

THE FINANCIAL CLOSE

OPTIMIZING PERFORMANCE AND
DRIVING FINANCIAL EXCELLENCE

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EXECUTIVE SUMMARY

THE IMPORTANCE OF CLOSING BOOKS QUICKLY AND WITH QUALITY

The term “financial close” describes a corporation’s ability to complete its accounting cycles and produce financial statements for internal management and external legal reporting. The requirement to close books quickly and with quality is emerging again as an important project for today’s global finance function.

In the late 1990s, companies became more efficient at closing their books and reporting financial information, but compliance regulations such as the Sarbanes-Oxley Act placed additional reporting rules on organizations. The result is often a time-consuming, labor-intensive effort to ensure the quality of financial data. Companies are once again focused on improving reporting times and ensuring effective internal controls to govern the accuracy of these processes.

Why is it important for corporations to close their books quickly and with quality? Closing fast enables quicker access to financial information, which gives management the foundation for timely and better-informed planning and decision making. The fast close requires a quality close, where processes are monitored to ensure a foundation of trusted information for decision making. Closing fast also helps companies maintain a healthy image in the market, while companies that don’t close fast can often suffer in the eyes of shareholders, investors, regulatory agencies, and trade exchanges.

In this white paper, we discuss how corporate finance centers can overcome the barriers to a fast, high-quality close. By converging previously disparate disciplines of business intelligence; governance, risk, and compliance; and enterprise performance management, companies can get trusted data into the hands of key stakeholders in a timely manner. This paper identifies solutions to help organizations improve and sustain their close times and address the challenges associated with automating and testing internal controls.

THE ESSENTIAL INGREDIENTS OF FINANCIAL EXCELLENCE

RESOURCES, PEOPLE, AND TECHNOLOGY

Financial excellence is achieved when resources, people, and technology are combined to optimize and streamline processes, decrease operating costs, manage business performance, and avoid certain risks. A streamlined, efficient, and high-quality financial close is a key ingredient of financial excellence, although it should not be a new concept to corporate accountants. Since 1998, companies have focused on

Numerous global companies successfully engaged in well-publicized attempts to improve not only the speed but also the accuracy and reliability of their reporting processes – often investing what has amounted over time to hundreds of millions of dollars globally.

Now the requirement to complete the financial close quickly and with quality is emerging once again as a process

The drive for fast close, partly sparked by the e-business revolution and the promise of the “click-of-the-mouse” virtual close, has not delivered its full potential. People attempting to implement a financial close project often underestimated the need for a structured approach to industrialize the close with a formal methodology. Additionally, the impact of the Sarbanes-Oxley Act of 2002 (SOX) was hugely underestimated, to such an extent that it challenged the dominance of the United States at the top of the fast-close league, allowing companies in Europe to narrow the advantage the United States had traditionally held.

“At Roche we cut our monthly reporting cycle from 20 to 5 work days, and now our top management has the ability to make faster business decisions, which they really appreciate.”

Susanne Erkens-Reck, Head of Corporate Finance Informatics, F. Hoffmann-La Roche Ltd.

improving the speed and quality of the close process for both statutory and management reporting. They have come to recognize the importance of the close and its role as one of the most essential ingredients of a successful global enterprise.

improvement project that needs the full attention of corporate accounting staff worldwide. A collection of disturbing research from both sides of the Atlantic confirms that close times at the some of the world’s largest companies, far from getting shorter, are, in many cases, getting longer.

In the following sections, we examine the drivers, barriers, and solutions to the financial close and set out to deliver practical and sustainable advice for the global corporate center looking to improve close times and establish a framework for improved internal control.

DRIVERS FOR A FAST, HIGH-QUALITY FINANCIAL CLOSE

STAKEHOLDERS AND REGULATORY FRAMEWORK

The drivers for a fast close essentially sit between two dynamics: the various stakeholder groups in the enterprise and the regulatory framework that applies to the market in which the business operates.

Internal and External Stakeholders

Stakeholders represent the various touch points in an organization where a fast-close project can have impact. They are both internal and external and

include executive management, departmental and business unit accounting teams, and business analysts on one hand, and auditors, investors, and market analysts on the other.

ments of which remain uncertain to this day and in which the only certain thing is the prospect of yet more change. Current legislation in the form of International Financial Reporting Standards (IFRS), EU Accounts Modernisation Directive, and the Sarbanes-Oxley Act has added complexity to the regulatory environment. The United States has borne the brunt of the regulatory burden where SOX creates an additional

financial reporting hurdle for all those companies that are required to meet the demands of the Securities and Exchange Commission (SEC).

that bring material events to the attention of management more quickly than before. To add to this are the rules associated with 10K/10Q filing deadlines. These were accelerated in September 2005 following an amendment to the SEC Act of 1934. Public companies with a public float of over US\$700 million are now subject to a 60-day deadline for form 10K and a 40-day deadline for 10Q. Similar deadlines exist in Europe.

