7 Steps

to a

Faster, Better Close

by
PROFORMATIVE

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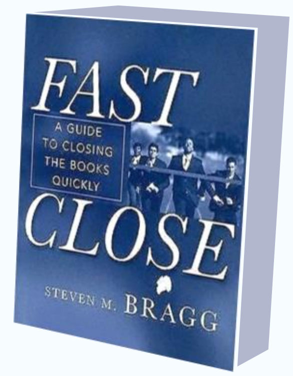
Overview

Face it, we live in an as-it-happens world. Yesterday's news today is old news. Like it or not, the accounting function is in the news distribution business. The financial stories it publishes can significantly influence the decisions made by management. However, the accounting discipline doesn't churn out information like mass media. The financial close process has long been one of the most challenging processes for a financial leader to manage, optimize, and control.

A recent Aberdeen study found that 64% of business managers have seen their decision-making time shrink over the last year. A different Aberdeen survey found that 28% of business managers said they needed data to make decisions within an hour of a business event; another 42% needed information within a day.

Management information needs are now defined in terms of days and hours, not weeks or months. To meet this expectation the modern CFO and controller needs to stand back and evaluate their own financial close process. In this whitepaper, we will discuss the ingredients for a fast close.

Achieving a fast close is a change management initiative because regardless of your approach, it requires your people and the right technology. Most employees and more than a few executives are notoriously poor when confronted with change. Approaching the fast close using change management principles will help alleviate resistance and encourage buy-in to adopt new processes and technologies to improve the close process.



Achieving a fast close is a process improvement project that requires the full attention of the accounting staff for a long period of time. Before committing to such a project, one should be clear about what type of financial close works best for a company's specific needs, what kinds of benefits will result, and the general steps required to complete the close.

Steven M Bragg
Fast Close: A Guide to Closing the Books Quickly, 2nd Edition [1]

Step 1: Start With "Why"

Identifying why we need a fast close and the barriers that stand in your way is the first step of the change management process.

First, let's establish the necessity for change. According to John Kotter[2], a leading change management expert at Harvard, 50% of change initiatives fail at this initial step because the need for change is misunderstood and urgency is not well established.

There needs to be legitimate and real business reasons supporting a faster close process. These can be articulated by establishing the need for more timely information, better access to financial resources, and reduced costs. Shorter closes have been shown to reduce audit and compliance costs. It also begins freeing up finance resources to work on other types of analysis to support the business during the rest of the month. The key to achieving the fast close is to work smarter, not harder, which will require an investment in people, process, and/or technology.

The financial close is a process like any other. The starting place for any business process improvement is documenting your current state. This is done before you can define your future state or begin soliciting proposals from consultants or vendors.

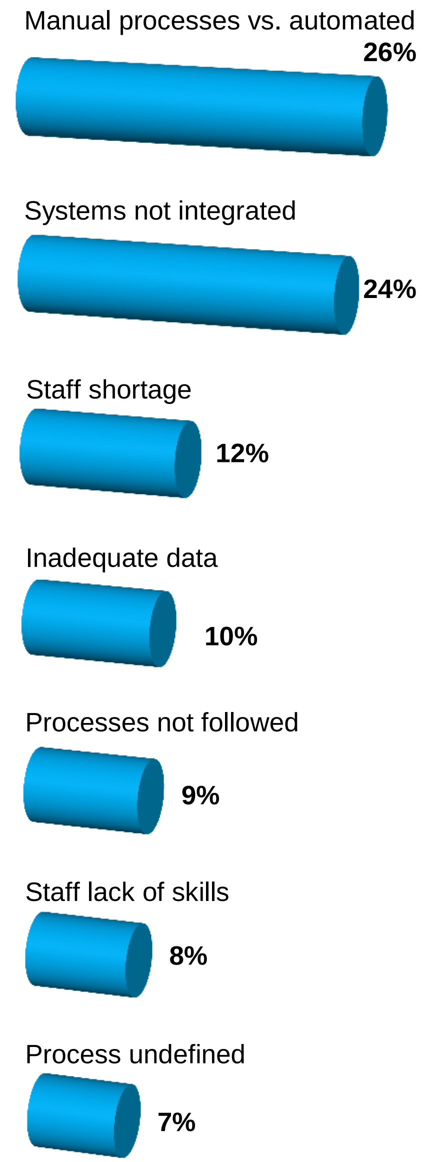
In the traditional context, the accounting function reports the transactions of the business. The financial close process is wrought with all sorts of hidden traps and pitfalls that can make this difficult. Let's look at the top 3 reasons that slow the close down:

1. **You can't report what you don't know**

   To report what has happened, there must be an awareness of what has happened. Many businesses operate in silos or rely on disparate systems in various departments to transact business. This activity eventually flows through to the financial system. When the financial close relies on handoffs of information, this typically slows down the close and increases the risk that an important activity gets missed.

