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Q&A: The Impact of XBRL on Corporate Performance Management

Nigel Rayner

Extensible Business Reporting Language is an XML-based standard that supports the exchange of financial and business data. It is being adopted increasingly by regulators and will affect the way corporate performance management applications and business intelligence reporting tools manage this data.

ANALYSIS

Extensible Business Reporting Language (XBRL) is a technology that Gartner has identified as having great potential to revolutionize the way financial data is reported and disclosed. Although there has been some patchy adoption by regulators in some parts of the world, most end users remain ignorant of what XBRL is and what it does. Few IT professionals have it ion their radar screen as a priority technology. Yet the tipping point may have been reached — on 14 May 2008, the U.S. Securities and Exchange Commission (SEC) announced it would propose that all U.S.-listed companies provide financial information using XBRL. This will spur XBRL adoption in the U.S. and other parts of the world. CIOs must understand the impact of XBRL on their strategies for finance systems, corporate performance management (CPM) and business intelligence (BI).

What is XBRL?

XBRL is an XML-defined standard used for analyzing, exchanging and reporting financial and other business information. It defines the contents of financial reports and statements to make it easier to disseminate, access and compare financial information. XBRL is being developed by XBRL International, an international, nonprofit consortium of approximately 550 major companies, organizations and government agencies. XBRL is an open standard, free of license fees. It provides an identifying tag for each item of financial data instead of treating financial information as a block of text, as in a standard Internet page or printed document. For example, "net profit" has a unique tag, thus, any report that must show net profit needs only to reference this tag. The attribute tags are language-independent; to translate a taxonomy for use in any language other than English requires only that the data labels be translated.

Perhaps more importantly, the XBRL specifications (called "taxonomies") handle the complex financial semantics (such as assets, liabilities, income, expenses, debits and credits) that cause problems when reporting financial data using BI reporting tools. These rather arcane financial data attributes cause issues when applying standard Structured Query Language-based reporting logic to financial data sourced directly from accounting systems. For example, income data is recorded as a "credit," which means that it usually is stored as a negative number in finance systems. Expense data is recorded as a "debit" and usually is stored as a positive number. Most analysts creating a report showing net profit logically would assume that this is calculated as income minus expenses, when, in fact, the calculation would be income plus expenses, if the data is retrieved directly from most finance systems. Consequently, the accounting rules must be decoded in the extraction, transformation and load processes, adding complexity to the reporting environment. In addition, BI reporting tools and applications do not understand accounting semantics, rules and definitions, such as opening and closing balances, journals and financial periods; thus, these elements are interpreted, coded and reported differently across the systems.

The XBRL taxonomies handle all these issues in their attribute and hierarchy definitions. This makes it is easier to build sophisticated financial reports, such as a profit and loss statement, balance sheet and cash flow statement, using XBRL. For example, it is estimated that the average Fortune 1000 company used more than 800 spreadsheets to prepare financial statements for regulatory reporting. XBRL offers a solution to significantly reduce this number and to improve internal controls over financial reporting. XBRL is not limited to numeric data. XBRL taxonomies include definitions of textual data that accompany financial data, such as the Management's Discussion and Analysis section in the SEC's 10-Q and 10-K forms. This makes XBRL a potentially effective way of exchanging key business and financial data.

Who will be affected by requirements for XBRL?

The XBRL consortium was formed in 1998, and although XBRL is a worthy and potentially helpful technology, its early, real-world adoption was limited. However, this started to change when regulators worldwide realized that they could use XBRL to automate the submission of financial data. Instead of creating paper returns, which had to be manually filed and checked, they could use filers to submit financial returns (with associated textual notes) in XBRL format. This reduced the effort to produce and collate submissions and enabled direct comparisons among filers using XBRL-based reporting tools. Early XBRL adopters that participated in the SEC's voluntary filing program have found that implementing XBRL was not expensive and reduced the amount of time required to prepare and submit returns, while improving their accuracy.

Consequently, industry and financial regulators worldwide have shown varying degrees of interest in adopting (in some cases, mandating) the use of XBRL. Global adoption has been patchy but is gaining momentum (see "XBRL Will Enhance Corporate Disclosure and Corporate Performance Management"). A pivotal moment occurred on 14 May 2008, when the SEC announced that it would formally propose that all U.S. companies provide financial information using XBRL beginning in 2009 for the largest companies, and within three years for all public companies (see "SEC XBRL Mandate Will Challenge Companies Filing in the U.S."). This represents a potential tipping point for XBRL adoption — if the SEC mandates the use of XBRL for all U.S.-listed companies, then more regulators likely will follow suit. The use of XBRL in this manner does not benefit only filers and regulators, it also benefits investors and analysts, because the SEC will make the information publicly available (as it already does with the Electronic Data Gathering Analysis and Retrieval [EDGAR] database). This will enable real-time, peer-to-peer comparison of financial results as they are filed in a consistent manner, achievable today only with significant manual effort and spreadsheet manipulation.

Consequently, CIOs of all organizations should work with the appropriate representatives from finance roles to identify whether they are affected by any local regulatory mandates to adopt XBRL in the near term. Once a time frame is identified, plans must be enacted to deliver support for XBRL. This may require upgrades or implementations of CPM applications and certain XBRL tools, as outlined in this research. Several jurisdictions make XBRL filing optional rather than mandatory. Owing to the internal reporting benefits that XBRL will deliver, Gartner recommends that organizations where XBRL filing is optional plan to implement XBRL support as soon as is practicable.