“The ability to prepare trusted financial statements in a timely manner is not only a reflection on the strength of a company’s financial reporting and control systems but also ensures finance professionals can communicate the right information to key stakeholders at the right time.”

Ashley Dolling, Director of Accounting, Rexam PLC

On the other hand, we have a drive for greater accuracy. Section 302 of SOX requires the formal management certification of the accuracy of financial statements; this covers both omissions and misleading or untrue statements. As a result, those required to put their name to these statements now want to take steps to ensure their accuracy, with the net effect of increasing the time it takes to produce financial statements.

The Dynamic Regulatory Landscape

The second dynamic is the one with the greatest impact on close cycles in recent years. Since the well-publicized corporate scandals of 2001 and 2002, businesses have faced an ever-changing regulatory landscape, ele-

On one hand, there is a drive for faster reporting. For example, Section 409 of SOX requires public companies to disclose any material event that results in a change to the financial condition or operations of the issuer. Under the rules, the issuer has four days from the trigger of the material event to report on the event. This requires financial and operational systems and processes

In addition, Section 404 of SOX has been one of the factors that many believe is leading to an increase in the time companies are taking to close and obtain audit sign-off. Section 404 requires each annual report of a public company to include a report by management on the company’s internal control over financial reporting. It also requires the company’s auditor to attest to and report on management’s assessment of the effectiveness of the company’s internal control over financial reporting – again leading to further delays in the reporting processes.

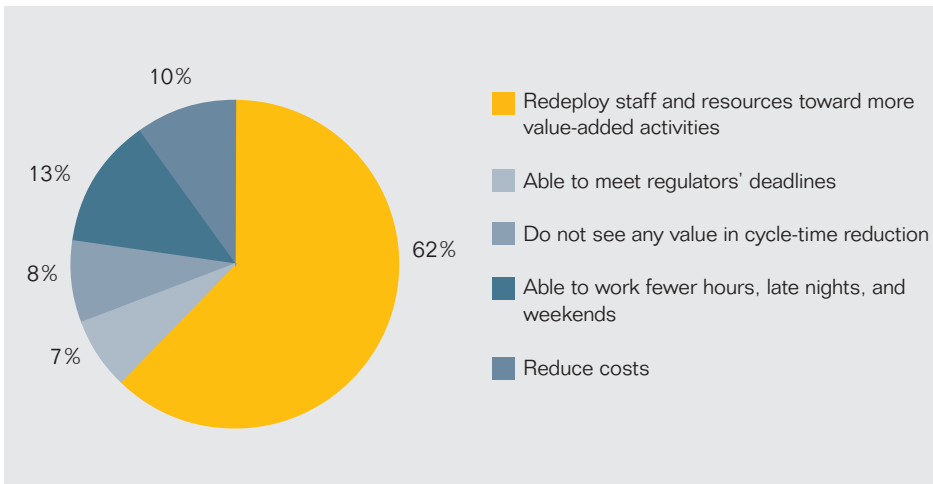


Figure 1: Benefits of Reduction in Financial Cycle Time¹

The Benefits of a Fast Close

Good corporate governance is inseparable from the benefits of a fast and efficient close. These benefits have multiple touch points both internally and externally to the organization. Some of the well-researched benefits – and subsequently the most common contributing elements – of a fast-close project business case are discussed in the following sections.

Faster Access to Financial Information

By reducing the close time, businesses benefit from much faster access to information relating to the performance of their business. As part of an integrated and coherent performance management process, this allows management to focus attention quickly on problem areas and make faster business decisions to improve future performance.

More Time for Value-Added Analysis

By streamlining close processes and reducing the number of staff days required, you free significant time for accounting staff. This can be used to add more depth and value to the written reports produced at the end of the quarter and year but also allows more time for ad hoc financial analysis during the monthly cycle, improving the quality of decision making.

According to a survey conducted by Business Objects (now SAP) in partnership with *BPM Magazine*,² 62% of respondents overwhelmingly saw this as the single biggest benefit for cycle-time reduction (see Figure 1). It's also important not to overlook how the fast close creates a more manageable work-life balance for staff in the accounting department. Quite often, the length of a close cycle is only the tip of the iceberg when it comes to the effort involved, and it's not uncommon for staff to work significantly longer hours during the close.

Improved Control Systems and Quality

A financial-close initiative should establish a number of best practices for financial reporting, including automation, workflow management, and data-entry validation. One of the keys to a fast close is "right-first-time" reporting, which not only increases quality earlier in reporting processes, but the additional time spent on analyzing the data leads to better quality reporting that delivers greater value. Because the fast close is about streamlining and industrializing the close process, internal control systems are inherently improved, which, in turn, improves the audit sign-off process.

