Priorities for Improving the Financial Close: Don't Forget about Reporting

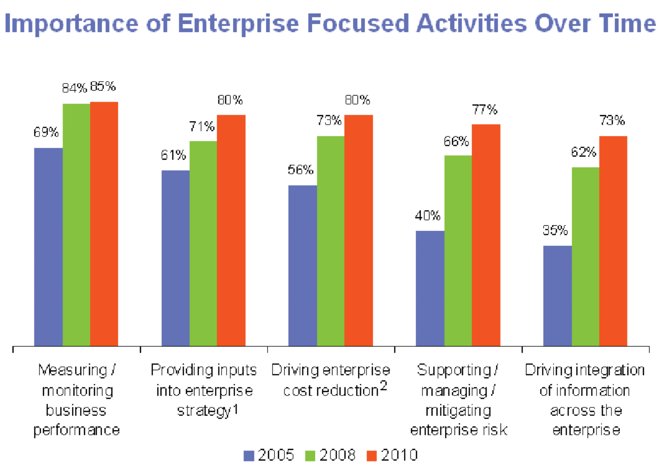
Kathleen Wilhide

Introduction

Reporting has always been among the primary duties of finance. Unfortunately, reporting presents an ongoing challenge for many finance organizations. Reporting system challenges manifest themselves in data quality and accuracy issues, internal control and audit issues, accounting standards that vary by region, and in the preparation and delivery of both structured and ad-hoc reports. When one considers the demands of internal and external audiences, as well as the volatile nature of today's economic and business climate, it's no wonder there is constant, unrelenting pressure on finance teams to deliver a steady flow of reports and analysis to decision makers and stakeholders.

In fact, the enterprise activities that drive or support reporting and analysis continue to be top of mind for senior finance executives. The IBM 2010 Global CFO Study found that measuring and monitoring business performance has been a top concern for CFOs for the last five years (2005-2010).[1]

It is with these pressures in mind that we present this discussion paper.



Source: IBM 2010 Global CFO Study

Consolidated financial data represents the ideal starting point for reporting. Typically, a best-in-class consolidation process identifies the standards for information delivery with a standardized chart of accounts, legal and business entity definitions, along with appropriate version and time comparisons. And an investment in renewing the financial consolidation process can help drive effective change management into related reporting systems and more generalized financial and operational reporting.

However financial consolidation systems need to deliver the financial reporting and analytics that agile finance organizations need in order to drive performance in their companies.

Our goal then with this discussion paper is to share a vision for transforming the close, consolidate and report process into much more than a mechanism for creating accurate and certified financial statements. Modernizing the consolidation process and freeing the financial results for use with enterprise business intelligence opens the door for timely, efficient financial and business reporting. The intersection of consolidated financial results with operational data, enterprise delivery capabilities and the methodologies of business intelligence creates an integrated framework for standardized reporting and analysis that enables finance teams to not only manage their ongoing reporting needs, but to adapt to the new data and real-time analytics so important for providing insight in today's business environment.

Delbert Krause
Director, Product Marketing
IBM Software
Business Analytics

Perspective

Improving the financial close process is nothing new. For the last 20 years, organizations have made investments to do just that – from ERP accounting systems to financial consolidation software. Despite these investments, more than 90% of organizations still rely on spreadsheets to gather information from disparate financial systems and perform variance analysis on financial statements, compiling information from multiple sources.

The requirement for transparency in financial statements is non-negotiable, and this starts with the financial close process. Financial consolidation software solutions have certainly improved the process, driving organizations toward a more consistent chart of accounts, and supporting period end processes such as allocations and inter-company eliminations. However, when looking at the actual activities that finance employees perform each month, it is clear that there are still significant gaps.

This paper provides a realistic view of the use of technology to improve the financial close and reporting process and achieve increased quality, accountability, auditability, efficiency and ultimately, regulatory compliance.

Support for the Financial Close

The financial closing process represents a key corporate governance process and the ultimate set of controls over financial results. While transactions represent the results of operations, it is up to finance to execute control reviews and analysis processes to validate transactional information, identify potential errors or misstatements, and put the seal of approval on financial results. For many organizations, the number of information interfaces, period end journal entries, validation and analysis activities, and consolidation of results equates to several hundred sequential steps performed to close the books, ideally in the fewest number of days possible in order to release results on a timely basis.

