Continuous Accounting Drives Strategic Transformation

Technology Can Serve as a Catalyst for Change

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A New Approach to Achieve Change

Ventana Research coined the term "continuous accounting" to describe how recent advances in information technology can help finance organizations to fundamentally restructure their departmental operations to transform their function. Whereas most past enhancements were incremental, the financial management software and data management methods available today can enable more profound advances – streamlining processes, eliminating many time-consuming tasks and smoothing departmental workloads. This frees up skilled professionals to undertake the more strategic and valuable job of providing timely, insightful and forward-looking information to the rest of the company. In short, continuous accounting is a framework for eliminating barriers to making the finance organization more strategic.

The continuous accounting approach integrates people, processes, information and technology to achieve a transformation of the finance function and its corporate role. Continuous accounting is based on three principles:

- Use technology to distribute departmental workloads continuously across accounting periods.
- Support continuous, end-to-end process management to enhance efficiency and increase data integrity.
- Adopt a continuous improvement approach to overcome inertia and the "we've always done it this way" mindset to which finance staffs are particularly prone.

Let's examine each of the three in turn.

Distribute Workloads Continuously

New database and data processing technology gives finance executives greater flexibility in managing their department's processes. The familiar monthly and quarterly cadences of the accounting cycle aren't just tradition – they stem from the inherent limitations of paper-based bookkeeping. In those systems the timing of tasks balanced the cost of taking bookkeepers offline to summarize, foot and tie entries in journals and ledgers against the need to maintain financial control.

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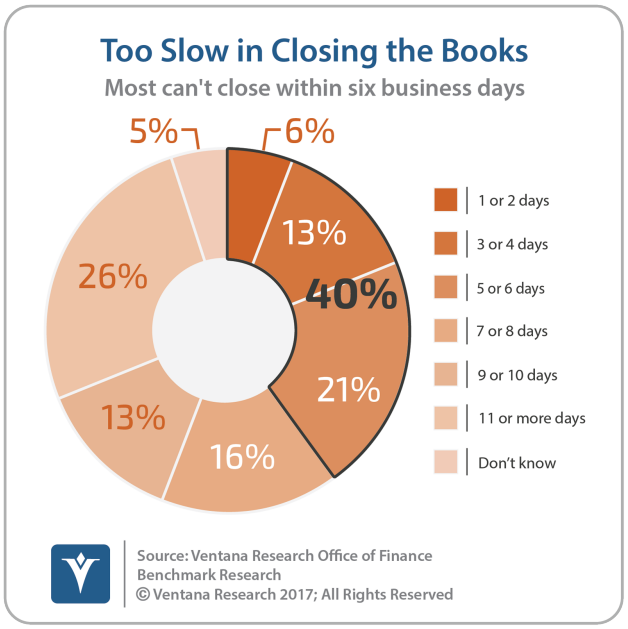
Until recently computers changed little of this model because ERP systems designed for midsize and larger companies had to operate in batch mode. They could be taken offline to summarize and reconcile data only overnight, on weekends or at month's end to avoid interrupting operations.

Today's in-memory data processing and advanced databases eliminate batch processing. What once took days or hours is now accomplished in seconds. With these systems operating continuously, it's possible to balance workloads. For example, intercompany reconciliations, many allocations and book-to-tax adjustments that once had to be done at month's end can be performed daily, weekly or biweekly.

Increased frequency can reduce departmental stress, shorten the close and provide visibility throughout the period. This is important because, as our benchmark research on the Office of Finance shows, 55 percent of companies take more than six business days to close to close their quarterly books compared to the generally accepted benchmark of one business week.



Accelerating the close gives executives and managers financial and managerial information sooner, which enables them to seize opportunities and address issues more quickly. Closing sooner also provides more time for analysis and crafting of narratives for external financial reports.

