Trends in Developing the Fast, Clean Close

Refining Financial Processes and Systems for Best Execution

Benchmark Research

Research Report
Executive Summary

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Aligning Business and IT To Improve Performance

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Ventana Research performed this research to determine the needs and practices of finance organizations seeking ways to improve financial closing. This document is based on our research and analysis of information provided by organizations that we deemed qualified to participate in this benchmark research.

This research was designed to investigate financial closing practices and needs of individuals and organizations and the potential benefits from improving their existing processes, information and systems. This research is not intended for use outside of this context and does not imply that organizations are guaranteed success by relying on these results to improve planning. Moreover, gaining the most benefit from improving financial closing requires an assessment of your organization's unique needs to identify gaps and priorities for improvement.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of finance and closing processes, and that the analysis and conclusions are entirely our own.

Ventana Research

Executive Summary

Completing the accounting cycle quickly and accurately is a good indicator of efficiency in a finance organization. Whether monthly, quarterly or annually, many CFOs and controllers are looking for ways to close their books faster to save their company money as well as produce final numbers sooner.

How quickly the books are closed has a number of ramifications. It can affect how rapidly a company is able to prepare management reports, of which accounting data is a core component. Getting information into the hands of managers faster enables them to understand their situation sooner. This in turn should help them react more promptly and effectively, and that agility should translate into better performance by individuals, departments and perhaps the whole organization.

For public companies the United States Securities and Exchange Commission (SEC) has shortened the quarterly and annual filing intervals for forms 10-K and 10-Q and now requires use of the eXtensible Business Reporting Language (XBRL) to make financial filings easier for investors to understand. These mandates increase pressure to speed up the financial closing processes, even if only by a few days, so companies can gain time to prepare and publish those financial statements in the required format.

80 percent of participants said that their company should close its books within five to six days of the end of the month.

In 2007 Ventana Research conducted benchmark research on organizations' efforts to accelerate the financial close. We undertook the current research to understand what has changed as well as to acquire real-world information about levels of maturity, trends and best practices in this area. It explores how they do this now, how people at various levels feel about the current processes and tools, plans they have to change or improve them, and benefits they hope to gain by doing so.

We found that not a lot has changed, and in some respects companies have lost ground. As an ideal, four in five participants said that their company should close its books within five to six days of the end of the month and 65 percent said within five to six days of the end of the quarter. However, only about half (49%) do succeed in closing their books within that time frame after the end of the month, and just 38 percent do so after the end of the fiscal quarter or half-year. Both these numbers are declines from the numbers in 2007 when 58 percent said the monthly close occurred within five or six business days and 47 said so for the quarter or half-year.

These results are not due to a lack of interest; 82 percent of participants said that shortening the closing period is important or very important. Those that take longer to close are most emphatic about the need to improve: 43 percent of those for whom shortening the close is important or very important take longer than eight business days to close. And participants acknowledge that they can do better, saying on average that their company can cut at least two days from both the monthly and quarterly closes. The longer it takes their company to close, the more time participants think they could save. For example, among those that take nine or more days, more than half (56%) said they should be able to close three or more days sooner.

In findings that closely mirror those in 2007, slightly more than half (54% in this research vs. 57% before) of companies have changed their closing process in attempts to shorten it. Their primary reasons for doing so largely remains the same: to have more time for analysis (34% vs. 31%) and to get financial and management information out as quickly as possible (27% vs. 29% for both types). These obviously are worthwhile goals, but the findings indicate that many organizations are not doing enough to achieve them.

Some straightforward steps can produce progress, the research indicates. One is simply to establish a strong focus by instituting a formal process to manage the close. Three-fourths (77%) of companies that had a program in place to shorten their close succeeded, compared to just 15 percent that lacked a formal commitment. This includes looking for and addressing issues that can extend the close. Two-thirds of companies that do this monthly and half that do it quarterly have shortened their process; only 10 percent of those that do it semiannually or annually have had success.

