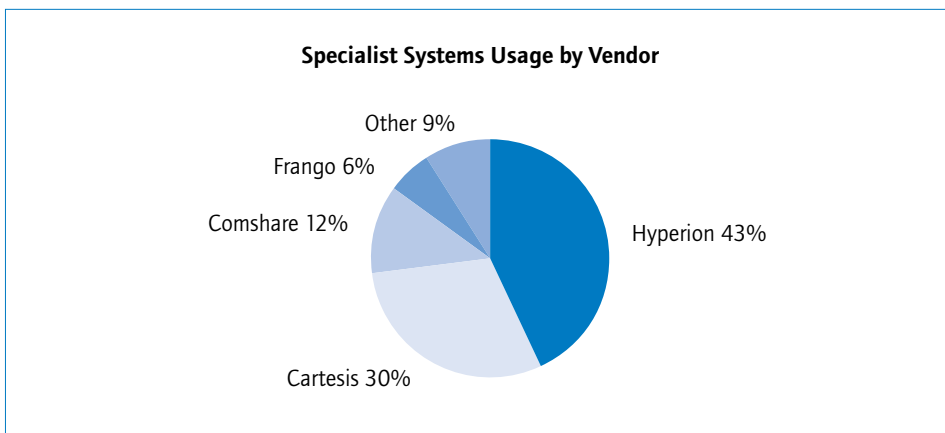
5.9 Consolidation Systems

We asked the survey participants about the systems they used for group reporting. The specialist consolidation packages dominate in the European market. 60% of the survey participants use specialist packages for both management and statutory reporting. In almost all cases Excel is used as a supplementary tool for reporting and analysis. Only 3% use Excel as their main consolidation and reporting tool.

The main vendors of specialist consolidation packages used by our participants are Hyperion, Cartesis, Comshare and Frango. Further we see that in some European countries local packages are used to meet specific legal reporting requirements.



In our survey participants the use of General Ledger (GL) and ERP for consolidation and reporting seems to be low. Although vendors have developed a lot of new modules in this area in



recent years, most organisations do not yet see GL and ERP systems as the ideal environment to facilitate a flexible and fast consolidation process. Only 20% of the participants think that they will be using GL/ERP for consolidation in 3-4 years time, an increase from today's figures of only 2%.

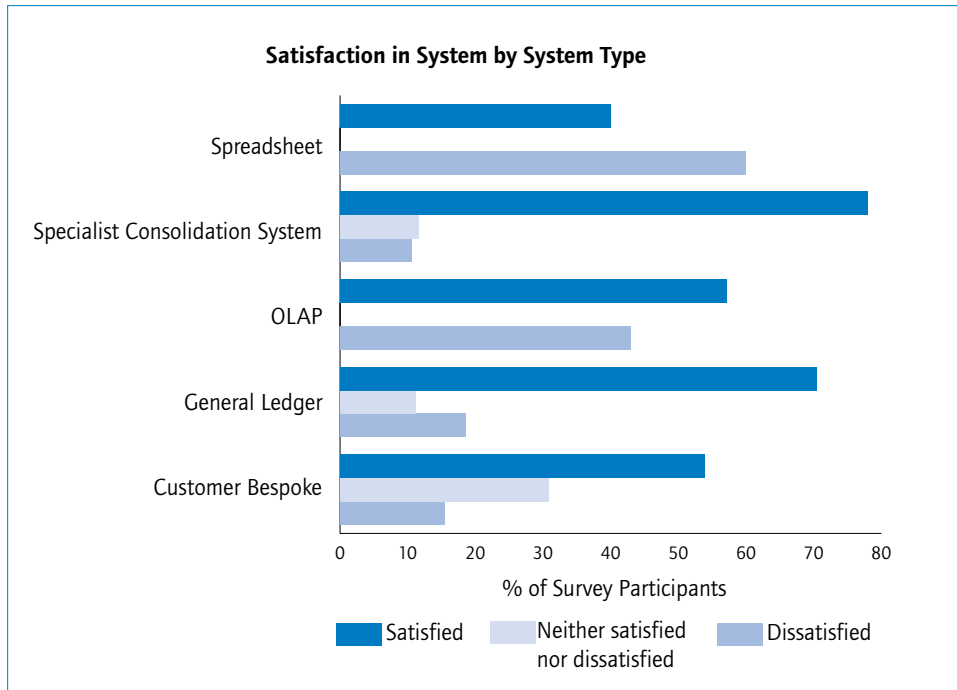
Vendor	Systems
Hyperion Solutions	Microcontrol, Enterprise, Financial Management
Cartesis	Carat, CLIME, Magnitude
Comshare	FDC, MPC

