Best Practices for a More Effective Close

Identifying Common Gaps in the Process

Ventana Research

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Issues in Closing Quickly

The number of days it takes it to close the company's books — that is, the number of days into the following month required to completed all the activities associated with the financial close — is a reliable way to gauge the effectiveness of a finance department's management. Companies that complete their monthly or quarterly accounting close within a business week without regularly requiring material adjustments and entries after the close demonstrate a level of effectiveness that those that take longer do not.

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Our recent benchmark research into the practices of the Office of Finance and the challenges it faces finds that only a few more than half (53%) of companies complete their monthly close within six business days and even fewer — just 40 percent — do so for their quarterly close. However, these numbers may overstate the percentage of companies that really close within a business week. Originally the stated objective was a fast, clean (error-free) close. Now, in order to achieve a one-week benchmark, some departments may "close" within a week but then routinely take additional days to address material issues that often involve time-consuming accounting adjustments. These departments are fooling themselves. They need to address the same issues as the departments that take longer than a week to close.

We use the term "continuous accounting" to encompass three management approaches that enable finance organizations to achieve steady gains in effectiveness: managing workloads continuously across periods, using software to manage finance department processes in a continuous, end-to-end fashion, and continuous improvement. Continuous accounting underlies these five key requirements for accelerating a company's close.

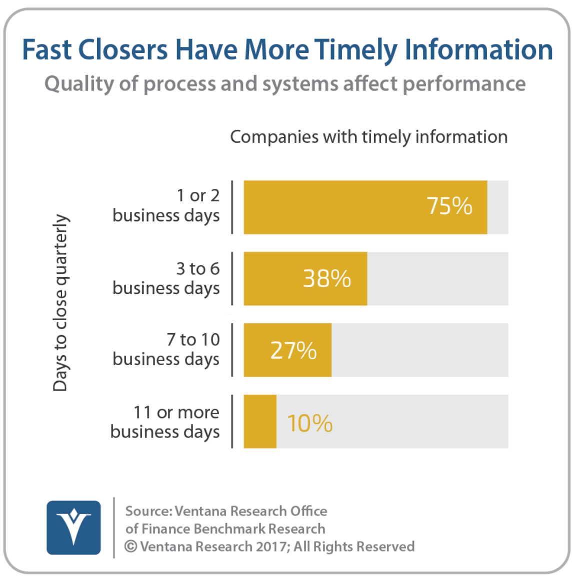
1. A faster close must be a key objective for senior finance executives.

Accelerating the close is a change management exercise, so finance executives must clearly communicate that it is a priority. A faster close requires a continuous accounting approach to managing finance and accounting organizations — one that uses technology to eliminate unproductive activities and distribute workloads more evenly. Maintaining a fast close requires ongoing attention, so a continuous improvement mindset is essential. More than three-quarters (77%) of companies that periodically review their close-process performance are able to shorten it, compared to only 15 percent of those that don't do so.

2. The close process must be fully documented.

A well-documented process is one for which all the steps of the close, including all contingencies, are documented. Without a formal guide, people may skip steps or miss deadlines. Research conducted by Ventana Research highlights three reasons to have a step-by-step list:

- It enables managers to ensure that roles and responsibilities are properly assigned and deadlines are established.
- It provides a tool that reviewers can use to spot unnecessary or poorly designed work as well as process flows.
- Periodically assessing the list for opportunities makes it possible to identify changes in the order of tasks or their schedule that will accelerate the close. For example, a review may identify tasks that could be performed daily or weekly rather than doing them all at once at the end, or set deadlines (say, closing selected subledgers) before the end of the period.

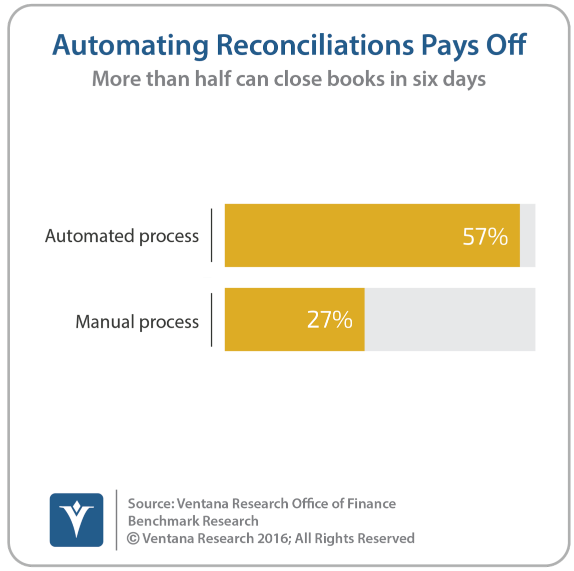


Even if the process takes the same amount of time, adjusting the sequence and frequency of specific tasks can enable the close to be completed earlier. A main reason for accelerating the close is to get financial and management information to the rest of the organization sooner: 75 percent of companies that take one or two days to close their quarterly books said they receive timely information from their finance organization, compared to 27 percent of those that take seven to 10 days and just 10 percent that take 11 or more days.