Greater Time and Cost Savings During the Close Process

The cost impact of a fast close is substantial. A streamlined close process offers time savings in terms of manual intervention, error reconciliation, variance analysis, and data processing and collection across a variety of close processes. These time savings can then be quantified into numbers of staff days, which, in turn, can result in reduced headcount, fewer temporary staff working on low-value activities, and reduced recruitment costs.

1. Source: Fast-close survey conducted by Business Objects (now SAP) and *BPM Magazine*, May 2006.

2. Ibid.

These savings, however, are not limited to possible financial rewards. When applied to value-added activities, freed time increases revenues and lowers costs. Particularly relevant is the application to Section 404 of SOX, where fast-close initiatives not only aid compliance but also assist in driving down the high costs associated with Section 404 compliance by establishing sustainable and repeatable processes to reduce audit fees.

Better Investor Relations

The ability to publish statutory results ahead of shorter regulatory deadlines is, in itself, only part of the benefit for companies that close fast. Publishing faster than industry peers and more closely monitoring business performance are associated directly with the management capability of a company and, in turn, the company's image.

It not only implies a level of expertise but also allows for speedier communication – and at a greater level of detail to investors and analysts, giving them greater comfort. Additional transparency enables greater access to capital for those reporting earlier. It means the reporting of material events can be performed in a more timely manner, which can have a positive impact on stock value. Additional analysis, including the use of narrative and commentary, also has a big impact on how a company is perceived.

“The concept of ‘sustainable value’ is now built upon the long-term viability of a company’s strategy. By establishing a framework for enhanced business reporting, companies can now gain greater insight into performance and dramatically improve investor and analyst confidence.”

Professor Robert G. Eccles, Harvard Business School

How Fast Is Fast?

The battle for who reports the fastest is somewhat one-sided as U.S. corporations have consistently reported almost twice as quickly as their European counterparts, with the average time to report year-end or fourth-quarter results in the United States standing at 29 days in the 2007/2008 reporting year, compared with 50 days in Europe.³

The simplest and most publicly accessible way to establish a fast-close benchmark is to look at the published legal year-end reporting periods, including the time to announce results and the time to obtain audit sign-off. The latest research from the BPM International network (BPMi) does precisely this for the 2007/2008 reporting period. According to BPMi's *Global Close Cycle Rankings 2008*, over the past 5 years, 60% of the largest European companies have reduced their results announcement timetables by an average of 10 days; and 46%, their audit timetables by an average of 14 days.⁴

A slightly different picture can be observed in the United States. Here BPMi's research indicates that 52 of the 100 largest U.S. corporations actually added an average five days to their fourth-quarter and year-end results announcement timetable over the past five years. Audit cycles have also lengthened significantly in the United States, with 71% of companies sur-

veyed adding an average of over 2 weeks (19 days) to the time it takes to get audit sign-off over the last 5 years.⁵

The trend toward a "slow close" in the United States started several years ago and can, in part, be attributed to the introduction of the Sarbanes-Oxley Act of 2002, with a big spike in close and audit sign-off periods immediately after implementation of the rules. That said, even though more companies increased the length of close and audit sign-off than those that reduced it over the five-year period, there is now some evidence that close periods are returning to previous levels.

Interestingly, however, the gulf that exists on legal fourth-quarter or year-end reporting between Europe and the United States does not exist when it comes to internal management reporting. A study by BPM International shows that while the United States is marginally ahead of Europe and that the gap between the best and the worst performers is still large, the general pattern is very similar. These results are summarized in the following table.⁶

	Upper Quartile	Middle Quartiles	Lower Quartile	Best	Worst
Europe	<8	9-15	>16	2	55
United States	<7	8-14	>15	1	22

There is no 100% right or wrong answer as to how fast a company should close. To determine how quickly you should close and report, you need to understand where you sit compared to your peers, either by geography or industry, and how this relates to the relative complexity of your performance management and financial reporting process. Determining this benchmark should be the first stage of any close project, as it helps you establish a "SMART" (specific, measurable, achievable, relevant, and time-bound) objective on which you build a project plan to shorten your reporting time.

3. *Global Close Cycle Rankings 2008* (BPM International, July 2008).

4. Ibid.

5. Ibid.

6. *Consolidation, Reporting and Planning Functions in European Multinational Enterprises 2006* (BPM International, February 2007).

BARRIERS TO A FAST, HIGH-QUALITY FINANCIAL CLOSE

DEVELOPING A STRATEGY FOR YOUR BUSINESS

Identifying and Understanding the Barriers

While compliance-related issues have resulted in the increase of close cycles in the United States, especially around the audit sign-off associated with internal controls, compliance itself is not a direct barrier to a world-class financial close process. The issues are with the processes, people, and technology barriers to a financial close. These barriers can be found at both the head-office and reporting-unit level and affect multiple teams and processes. By identifying and understanding these barriers, you are then able to outline a strategy through which you can remove them systematically from your close process. Some of the most frequently cited barriers – based on our experience of supporting fast-close initiatives in the

corporate centers of today’s global enterprises – are presented in Figure 2 below, with a number of the most significant explained in more detail.