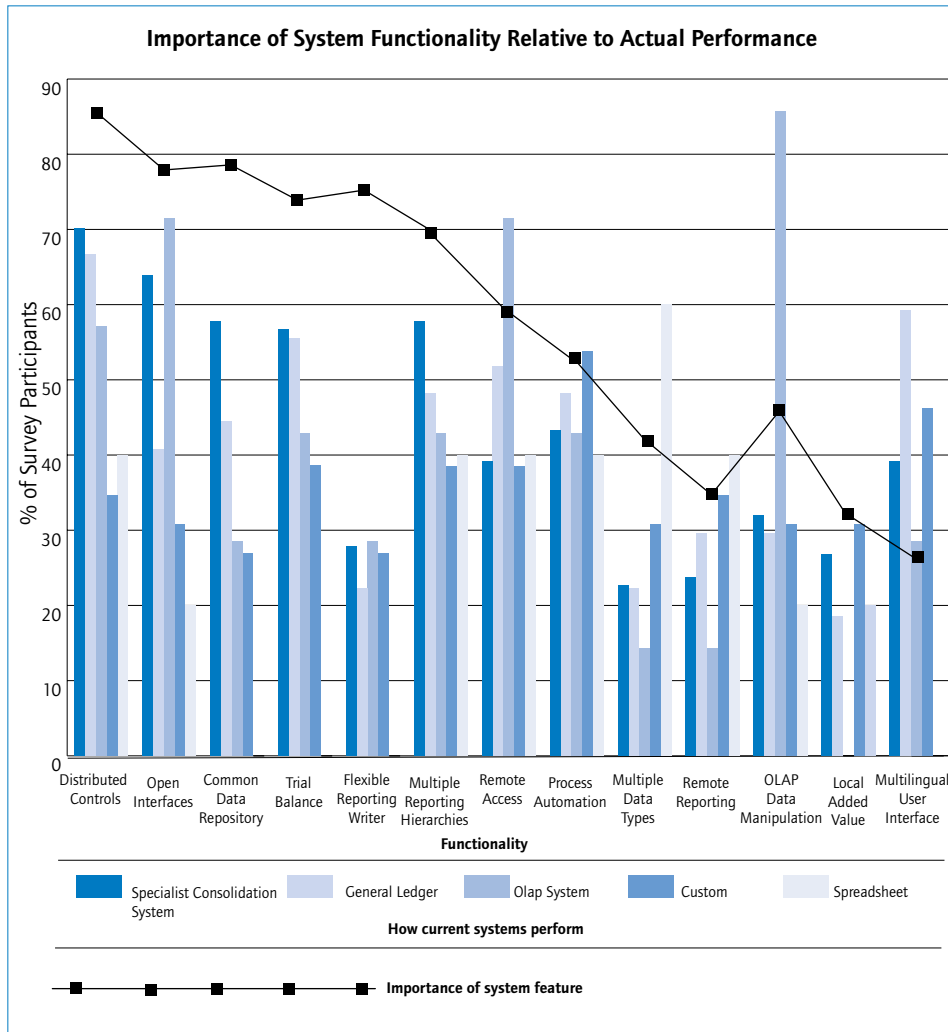
In the survey we looked at the use of new technologies like the Internet, WAN (wide area networks), central server processing, web reporting (portals) and highly graphical reporting. Two years ago we expected to see growth in this area but the results of the survey do not reflect this. Some key figures from the survey:

Graphical data access to consolidated data	7% of companies
Consolidation data available via the Internet	17% of companies
Data entry via remote access (WAN)	14% of companies
Data entry via Internet	4% of companies

The use of these new technologies can help to improve the consolidation and reporting processes and it is clear that most organisations have not exploited these new technologies yet. As these technologies mature we expect their uptake to increase significantly.

