

The Fast Close: Are We There Yet?

An Oracle White Paper
Updated July 2008

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Companies that are able to close their books quickly and deliver more-timely information to external and internal stakeholders can gain competitive advantage in a rapidly changing marketplace.

INTRODUCTION

Back in 2002, there was a lot of buzz about the “virtual close”—the nirvana whereby a company could close its books in a matter of hours, and publish financial results quickly both to internal and external stakeholders. Very few companies had achieved this nirvana.

A Hackett Group study at that time showed that the average closing cycle for companies was six business days, and the average reporting cycle was another 5.4 days. Closing cycles did improve earlier in the decade. However, Sarbanes-Oxley (SOX) compliance requirements stalled and even slightly reversed the trend toward shorter closing cycles, in 2003 and 2004.

Fast-forward to 2007, and many companies are still struggling with long financial consolidation and reporting cycles that hinder corporate decision-making abilities. Nevertheless, world-class companies are completing the entire closing and reporting cycle in fewer than five business days, and are able to publish financial results ahead of their competitors.

The bottom line is that companies that close their books quickly and deliver more-timely information to external and internal stakeholders can gain competitive advantage in a rapidly changing marketplace.

ADDRESSING TODAY’S COMPLEX REPORTING REQUIREMENTS

It is three weeks after quarter end. Marketing is clamoring for revenue and profitability results by product line. But you are still struggling to close the books and deliver the information needed for your quarterly earnings call. Then it’s on to U.S. Securities and Exchange Commission (SEC) filings and preparing for an audit. Meanwhile, your line managers are busy gathering their own version of the truth to support operational decision-making.

In today’s uncertain global economy, business decision-makers need to keep a steady finger on the “true” financial pulse points of their companies. Now, more than ever, line managers must be able to scale operations up or down rapidly and reallocate resources quickly to seize new opportunities as they arise.

New pressures continue to come from an external reporting perspective as well. In general, world financial markets are demanding tighter filing deadlines, improved integrity, and more information about the business.

In addition to demanding better internal controls and corporate governance practices, investors and other stakeholders—such as customers, partners, employees, and communities—are demanding more disclosures. They want more transparency into the inner workings of companies and an understanding of how companies impact the environments in which they operate.

Reporting of income statements, balance sheets, and cash flows is no longer sufficient. Stakeholders are demanding disclosure of executive compensation, energy usage and environmental issues, tax reserves and liabilities, hiring and labor practices, and charitable programs and other social issues. In addition, they are demanding accountability on earnings guidance as never before.

Outside the United States, companies continue to struggle with more-frequent and more-detailed reporting requirements like the European Union Accounts Modernization Directive and the changes brought about by International Financial Reporting Standards. In the United States, five years after the landmark Sarbanes-Oxley Act of 2002, the Public Company Accounting Oversight Board has issued specific guidance, in its Auditing Statement No. 5, on the steps auditors must take when reviewing the internal control environment as required by SOX. Not surprisingly, the financial closing process figures prominently, because all weaknesses and scoping activities are to be assessed in the context of the quarterly and annual results.

With all these new pressures, many companies are challenged in delivering complete and accurate financial information on a timely basis. They are tied to period-end financial closing and reporting processes that take weeks to complete and don't deliver the right details that decision-makers and external bodies need.

CHALLENGES IN FINANCIAL CONSOLIDATION AND REPORTING

To the outsider, financial consolidation and reporting might appear to be a simple process of collecting data, adding up numbers, and formatting the results. However, the process is far from simple, especially in today's rapidly changing and increasingly complex global economy. Let's look at the typical process for a multinational company with operations in North America, Europe, and Asia.

The first step in the financial consolidation process is to collect data. Few companies have adopted a standard ERP system across their organization, and most large companies have a number of different ERP or general ledger (GL) accounting systems across various divisions and locations of the company. Typically, these systems don't organize financial results consistently—meaning they each have a different chart of accounts (the line items in which financial transactions are captured).