Data Quality and Collection Errors

The inability of many companies to achieve a “right-first-time” financial close process is a critical hindrance to faster reporting cycles. It’s linked to manual data entry, late delivery from reporting units, a lack of validation and controls, poor integration with source systems, and a lack of integration across multiple close processes. Data needs to be collected from different charts of accounts and multiple sources, including ledger systems, HR systems, and spreadsheets, and once collected, normalized into a common chart of accounts. Often the data collected is both financial and nonfinancial

and includes supporting text and commentary. Once data collection is accomplished, the real process of consolidation in accordance with multiple accounting standards can begin.

Intercompany Reconciliation

The intercompany process all too often sits on the critical path for the close cycle, causing significant delays while operating units resolve unmatched intercompany transactions and balances. Time spent at both the head office and local operations contributes to a significant number of staff days that are needlessly wasted on this essential but cumbersome process. According to research conducted by Business Objects and *BPM Magazine* in 2006, 77% of respondents thought that improved intercompany reconciliation would speed the close process.⁷

Poor Performance from Reporting Applications

The consolidation process is, by its nature, iterative and involves many rounds of consolidation, review, and adjustment before the process is finalized. The performance of consolidation and reporting applications is critical as organizations look to enhance the close process and save time in every area. Poor processing speeds and lack of scalability and availability of applications during peak close periods can be serious impediments to a world-class financial close.

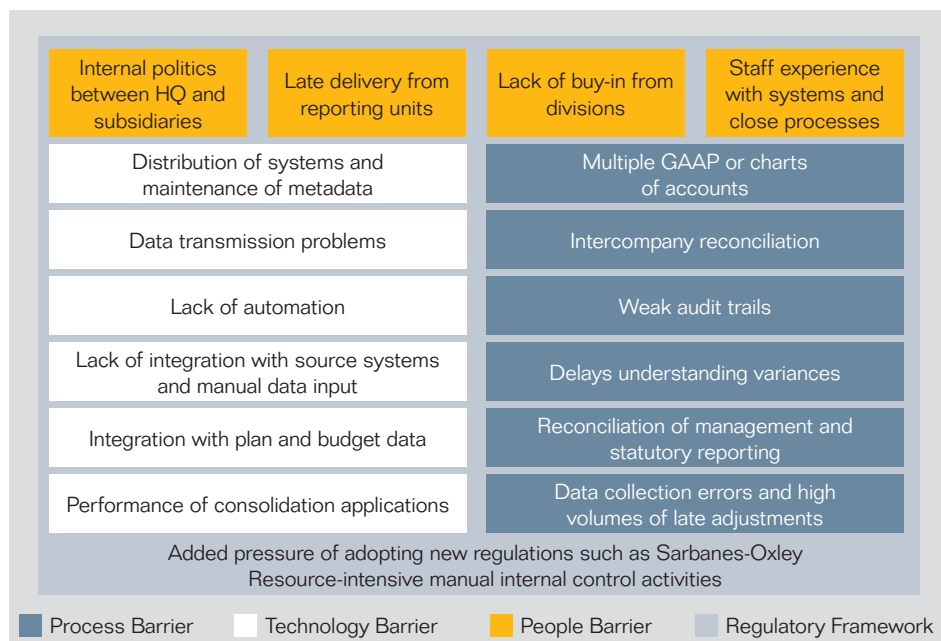


Figure 2: Frequently Cited Barriers to a Fast Close

7. Source: Fast-close survey conducted by Business Objects (now SAP) and *BPM Magazine*, May 2006.

Lack of Automation

The close process comprises multiple elements, many of which can be automated to speed the close process, reduce errors, and increase staff availability. Examples of key processes that can be automated include intercompany matching and elimination, consolidation of entries, currency conversion, ownership and control calculations for minority interests, equity elimination, cash flow, and GAAP conversions. Lack of automation and guided workflow also adds to the issues associated with staff that may be unfamiliar with business processes and reporting systems.

Weak Audit Trails

Not only an issue during the close process where central finance may seek to investigate and verify figures, the lack of strong audit trails also has an impact on the postclose audit sign-off. A detailed and automated audit trail from source to disclosure can be a key tool, especially when a close process features lots of late data changes and journal entries. More than 40% of respondents to the survey⁸ felt that improved audit trails were very important in reducing close times (see Figure 3).