Despite the importance of the financial close as a key corporate governance process, the resources, or "toolbox," that finance typically uses to execute this process is less than strategic, and focused on filling technology gaps, with the norm being:

- Multiple general ledgers and disparate transactional systems with inconsistent data structures that must be mapped to a consistent reporting format;
- A lack of visibility to the status and execution of the closing process, and the related tasks and evidence gathering performed by finance, with the knowledge of these processes in the heads of just a few employees;
- Limited reporting capabilities that have propagated spreadsheet-based reports that house critical financial results which are the company's "corporate records." Spreadsheets are further used to support multiple manipulations of the same data over and over to meet various reporting requirements, with weak controls as to accuracy, approvals, and tracking of recipients

When taking a deeper look at the risks and opportunities within the close process, dealing with reporting and analysis issues is where organizations have the best opportunity to achieve both greater efficiency and reliability.

Optimizing the Financial Close Process

In order to optimize the financial close process, organizations should match the key activities that drive the actual close process with technologies that provide process support as well as information integration. With increased scrutiny of the financial close as a key internal control process, providing assurance over the internal controls that govern the close process must be considered as well.

Figure 1 outlines the key phases of the financial close process at a high level. During each phase, and as a prerequisite to moving to the next phase, analytic activities are performed to validate results. These manual, spreadsheet-based processes are 'internal control' reports that provide the analysis of information required for assurance during the financial close. This process of validating information with manually compiled analytics is time consuming, resource intensive, and error prone, and presents critical control implications for financial reporting, and ultimately business decisions.

Most financial consolidation systems integrate information at a high level, automate period-end activities such as eliminations, and produce summarized income statements and balance sheets with limited analysis capabilities. Detailed analysis, variance reporting and management reporting take place outside of the consolidation system. Analytic reporting – a key capability on which finance professionals spend most of their time – is missing.

Modernizing the Financial Reporting Environment

When a strategic goal is to modernize the financial reporting environment, a best practice is to invest in a solution that will meet financial consolidation analytic requirements, statutory financial reporting, and provide the information platform for performance management and decision support.

Leading finance users consistently highlight the following areas where automating the financial close drives value and a corresponding return on investment (ROI).

- Process improvements – fast close, real-time reporting, shorter planning and re-forecasting cycles.
- Efficiency – less manual effort required for reporting and analysis
- Reliance – more accurate and timely information available to more users
- Audit efficiency – reduced resource requirements and cost of annual and quarterly audits.
- Finance ownership – a solution that is owned by finance and easy to use, with less reliance on IT.