Regardless of the system used to consolidate financial results, it must be able to collect data from multiple sources and transform the data into a common view for corporate reporting. In addition to multiple GL systems, nonfinancial information required for financial consolidation—such as budget data, head count information,

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orders, shipments, and inventories—can reside in spreadsheets, human resource systems, or other transactional applications. To consolidate this data, it must be exported from these host systems or keyed manually into the financial consolidation system.

Once the data from all divisions, subsidiaries, and locations is collected and “normalized” into a common set of definitions or chart of accounts, the financial consolidation process can begin. However, consolidation requires more than just adding up the numbers. A number of accounting rules defined by the Financial Accounting Standards Board (FASB), International Accounting Standards Board (IASB), and other local bodies must be followed when consolidating financial results. These rules cover factors such as:

- Currency translation
- Intercompany transaction eliminations
- Accruals and other closing adjustments
- Minority ownership calculations

The financial consolidation and reporting process is more than just rolling up numbers. It is complicated by the variety of systems, geographies, regulatory bodies, and people involved in the process.

The financial consolidation process is typically an iterative process in which results are consolidated, reviewed, and adjusted several times before they are finalized. Once the results are final the reporting process can begin. Reporting is complicated by the need to deliver different information to multiple internal and external audiences in various formats, including:

- Summary balance sheets, income statements, and cash flows for external audiences (U.S. SEC, U.K. Inland Revenue, Tokyo Stock Exchange and other global authorities)
- Results by business segment for external use (Financial Accounting Standard 131/International Accounting Standard 14)
- Divisional profit and loss statements for internal use
- Actual versus budget variance reports for internal use
- Trend reports and rolling forecasts for internal use

Other reports are often required to support the analytic needs of internal decision-makers. For example, modeling the impact of a potential acquisition or divestiture, the launch of a new product, or an increase in advertising spending.

Clearly, the financial consolidation and reporting process is more than just rolling up numbers. It is complicated by the variety of systems, geographies, regulatory bodies, and people involved in the process.

STATE OF THE MARKET—HOW COMPANIES PERFORM FINANCIAL REPORTING

“...organizations are challenged to consolidate management and financial results while ensuring consistency in financial management content across the enterprise. To address these issues, multinational organizations must implement an auditable, centralized solution for financial consolidations.”

**—John Van Decker,
Program Director,
The Gartner Group**

How do most companies handle the complexities of the financial consolidation and reporting process? Here are some observations from a recent research note by John Van Decker, program director for Gartner:

During the past three years, the focus of most organizations’ corporate performance management (CPM) suite implementations has been on internal reporting, budgeting and planning, and metrics management rather than on external reporting; however, there is an important shift occurring where financial consolidation implementations are rising in importance—approximately 70 percent of organizations still rely on manual processes and Excel for this function. As a result, organizations have tight controls on enterprise resource planning (ERP) transaction processes; but before they release financial results externally, they enter into a financial consolidations process where there are few and limited controls.

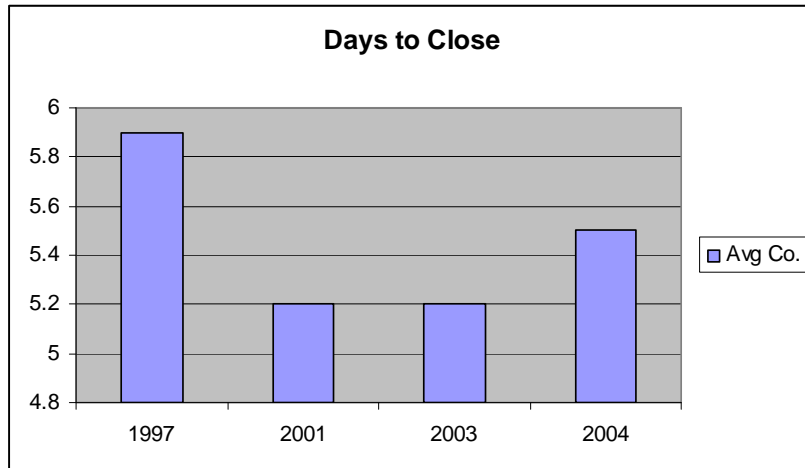
To make matters worse, many multinational organizations have multiple ERP solutions, often from different solution providers. These organizations are challenged to consolidate management and financial results while ensuring consistency in financial management content across the enterprise. To address these issues, multinational organizations must implement an auditable, centralized solution for financial consolidations.¹