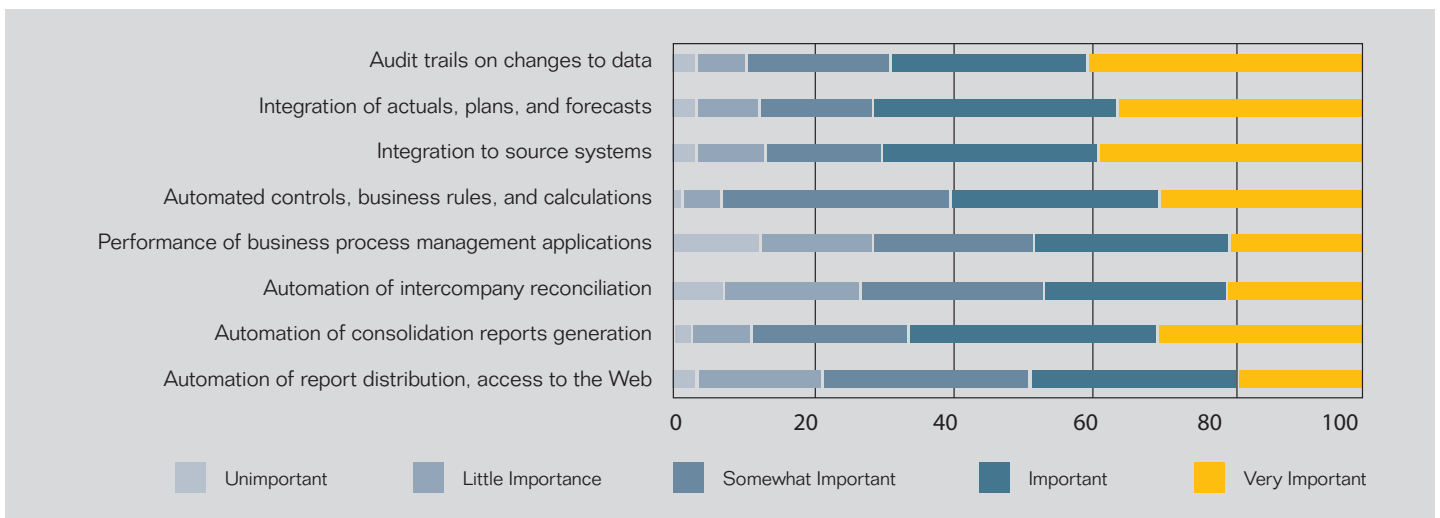


Figure 3: Importance of Factors Affecting the Fast Close⁹

8. Ibid.

9. Ibid.

THE ROLE OF TECHNOLOGY

LEVERAGING SOFTWARE FOR THE FINANCIAL CLOSE

Quick Wins and Long-Term Performance Optimization

The use of technology is key to facilitating wider people- and process-oriented change as part of your financial close project. Technology can be used to achieve both quick and big wins, and understanding your options is a critical part of project planning for the financial close. It's vital to align your use of technology with your organization's resources and needs, focusing on what can be achieved in a defined time frame. For example, the combination of implementing a standard chart of accounts in a new single instance of an enterprise resource planning (ERP) or general ledger (GL) application may be far too time consuming and expensive for even the largest and most technology-rich companies. However, the benefits of making improvements to an existing consolidation application or implementing a new functional and high-performance consolidation engine to collect and consolidate results are still achievable within the time frame of a financial close project.

We have identified several focal points to help speed your closing cycles. These can be achieved through improvements to current applications as quick wins, or by defining what you may need from future investments in performance optimization applications.

Peer-to-Peer Intercompany Reconciliation

Identified as a barrier to the close, intercompany reconciliation often sits directly on the critical path and takes far too long to complete, involving the head office in a complex communication process that ideally should be resolved among local operating units. By enabling Web-based peer-to-peer intercompany reconciliation, you can remove the process from the critical path. In addition, when operating companies can reconcile balances earlier in the reporting period, it becomes possible to dramatically reduce the number of staff days the process takes, decrease the number of errors, and easily enforce corporate policies.

While the majority of consolidation applications feature an intercompany component, these are often applied after the close and fail to improve the quality of the process or remove it from the critical path and, as a result, drive multiple iterations of the consolidation while adjustments are made. Applications are now available as stand-alone solutions or as part of integrated suites to facilitate online peer-to-peer intercompany reconciliation. They can often be installed alongside existing consolidation applications and, due to the centralized nature of their deployment, can be implemented very quickly and at relatively low cost, resulting in dramatic reductions in the close time and generating significant ROI.

Integration with Source Systems

In organizations where it's not possible to have a single-instance ERP or GL application, the integration of consolidation and enterprise performance management applications with underlying subsidiary systems is even more crucial. Establishing direct links to these systems – which can be automated as much as possible – not only speeds the process of loading data but it helps avoid costly mistakes and subsequent wasted time resulting from manual data entry, corrections, or errors associated with batch loading of comma-separated value files.

