CFO Insights

The case for a close czar

It's mid-March, two weeks before the end of the first quarter (if you're on a calendar year, of course). How close to the end of the month will you close your books? Will the numbers be correct? Will your finance team survive unscathed?

If these questions give you pause, you have plenty of company. The evidence, in fact, suggests that the close process at many companies is far from efficient. In a recent poll taken as part of Deloitte Dbriefs,[1] for example, some 1,700 respondents were asked just how effective their close process really was. And even after substantial investment in enterprise resource planning (ERP) systems and the focus on "virtual closes," only 22% said they had a process that was clearly defined, managed, and efficient, and only 16% said they had real accountability and ownership.

In this issue of *CFO Insights*, we will outline what may still be wrong with the financial close, what the telltale signs may be that your process is broken, and make the case for why a "close czar" may be the answer to keeping your monthly close on track.

Why the close remains a problem

Over the years, there has been much attention paid to fixing the financial close. ERP systems were supposed to automate everything from general-ledger entries to specific metrics. Some companies took it so far as to promote a "one-day close" or even a "virtual close," whereby finance was promised an instantaneous "close and disclose process." And process improvements were intended to limit the drudgery of the monthly close so the finance team could actually analyze the results.

Yet, despite multiple technology and process improvements, plenty of financial closes are invariably broken. Specifically, they are either a) **endless**—meaning the process can take more than 10 days after the month has ended; b) **wrong**—the close may happen in less than 10 days, but the CFO may not get the needed information or the information is not correct; or c) **exhausting**—again the company may close in less than 10 days, but the ordeal can come at the expense of its finance team members, who have to work long and tiring hours.

Why is it so hard? There are several factors. For example, the current day-to-day challenges have increased due to the need to comply with regulations such as the Sarbanes-Oxley Act, International Financial Reporting Standards (IFRS), and eXtensible Business Reporting Language (XBRL). In addition, manual tasks still consume much of the close time—so much so that 36% of respondents named it their top challenge in the aforementioned Dbriefs poll.[2] Moreover, many companies have reached a level of maturity with their ERP systems where they have reconfigured and automated their processes as much as possible. In other words, companies' systems may not provide more benefits for the close unless the process is addressed.

Fixing the process, though, may mean understanding the steps of the close as well as where data lands within the application. And then CFOs should understand whether the processes and the team are aligned in the leading sequence. While there are many tools to help in the execution, one to consider is the **close map** (see Figure 1), which is a pictorial depiction of the current close process that helps identify the bottlenecks, repetitive steps, and breakages. For example, by mapping rework as part of the one-page graphic, you can both evaluate materiality and understand the impact of new or missed entries on the close cycle. And by sharing the close map, finance departments can help educate everyone involved on policies, processes, and system procedures in troubled functions.

Signs your process is broken

While the close map often serves as a tool for education, you don't have to diagnose the entire process to know there are problems with your close. Often there are telltale signs:

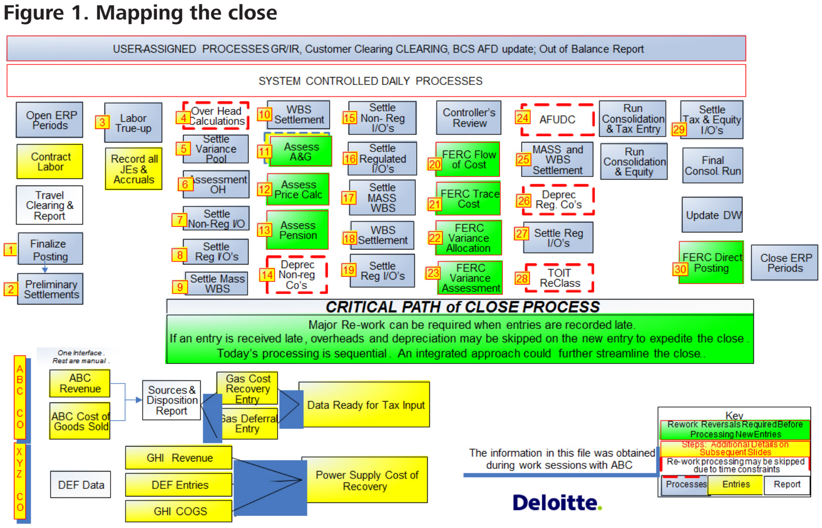
1. **Man-hours to finish the close.** How many hours are your employees working to produce the close, including weekends and evenings? You need to include weekend and evening hours because they can often expose the fact that the team is able to finish the process only with a lot of manual intervention. Eventually, you may find that the process can't be manually fixed anymore. And by counting the hours, you'll see if the five-day close is really an eight-day close.

2. **Number of journal entries.** One company was doing about 500+ manual journal entries at the end of the month when we first started working with them. Given that they had implemented a big ERP system, this number is striking. This could be the result of low materiality thresholds and/or a lack of integration in the ERP systems. But typically, if you are processing such a high number of journal entries, it should be a cause for concern.

3. **Too many steps.** While there is no specific number of steps that should be executed during the close, a lengthy list of closing steps may indicate a manual- or labor-intensive process. It is imperative that the sequence be understood and that focus remains on the critical path activities.

4. **Do-overs.** How many times are you doing a reversal and a reprocessing? Usually that can be a telltale sign that entries are coming in late, contain a lot of errors, or that the organization is not disciplined about following the closing process.

Figure 1. Mapping the close



The close map is a visual tool to help identify the critical paths and processes that can be run in parallel. For each step, it should be important to understand the type of entries that can cause re-work. For example, a journal entry to labor burden accounts, done after overhead allocations, can cause a re-run of the allocation cycles. In addition, the close map can help educate businesses on policies, processes, and system procedures in troubled functions.