Focusing on user satisfaction, almost 70% of respondents are satisfied with their current system(s). Most dissatisfied organisations are those who use spreadsheets (60%) and OLAP tools (42%). Of the organisations that decided to develop bespoke consolidation functionality only 55% report that they are satisfied with their system(s). The consolidation business functionality provided by the specialist consolidation systems and the GL/ERP systems was most appreciated.





In every survey around systems we try to find out what the users see as the important areas of system functionality and how their systems perform in these areas. From the survey results we have analysed the relative importance of key consolidation functionality and how the software types perform against each function. This is based on user perception of their expectations and system requirements. This is summarised in the above graph.

The Excel solutions have the greatest gap between required consolidation functionality and levels of performance, followed by custom-built software. This last point is, perhaps, surprising, because the main argument to go for bespoke solutions is typically the capability to deliver a solution which fully meets the user's requirements and all the "special needs" of the organisation. Despite their widespread use the vendors of specialist consolidation packages still have some way to go in meeting expectations fully. The main areas for improvement are flexible reporting functionality, multiple data types and providing a common data repository.

6 Your Checklist for World Class Group Reporting

Health check your Group Finance function in ten minutes

To give yourself a rapid assessment of how good your group reporting and consolidation function is, score yourself on the following key phrases. Score yourself from 1-10 (with 1 = I strongly agree with the phrase, 10 = I strongly disagree with the phrase). Add your scores and see how you fare.

6.1 Process	Score
1. "Our reporting and consolidation process is a key finance process and is recognised as such across the business"	_____
2. "The performance of our group reporting processes and systems are measured and the results utilised to target further process improvement"	_____
3. "Our data sets across all key reporting cycles (monthly, quarterly, annually, budgets, forecasts) are harmonised, consistent and transparent"	_____
4. "Our inter-company processing has been taken off the critical path through process automation and system integration"	_____
5. "We have a Global Standard Chart of Accounts (SCOA) implemented at the General Ledger level in every significant business unit"	_____
6. "We deliver time critical results to senior management electronically, with follow up detail printed"	_____
7. "Corporate centre Journals and other accounting entries are highly automated"	_____
8. "We have a process which ensures validation at source and a 'right first time' mentality, with no re-submission of data by operating companies"	_____
9. "Our Group Finance Function encourages knowledge sharing and internal benchmarking across the business as the best enabler of continuous improvement"	_____

6.2 Systems Score

- 10. "We have Group Systems for consolidation, reporting, budgeting, forecasting and planning which are centralised, highly automated, integrated and standardised" _____
- 11. "We make extensive use of the Web within Group Finance, with Web enabled reporting and data capture, and the intranet being used to maintain all key Group Finance reference data (e.g. policies, procedures, system user guidance, master reference data such as accounts, entities, organisational hierarchies, product codes etc.)" _____
- 12. "Our group reporting, planning, budgeting and forecasting systems are multi-dimensional and allow us to accommodate the global view of our business (brands, regions, customers, entities etc.) in an integrated environment" _____
- 13. "Our Group Reporting systems give us extensive analytical capability across transparent, granular data" _____
- 14. "Our Group Reporting systems are integrated with local feeder systems and corporate reporting tools, such that there is minimal re-keying of data across the process" _____
- 15. "Our Group Reporting systems enable us to provide personalised financial analysis and performance measures across the group and divisional executive management team" _____
- 16. "Our Group Reporting systems are able to leverage our standard corporate technologies" _____