Establishing a mapping between various systems, while preferred, is also prone to error, as reporting structures and definitions of accounts vary among business units and change over time. Leading financial information management applications support mapping performed by business users, validation of destination data, and the ability to drill back to source data to mitigate risk.

Consolidation Applications

Consolidation applications play a key role in the corporate center close process. Although implementing a new application is not an undertaking to be taken lightly, the benefits for the organization in terms of improved speed, quality, and workflow offered can be significant. A new application provides a basis for implementing numerous quick wins as well as driving wider financial transformation where appropriate.

The following points are important when considering the role of a consolidation application in a fast, high-quality financial close process.

Data Entry and Validation

Integration with source systems to improve the way data enters the system is only half the battle. Data coming into performance management applications also needs to be checked and filtered intelligently based on the reporting framework and rules defined by the central finance team. GAAP presentation, required breakdown of data, and start and end dates are examples of automatic checkpoints.

By leveraging functionality in consolidation applications, it's possible to ensure data quality at every level of a corporate reporting cycle and guarantee that incoming data not only respects the timing and expected format but also "makes sense" and is consistent, complete, commented appropriately, and goes through the right auditable approval process. This leads to greater quality and a right-first-time approach to the closing cycle, which reduces the need for late adjustments and additional data submissions and speeds the review and variance analysis process by ensuring narrative is provided where required.

Consolidation applications enable you to monitor and record the performance of the various contributors to the close process. It's long been said that what gets measured, gets managed – and

that is just as true for the close process as for any other activity. By publishing statistics on the best and worst performers in the close process and by coaching and training in the areas that are identified as weak, you make the process a managed one, increase discipline, and carry out significant improvements to the close time.

High Performance

As the adoption of Web-based consolidation applications has increased over the past five years, so has the importance of their performance in the closing cycle. Not only are some applications limited to single-process consolidations, but the time it takes to perform a consolidation, multiplied by the required iterations and views in a close cycle, can add to the problem. Instead of supporting high performance, they become a major bottleneck. The performance of some applications is also greatly reduced when full audit features are turned on, forcing companies to sacrifice speed against auditability. By leveraging consolidation applications that allow and perform simultaneous consolidation processing yet don't require compromises on the audit trail, you can experience significantly faster consolidation times and run fewer iterations.

Process Automation

Because the industrialization of the close process is key to a successful financial close, the ability to automate as many processes as possible is extremely advantageous. Applications

that centralize data and metadata management, automate business rules, and interface with source systems are a start. Leading applications, however, take automation to the next level by introducing financial intelligence, which further speeds the close cycle by using built-in rules logic to automate consolidation entries. Because such applications also understand the life cycle and challenges of finance departments, they can handle multiple reporting channels with different charts of accounts and different account flows or analysis dimensions over time. They can also manage the retention of past reporting frameworks so finance professionals can safely adapt to ever-changing financial needs without having to copy and paste, rebuild, or destroy their previous reporting scenarios.

Ease of Use

Lack of buy-in from divisions into the processes at the corporate center is often caused by requiring divisions to follow resource-intensive manual processes or use applications that are unfamiliar, nonintuitive, or nonsupportive of local reporting requirements. Leading consolidation applications overcome these challenges through extensive use of familiar tools such as Microsoft Office combined with straightforward business process flows that guide users through the key stages of the business process, ensuring that they are followed consistently throughout the enterprise.

“Once CPAs achieve greater efficiency in the way they produce business information, they can more quickly analyze and confidently expose the more relevant information to managers, stakeholders, and others for better-informed decision making.”

Mike Willis, CPA, Founding Chairman of XBRL International and Partner,
Pricewaterhouse Coopers

Ad Hoc Analysis and Reporting

Enterprise stakeholders require more analysis based on complex models and in shorter time periods. The ideal application for your company should support data entry and validation, automate business processes, provide advanced search functionality, be flexible enough to enable business users to perform ad hoc query and analysis, and perform at a speed to meet your needs. A single application may not be able to meet all your ad hoc analysis and reporting needs in real time. So it's important that whatever application you choose can integrate with a business intelligence platform that can provide the additional functions you require.

A business intelligence platform can provide advanced search functionality that enables users to identify key metrics and trends hidden in hundreds of internal and external resources, such as structured databases, unstructured company and text content, and the Web. A business intelligence platform can help you deliver information to users on a near real-time basis, with information updates occurring automatically from the underlying consolidation applications. With immediate availability of information during the financial close process, business users can leverage the ad hoc analysis and reporting tools

available to them to perform more in-process analysis, thereby increasing insight and further contributing to reducing the time needed for the financial close.