Inefficiency in the Accounting Function Often Hinders Focus on Business Leadership

Top Bottlenecks in Monthly Close Process

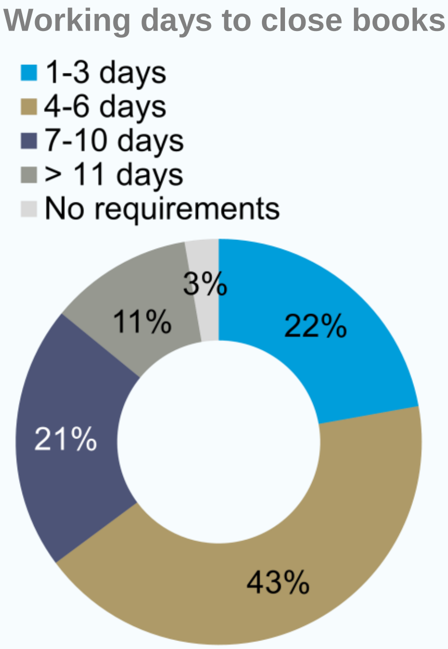


Source: Armanino – The CFO Evolution™ Benchmark Survey Results[3]

2. **Accounting is black, white, and varying shades of gray**
   Routine transactions, such as collecting accounts and paying suppliers, can be calculated and allocated without much judgment. However, most businesses, regardless of size, have some shades of gray in their accounting. Whether it's dealing with manual revenue recognition processes, impairment analysis, or calculating reserves, these sorts of accounting analyses require professional judgment. It can take time to determine the correct shade of gray and cause a slower close.

3. **The more the merrier, unless you have to consolidate**
   Tracking one company, one line of business, or one set of accounts is relatively straightforward. Unfortunately, most organizations involve multiple divisions or companies spanning different geographies. When information is prepared using different systems, accounting teams and sometimes charts of accounts and local accounting standards, the challenge is compounded as highlighted by an Armanino McKenna study which identified manual processes versus automated processes and the lack of system integration as the top two bottlenecks in the close process. Multi-entity shared reports are a common pain point for larger organizations.

International Study: Most Close Within 6 Days



Financial Close Benchmark Report – Adra Match Market Survey 2013 [4]

Step 2: Find the Right "Who"

Next, you need to establish a guiding team leveraging their interest and a desire from senior management for more timely information. The guiding team is integral to the development of buy-in and improved collaboration – collaboration between finance and other departments and within the finance function itself. The guiding team is composed of a cross section of key stakeholders whose persistence and dedication will kick start the initiative and keeping it going until the full objectives of the fast close have been met.

Step 3: Defining the "What"

Now we can start redefining what our close process should look like. This means setting a target for your close process. Most companies embarking on a fast close attempt to do it five days or less, a few can do it in just one day. Take the opportunity to engage your team and brainstorm what it would take to achieve a one day close. This will give you a long list of ideas to develop your strategy in both the short, medium, and longer term.

Compare the gaps between your future state and current state. Consider the following questions to help identify the key points in the close process that could be creating bottlenecks:

1. What are the key inputs to the financial close on which the accounting function relies that originate in other departments?
2. What are the areas of really hard analysis that take time to determine the appropriate accounting treatment?
3. Where do we have weaknesses in our processes or systems that have resulted in errors, inefficiencies, and workarounds in the past?

The answers to these questions will dictate the length of your critical path. Now you are ready to redesign your close process by reconfiguring the mix of people, technology, or process steps to achieve greater efficiency. Let's consider a few ideas:

Step 4: Attacking the "How"

Three ways a new people approach can speed up the close:

1. Make it a team effort. Set a team goal for the close. Communicate like a team. Give everyone a role to play. Make and hold them accountable.
2. Many close processes rely on some level of Excel spreadsheets. If you can't replace Excel in the short term, be sure to train your staff to improve everyone's proficiency with the tool. Few finance teams take the time to establish and follow standard Excel protocols to document their work.
3. Solicit buy-in from the rest of the organization. The whole organization needs to be committed to the fast close for it to be successful. All administrative entry of orders and invoices need to be processed and documented, perhaps with a system, like Chatter, that non-finance staff in departments outside of accounting can use. All functional leaders should acknowledge that a faster close helps both the company and them directly.

