Five signs that your financial close process may be broken

(And what you can do about it)

In many accounting and finance departments, the close process is treated like a cantankerous old car—if you know its secrets and handle it with kid gloves, it runs great. But introduce an unexpected element, or run into a pothole, and it begins to show its age. For many CFOs and other finance leaders, this isn't news. They've tiptoed around the close process for years, careful not to break anything, and content simply to finish the process month after month—by any means necessary.

Why does the close process remain so brittle, for so many? It's massively complex, for starters, and marked by interdependencies that cross time zones and divisions. Pull a lever in one part of the close process, and it may trigger not just one, but several related actions in response. For that same reason, it's easy to conclude that making improvements to one aspect of the close process is more trouble than it's worth, given the domino effect it could have throughout the entire process.

It's also true that the close process is often run by institutional memory rather than clear and specific protocols—different people involved in the process "just know how things get done." But as businesses grow and evolve to meet new opportunities, the same old ways of doing business aren't enough—and CFOs know it. They need a close process that moves more quickly, in an environment where many are judged by how quickly decisions can be made. Meanwhile, they're reluctant to invest in changes that will improve the process, deliver more value, and reduce the number of days it takes to close, because of concerns about cost. But at this point, avoiding these problems may actually cost more than fixing them.

Still, it can be difficult to know when the close process is broken and in need of fixing—and when it's simply experiencing growing pains that will subside with time. For many, it seems easier to do nothing and stick with the status quo—but at what cost? In this article, we've identified some of the warning signs that your close process may be near the breaking point. In each case, we've also included some thoughts on how to get it back on track, based on hands-on experience helping finance leaders tackle similar challenges. Here's a closer look.

1. No defined close process

The close process is often run by institutional memory rather than clear and specific protocols. Different people involved in the process "just know how things get done"—and have done it that way for years. A loose list of the tasks that need to be accomplished are kept in spreadsheets, which often aren't shared across geographies or divisions. Whether the tasks are completed is anyone's guess—they aren't tracked and benchmarks aren't set.

The result? Without visibility into the bottlenecks constraining the close process, when controllers are asked by the CFO how the process went, the answer is often "well, it's done." For many, a daily conference call with different stakeholders across the process offers their only visibility into what's going on.

Technology can help, but not before the close process is documented and tracked. It's impossible to automate processes without a clear understanding of dependencies, task duration and more. Each task in the close process needs to be assessed as to its value and reason during the close process. "It's always been done that way" is not a value-adding reason.

2. Not enough automation

Automation brings clear benefits to the close process in terms of efficiency, transparency, and speed. In finance organizations that are lacking automated capabilities, tasks are often delayed simply when a key member of the team is on vacation or out sick. Another warning sign is continual delays on mundane tasks due to competing priorities—when the finance organization can't walk and chew gum at the same time, it may be time for a gut check on automation.

For finance leaders looking for ways to build more automation into their processes, typically the place to start is often with mundane, repetitive tasks—areas where it's relatively easy to make a noticeable impact quickly. Allocations, for instance, or calculating depreciation, or posting manual journal entries into the general ledger—these are tasks that happen month after month in virtually the same way, and are ripe for automation. Today, tasks like these may largely be handled by manual spreadsheets, which are shared, updated, re-shared, and re-updated ad infinitum. Automation tools allow electronic signoffs and can kick off certain automated tasks such as batch processes.

While CFOs and other finance leaders generally understand the potential impact of automation, many remain leery because they feel their own processes are so unique that automation solutions would never work without massive disruption and investment. In truth, it's possible to take a measured, step-by-step approach with tools like SAP Financial Closing cockpit. Tools like these can help companies introduce a new level of rigor into their close process, while realizing efficiencies that may have seemed far-fetched before.

3. No access to real-time data

Does your team encounter frequent surprises at month-end? If so, you're not alone—many finance organizations only have access to accurate data at the end of the month, following the massive push to upload data into the network of systems that feed into the closing process.

Why wait until month-end for access to numbers? Business decisions don't wait until the end of the month. If that's the only time business leaders have access to data, they'll simply make decisions without having all the data-based facts they need.