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Among participants who said that their company has shortened its closing period, 71 percent said they control the closing process more effectively and consistently. A deliberate focus such as noted above can help make this happen; documenting the process step-by-step can be helpful, especially when it leads to identifying bottlenecks, simplifying or eliminating steps or putting steps in a better order. About half (52%) of successful companies optimized their use of journal entries. Other steps cited less often included centralizing more of the accounting functions, automating intracompany reconciliations and simplifying financial reports. Each of these changes usually helps improve speed, reduce errors and increase control.

Another source of potential time savings is to automate portions or all of the closing process, but the research finds that few companies do this. Just 6 percent of participants said that they use automated workflow to handle substantially all of the process and handoffs. About half (49%) said some pieces are automated but more could be, while 40 percent have automated none of the functions. The results show a correlation between automation and the length of closing periods. Among those that have automated, 43 percent complete their monthly process in one to four business days; we estimate that such companies finish on average three days earlier than those with little or no automation. The quarterly and semiannual closes show similar ratios.

The tool most directly applicable to improving this process is consolidation software; half of companies using it are able to close monthly within six days. Here we estimate that companies that use consolidation software save at least one day over those that use spreadsheets. However, only one-fourth of participating organizations use this software, compared to 38 percent that mainly use their ERP system and 30 percent that mainly use spreadsheets. Nearly half of the largest companies (47%) as measured by number of employees use consolidation software; only 7 percent of

midsize ones do, while half (53%) of those use spreadsheets. We attribute this difference to the complex corporate and IT environments of very large companies, which demand dedicated software to manage, and their greater access to resources to acquire it. Large companies use their ERP systems more often than consolidation software (42% vs. 29%).

Users of consolidation software are most often satisfied with the software they use to manage the closing process. More than two-thirds (68%) are satisfied or very satisfied, compared to 61 percent of ERP users and just 32 percent of those that use spreadsheets. A greater number (35%) of spreadsheet users are dissatisfied or very dissatisfied with their software. We believe that a major source of this dissatisfaction is the propensity for errors in spreadsheet use. Heavy users of spreadsheets often said they would save one day, three days or more if they could eliminate all errors in the closing process.

The research discovered another factor that can slow the close and preparation of other financial reports: the consistency and quality of the necessary data. This is a significant or very significant problem for nearly two-thirds (62%) of the research participants. We estimate that on average the companies for which the problem is very significant take two days longer to complete their monthly close than those that have few or no data issues. Here again errors cause frustration: 83 percent of companies that described their data quality or consistency issue as very significant said they could close their books three or more days sooner if all errors were eliminated.

More than two-thirds (68%) of users of consolidation software are satisfied or very satisfied with the software they use to manage the closing process.

Along with having reliable data to use in the close, finance departments need easy access to it. In this regard the research finds a promising trend, as 70 percent of participants have a centralized data warehouse for all of their financial data. We estimate that these companies on average complete their quarterly or semiannual close one day sooner than those that don't have a single data repository and their monthly close half a day sooner. But the finding about data quality and consistency indicates that a substantial portion need to take steps to ensure that the data going into their warehouse is accurate.

As noted above, a key benefit of achieving a fast, clean close is that it allows more time for analysis and preparation of reports. This can be especially valuable to public companies that have to file regulatory documents tagged with XBRL. Ventana Research generally recommends that companies handle this process themselves rather than leave it to a third party; doing so can provide more control and flexibility in the process. Among participants in this research, currently only one-third (35%) are doing their own tagging, although an additional 40 percent use a service provider today but plan to move the task in-house within two years. In the long run, investing in software that automates tagging will make the process faster and less expensive than using a service provider.

It is unfortunate that efforts to streamline the close have stalled in many organizations. For half of the participants in this research, the economic turbulence

and intensified financial regulation of the last few years have had an impact on their quarterly closing process, and 30 percent of those companies said the effect was to lengthen their close period. Changes in financial disclosures have caused two in five organizations to institute more internal levels of review and one in five to be more careful in checking data for errors. Now, as these changes have been assimilated into organizational processes and business prospects brighten, it's time for companies to renew their efforts to achieve a fast, clean close and gain the time to develop insights for better decision-making that it can create.

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