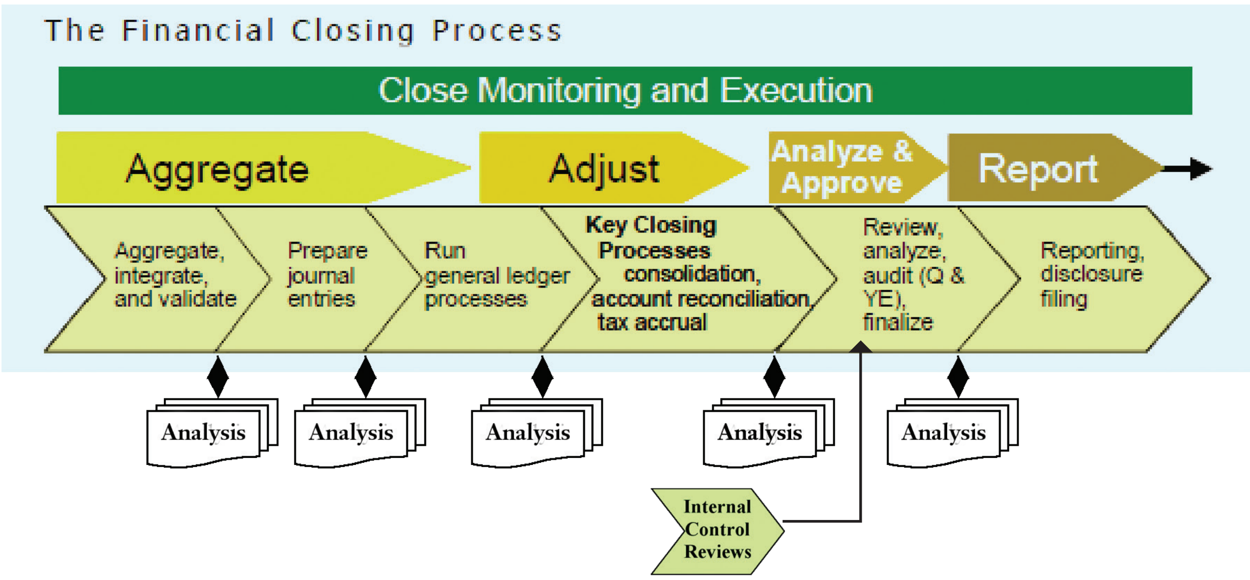


Figure 1
Source: Better-Insight 2010

Unlocking this value can be achieved through the capabilities of the underlying platform that supports financial consolidation, as well as other enterprise performance management (EPM) capabilities such as planning and budgeting, profitability reporting, and key performance indicator (KPI) reporting. These platform capabilities include:

- Real-time data – create a financial reporting foundation that supports the financial close as well as extended financial reporting and analytic needs. This requires a near-live feed of data that are snapshots of any point in time during the closing process.
- Reporting and usability for a broader audience – ensure the reporting system can support the management reporting needs of finance as well as those users who can help determine the validity of information resulting from operations.
- Spreadsheet use – acknowledge that spreadsheets will not go away, and provide a more controlled environment for spreadsheet use, such as a connected spreadsheet user interface, and control/audit capabilities.
- Performance management support:
  —Early-warning alerts – supported by the real time nature of the reporting system.
  — Integration with planning and budgeting – a key variance analysis step, and support for what-if analysis and re-forecasting.
- Multidimensional analysis – evaluate results and drill down to the details from key perspectives such as organizational unit, product, or account, which provides dual benefits of financial reporting aligned with decision making.

The combination of a robust information management platform that provides consistent data, integrated with performance management solutions such as financial consolidation and planning/budgeting, provides a foundation of flexibility to support reporting and decision-making across the organization. This is a trademark of high-performing organizations as evidenced in Figure 2, excerpted from a Hackett Group study that correlates organizational performance with investments in information management.

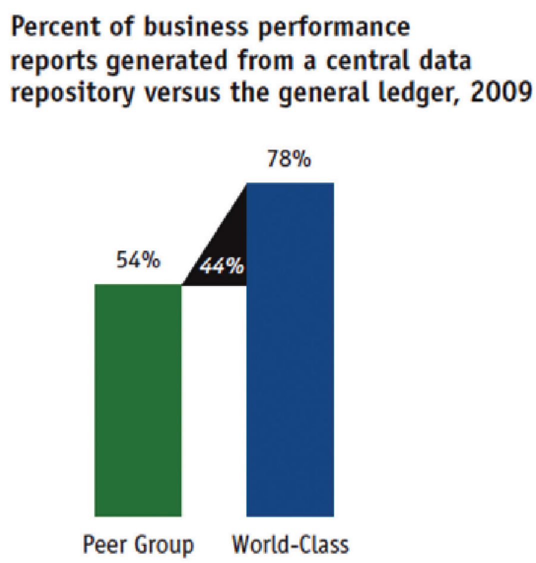


Figure 2
Source: The Hackett Group, 2009

The Hackett Group has highlighted actions that finance can take in the near term to deliver greater effectiveness while reducing costs, which include "Rationalize management reporting volumes, automate standard reporting and enable self-service 'pull' reporting;… Streamlined management reporting volumes and processes allow the Controller's organization to focus more on interpretation and analysis." [2]

A Holistic Approach

A holistic enterprise performance management (EPM) approach provides a platform for consistent information and analytics, and optimizes financial and performance management processes. This approach can deliver benefits in the long term that far exceed disparate investments in point solutions.