How does XBRL relate to CPM?

In the short term, XBRL will have the biggest impact on CPM applications. One key area of functionality CPM covers is financial consolidation (see "Understanding CPM Applications"), and the goal of financial consolidation systems is to produce consolidated financial accounts, which include a profit and loss statement, balance sheet and cash flow statement. This represents most of the financial data that regulators like the SEC want submitted in XBRL format. Consequently, financial consolidation applications must offer the capability to provide XBRL output to support the basic requirements of XBRL filing. Most CPM vendors already have some capability in this area, although some have yet to deliver it. Consequently, organizations that must support XBRL immediately should assess the capabilities of their financial consolidation and financial reporting solutions and should plan for their upgrade or replacement if XBRL support is not provided as standard. Organizations that rely on spreadsheets and manual processes to produce consolidated financial data should immediately enact plans to implement CPM applications that provide XBRL reporting capabilities.

However, regulators want more than just a set of financial statements in XBRL format. Each regulatory authority typically requires contextual notes explaining the accounts, along with some detailed analysis of certain sections. Most CPM vendors do not provide this capability "out of the box;" instead, they say that users can build it using their reporting tools. This means that the supplementary data may not be fully "tagged" as XBRL; therefore, in the short term, organizations may need XBRL tagging tools from vendors such as Rivet Software and UBmatrix to convert the supplementary data into XBRL format. This creates an opportunity for CPM vendors to extend their CPM applications to provide full regulatory reporting in XBRL format (financial and supplementary data), and some vendors have been early adopters in this space. Clarity Systems and Business Objects (now owned by SAP) have been the visionary CPM vendors, as far as XBRL support is concerned, although Gartner has long recommended this as a focus area for vendors and users, and we expect more vendors to extend their XBRL offerings now that the SEC has announced its plans.

What is the wider impact of XBRL on BI and CPM strategies?

There are wider implications of XBRL on BI and CPM. End users should not make the mistake of viewing XBRL as just another report output option, like PDF files. Being able to "save as" XBRL is only the first step in unlocking the potential benefits of XBRL. Although XBRL will revolutionize the way financial information is delivered to regulators, it also can revolutionize the way financial data is delivered and consumed by managers and end users for internal reporting. Data that contains XBRL attributes can be consumed by a range of products without misinterpretation; therefore, by implementing one or more XBRL taxonomies for external and internal financial reporting, organizations can use XBRL-based reporting tools to provide real-time financial performance data to anyone in the organization in a consistent and highly intuitive format. Also, XBRL taxonomies can be extended by adding "children" to the hierarchy definitions that enable management reporting perspectives to be accommodated in the consolidated financial roll-ups, while the XBRL Global Ledger taxonomy can be used to report on dimensions that are not required for statutory reporting (such as organizational entities).

The technology to support this advanced use of XBRL already is emerging. In February 2008, the SEC released its own XBRL reporting tool, Financial Explorer, which provides a graphical analysis using graphs and interactive charts of the chosen company's performance. Although the data used for analysis is still unaudited, and there is only a sample of companies listed, it demonstrates the ease of use and analytical capabilities open to external stakeholders and reviewers using XBRL (see "Welcome to the SEC's Financial Explorer"). Several specialist vendors, such as Snappy Reports, Impede, Rivet Software and UBmatrix, have products that enable taxonomy creation, taxonomy validation, report production and ad hoc financial analysis of XBRL-tagged data.

Enterprises can use these technologies to create Web 2.0-type mashups that could, for example, feed up-to-the-minute financial information for a business unit to an executive based in his or her geographic location. Visionary CFOs will leverage these technologies to revolutionize the way financial performance data is delivered to executives, managers and employees, to enable them to make better business decisions in the context of up-to-the-minute information. However, these capabilities must be deployed as part of a BI and performance management strategy; otherwise, there is a risk that XBRL-based financial reporting will create a new silo of disconnected data. CIOs must ensure that they understand how XBRL affects their BI infrastructures and overall reporting strategies.

What should the enterprise do to prepare for XBRL adoption?

Gartner recommends that organizations take these steps to ready themselves for XBRL:

- Identify if and when you will be affected by XBRL.

- If you are affected by optional XBRL filing regulations, then consider adopting XBRL for the additional benefits it will bring. Be proactive; don't wait to be forced to adopt XBRL.
- Understand the status of your CPM vendor's support for XBRL. Accept that you may need additional XBRL tools (such as tagging) in the short term. These will not involve significant expenditures.
- If your CPM applications don't currently support XBRL, then consider upgrading to a version that does, or consider replacing your applications.
- Use XBRL for internal reporting and external filing to gain the maximum leverage of XBRL capabilities (and your investment).
- Invest in training IT and finance staff in the appropriate XBRL regulatory taxonomy and the potential for XBRL Global Ledger to support internal management reporting. There is an alarming lack of knowledge about XBRL among finance staff; a study by accounting firm Grant Thornton in March 2008 found that only 55% of U.S. CFOs and senior comptrollers were familiar with XBRL. CIOs must work with CFOs to ensure that there is appropriate knowledge of XBRL taxonomies in the IT organization and the finance function.

REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters
Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters
Gartner do Brazil
Av. das Nações Unidas, 12551
9° andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509