Automated Internal Control Processes

As global regulatory mandates multiply and grow more stringent, manual approaches to control activities are becoming untenable. By embedding automated controls into your financial close process, you can move away from resource-intensive manual control activities to address critical business risks. A rationalized set of automated controls ensures that your organization can meet compliance mandates in the most timely and cost-effective fashion while optimizing operational efficiency. Leading financial management applications for governance, compliance, and risk (GRC) provide a risk-based approach to establishing a control environment and identifying the most effective and efficient controls for business processes and cross-enterprise IT systems. They reduce the cost of compliance by streamlining and automating control processes, including automated controls with “lights-out” control testing, to accelerate time to compliance.

An additional critical piece of the compliance process relates to the proper

segregation of duties and access control over key information assets – one of the most effective safeguards against fraud and a prerequisite for regulations like Sarbanes-Oxley. It is also one of the most difficult controls to deploy and sustain, given the thousands of users, roles, and processes that require access and authorization evaluation, testing, and remediation. Leading GRC management applications offer a comprehensive set of access controls that identify and control access and authorization risks in cross-enterprise systems to prevent fraud and reduce the cost of continuous compliance and control.

Close Process Monitoring and Scheduling

Process automation and workflows within the consolidation application help reduce the amount of time spent on lower-value activities. However, as organizations become more complex and as compliance regulations add to the number of steps required in a close process, the need to control and manage all of these steps across the entire close and applications involved becomes more important and even more challenging. You can gain significant benefits from creating a complete overview of the status of a closing cycle, its critical path, and the execution of the processes and steps. It helps you establish a closing calendar, track hundreds of tasks, dependencies, milestones, and approvals across entire company, and enforce deadlines. The additional automation and greater collaboration improve coordination and increase staff productivity for enhanced compliance and greater transparency.

SIGNIFICANT GAINS ARE WITHIN REACH

YOUR FINANCIAL CLOSE ACTION PLAN

Understanding the drivers for a close, the barriers you face, and the technology options open to you is important – but that’s only part of the solution. A financial close project, like any other corporate initiative, requires a structured approach with a methodology that’s supported by people, process, and technology; is manageable; and has clear but realistic objectives. A full financial close project can, and in most cases must, extend beyond corporate-centric processes and functions (although the focus of this paper, as a whole, is on those driven by the head office). That being said, the project

doesn’t necessarily have to result in a major change program and – provided you structure your approach, deliver the appropriate and sponsored resources, and manage the project – it’s possible to make significant gains relatively easily.

A Four-Stage Action Plan

To a large extent, the principles are no different from any other large change management and implementation project. As shown in Figure 4, you can take an incremental approach to developing an action plan.

In the first stage, for example, you create a vision, review your technology and processes, and identify “quick wins” and “big wins.” Some of the questions you have to answer are, “What’s the target?” and “What’s the worth to us to meet the target?” From here you map your existing financial close process, including key dates and durations, to identify your critical path and the challenges. For example, you could look at the time it takes to submit packages from reporting units, the time to complete the consolidation process, and the time to announce the final

