Ventana Research

Keys to a Fast, Clean Close

Fixing the Lengthening Financial Close

White Paper

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Achieving a Faster Close

Closing the books and reporting financial results are core functions of the finance department. Not only is the close essential for fiscal governance, executives and managers use these quantitative business results to assess performance and identify issues and opportunities that require attention. Since agility is a key competitive capability, there's value in completing the close and generating performance reports as quickly as possible to shorten reaction times. Moreover, almost all companies that file their results with the United States Securities and Exchange Commission (SEC) must provide financial statement information in an interactive data format using eXtensible Business Reporting Language (XBRL) tags. The tagging requirement takes time and therefore adds impetus to shortening the close process.

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Our benchmark research finds that the two most important elements of achieving a fast, clean (error-free) close are a focus on process management and use of the right technology. The two are interdependent: Applying capable information technology tools can improve process execution. As with many business processes, achieving the best performance of the financial close requires continuous improvement. Corporations must focus both on how well they execute their close and the design of the process down to its smallest elements, and here also appropriate software can help.

The Need for Speed

For more than a decade accounting and finance thought leaders, consultants and many senior finance department executives have endorsed the objective of accelerating the accounting cycle. Yet Ventana Research's recent benchmark research finds that, compared to the situation in 2007, companies are taking longer to close. Today, just 38 percent close their quarter or half-year within six business days, down from 47 percent in 2007. We estimate that, on average, it now takes companies one-half day longer. Only half of them close their month within six business days, down from 70 percent in 2007; we see that as a considerable and worrying decline.

We assert that the implementation of a rapid and accurate financial close is a good indicator of a finance organization's efficiency. Moreover, to the extent it can use fewer resources to execute this core function Finance has more time for functions that add to the strategic value of the department, such as producing insightful analytics and trend assessments, better contingency planning or more thorough risk management. Conversely, a consistently longer close often indicates a need for the CFO to address fundamental issues impeding the department's performance.

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From our perspective, the minimum standard of adequacy is to complete the close in no more than one week. Nearly two-thirds of research participants said their monthly close takes longer than it ideally should, and almost as many said their quarterly close should be accelerated. That they often perceive their current results as unsatisfactory is implied by the finding that four-fifths of finance professionals said that accelerating the close is important or very important. The main reasons they gave for its importance are a need for more time to perform analysis before publishing results (cited by 34%) and a requirement to have management accounting and financial information sooner (27%). Timely, accurate information about a company's performance is a key to effective management, and it helps in responding appropriately to the current regulatory climate as well.

In most cases, a shorter close is possible. Our benchmark research shows that on average companies estimate that they can shave at least a day or two from both the monthly and quarterly closes. To do this or more, companies must address the people, process, information and technology aspects of the close because solutions that focus on just one of these elements are almost certain to be less effective than a holistic approach. In the case of streamlining the financial close, process and technology issues typically dominate.

A Shorter Close Is Possible

Our benchmark research and ongoing discussions with finance practitioners consistently show that there's rarely a quick fix to shorten the close. Among those who indicated that their company has shortened its closing interval, three reasons for the achievement stand out. Most frequently they said that they control the closing process more effectively and consistently – in effect, managing the process with the aim of improving it. Usually this starts with identifying and addressing factors that lengthen or delay the close. In our experience, these are usually an array of little things rather than one big thing. Participants also cited centralizing more of the accounting functions, a structural change that can improve process execution through better communication, coordination and simplification. And they cited optimizing the use of journal entries through some combination of standardization, simplification and/or automation. Each of these changes usually helps improve speed, reduce errors and increase control.

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In manufacturing, continuous process improvement requires constantly looking at the details to identify the root causes of process issues. In finance, seemingly small actions like documenting roles and responsibilities for each step of the close-to-report cycle and publishing (and periodically reviewing) a day-by-day closing calendar for the next four or five quarters (to anticipate holidays and other potential conflicts) will make the process run smoother and faster.

Our research also revealed that companies that set goals for shortening the close are more likely to achieve it than those that do not. This may seem like a common-sense finding, but commitment makes a difference: To maximize the likelihood of success, an organization must establish specific, defined goals, repeatedly assert the importance of achieving them and regularly measure progress toward achieving them.

