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# The relationship between the Fast Close and CPM—more than distant cousins

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Information Management

In recent years the focus of group reporting has been on the speed with which listed companies are able to announce their results, encouraged by external benchmarks which rank organizations according to the number of elapsed days to their earnings announcement or publication of audited results. Speed of reporting is used by the markets as a proxy for good governance and upper quartile performance in the race to make earnings announcements publicly available is widely regarded by the markets as an indication of a tightly run ship and a management team that is in control.

Even though the pursuit of an efficient close process, the "Fast Close", is a laudable objective in its own right, there are other compelling reasons to hasten the quality and timeliness of management and statutory reporting processes. Over the years, management and statutory reporting have become increasingly intertwined. Indeed, the thrust of recent regulation around the world has been to put shareholders and investors in a similar position to company executives so that they are not disadvantaged when making investment decisions.

A further regulatory trend has been to tilt the balance of reporting from historic accounting to forward looking projections. After all, the share price of a company embodies what the markets believe is going to happen to a company in the future - for those with a mathematical bent, it represents the present value of future earnings.

A closely related matter is the need for Boards of Management to report on trends and factors likely to affect future performance. This brings into play a number of other management processes around strategy setting, planning, budgeting and forecasting. In essence these core financial processes encapsulate management's expectations for the future over different planning horizons. But it is only when actual performance is compared to planned performance that it is possible to discern trends and gain deeper insights into an organization's prospects for the future.

In practice, this is achieved through a Corporate Performance Management (CPM) regime. Performance Management is an amalgam of management methodologies, business processes, software tools, technologies and applications that provide for the development and communication of business strategy, the alignment of corporate resources in accordance with it and the monitoring of outcomes so that management can take action to ensure its success. It is sometimes described as a closed loop process because the business insights gained from constant monitoring and analysis of performance are subsequently used to refine the long term strategy – closing the loop.

The process starts with the development of strategy and long term plans from which performance measures are derived and embedded in operational budgets and scorecards which are monitored, analyzed and reported on against actual results.

The results of these analyses are used to inform and refine the business plans which are adjusted before the whole CPM cycle starts again.

Clearly, the efficient collection and consolidation of financial performance on a regular basis is the 'engine' of a corporate performance management regime. Monthly actuals provide the baseline for comparisons against budgets and forecasts, enabling business management to use forecasting applications to turn passive historic data into actionable information about likely future performance. No matter what methodology is used for budgeting and forecasting, scorecarding, dashboarding and reporting, the efficient delivery of actuals remains a constant requirement of an effective performance management regime. The faster the close, the more quickly that management can turn its attention to measuring progress, remedying underperformance and achieving the goals it has set.

Speed remains of the essence. Boards of Management need to have their 'fingers on the pulse' of their businesses at all times of the year, rather than just quarterly intervals. Narrative reporting regimes in Europe and elsewhere point to the need to disclose material matters affecting performance soon after they arise, as well as to achieve a balance when commenting on trading performance.

Implicit in this performance management paradigm is that the group reporting processes all share the same processing environment. More particularly, all performance management applications should share the same metadata (for example, structural information about accounts and business entities) so that information used by any application can be shared with another and has the same meaning, giving rise to the much Hackneyed phrase, "One version of the truth". For example, a "sales revenue" account should have the same meaning whether it is referenced in a finance portal, a dashboard, a scorecard, a budget or on a report of year-to-date actuals.

The requirement for more comprehensive, immediate and balanced commentary means that management can no longer permit the statutory and management close process to operate in a vacuum. The CPM model of performance has become crucial to effective management and the speed and integrity of the Fast Close process represents the foundation for success.

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### About the author

Gary Simon, Group Publisher of *FSN* and Managing Editor of *FSN Newswire*, is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 25 years experience of implementing management and financial reporting systems. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex financial reporting and information management assignments for global enterprises in the private and public sector. His latest book, "*Fast Close to the Max*®" is now available from FSN Publishing Limited.

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