Global Study of the Financial Close Highlights Concerns

90% of respondents confirmed that they were under pressure to close faster

28% trust the reported numbers; staff trust the numbers much less than managers do

Only **39%** are satisfied with the quality of the closing process

53% of US respondents close their books within 6 days, versus **73%** in Europe

Financial Close Benchmark Report –Adra Match Market Survey 2013[4]

Three approaches for redesigning your close process:

1. Don't think of the close process starting at the period end date. Lots of work can happen in advance, for example, analysis of potential accounting issues. Some account reconciliations can be started in advance of the close, for example, bank reconciliations can and should be done throughout the month. Some fast closers use estimates for predictable, non-critical accounts. Analyze your accounts for low-hanging fruit like this. Also, standardize and automate recurring entries such as prepaid adjustments and depreciation. If your system has the ability to close subledgers prior to closing the general ledger, this too can help speed up the close.
2. Establish a level of reporting materiality that achieves an appropriate trade-off between timeliness and accuracy. Identify the issues that matter and those that can be deal with using estimates.
3. Standardize the close using a journal entry log, a close timeline, and a completion checklist. These help standardize the process, assign accountability, and formalize the documentation to ensure nothing has been missed.

Three ways your technology should be helping you to speed up the close:

1. Invest in an integrated financial reporting system. Disparate systems with manual interfaces and handoffs slow down the close. The more you can get everyone feeding in data to one system, the easier it will be to execute the fast close.
2. Implement self-review controls using system-generated analytical comparisons to budget and prior period, which enables accounting staff to spend more time investigating how variances arose during the period.
3. The system should also automatically generate ratios using financial and non-financial data. These correlations enable early detection and remediation of errors. Spending time explaining the financial results is far more valuable than spending time calculating metrics that could be automated.

Ways to Measure The Close

Consider using a suite of these metrics to help you evaluate your own close process and set targets.

1. *Gross number of adjusting entries*
2. *Review errors*
3. *Completion times*
   - *Time for subsidiaries to forward their results to corporate headquarters*
   - *Time to close the processing of period-end cash*
   - *Time to finish processing accounts payable*
   - *Time to issue billings to customers*
   - *Time to close payroll and record accrued wages*
   - *Time to count and value ending inventory*
   - *Time to issue related management reports*

Source: Steven Bragg [5]

Step 5: Kicking It Off and Getting Buy-In

You are now ready to spread the message broadly, both inside and outside of the finance function. At the same time you are empowering action, solicit feedback and listen. Expect and encourage others to offer their own ideas. Empowering others requires being open to accepting new ideas which could further improve the strategic approach.

Step 6: Actions Speak Louder Than Words

The plan should be managed and phased. Look for early wins that can be implemented on your very next period close. Set modest, realistic, and achievable targets to gather momentum, which will further reinforce employee buy-in. Try to reduce your close process by another day with each iteration of the process until you reach your target. It won't happen overnight. It won't happen without an investment of time or money. The answer is rarely just to work harder.

You may also consider developing different levels of reports to address the timeliness of information. You may opt to issue weekly flash reports that convey key business activities in both financial and non-financial metrics such as sales and shipments. These reports will focus on a handful of leading indicators that should help anticipate the month end financial results.

Transforming the Financial Close Using Change Management Improves Outcomes

With effective Change Management	**95%** reported achieving the objectives of the change	**71%** reported the change stayed on schedule
With poor Change Management	**16%** reported achieving the objectives of the change	**16%** reported the change stayed on schedule

Source: Prosci, Best Practices in Change Management Benchmarking Report for 2012[6]

Step 7: Institutionalize Continuous Improvement

With each and every completion of the close process, there is an opportunity to learn from experience. Use appreciative enquiry to discuss what went well. This will help to reinforce those aspects of the close process that have improved and will inevitably draw out observations of areas still left to be achieved.

Use lessons learned and problem solving techniques to improve the next iteration of the close process. Focus on areas where the system is deficient or where people are working around or outside of the system. Resolving these issues will yield longer term savings.

Conclusion

The financial close is critical process for any organization. The fast close is a value-enhancing proposition. Improving the timeliness of information improves decision making. Implementing a fast close is a significant change management undertaking because it involves your people. The key to achieving the fast close is to work smarter, not harder, which will require an investment in people, process, and/or technology. Establish the need for change, recruit a guiding team, develop a strong plan, empower people to make a contribution and have them own the results. These are the ingredients for a successful fast close.

About Proformative

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Sources

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4. *Financial Close Benchmark Report* – Adra Match Market Survey 2013
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