Because there are many little things that slow the closing process, it's important to enlist people who participate in it in identifying the sources and causes of process hang-ups. Then, as experience shows that there's always something that needs attention, have regular sessions to discuss these. Here again, the research shows that companies that do regular monthly or quarterly reviews of their close are more likely to shorten it than those that review occasionally or not at all. Indeed, we found no difference in outcomes for companies that do it "as needed" and those that don't do it at all.

The Importance of Dedicated Technology

Closing is a process, and thus enhancing its design and management is central to achieving improvement. Yet by itself just improving a process will fall short. Our research shows that technology can have a major impact on how quickly a company can complete its accounting cycle. Companies that use dedicated consolidation software applications to manage their close are more satisfied with their results than those that mainly use their ERP system and those than mainly use a desktop spreadsheet. Three-fourths (78%) of consolidation software users say they are very satisfied or satisfied, compared to 68 percent of ERP users and just 32 percent of spreadsheet users.

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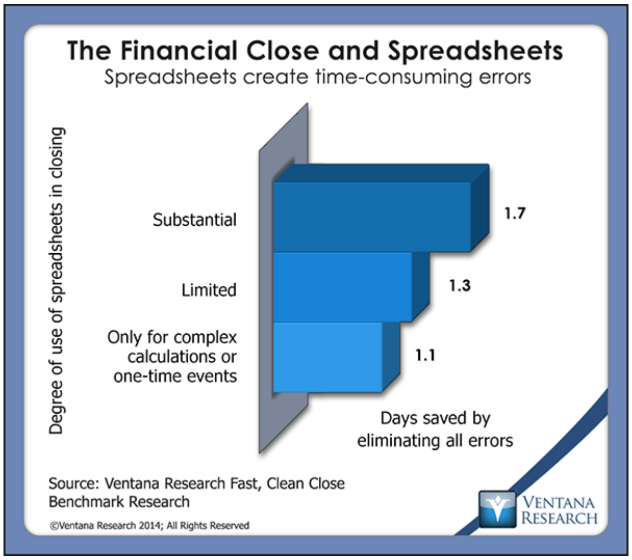
While there are many factors that can contribute to shrinking the closing period, the use of consolidation software is a prerequisite for making it feasible. An intriguing aspect of this finding is that companies that use consolidation software typically are larger and have greater complexity in their corporate structure and IT environment (for example, ERP systems from multiple vendors and/or a larger number of instances). On the surface, being larger and more complex would seem to contribute to lengthening the close. However, we believe at least one reason why the contrary is true is that the largest companies (those with 10,000 or more employees and more than $US1 billion in annual revenues) have sufficient resources (that is, software and people) to handle their scale issues. Smaller (and therefore typically less complex) organizations may not have dedicated the same resources to achieving a faster close.

The right software is necessary to manage the process effectively. When it comes to consolidating an organization's financials, electronic spreadsheets were viewed as a major advance when they replaced the paper-based spreadsheets people used. But while desktop spreadsheets remain useful tools for some tasks of finance professionals, they are not appropriate for any collaborative, repetitive process, such as consolidating and closing a company's financial statements.

Our research shows that very large companies with complex corporate and IT environments are less likely to be using spreadsheets because they have consolidation software or employ some other enterprise system. Smaller companies with simple corporate and IT environments (that is, having only a single ERP software vendor) can easily use the consolidation capabilities built into that ERP system. But our analysis shows that companies that use spreadsheets to manage the closing process consistently take longer to complete the close than those that use enterprise systems to manage the process.

Many companies that use enterprise systems to manage their close also still use desktop spreadsheets extensively in the process. Even here, we advocate minimizing spreadsheet use. Just 16 percent of companies that make substantial use of spreadsheets in their close are able to complete the process within four business days, compared to one-third (32%) of those that limit their use.

Errors in data are a common cause of a longer close, and spreadsheets are notoriously prone to errors. Eliminating them is an important way companies can shorten their closing process. Half (53%) of companies said they could save at least a day or two in their close if they could eliminate all errors, and 15 percent estimated they could save three or more days. Substantial users of spreadsheets on average could save 1.7 days in their close if all errors could be eliminated, compared to 1.3 days for limited users and 1.1 days for those that use them only for one-time events.



Document Processes and Use the Right Software

Shortening the closing period and making the process more efficient should be a priority for the CFO and/or controller in your organization. The research reveals, not surprisingly, that the companies that explicitly decide to shorten their close are most often those that actually do. If your company cannot close its books at the corporate level within five business days after the end of the month or quarter, it needs to find ways to accelerate its process. And even companies that can close in the first week should be looking for opportunities to perform the task more efficiently so people in the finance and accounting area can spend their time more productively.