The research findings from Gartner are consistent with Oracle’s experience. Many companies handle the financial reporting process using spreadsheets, GL’s, custom solutions and legacy financial consolidation applications. Using a substandard financial consolidation tool not only impacts the quality of the financial results, but also adversely affects the length of the reporting cycle.

The Hackett Group publishes benchmark data on financial processes, including the financial closing and reporting cycle. In their 2007 study, Hackett reported that the average company took 5.9 days to close their books. In 2003, the Hackett Group reported that the average company’s financial closing cycle was 5.2 days, with another 5 days spent on reporting. Top-performing companies in the study reported combined financial closing and reporting cycles of 5 business days or fewer. Although this data represented an improvement over the results in Hackett’s 1997 study, SOX compliance requirements stalled and even slightly reversed the trend toward shorter closing cycles.

In 2004, average monthly closing times for median companies rose to 5.5 days, from 5.2 days. World-class companies saw an even-larger increase in closing cycles, from 4.3 days in 2003 to 5.1 days in 2004.

¹ Gartner. “Improving SOX Compliance Sustainability with Financial Consolidation Applications,” John E. Van Decker, February 6, 2007.



The average number of days a median company took to complete its quarter-end close.

Compliance activities have clearly impacted efforts by companies to speed up the financial closing and reporting process. In November of 2007, Hackett reported that the typical Global 1000 company saw the cost of finance increase slightly over the past year, and is now spending 12 percent more than they did three years ago, in part due to increased focus and spending on compliance-related activities. Now that SOX Section 404 requirements are better understood and companies have repeatable processes in place to address these requirements, they can once again turn their attention to improving the close process and reducing costs.

SPEEDING UP THE PROCESS—THE FAST CLOSE

Back in 2002, there was a lot of buzz in the industry about the “virtual close”—the nirvana whereby a company could close its books in a matter of hours and publish financial results quickly both to internal and external stakeholders. Very few companies had achieved this nirvana, however many companies have achieved the “fast close”. Alcoa is an example.

Alcoa closes its books within two days of quarter end and is the first of the Dow Jones 30 Industrial components to report its results each quarter—usually within seven business days. Very few companies have achieved these levels of efficiency, but those that have undergone major changes in their financial processes, management culture, and financial systems do get there.

By definition, the virtual close is the ability for a company to close its books at any time, within a few hours notice, and for management to have real-time insights into the state of the business. Although few companies have achieved this level of sophistication, many have achieved the “fast close.”

Necessary Management and Cultural Changes to Achieve Fast Close
Reduction in the number of legal entities to consolidate
Clearly defined key performance indicators
Focus on top-level results rather than unnecessary details
Eliminating interim closes

Necessary Financial Systems Changes to Achieve Fast Close
Adopting a fully integrated financial application system
Deploying an automated financial consolidation system
Using an automated, intercompany accounting system, which allows transactions to occur between different legal entities owned by the same company
Leveraging a Web portal for delivery of standard reports
Linking a Web portal to an online analytical processing database that allows companies to conduct ad hoc queries and analyses

Companies that have adopted the fast close did not do so overnight. It is a major undertaking, involving both business process and systems re-engineering that could take years. However, there are a number of business benefits, including:

- Better decision-making due to timely access to information, decoupled from the financial reporting cycle
- Managers working from the same set of facts as a result of consistently defining and measuring results
- Reduced costs from the elimination of manual input and reconciliation
- Increased top-line potential derived from reducing the time spent closing by 40 to 60 percent, allowing more time for analysis of market opportunities

There are a number of best practices associated with the fast close that companies can adopt to start them on a path toward improving the period-end closing and reporting cycle.