CFOs have the opportunity to create competitive advantage for their companies by providing EPM capabilities that advance the role of finance as a strategic business partner. An EPM platform translates financial goals into operational plans and performance metrics and provides the analytics to drive business outcomes. Armed with these tools, finance moves away from a departmental silo that merely manages budgets or closes the books.

An example of this dynamic is in place at a large telecommunications firm. Investments made in an EPM platform include sophisticated profitability reporting and analysis that is delivered to operations and supports product decisions, regulatory activities and mergers and acquisitions activity. When a decision was made to move back to providing this information through the ERP general ledger, there was a revolt by operational lines of business, which then did not have the tools to manage their business. The profitability platform was quickly put back in place and is being expanded.

"The decision to move back to providing profitability information through the ERP general ledger led to a revolt by operational lines of business, which then did not have the tools to manage their business. The profitability platform was quickly put back in place."

The Way Forward

There is no single formula for optimizing performance management. However, research shows that there are key EPM initiatives that successful companies have consistently taken that result in sustained value creation, finance excellence and high performance.

- **A common EPM platform for fast decision-making** provides the foundation for establishing strategic direction and performance targets, monitoring progress, and adapting to changing business requirements. The key to more effective decision making is speed, which is enabled by easy to use, integrated performance management and management reporting solutions.
- **Dynamic performance monitoring supported by flexible planning and resource allocation** enables organization to assess the impact of business drivers and optimally allocate of resources to opportunities that maximize value creation.
- **A market-based approach to setting performance targets** is a trademark of world class companies that have an outside-in discipline for internal planning processes, incorporating external benchmarking and competitive intelligence to drive strategic direction
- **Quick and timely performance monitoring and analysis** gives employees the information to make decisions and act more quickly than competitors.
- **A closed-loop performance process** that links corporate and lower-level management results of operations drives accountability and enables quicker changes in direction when required.

Investing in a financial consolidation solution is a first step toward a comprehensive EPM approach. This provides the foundation for an integrated management framework that replaces the data silos of inconsistent information and provides the analytics needed to draw actionable insight. By selecting a solution that integrates reporting and analysis and performance management capabilities, a significant step is taken toward a holistic performance management process. In the long term, this is the low cost approach to put performance management processes in place that will maximize financial return.

CFOs can improve financial reporting and performance management processes, as well as credibility, by becoming information advocates, with the goal of taking performance management to the next level. World-class EPM capabilities can make the difference between market mediocrity and the value-creation required to achieve high performance. Going forward, strategic and integrated EPM investments will enable organizations to tap into information assets and drive current and future value.

About the Author

Kathleen Wilhide is an industry analyst and the founder of Better-Insight LLC. With a CPA and more than 20 years of experience in the fields of Governance, Risk and Compliance (GRC) and Performance Management, Ms. Wilhide has served as director of the solutions practice at worldwide research firm IDC, where she directed research on software solutions supporting GRC and related business assurance processes. Ms. Wilhide has also directed research on Performance Management applications, with a focus on enabling finance and corporate governance through technology. Ms. Wilhide may be reached at kathleen.wilhide@better-insight.com

About IBM Business Analytics

IBM Business Analytics software delivers complete, consistent and accurate information that decision-makers trust to improve business performance. A comprehensive portfolio of business intelligence, advanced analytics, financial performance and strategy management and analytic applications gives you clear, immediate and actionable insights into current performance and the ability to predict future outcomes.

Combined with rich industry solutions, proven practices and professional services, organizations of every size can drive the highest IT productivity and deliver better results.

For more information

For further information or to reach a representative: **ibm.com**/cognos

Request a call

To request a call or to ask a question, go to **ibm.com**/cognos/contactus. An IBM Cognos representative will respond to your enquiry within two business days.

Endnotes

[1] IBM Institute for Business Value, The New Value Integrator: Insights from the Global Chief Financial Officer Study, March 2010
[2] Seven Actions Controllers Should Take Now to Prepare for 2010, The Hackett Group, August 2009

IBM Canada Ltd.
3755 Riverside Drive
Ottawa ON K1G 4K9
Canada

Produced in Canada
April 2010

P24377

YTW-03023-USEN-00