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Committee on
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Technology

XBRL

Not Just for External Reporting

If you think XBRL is just for financial reporting by public companies to the SEC, think again. XBRL promises to be for business reporting what the Universal Product Code (UPC) has become for retailers — a means of standardizing, managing and simplifying processes.

In February, the U.S. Securities and Exchange Commission's (SEC) Advisory Committee on Improvements to Financial Reporting (CIFiR) recommended that "the SEC should, over the long-term, mandate the filing of XBRL-tagged financial statements, subject to certain preconditions." SEC Chairman Christopher Cox responded by asking the SEC's professional staff to analyze the report and its proposals, and to provide recommendations to the commission for consideration.

Most financial executives familiar with the term "eXtensible Business Reporting Language, or XBRL," likely associate it with external reporting and regulatory compliance. And, as such, they are waiting to learn more about it when the SEC mandates filing via XBRL. However, the best-kept secret to date is that XBRL is much more than external reporting.

XBRL is a business information format standard that can potentially save companies large sums in processing and reporting information, help reduce headcount and get higher-quality information to management and the market faster and more accurately (see box, "Perceptions vs. Reality" on page 46). And, it makes optimum use of systems already in place by linking them to one another.

Standardizing Processes: UPC, Now XBRL

When the Universal Product Code (UPC) symbol, commonly known as the "bar code," was introduced in 1966, most retailers were concerned that it would increase their costs and make it harder for shoppers to understand and compare individual product prices. Before too long, however, retailers were swiping products as they were sold, recording not only the locations and dates of their sales, but also tracking the inventory unit changes of the items sold.

Retailers then progressed to swiping customer bar-coded credit cards to track individual purchasers. Bar codes now save retailers over $17 billion annually and provide vastly improved product assessment and comparison capabilities for both retailers and shoppers.

Like UPC, XBRL is a form of standardization that brings significant process efficiencies. Just as the UPC-standardized product descriptions enable greater agility in inventory management, enhanced product throughput and lower overall inventory management costs, XBRL enables greater agility in managing enterprise information, speed of access and analysis and provides an opportunity to lower overall compliance process costs.

Companies have struggled to integrate business information into a single software system because they could not seamlessly connect various applications. XBRL, however, does for business information what UPC does for products — it standardizes descriptions. By providing digitally-executable descriptions for business information, XBRL helps various business software applications to universally recognize, understand and apply the information, rules, relationships and other relevant concepts used by business and compliance processes.

Financial executives do not really need to understand the technology underlying XBRL, but, rather what XBRL means to their processes. XBRL was designed to address highly pervasive business process problems. Understanding how it addresses these common problems will allow financial executives to streamline them.

Four common and significant problem areas can benefit from XBRL: systems integration; data access, assembly and review; data quality; and spreadsheets.

Systems Integration

Probably the largest and most pervasive of all problems facing the financial executive is the constant need to integrate an increasing number of

By Mike Willis and William M. Sinnett

different internal systems. A common solution to this problem is to select an enterprise resource planning (ERP) software application and migrate the data contained in different applications into the selected ERP warehouse. This software approach typically involves significant cost and time investments and substantial project implementation risk.

XBRL creates a more effective approach to the systems integration problem by standardizing how business information is described across internal software applications. By bringing conformity to how different proprietary applications look to each other, the result is a significantly more efficient and effective environment for accessing and processing information. By applying an information standard across all levels of business information within the enterprise — from reporting disclosures to general ledgers to transactional ledgers and sub-ledger systems and back to operational systems — XBRL enables disparate systems to all "speak the same language."

This information solution was applied by intimate apparel maker Wacoal to address the systems integration problem for its 32 disparate ERP systems. Assisted by Hitachi Ltd., Wacoal applied the XBRL Global Ledger, developed by XBRL International, to standardize how these different applications communicated. This allowed each of the underlying business units to continue operating their individual and unique business process systems, while exposing the critical business information housed within these different systems to the corporate decision-makers in a uniform manner.

This approach — an alternative to the typical single-instance ERP software solution — was implemented in under six months, avoiding approxi-

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Further, the process for assembling and reviewing financial reports involves distributing draft report versions to a large number of internal reviewers who provide feedback that is manually collected, processed and updated to the subsequent version that follows the same circular and manual process.

By standardizing the description of business information,

mately $100 million over the typical single instance ERP solution.

Data Access, Assembly And Review
In spite of significant investments made to automate compliance processes, today most companies have largely manual access, assemble and review processes. Why? Because these processes are designed around a wide range of proprietary software applications that are difficult to integrate and access. Think about how difficult it is for management to sim-

XBRL dramatically improves the transparency of internal information so that it can be more easily accessed and subsequently analyzed. This enhanced information transparency allows financial executives to easily access specific data from a wide range of internal data stores for analysis and decision-making.