Of course, if delivering access to real-time data were easy, finance leaders would have done it a long time ago. Lately, CFOs and their peers have been making headway in their efforts to deliver real-time data to the business, supported by new technological capabilities. But technology isn't the place to start—processes hold the key. Start by isolating processes that tend to happen once a month, only during the close. While there are often legacy reasons that they occur late in the close, today it's possible to push many of them earlier in the close cycle, while also increasing their frequency. Maybe they can happen once a week or even once a day, rather than once a month. After reviewing and identifying the processes that are most likely to drive smarter decisions, it's a matter of determining which technology can bring them to life.

Technology tends to play a big role in this transition, especially when multiple, disparate systems are used in the close. It's difficult to deliver real-time data with disparate systems, which is where standardization comes into play. Once you can marry the technology to the process, finance moves closer to the continual close, in which data is updated routinely and readily available—whenever decisions call for it.

4. Poor integration with plan and actual data

Budgeting is typically a once-a-year activity, which can make it difficult to change course and adjust forecasts throughout the year, when the business itself is evolving. Just as important, this process is often handled by one group within finance, while those who handle the actual numbers day in and day out function separately. All of which can have a negative cumulative effect when business conditions demand nimble action.

Integrated planning—combining strategic, operational, and financial plans– has long been a goal of finance leaders. When they couldn't trust the underlying data because it was so frequently inaccurate, those leaders put those plans on ice. Additionally, they didn't have access to systems that could share information between silos—the sheer amount of data required across silos was a challenge. Plus, there are silos between actual and plan data, which must be combined for the purposes of variance reporting.

The story is different today, however. It's possible to manage large volumes of data—and all their points of connection—with little difficulty. But that requires that the teams who "own" that data are prepared to collaborate with one another, and have processes in place to do so. In many organizations today, that's a stretch. But it doesn't have to be. Process-level collaboration becomes a lot easier when the underlying technology lays all the groundwork.

5. Manual creation of Financial Statements

Whether a company is publicly or privately owned they are required to create financial statements, for a host of reasons. This process is often referred to as "the last mile of finance."

The typical process for the creation of such reports involves a lot of cutting and pasting. Take last month's report, "save as," find-and-replace to update the closing time and date, and so on. From there, users tend to copy and paste data from the current period to the prior period, updating the current period data accordingly. Someone "owns" this document and solicits different bits of data from different colleagues.

The problems inherent in this approach are obvious. For starters, it's difficult to keep track of multiple versions or to know who changed what, and when. Inevitably, a number changes at the last minute—causing a ripple effect in which the whole document must be reviewed to ensure that the number changed in all other instances. The approval process also relies on manual processes, and in many organizations executive leaders are expected to sign off on manual hard copies, which are then stored for audit purposes.

In short, it's a manual process that is booby-trapped with opportunities for manual errors. Meanwhile, these reports are the company's face in the marketplace, available for the whole world to see.

Today, software vendors offer "disclosure management" solutions such as SAP Disclosure Management to address the pains around this manual process, allowing for electronic signatures and tracking work flow for audit purposes. These tools centralize the data that is included in the documents and allow for automatic updates of data. Doesn't that sound like a smarter approach?

In the end, this is a story about process. Some finance organizations have no process at all—they just do what they've always done. Many have a clearly documented process—one that gets dusted off only when someone is asked whether or not such a thing exists. This is a far cry from what is needed from the modern finance organization, which is expected not only to oversee a faster, more efficient close, but to deliver more insight to business leaders—not just at the end of the month, but on a continuous basis. All of which require another level of planning and transparency.

Let’s talk.

Our Accelerated Close package of solutions can serve as the foundation for finance organizations looking to step up their game on the close process. It comes hardwired with best practices established by some of the world’s leading finance teams, crossing the boundaries of both industry and geography. Just as important, it’s flexible—different components can be implemented at different times, and can be dialed up or down as needed. Comprised of SAP’s finance-focused tools, along with Deloitte’s leading insights into the finance organization, Accelerated Close can help bring your organization to the next level. If that sounds interesting, let’s talk.

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