3. Automation enables a faster close.

A closing process that includes many manual tasks will take longer and require more effort to complete. For example, rekeying already-entered data or manually assembling in a spreadsheet numbers from multiple sources not only can result in errors but also occupies time that could otherwise be devoted to higher-value work that takes better advantage of the skills of those involved.

The close is a repetitive process that is easily definable. It consists of tasks that can be handled more quickly and reliably through software automation. The degree of automation that can be applied to closing ranges from complete to little or none, but in this instance our research indicates that more is better.



Automation delivers value as it minimizes required employee time, ensures consistent execution and makes it easier to handle exceptions. More than half (57%) of organizations that have automated reconciliations close their quarterly books within six working days, while that is true of just 27 percent of those that have not automated their process. Ready access to data from multiple-enterprise sources aids automation. Companies that have a single data repository for all financial information close their quarter on average one day faster than those that don't have one.

For automation, close to two-thirds (64%) of midsize and larger companies use either dedicated software or the close-and-consolidate capabilities in their ERP systems. However, many handle some of the closing processes (for instance, reconciliations and allocations) manually, which negatively impacts their ability to close fast.

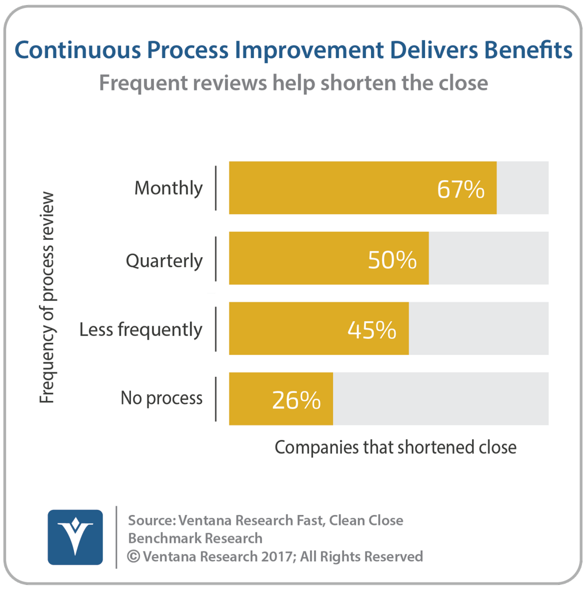
4. Spreadsheets slow the close.

Spreadsheets are useful for prototyping, ad hoc reporting and personal productivity, but they create problems when used in collaborative, repetitive enterprise processes like the accounting close. Spreadsheets consume time, are error-prone, and pose problems when used for analytics that require the ability to manipulate business data in multiple dimensions. And data created or manipulated in multiple desktop spreadsheets can contain errors and inconsistencies. Therefore, it shouldn't be surprising that the research finds a correlation between spreadsheet use and how long it takes a company to close. Those that use them rarely on average take 5.5 days to close their monthly books, while those that use them substantially take 7.7 days.

5. Frequent process assessments are essential to shortening the close.

Shortening the close requires ongoing diligence — a continuous improvement approach — to identify and address ineffective process flows, manual steps that can be automated or eliminated and other barriers. A continuous-improvement culture ensures that issues are identified and addressed immediately.

Frequent reviews focus attention on the importance of a fast, clean close. Closing sooner isn't of much value if post-close material adjustments and entries are a regular event. If they are, eliminating their cause should be a priority. Participants in our research who review their process frequently are more successful in shortening their close; three times as many that conduct monthly reviews achieved this goal as those that do not do regular reviews.



What to Do Next

Accelerating the close almost always requires addressing an interrelated set of people, process, information and technology issues. For example, improvements to process execution will be limited without senior executive commitment and access to complete data to support the effort. Adopting a continuous accounting approach, one that spreads workloads continuously across accounting periods, uses technology to manage processes and data more effectively and stresses an attitude of continuous improvement, will make an initiative to shorten the close more successful.

Using dedicated financial software can diminish or remove barriers to a faster closing by automating tasks and eliminating the potential for errors in data. Here also, executive support usually is necessary to gain approval for investing in the software.

One useful approach to making a convincing case for investing in technology to speed the close is to translate the annualized cost of owning the software into full-time equivalent employees (FTEs) and comparing this to the time (measured in FTEs) that can be saved through more automation. The same analysis can be presented in terms of how many people the organization would be have to hire to shorten the process by a certain number of days.

How quickly a finance organization can close its books is a reliable indicator of the effectiveness of its management. As a benchmark, closing the books within one week demonstrates that the finance department is managed well. Organizations should review their current closing process and the tools they use and evaluate alternatives and best practices that can improve it.

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