Simple tools can be used to access and reuse the data contained within the now-uniform data stores, enabling performance assessments and benchmarking, using data from across a wide range of applications.

XBRL-structured data also enables the more effective use of existing report-writer applications for the collaborative assembly-and-review processes across a broader range of information relevant to the report (e.g., financial statement tables, notes to financial statements, MD&A), and not just the "debits and credits," as is currently the case in most company reporting processes.

Additionally, XBRL allows financial executives to significantly automate many manual access, validation and analytical processes.

John Stantial, assistant controller at United Technologies Corp. (UTC), reports that using XBRL reduced the cost and time of external reporting processes by more than 20 percent. By not manually extracting the data and working in multiple documents, the effort to proofread, review, check and add footnotes is not required. This eliminates time and labor from the periodic reporting process, while concurrently strengthening the overall process controls.

"Through the effort of tagging and furnishing our first document, we were able to gain a practical understanding of XBRL that we hadn't been able to achieve previously and to dispel the misconception that the process is expensive and time-consuming," says Stantial.

More importantly, he continues, "We began to fully appreciate the capabilities and potential of XBRL, as well as the benefits of early adoption. We have built our internal processes and controls to support the ongoing tagging and filing as part of our standard financial reporting process."

UTC is one of the nearly 50 companies participating in the SEC's voluntary filer program for users of XBRL.

Data Quality
Poor data quality is a common problem for companies. A common solution for addressing this issue is to perform data validation tests prior to incorporating the data in the relevant warehouse. Any validation errors are passed back to the data provider for correction and resub-

mission. This scenario is pervasive, as validation (and analysis) is typically addressed by data consumers rather than data providers.

Consider if Ford Motor Co.'s production line worked like current data validation processes. Individuals at the assembly line would receive a piece of raw steel rather than the quality-tested bumper matched to each car model being produced. In a more automated supply chain, detailed information and rules are passed downstream, enabling higher-quality, lower-cost goods to be passed back upstream. It can help companies move away from the current pre-Henry Ford era manual report assembly processes.

XBRL enables an enhanced solution to the data quality process problem in that it standardizes how business information and relevant formulas can be defined and applied by different software applications. Therefore, validation and analytical rules currently applied by data consumers can be provided to and applied by data providers so that the information passed upstream is valid and basic analytical queries are addressed at the source.

The Federal Deposit Insurance Corp. (FDIC) applied XBRL in 2005 to improve the quality of its periodic call reports. This made it possible for FDIC to share its information needs, related validation rules and analytical rules with the banks. The results were immediate and significant: the data error rate dropped from over 68 percent to under 5 percent. FDIC also realized a reduction in its processing time — from 45 days to less than two days — and a reduction of analytical personnel, from more than 1,000 to fewer than 200.

The really good news is that the banks providing the data were able to provide the correct information the first time, thus eliminating the circular rework processes that previously existed. The data quality and analysis process problems faced by

the U.S. banking regulators are very similar, if not identical, to those faced by financial executives with their internal data.

Spreadsheets
Spreadsheets, the "accountant's hammer," are used for a wide range of information aggregation and analysis processes. These processes are typically based on the prior paper-based manual efforts and are likewise highly manual, and present significant process and control risks. Given the highly publicized examples of spreadsheet-oriented restatements, financial executives may wonder about their manual spreadsheet processes and controls.

Spreadsheets and related controls can be improved by standardizing the information model contained

within the spreadsheet and automating the currently manual steps. Management can create numerous benefits by formalizing and articulating the relevant information using XBRL's Global Ledger Framework and other XBRL-based taxonomies and rules — rather than relying solely on the spreadsheet to standardize the request for relevant information. These include:
• Self-service customized spreadsheet generation;
• Automated population of prior period information;
• Embedded validation and analytical rules to enhance information quality; and
• Economic incentives for preparers to automate current manual processes.

Using XBRL, spreadsheets can do exponentially more than they do

today, while enhancing controls, information transparency and reducing process costs. XBRL-enabled spreadsheets function like virtual dashboards, allowing consumers to access, use and report on any information accessible in a standardized manner.

While standardization is a commonly accepted approach to lowering costs and realizing process efficiencies, many do not realize how using XBRL can deliver on these benefits. Recall, early perceptions were that the UPC would increase costs and hinder transparency. The reality is that it has greatly helped retailers streamline business processes and lower costs. XBRL is similar.

Applying standardization to business information across different sys-

tems is a new solution to some old and very pervasive problems. The application of the XBRL standard offers the same type of economic benefits one would expect from any form of standardization, including lower costs, increased quality, accelerating processing frequencies and higher access volumes.

And, yes, let's not forget: it also gets the job done for external financial reporting to the SEC.

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