

# In Search of ROI for XBRL

BY NEAL J. HANNON

In the summer of 1998, just as the brand new Extensible Markup Language (XML) was reaching recommended status from the World Wide Web Consortium, Charles Hoffman began to think about how the new language would benefit the world of accounting. From humble beginnings, Hoffman's pilot

project quickly grew into an international consortium with more than 400 member entities contributing to the worldwide growth of the eXtensible Business Reporting Language (XBRL).

Successful projects such as the FDIC call modernization program ("Making Clean Deposits," *Strategic Finance*, February 2006), the Dutch Water Authority, the Australian Prudential Regulatory Authority, and the adoption of XBRL by stock exchanges from Tokyo to Toronto have placed XBRL squarely in the sites of governmental agencies who want to digitize the collection of data from their constituents. Successful internal use of XBRL GL at the Wacoal corporation ("Breathing New Life into Old Systems," *Strategic Finance*, March 2004) demonstrated the use of XBRL as a way to bridge

the gap between legacy systems and new systems. Recent announcements from the two major stock exchanges in China, the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE), indicate that financial information from exchange member companies will soon be available in XBRL.

And yet some industry analysts question why XBRL isn't in common use in the United States after all these years. In the January column, we saw that Chairman Christopher Cox has voiced public support for interactive data and has actively promoted the Securities & Exchange Commission's XBRL Voluntary Filing Program (VFP). As of this writing, however, only nine companies have sent the SEC a total of 22 separate filings. Corporations, breathless after adjusting to the new reporting

requirements under the Sarbanes-Oxley Act of 2002, aren't warming up yet to using XBRL for external financial reporting.

## Ring the XBRL Bell Softly

XBRL isn't resonating within corporate America yet. A few key people in leading corporations such as Morgan Stanley, United Technologies, and Microsoft are ringing the XBRL bell softly by participating in the SEC Voluntary Filing Program, but the rest of corporate America is asleep.

Companies required to file with the SEC have a very strong focus on their required filings. Understandably, the attention placed on external financial reporting is so strong that alternative methods of filing with the SEC usually aren't considered until required by law. Companies will realize soon, however, that the move to interactive data will represent tremendous advantages for both internal and external business reporting.

Understanding "interactive data," a term coined by SEC Chair Christopher Cox, is the key to discovering the real return on investment for companies who adopt XBRL. The movement to interactive data has the potential to

## Interactive Data

Interactive data is data that comes marked up with a set of uniform tags that are readable by computer. XML provides the rules by which data can be so identified. XBRL provides an internationally recognized set of rules and tags that provide a uniform method in which computers can communicate business reporting information. The “interactive” feature means that two different computers can exchange and further process the data without manual intervention.

transform internal business reporting as well as external filings.

As first outlined in this column in July and August of last year, our current reliance on application-based data to feed business reporting is riddled with problems. Companies are routinely spending time and money fixing manual audit trails and dealing with poor data quality, spreadsheets that introduce errors, and data that is difficult to extract from native applications. Any discussion about the potential return for companies who invest in interactive data must include the savings that can be achieved by eliminating common everyday problems.

What is really at stake here is transforming the way companies deal with all types of business reporting, not just marked-up data sent to the SEC. There are a few more areas in which the case of adopting interactive data can be made throughout the corporation.

Cost reduction can be achieved using interactive data in three areas. First, companies can use XBRL GL for internal data markup. Fernando Catacora, founder of [REDContable.com](http://REDContable.com), the premier Web portal for Spanish-speaking accountants worldwide, points out the internal savings potential for using XBRL GL: “Cost reduction can be achieved by optimizing management’s response to everyday business decisions and by improving the business rule checking for inputs. If the data is not in line

with expectations, automated responses can be called into action.” This capability becomes more important as businesses move toward Service Oriented Architecture (SOA), where the alignment of business processes across applications becomes the normal way to look at how the business is performing.

Companies who combine XBRL GL with XBRL for financial reporting can also achieve substantial benefits. “Together XBRL GL and XBRL Financial Reporting provide a powerful solution that lets companies flow internal reporting to external reporting, reducing review times and cycles,” says Rob Blake, VP Product Marketing at Rivet Software. “Corporations must find a way to ‘flick the switch’ from internal to external reporting...and that switch is XBRL.”

Additionally, small-cap companies that report business data in XBRL will have a greater chance of being covered by a brokerage house due to the low amount of manual work needed to perform routine financial analysis. Dan Roberts, chair of XBRL-US Steering Committee and national director of Assurance Innovation, Grant Thornton LLP, explains, “The easier it is for the analyst to import the information into their models, the greater the chance the company has of either being covered or being a comparator in industry-wide statistics.” Companies that are included in reports from major brokerage houses typically

enjoy a lower cost of capital than companies that aren’t.

### Evolution, not Revolution

Information systems are slowly evolving from individual software applications to linked applications to the linking of business processes. Companies today are aligning internal business processes in strategic ways for higher levels of performance, data quality, and the ability to react to changing situations. Business reporting needs to evolve along these same lines. Interactive data isn’t bound to specific software applications, nor is it locked in proprietary data formats that require specialized report retrieval tools. Using markup tools such as XBRL GL for basic business reporting and XBRL for Financial Statements for external reporting is all part of the natural business evolution to interactive information. Companies with a sharp eye on the future will be the first to recognize that we are in the midst of a transformation of business reporting that, in time, will change the very nature of business reporting while providing substantial benefits to a company’s bottom line. ■

*Note: The easiest way to participate in the evolution toward interactive data is to participate in the SEC’s voluntary XBRL filing program. Both the SEC and the XBRL-US consortium stand ready to assist all participants.*

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