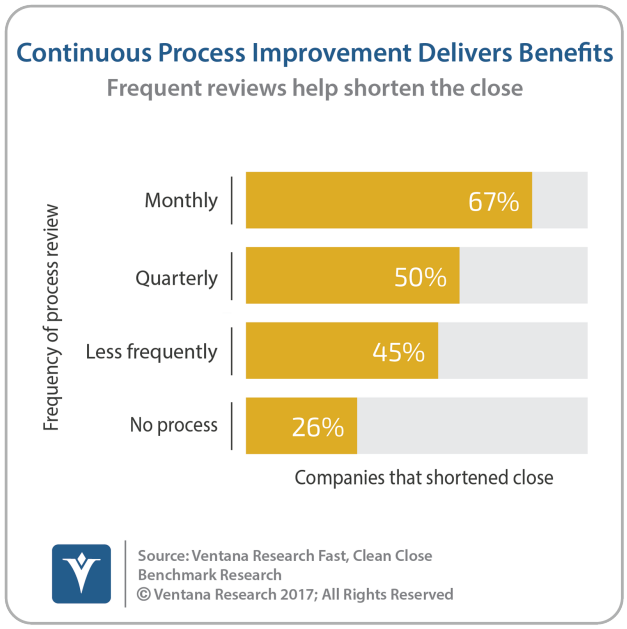
Financial system architectures are evolving further to support continuous accounting. Corporations can adapt to accounting system fragmentation by amalgamating entries from all accounting software into a single, unified headquarters system. All entries retain their accounting logic, currency and other original characteristics but are immediately and automatically translated to the headquarters account structure. This architecture enables a corporation to maintain a continuous, company-wide soft close, permitting senior executives to more easily monitor company-wide financial conditions at a detailed level throughout the period and not just at the period's end. The architecture also simplifies group closing processes and post-merger integration of financial systems.

Manage Processes and Data Continuously

Automating processes continuously from beginning to end (such as from receipt of a sales order through collecting payment) saves time. Maintaining data integrity throughout a process saves even more time by eliminating the need for checks and reconciliations to ensure accuracy. In our research on shortening the financial close, 62 percent of participants said they have very significant or somewhat significant issues with the quality and consistency of data when preparing their financial reports.

Data integrity is achieved by ensuring that there is only one authoritative source of data and that all calculations are controlled and performed programmatically. Consolidating multiple systems into one can reduce duplicate data sources, but it's not always feasible. In such cases, having a single, unified system that automates the passing of transaction data from one system to another is usually the most practical approach.

It is also essential to eliminate the use of spreadsheets for linking systems or performing calculations as part of a process. Our research on next-generation finance analytics shows that spreadsheets are error-prone. Using even a single spreadsheet as part of a process to compile data or make calculations offline forces staff to reconcile and check results to ensure accuracy.



Embrace Change

To succeed fully, continuous accounting must be part of a corporate culture of continuous improvement. Such a culture sets increasingly rigorous objectives, reviews performance to those objectives and makes addressing shortcomings a departmental priority. It is dynamic, not static, and it works.

As an example, our research correlates the frequency with which a company reviews its close process with its ability to shorten the close. Two-thirds (67%) of participating organizations that review their process monthly said they were able to accelerate their close, compared to only half that review quarterly and one-fourth (26%) that never do it.

Put Continuous Accounting into Action

Change is rarely easy for organizations. This is particularly true in finance because consistency is a key virtue in accounting. But recent breakthroughs in technology make it easier for finance executives to restructure departmental functions and take a more strategic role in their company's management. Technology is an essential ingredient because it can enable organizations to redefine and restructure core processes to achieve performance breakthroughs.

Nevertheless, transforming the department requires continuous, visible commitment from senior executives. Change is unlikely to happen with a halfhearted or haphazard approach.

In its simplest form, a change management effort in Finance involves three steps:

- **Prepare**: Change requires design. A steering committee, led by the CFO, must define the objectives and the gaps between the current state and these objectives.
- **Envision**: The committee should identify the changes in processes, roles and related technology necessary to achieve the desired objectives. It should identify risks and sources of resistance to change and plan to address them. This vision of the future state, the timeline for achieving it and the urgency of action should be communicated consistently to everyone in the department.
- **Execute**: To prevent inertia it is essential to foster a continuous improvement culture that emphasizes regular ongoing reviews that focus on finding solutions.

Depending on the organization, the effort can be handled completely in-house or the organization can use consultants for guidance or help in implementation.

Continuous accounting is a framework for achieving finance transformation that takes advantage of recent advances in information technology. Finance executives who are serious about creating and leading a more strategic organization should explore the options they now have for achieving this vision.

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