

XBRL: Why Bother?



This briefing is intended for business people and managers who want to understand more about why they should use eXtensible Business Reporting Language (XBRL) in their business. The briefing is less concerned with what XBRL is in technical terms and more with what XBRL offers as a value proposition and why compliance is just the start of a journey towards improved information communication. The briefing content refers mostly to financial data or information, although XBRL can be used equally well to report non-financial data or information.

The Start Point

To begin answering the “why bother?” question effectively, we’ll frame the search for an answer with an aspirational statement that most financial reporting managers would agree with:

I want my business to control its financial information more effectively so I can compare it more reliably internally and externally with our industry peers, and communicate it more transparently to all our stakeholders.

Starting from this point makes it easier to examine three issues that XBRL addresses (other than simply complying with regulatory mandates), namely:

- How do I control the data I report both internally and externally to ensure it is clearly defined and means what the data consumers think it means?
- How do I compare my data to that of my internal or external peer group, secure in the knowledge that the data can be relied upon and compared like-for-like?
- How can I communicate my data to as wide a range of information consumers as I can to enable my business to *walk-the-talk* of transparency?

To understand the value proposition of XBRL we need to understand who are the stakeholders involved, how financial information can be controlled more effectively, and how it can be compared and communicated more accurately, widely and transparently.

We should also be clear that a key purpose of tagging a piece of data with XBRL tags is not to make it easier for humans to understand, but to make it easier for application programs and web services to find and consume the data over the Internet so it can be viewed consistently and compared reliably.

The Elephant in the Room: Compliance

But first we have to address the position taken by XBRL sceptics – “the elephant in the room.”

The cynical answer to the question, “XBRL why bother?” is “Because we have to.” And from this perspective there is only one stakeholder and beneficiary that is relevant to the XBRL value proposition – the regulators who mandate filing in XBRL and benefit from reduced processing costs.

It’s certainly true that the driving force behind XBRL adoption to date is regulation and that XBRL does help regulators automate aspects of their report filing and publication process and reduce their processing costs. Again, cynically, it can be argued that regulators have in effect passed their automation cost savings on to business filers who must absorb the cost of submitting an XBRL compliant filing.

But the vision of regulators is bigger than merely reducing their filing processing costs. For example, the SEC’s vision for interactive data based on filing the 10-Q/K report in XBRL was clearly expressed in 2005 by SEC Chairman Christopher Cox:

Interactive data promises more than simply a revolution in corporate reporting. For the SEC as well as for financial regulatory agencies around the world, corporate reporting is not an end in itself, but a means to achieving our missions. Those missions include protecting investors, encouraging capital formation, and promoting healthy markets.

Tagging data using XBRL makes it easier for web services to find and consume the data over the Internet so it can be viewed consistently and compared reliably.

Nevertheless, the regulator as primary stakeholder and XBRL as compliance is really not the destination of XBRL - it's just the start of a journey. And to understand why, we have to start with stakeholders and the new expectations of today's web-savvy information consumers.

Stakeholders and Expectations

Most businesses have two primary stakeholder constituencies: those who care primarily about how the business performs and those who care primarily about how the business behaves. There is a close relationship between how a business behaves and performs so there is overlap in these stakeholder interests. But the former are usually more interested in the financial performance of the organization and the latter in how the behavior affects the delivery of that financial performance.

The performance stakeholders typically include:

- Investors
- Investment analysts
- Regulators

The behavior stakeholders typically include:

- Traditional influencers (e.g. the media)
- Oversight bodies (e.g. Non-Governmental Organizations)
- *Activist* consumers (e.g. industry-specific bloggers and tweeters)
- Regulators

These stakeholders represent a diverse range of interests. But today, more and more of them expect information access online and on-demand, and most are influenced by a general shift towards greater information openness and transparency. What this means is that the traditional way of delivering corporate information, via the paper/PDF annual report and static web pages, is outdated. From an information control and communication perspective, sophistication of stakeholder expectations is surpassing the ability of businesses to supply the information requested.

The bulk of the stakeholders identified above are external to the organization. So what about these internal stakeholders?

- Prospective and on-board talented employees
- Business partners (e.g. customers and suppliers)
- Ambitious managers of business units

These stakeholders have a slightly different information perspective and need. What they primarily care about is how this business is performing or behaving in comparison to other businesses in its industry sector, other business units in the same organization, or some other kind of operational peer group. They want to be able to quickly compare and contrast data across a range of companies/business units to answer questions like:

- Is this the right business for me to join or stay in?
- Is this the right business to buy from or supply to?
- How is my business/unit doing vs. its peer group?

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The XBRL journey involves moving from a closed compliance culture to an open enterprise organization culture.

To get answers to these questions, stakeholders need access to data that is subject to agreed-upon definitions and standards, otherwise the data can't be compared reliably, and they need tools to convert data into information and insight – tools that depend on the data being published in a machine-readable format that is easy for software to find and consume with minimal human intervention. Data provided in XBRL instance documents and subject to XBRL taxonomies is an ideal solution because XBRL data is specifically intended to be machine readable and published in ways (e.g. RSS feeds) that provide easy access to the data from many data-consumer applications.

The XBRL Journey: Comply. Control. Communicate

For some, the XBRL journey begins and ends with compliance. That's because today, over a decade after XBRL's invention, some kind of XBRL reporting (i.e. reporting subject to an agreed-upon XBRL taxonomy like US-GAAP or IFRS) has become mandatory for certain kinds of businesses in specific jurisdictions around the world. But XBRL reporting is about more than just compliance. Using XBRL as a reporting data standard is about a journey that often begins with compliance, but ultimately leads to improved information control and more transparent information communication.