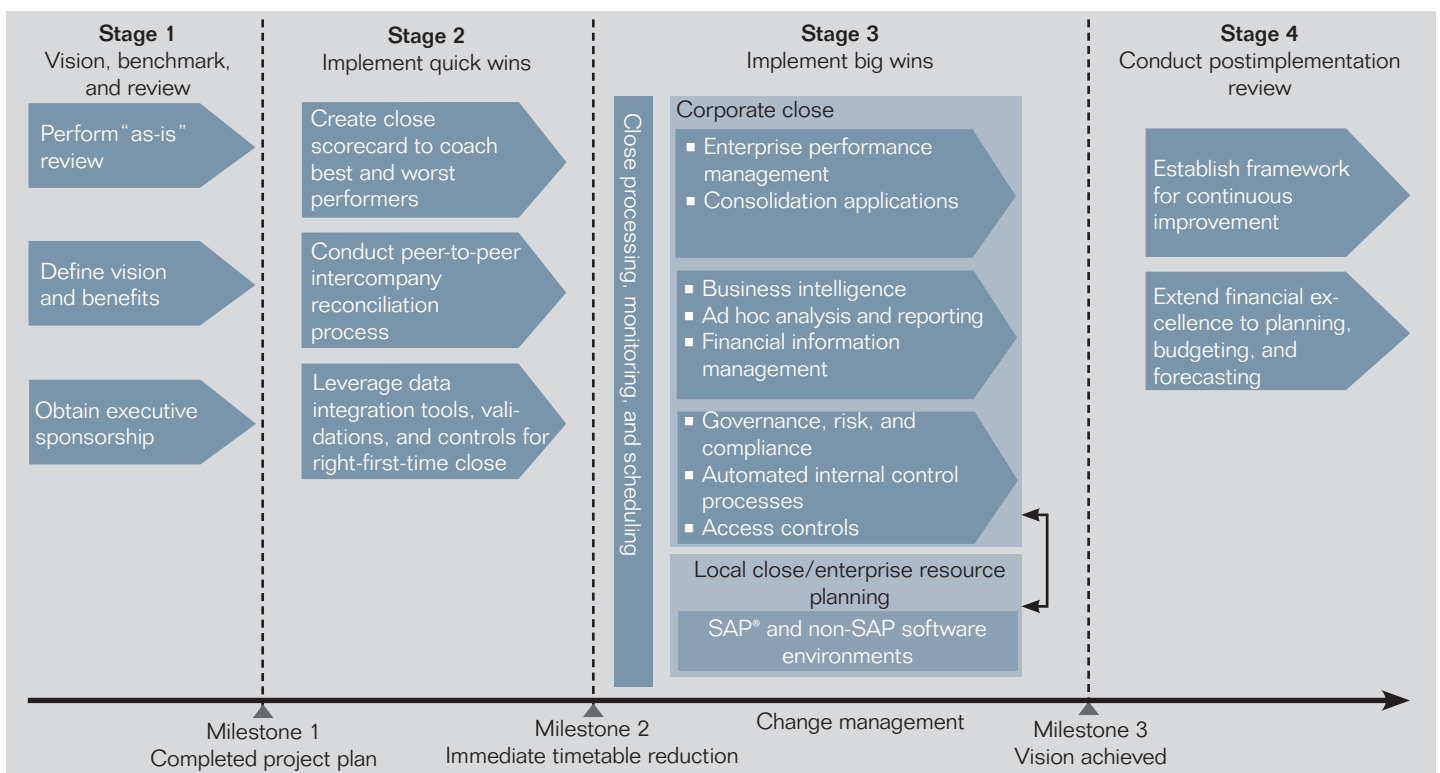


Figure 4: Example of a Financial Close Action Plan

The term “financial close” describes a corporation’s ability to complete its accounting cycles and produce financial statements for internal management and external legal reporting. The requirement to close books quickly and with quality is emerging again as an important project for today’s global finance function.

consolidated figures. Senior sponsorship on project objectives and the resources required to achieve them are key to success.

The second stage is the implementation of your quick wins. These serve to produce almost immediate timetable reductions, demonstrate that time savings are achievable, and put people into a positive and determined frame of mind for delivering the bigger wins. The key here is to understand that not all of the barriers to a close require huge amounts of effort – in some cases, you can easily make very significant gains, provided your consolidation solutions are robust and flexible enough. The trick is to evaluate the options open to you and prioritize them according to the amount of time and effort needed to implement and the size of the impact on your close cycle. Those with the least required effort but maximum impact are the most attractive and should be your quick wins.

Examples of quick wins include:

- Reviewing intercompany reconciliation processes to take them off the critical reporting path
- Developing mechanisms within your consolidation applications for the validation of data at the source, including the submission of supporting commentary
- Resolving data transmission bottlenecks and data submission policies during the close process
- Establishing the close process as a managed one by using the workflow functionality of your consolidation tools to publish tables of the best and worst performers and then implementing coaching processes to improve performance

Assuming that the quick wins by themselves cannot lead you to achieve all your targets or that you’re unable to implement them given your current systems, you then move on to third stage, the big wins. These require greater resources and more time but often lead to big reductions in the close process.

Examples of big wins include:

- Establishing a standard chart of accounts across the entire enterprise. Although this can bring many benefits, including timetable reduction, it can affect every GL in every subsidiary – and it’s a major undertaking.
- Implementing new consolidation software where existing applications were unable to deliver suitable quick wins or provide a sustainable infrastructure for the fast close in your organization
- Harmonizing packs and processes across reporting cycles. Standardizing on the same data flow each month helps to avoid discrepancies and reduces timetables because the increased volumes this standardization typically produces forces subsidiaries into automating processes and standardizing their own systems. The end result is often better data quality and shorter timetables.
- Establishing a new reporting framework for all stakeholders involved in the financial close process to provide a broader range of possibilities and greater depth of analysis
- Where manual data entry processes exist, replacing them with direct integration between source ERP or GL applications and enterprise performance management applications
- Establishing a control environment identifying the most effective and efficient controls for financial close processes and then streamlining and automating them to minimize the compliance burden

- Developing a framework to monitor and control the entire close process from local close activities in an ERP application through to final statement production in consolidation applications

A key consideration – and the final stage in the action plan – is continuous process improvement. Once you have identified a fast financial close as a priority, each time you review a process or supporting technologies for enterprise performance management, you do so in such a way that continues to support and challenge the close process.

Finally, it is important to note that the benefits don't have to stop at the financial close. Much of the learning can be applied to other key processes. You can apply the same type of methodology – challenging the way you do things, taking a holistic approach, and leveraging technology – to other processes, such as planning, budgeting, and forecasting. In fact, 72% of respondents to the Business Objects and *BPM Magazine* survey feel that integration of actuals, plans, and forecasts is important or very important in reducing close times (see Figure 3).

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