Can social software help close the books?

Many organizations are using social business software to help add value and strengthen connections with employees, customers, and vendors. Tools such as microblogs, wikis, internal social networks, and threaded discussion forums can also help CFOs improve finance organization performance. Case in point: the financial close.

"The financial close process is an example of how social software can drive improvements in finance's decision-making and processes by making the close more transparent, efficient, repeatable, and defensible," observes Mark White, chief technical officer of Deloitte Consulting LLP.

To illustrate, Matthew Soderberg, a senior manager in Deloitte Consulting LLP's M&A Finance practice, points to a technology company that recently utilized social-networking tools to help it close the books within three days.

Following the implementation of an enterprise-wide internal social network, the company's corporate accounting team created a user group for those involved in the close and consolidation processes. Instead of using email to notify the applicable groups when an event has taken place to trigger the next step, or when there's a problem, the finance team can post updates about the close process and diagnose, explain, and correct errors faster because activities are posted in real time.

Posting updates has significantly reduced email traffic and corporate accounting's role as middleman, according to Soderberg. "The internal social network facilitated the finance organization's ability to achieve a three-day close with fewer iterations, and it has made the finance professionals' lives easier during the process," he says.

Integrating social business tools

Following are steps that CFOs—in concert with their Chief Information Officers—can take to integrate social business tools into the financial close:

1. **Identify the business case.** "The business case here is that making the process more transparent, repeatable, and traceable can improve productivity, efficiency, and possibly time to close," says White.

2. **Identify the relevant social network.** Social graphing—a technical process of identifying decision-makers, connectors, detractors, influencers, and other users—can be an effective way to identify the people, and the information involved in the close effort.

3. **Identify areas for improvement social software can address.** Organizational and operational constraints include constraints of custom or habit, of organizational command and control structures, or of technology. For example, "the CFO's team might serialize certain decisions due to previous collaboration constraints," says White. Social software can help mitigate such constraints, but it's important to identify them and take them into consideration when selecting tools.

4. **Select the suitable social tools.** Although many of social software's capabilities may be relevant, identifying skill sets, maintaining institutional memory, and gathering distributed knowledge are typically the most important to the close. So, work with the CIO to identify options, and select the social software tools that address these criteria.

5. **Incentivize the finance team to participate.** "You want an incentive program that can get that social network to make full use of the social tools, including being able to demonstrate how it helps them to perform more efficiently," White observes.

6. **Implement, build, test, tune, repeat.** "Socializing the close-the-books effort requires integration of people, process, and technology," notes White, "and the new process should be continually reviewed for improvements. You implement it and evaluate the results, and then make improvements and implement the improved iteration, until you get it just right."

Training, testing, and oversight

While there may be multiple indicators of a broken process, there can be three fixes: training, testing, and oversight. Here is how the three break down:

Training. If the close map identifies a new process, employees need to be educated about that new process so as not to fall into the same old habits. For example, not understanding the downstream effects of a specific journal entry can cause significant rework. It is important that each person executing the close process is fully aware of the interdependencies and proper sequence.

Testing. Diligent testing of every aspect of your close process can highlight sequencing issues, system performance constraints, and other bottlenecks. Some of these issues can be easily resolved and others might require further evaluation or a small project.

Oversight. Finally, many companies lack a solid governance structure for their financial close. Often, the process runs as a routine task without acceptable planning and monitoring. One effective way to help build an efficient process and keep it on track is to designate a close czar who will take charge of developing a cohesive plan and be accountable for its step-by-step execution.

Typically, the close czar is someone from finance, since he or she needs to have a full view of the areas that roll into the close (that is, HR, supply chain, and so on). Called different names at different companies, such as close coordinator or close administrator, this person has the authority and visible executive leadership support for running the process and the overall schedule, and for making and enforcing decisions. Some companies, for example, tap a senior manager, director, even controller, to own the close. And any time the process does not work, the close czar has access to the top level in the CFO organization and authority to approve changes including system reconfigurations. In fact, this person may likely decide the timing of the system close and could be an active participant in the change control process.

In terms of scope, the close czar's focus is on making sure tasks are performed on time and reviews are done. But often it is much broader. The close czar, for example, makes sure that the subledger system closes on time and provides the data to the finance organization for the review. The close czar may also create a detailed project plan and make sure that there are parties accountable for tasks. Close czars should also be responsible for making decisions about whether additional journal entries are allowed or not. And the close czar gets involved in discussing the system issues, engaging specific IT groups, and working toward a resolution.

Measuring success can often go back to the telltale signs of a broken process. For example, the close czar can be accountable for reducing the number of steps executed during the close. The close czar can also be accountable for the number of journal entries being posted, and once you've streamlined the closing process, he or she might be measured on whether or not your system processes are now running more efficiently.

Oversight leads to insight

When asked what aspect of the close process they were most interested in improving, 46% of respondents to the Dbriefs poll said it was a combination of increasing integrity/accuracy of account balances, providing visibility into the close activities and responsibilities, having subledger systems agree to what is reported, and reducing effort and eliminating bottlenecks.[3]

Having a close czar could be one of the answers to addressing these issues, as well as improving an inefficient process. Such a designee also helps promote the quality and integrity of financial and managerial reports. Moreover, the close czar can proactively identify the issues and help management make timely decisions, set expectations, and help meet the stringent financial reporting deadlines.

Endnotes

[1] "Balance Sheet Integrity in the Last Mile of Finance," Deloitte Dbrief, October 3, 2012.

[2] "Balance Sheet Integrity in the Last Mile of Finance," Deloitte Dbrief, October 3, 2012.

[3] "Balance Sheet Integrity in the Last Mile of Finance," Deloitte Dbrief, October 3, 2012.

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