BEST PRACTICES IN FINANCIAL CONSOLIDATION AND REPORTING

The few companies that have achieved the “virtual close” did so by implementing a single, centralized ERP system. Many companies might not have the technical infrastructure or the culture required to connect all users to a centralized ERP system. However, there are a number of best practices associated with the fast close, and companies running multiple GL and ERP systems can easily adopt many of these best practices as a way to shorten financial cycles. In addition, techniques such as flash reporting of key performance indicators (KPIs) throughout the reporting period can provide management with greater insight into the state of the business, without having to perform a full consolidation of the results.

Best Practices to Achieve Fast Close
Regularly close feeder systems into general ledgers and do not wait until period end.
Adopt a common chart of accounts across diverse general ledger systems.
Implement an integrated financial consolidation and financial data quality solution to speed up data collection and reduce errors
Perform continuous intercompany reconciliation and posting of transactions rather than waiting until quarter end to reconcile balances.
Make top-line adjustments in a financial consolidation system vs. going back and correcting local general ledgers to speed up the consolidation cycle.
Perform a monthly soft close and hard close at quarter end to get periodic insight.
Collect unstructured data related to the financials (variance descriptions and other qualitative information) as you collect the trial balances
Perform subcertification of the results along with the trial balances. Survey responses, testing results, and reconciliation documentation submitted with the trial balances can improve confidence.
Conduct flash reporting on KPIs throughout the reporting period via the financial consolidation system, performance dashboard or scorecarding system.
Report internal results via the Web—self-service finance.
Enable electronic submissions to external stakeholders via XBRL.
Integrate financial reporting with planning, scorecarding, and financial modeling systems for continuous performance management.

SYSTEM REQUIREMENTS TO REDUCE REPORTING CYCLE TIME

Technology also plays a vital role in supporting these processes and improving cycle times. In the table below, five states of financial systems are described. As you read them, think about where your company stands with financial reporting systems and what the next step might be on the road toward the fast close.

State	ERPs and General Ledgers	Chart of Accounts	Financial Consolidation Solution
Best practice	Single instance	Single	Packaged application
Better practice	Multiple instances from same vendor	Single, standard	Packaged application
Right direction	Multiple GLs	Single, standard	Packaged application
Mainstream	Multiple GLs	Different	GL or custom solution
Room for improvement	Multiple GLs	Different	Spreadsheets

Realistically, achieving a single, stable GL/ERP system might remain out of reach for many companies as mergers and acquisitions can introduce new datasources.

Companies can still benefit from the advantages offered by the single GL/ERP system. They can do so by standardizing on a single vendor's GL, implementing a common chart of accounts across the enterprise, and using a powerful financial consolidation system to quickly collect, consolidate, and deliver results via the Web.

Packaged financial consolidation and reporting applications have proven to be the best approach to solving the problem.

Based on Oracle's experience with customers, the majority of companies appear to have multiple GL/ERP systems with different charts of accounts. These companies leverage spreadsheets, a modified GL system, or other custom applications for some basic financial consolidation capabilities. Although this approach might work well for smaller organizations with fewer subsidiaries and locations, spreadsheet-based and custom solutions become unwieldy as the enterprise grows. Not to mention, the financial consolidation and reporting process becomes more complex.

Modified GL systems can address many of the complexities of the financial reporting process. However, these systems typically lack the flexibility in reporting and analysis required to meet the diverse needs of decision-makers at different levels across the enterprise.