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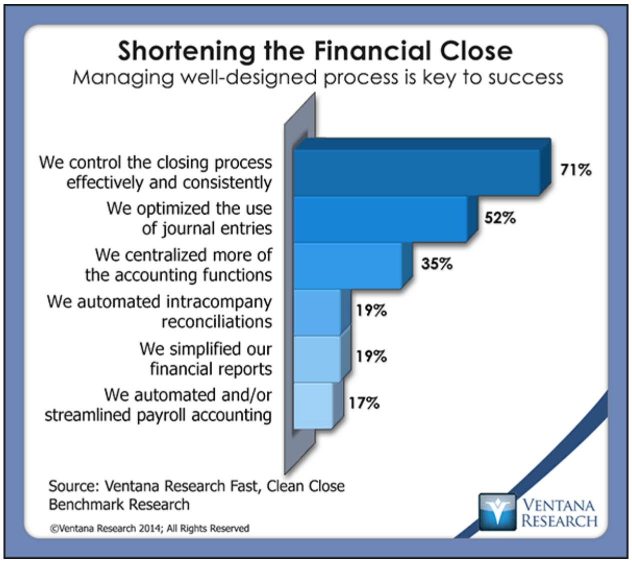
Beyond making this a priority, we repeat that the other two prerequisites to accelerating the closing process are effective management of the process and of the IT elements that affect it. Here are some suggestions for doing that.

Next Steps for Process Improvement

The research shows the importance of having a systematic process – not a “sort of” process – in place to address issues standing in the way of shortening the close or making it more efficient. The actual mix of changes that are needed varies with the company. However, as noted above, participants who have been able to shorten their close control the closing process more effectively and consistently.

“Consistently” in this case means that the process defines roles, responsibilities and deadlines. Everyone involved knows what has to be done and when or can easily look it up. If you think you have such a process but the manuals that people have are littered with sticky notes or penciled-in changes, take a closer look. Your process likely is a “sort of” process that relies heavily on everyone “knowing” what to do. Sometimes the ability to execute consistently to this stated process can be assisted by greater automation and more effective use of IT systems (more on this below).

Greater effectiveness can be achieved through a formal, ongoing review of the closing process to uncover actions that create delays or inefficiencies. Even if your company closes its book as fast as you think you need to, it is probably a good idea to have a standing group that looks for bottlenecks and opportunities to save time. These impediments may be people-related, such as a lack of training. They may be information-related, as in the timing of or delays in calculations or errors that must be found and rectified. They may be systems-related, such as having too much complexity or the wrong software for the task. Or the barrier may be the process itself: the actual timing of the steps and events related to the close. Our research finds that most companies that actually shortened their close over the past two years had a formal process, frequently used, that looked for opportunities to eliminate barriers and uncover opportunities to accelerate the close.



Address Technology Issues

Understanding the technological underpinnings of the closing process is also critical. Again, our research shows that companies that use software dedicated to consolidation are able to close faster than companies that use their ERP systems or those that use spreadsheets. If your company uses ERP systems from multiple vendors, especially if you have many legal entities or complex corporate ownership structures, you probably will find it easier to manage the closing process and speed its completion with a dedicated tool. If your company is using desktop spreadsheets to manage the process, we recommend you find another way, since this likely is slowing the process needlessly. While spreadsheets are "free," the time they waste is not. This waste is incurred not only by people in your organization but also by external auditors and other third parties checking these spreadsheets over and over (and charging you for their trouble).

Even if your organization does not manage the closing process itself using spreadsheets, it may be relying on them to support it. Our research shows that companies that use spreadsheets extensively in the closing process have far more issues about data quality than those that limit their use. We recommend finding other ways of bringing together information and analyzing it. A decade ago it was difficult and costly, for example, to pass data directly from one system to another or to program recurring allocation routines into enterprise systems. Today it is far easier and much more cost-effective. Any program to accelerate closing must examine opportunities to use IT to address problems with bottlenecks, delays and errors.

Taking this two-pronged approach of process and technology improvement and managing it in a systematic manner can streamline your closing activities each time they're done. Doing that in turn will leave your finance professionals free for more strategic work and put information in the hands of your decision-makers sooner.

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