In their model, *Three Value Levels of the Firm*, Wheeler, Colbert and Freeman define Level 1 as a Compliance Culture focused on doing minimal harm to avoid destroying value; whereas Level 3, an Open Enterprise Organization Culture, is focused on doing maximum good to help create maximum value. In the context of our journey, using XBRL only for compliance and ignoring the control and communication potential it offers is like getting stuck at Level 1 in value generation terms.

Controlling Data

In this XBRL context, what we mean by controlling data is using XBRL as the mechanism for agreeing on the definition of what individual data elements mean so that individual facts can be relied upon to mean the same thing to the consumers using it, and therefore reliably compared like-for-like. That reliability may ultimately depend on some kind of additional external assurance of the data as reported (i.e. some kind of XBRL audit) but the foundation is a data definition or data understanding framework that can be applied to a specific dataset to ensure it conforms to an agreed-upon standard.

This data understanding framework is what an XBRL taxonomy provides. A taxonomy does not assure the data, but it does provide an agreed-upon reference point. Once multiple businesses or units have agreed to use a taxonomy as a reference point, it means that if you and your partners tag your data with the XBRL tagging metadata defined in the taxonomy, then that data has a specific meaning according to the taxonomy that you all have agreed to use.

There is a big difference, in control terms, between data that is taxonomy-driven and data that is not. The difference is in where the definition of what the data means actually takes place – i.e. at the presentation level or the data storage level.

One reason spreadsheets are so popular is they make it so easy to present and analyze financial data. Too easy, some people might say. But the fact that two spreadsheets present data in the same way, using the same row and column labels, even within the same organization, does not mean that they are presenting comparable data. It just looks that way.

At the presentation level, it is easy to change what a number means simply by changing the way the data is labeled – say at the row and column level. But it is much more difficult to change what a number means at the data storage level, for example in a database, if the number is stored with its specific meaning tags. The use of tagged numbers means that whatever the labels you see at the presentation level, it's possible to drilldown and see what the number actually is supposed to mean at the data storage level.

Experts in spreadsheet control, such as Raymond R. Panko [2], are well aware that the mess of spreadsheets used in many organizations would fail to pass the scrutiny of Sarbanes-Oxley 404 compliance audit.

Data presented in spreadsheets is much more likely to mean the same thing if it is actually stored in tagged format that references a shared taxonomy. In other words, if the various spreadsheets using the same presentation format retrieve numbers tagged in a consistent way and subject to a single taxonomy, then what is presented means the same thing and can be reliably compared. Once a data item has been tagged at the data storage level you can always find out what it really means – irrespective of how it has been labelled at the presentation level. Without XBRL tagging at the data storage level, the reassurance you have that “what you see is what you expect” is compromised.

XBRL is driving a rapidly expanding financial data ecosystem that empowers faster, wider and more accurate communication of your financial numbers to facilitate true transparency of information.

Communicating Information

Once you have control over your data - so it means what you and any other business that uses the same XBRL taxonomy think it means - then you are also in a much better place to start communicating your data more effectively.

When you communicate your financial data in a web page, or worse still in a PDF document, you are asking for trouble. Why? Because the people who want to pick over your data and analyze it, whether casual information consumers or sophisticated financial analysts, often use a very unsophisticated means of consuming your data – it's called “cut and paste.” Now cut and paste is very handy but it's clearly error-prone and also whatever the data is pasted into, essentially forgets the context of the data - a sure fire basis for misinterpretation that can lead to who knows what kind of reputation damage or misinformation once the bloggers and tweeters get hold of it.

So why is communicating information in XBRL format different? When data is saved in an XBRL instance document the context and meaning of the data goes with the data in the form of the tags that surround a specific data fact - it is not separate from it (i.e., located in the presentation layer). Equally importantly, XBRL data is not designed or intended for consumption by humans using cut and paste techniques.

Web applications are the target consumers of XBRL data – not humans. Humans only see the XBRL-tagged data when it is presented (or ‘rendered’) onscreen, whether HTML or the hybrid iXBRL format is used to transform the data for presentation. You can expect the processing of XBRL data by applications designed to consume (process and analyze) it to be fast and error-free. You may have read of the various XBRL filing errors uncovered as a result of the SEC filing program – but in almost all cases those are human errors, for example selecting the wrong tag to define the data

Because data in XBRL instance documents can be transmitted digitally, complete with embedded context (i.e. tags) and consumed by web applications directly, the chance of your data being

difficult for consumers to get hold of or being subject to an error-prone cut and paste process to use it for review and analysis is minimized.

As more and more businesses file data in XBRL format around the world, the availability of various kinds of financial data is growing by millions of datapoints every year. The result is a new and rapidly expanding financial data ecosystem that empowers faster, wider and more accurate communication of your financial numbers to facilitate true transparency of information.

And isn't that what financial reporting is all about?

References

[1] *Speech by SEC Chairman: Remarks at the 12th XBRL International Conference*, Chairman Christopher Cox. U.S. Securities and Exchange Commission. Tokyo, Japan November 7, 2005.

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[3] *Sarbanes-Oxley: What About All the Spreadsheets?* Raymond R. Panko and Nicholas Ordway, University of Hawaii (presented at EuSpRIG 2005).

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