Packaged financial consolidation and reporting applications have proven to be the best approach to solving the problem. By providing a high degree of out-of-the-box functionality, packaged applications can adapt easily to changing business needs, provide flexible reporting tools, and integrate quickly and easily with existing and new GL/ERP systems.

Oracle's market-leading solution for financial consolidation and reporting is Oracle Hyperion Financial Management, which can integrate with, and complement, GL and ERP systems, and support many of the best practices associated with the fast close.

ORACLE HYPERION FINANCIAL MANAGEMENT—GETTING TO THE BOTTOM LINE FASTER

Oracle is the world's leading provider of financial consolidation and reporting applications, with more than 3,500 companies worldwide using its products.

Oracle's leading solution for financial consolidation and reporting is Oracle Hyperion Financial Management, which can integrate with, and complement, GL and ERP systems, and support many of the best practices associated with the fast close.

Oracle Hyperion Financial Management is a Web-based, enterprise-scale financial management and reporting solution with powerful multidimensional analysis capabilities. This centralized approach to comprehensive financial management unifies all decision-makers across the enterprise—leading to faster business cycle times, improved decision-making, and greater company agility to help manage the bottom line.

Complementing the financial management application is Oracle Hyperion Financial Data Quality Management. As a Web-based, end-user application, Oracle Hyperion Financial Data Quality Management eliminates the data integrity risks associated with collecting, mapping, verifying, and moving critical financial and nonfinancial data. With it, you can build standardized, repeatable processes and avoid the typical inefficiencies of collecting data. These transparent processes give you greater assurance of clean data and accurate results.

Consider a few examples of Web-based functions that help reduce financial consolidation and reporting cycle time:

- Web-based data entry and data loading from remote locations
- The ability to launch a consolidation process via the Web and view the results instantaneously
- Web-based intercompany matching reports and reconciliations
- The ability for remote users to enter journal adjustments via the Web to make corrections rather than resubmitting their data
- Self-service financial reporting via the Web for instant delivery of results to decision-makers across the enterprise

Designed for enterprisewide Web deployment, Oracle Hyperion Financial Management acts as a shared information resource, and a single version of the truth, for thousands of users across the enterprise. This enables them to collaborate and cooperate in the day-to-day management of the business.

In the same application, companies can produce auditable reports for regulatory bodies, financial analysts, and stakeholders. They can also support internal product profitability and other line of business analysis requirements.

By leveraging the Web, a number of opportunities are provided to shorten the collection, consolidation, and delivery of financial results, including:

- One-step submissions of period-end results from remote locations to corporate can be achieved versus a staged approach to financial consolidation
- Remote administration to add new accounts or design new data entry forms quickly, without relying on corporate IT staff
- Intercompany balances can be matched and reconciled continuously, rather than waiting until period end
- Final closing adjustments can be made quickly via the Web
- Financial and nonfinancial results can be delivered quickly to financial and operating managers globally via the Web

Oracle Hyperion Financial Management is part of a comprehensive suite of enterprise performance management applications. They advance Oracle's strategy to create and deliver business intelligence solutions that enable companies to continually measure performance, anticipate results, and drive profitability across key business activities.

CONCLUSION

So, are we there yet with the fast close? The answer is that the fast close is a reality, which has been adopted by a number of leading-edge finance organizations. Implementing the fast close might require major changes in culture, business processes, and systems.

There is good news. By adopting many of the best practices associated with the fast close—and by putting the right technology in place to support these best practices—companies will reduce reporting cycle time, deliver more-timely information to decision-makers, and free up the finance staff to spend less time on processing and more time on providing value-added analysis to decision-makers.

Efficient financial reporting sends a positive sign to investors and other stakeholders and is a key ingredient to a comprehensive enterprise performance management process. And along with goal setting, modeling, planning, continuous performance monitoring, and analysis, such reporting can improve a company's ability to spot business opportunities and efficiently allocate resources. In short, it can help a company gain competitive advantage in a rapidly changing marketplace.

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Updated July 2008

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