6.3 Timetables Score

- 17. "Monthly reporting is completed in less than 5 working days from the end of the reporting period through to the publication to executive management of agreed consolidated results" _____
- 18. "Annual Year end reporting is completed in less than 25 working days from the end of the annual reporting period through to the publication to executive management of agreed consolidated results" _____
- 19. "Our annual Budget process is closed within 40 working days (from issuing instructions to delivering the agreed consolidated budget)" _____
- 20. "The level of resources within Group and Subsidiary Finance focused on the production of historic results has been reduced within the last three years and we expect this trend to continue over the next three years" _____

Total

6.4 Results

If you score less than 70, you are already well on the road to having a best in class group finance function. If, in any of these phrases you have scored more than 7 then you need to invest in this area to achieve further improvement.

If you score less than 140 but more than 70 you are currently in the mid-range of performers and have work to do to move to a best in class Group Finance function. Use those questions where you scored more than 7 to identify priority areas for improvement.

If you score more than 140 you have a lot to do to move to a best in class group finance function. Use the areas where you have scored more than 7 to identify the priority areas for improvement. In particular, try and identify which of these areas of improvement could be regarded as a "quick win".

7 Method

PwC Consulting, supported by WebPulse...™, a division of Highseas Navigation Company and a market research firm located in Fairfield, CT, USA, conducted parallel studies of the Consolidation and Reporting Function of European Multinational Enterprises by telephone, interview and the Internet during 2001. All methods of data collection used identical questions.

A total sample of 162 financial executives responsible for financial reporting and consolidation at their organisations are included in this report.

All valid responses were used to prepare the analysis presented in this report. A few instances where participants did not answer a specific question are reflected in slight differences in the total number of responses to those questions, however all the analysis presented is based upon percentages of the total number of valid responses.

Results were collected by WebPulse...™ and analysed by PwC Consulting, who have prepared this report. At no point in this report do PwC Consulting refer specific responses to specific organisations, which remain strictly confidential to PwC Consulting.

For more information about WebPulse...™ and Highseas Navigation Company, please contact James Hisey 11, (1) 203 366 4231 or via email: jhisey@highseasnav.com

8 About PwC Consulting's iAnalytics and Enterprise Group Reporting Services

PwC Consulting (www.pwcconsulting.com) is a leading global provider of services that transform the businesses of established and emerging enterprises around the world. With an extensive network of global alliances, deep industry-specific knowledge, and broad capabilities in strategy consulting, process improvement and technology integration, PwC Consulting practitioners place innovative ideas into bold, meaningful actions that can help realise a strategic vision, drive business success, and enhance enterprise value for our clients.

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iAnalytics drives business results through integrated, actionable information. PwC Consulting's iAnalytics solution set (www.pwcglobal.com/iAnalytics) delivers an environment within an organisation that supports the timely collection, aggregation, management, distribution and analysis of relevant actionable information across the entire value chain to secure fast and effective decisions. iAnalytics delivers role-based business intelligence to the information consumer in a fast and personalised manner and drives behaviours that deliver a company's strategy through the use of strategic, management and operational measures. iAnalytics integrates a company's informational assets across the value chain, it delivers transparency of data and measures across all levels of the enterprise and integrates advanced technologies with traditional technologies to provide this transparency.

Within our iAnalytics solution set our Enterprise Group Reporting Services (www.pwcglobal.com/egr) comprise a global network of over 300 specialist consulting staff who work with the world's leading organisations to deliver successful iAnalytics solutions to the corporate centre, including group reporting, fast close and "blowing up the budget" projects encompassing strategy, process and implementation.

For more information contact:

UK & EMEA – David JH Jones +44 (0) 20 7213 8603

Email: david.j.jones@uk.pwcglobal.com

Netherlands – Klaas van de Geest +31 (0) 36 545 3826

Email: klaas.van.de.geest@nl.pwcglobal.com

Switzerland – Johannes Balling +41 (1) 630 32 86

Email: johannes.balling@ch.pwcglobal.com

EMEA – Jacky Ross +44 (0) 7213 8363

Email: jacky.ross@uk.pwcglobal.com

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