Accelerating the Financial Close
CFOs' Insights into the Benefits of a High-Quality Close

A report prepared by CFO Research Services in collaboration with SAP

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About this report

In the first quarter of 2010, CFO Research Services (a unit of CFO Publishing LLC) conducted a series of interviews with top finance executives at large, multinational companies from around the world. Our goal was to gain insight into the impacts that accelerating financial close processes can have on business performance and management effectiveness: What are the most time- and resource-consuming portions of close cycles? Where do companies feel their strengths are? How does good execution of the financial close process affect a company's performance overall and its competitiveness—beyond simply reducing effort and cost for the accounting function? What kinds of changes in the business environment might affect the need for flexibility and speed in the financial close process? And what, if any, changes are companies likely to pursue in their processes?

We interviewed executives at the following organizations:

- AES Brazil (Brazil)
- Catlin Group Limited (UK)
- Companhia Energética de Minas Gerais (Brazil)
- IDT Telecom (U.S.)
- Infosys (India)
- Roche (Switzerland)
- Rossi Residencial (Brazil)
- Tesco Property (China)
- A CFO at a privately held distributor of consumer products, who wished to remain anonymous

We supplemented material gathered through interviews with secondary research to develop our conclusions.

Executive summary

In an economic environment characterized by uncertainty and volatility, the quality of the financial close assumes even greater importance as an indicator of a company's financial excellence. Shareholders, creditors, lenders, and analysts are all looking for evidence that a company is well run and financially viable during these troubled times. In addition, the same processes used to conduct the financial close for external reporting are also being optimized to deliver internal management reporting more quickly and more accurately. Putting critical financial information into the hands of managers faster allows them to react more effectively to changing markets.

A high-quality, well-managed close process is important for building investor and marketplace confidence in a company.

For this study, we interviewed CFOs at complex and multinational companies in several regions of the world to learn what they see in this environment as the keys to accelerating their consolidation and close processes, the challenges they face in doing so, and the challenges they have overcome. We learned that leading companies are finding ways to close within days of the end of the period, rather than weeks. They view their ability to conduct a fast, high-quality close as a competitive advantage, rather than simply as a regulatory obligation. A high-quality, well-managed close process is also important for building investor and marketplace confidence in the company.

Overall, however, the executives we interviewed feel that while the actual speed of the internal close is important, it is, by itself, no longer the sole driver of change—rather, greater security, having confidence in the quality of the financial data, and managing financial risk are increasingly paramount. Tony Ho, finance director at Tesco Property in China, comments, "The advantages of a five-day close are not so much the speed but reduction of risk, more security, and less error."

Some of these companies have integrated their financial and information systems across their reporting units, and they have revised their close processes to nearly eliminate manual intervention, reduce redundancy and rework, and streamline and standardize reporting. These CFOs also stress that their companies are proactive in anticipating and planning for changes in reporting standards and requirements.

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Interviewees discussed their approaches to optimizing the close cycle across all of its stages:

- **Local close.** Preparation is key for coordinating a smooth close across widely dispersed reporting entities. Standardizing formats and processes, even if different financial reporting systems are still in use, helps get "everyone on the same page." The goal is to reduce the level of manual intervention needed for reconciliation while still allowing the local organization to meet local statutory requirements.

- **Group consolidation and close.** Having a "common language" for reporting across the enterprise provides greater control over the data, ensures data quality, and improves responsiveness. Automating closing activities and standardizing financial systems provide substantial advantages in terms of implementing a high-quality close. Multinational companies can also benefit by actively monitoring regulatory discussions so that they can be prepared to respond with the least amount of disruption to data collection, preparation, and reporting processes.

- **The "last mile": Post-close activities.** Keeping in close communication with both auditors and regulators is important for reducing the time spent resolving unanticipated issues or unclear interpretations of reporting requirements.

The interviewees also cite the value-added benefits their companies derive from accelerating the close cycle, beyond simply lowering costs and complying with reporting and filing deadlines. Interviewees stress the value of "knowing where we are."

By moving beyond the spreadsheet culture and automating close processes, companies are able to tie internal management reporting more closely to external financial reporting. As Erwin Schneider, head of Corporate Finance Accounting and Controlling at the Swiss pharmaceutical firm Roche, notes, "The first and most important driver behind the Fast Close project was really the need for management to know the results within a short period of time, to be able to understand important critical developments, and to be able to act fast." Marcelo Fischer, CFO of the large U.S. communications company IDT Telecom, says, "When it comes to financial reporting and the closing process, we find that our biggest challenge isn't getting our GAAP financials and SEC reporting in good shape under tight deadlines; rather, it's the ever-evolving managerial reporting needs which are more difficult to deliver when the organization is complex."

Interviewees stress the value of "knowing where we are," in addition to lowering costs and meeting deadlines.

In addition, letting the finance staff focus more of its time on what it does best enhances the quality of the finance function itself. V. Balakrishnan, the CFO of Indian software multinational Infosys, says, "A high-quality workforce, which focuses more on the high-end aspects and does not do traditional transaction work, helps to build a good finance team that can last for a long time." Similarly, Neil Freshwater, CFO at the UK financial services firm Catlin, says he believes that his company will get better value out of "freeing up more [finance] time in the process, so that the balance between production, analysis, and understanding the numbers shifts and we have more time to really get into the numbers."

Simply installing the technology is not enough, however—just as critical is changing the company culture and people's mindsets so different groups work together better and take ownership of financial results. In the end, it is the people who will make the system work better, as well as the system that allows the people to work better. In describing how they moved from a spreadsheet culture to a fast and efficient automated process, several of the interviewees stress the importance of getting everyone on board with the need to change and the intensive training at all levels that allowed them to be successful.

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Financial excellence in times of change

In recent years, increasing pressures from markets, stakeholders, and regulators have made it more important than ever to close a company's books quickly, accurately, and transparently. Both regulators and stakeholders have intensified their scrutiny of corporate financial performance. Following increasingly rigorous accounting standards being put in place around the world, as well as a global recession, shareholders, creditors, lenders, and analysts are all looking for evidence that companies are well run and financially viable. The quality of the financial close is a key indicator of financial excellence to a wide range of a company's stakeholders, both internally and externally.

Global recession and the drying up of the credit markets pushed profitability and cash management to the forefront of management attention, intensifying the need to compile and generate financial information quickly and accurately. Finance executives are poring over financial output on a weekly, if not daily, basis, where before monthly management reporting was the norm. The internal close gets accurate and timely information into the hands of decision makers, allowing them to react more effectively to uncertainty in the marketplace.

At the same time, the unprecedented volatility in market outlooks has shortened forecasting horizons to the point where executives urgently need faster access to more-detailed financial data on a more frequent basis. The same processes used to produce quarterly, half-yearly, and yearly statutory reports are being pressed into double-duty to deliver internal management reporting.

For their part, legislators and regulators in many countries began to demand more transparency in financial reporting after the large-scale financial scandals at the turn of the century. More recently, they are reacting to the dubious decisions made in the financial industry that helped precipitate the economic crisis, and they are debating ways to tighten or alter oversight of that industry. Meanwhile, governments around the world are keeping their fingers firmly on the pulse of their economies as they search for signs of recovery.

Heightened scrutiny of financial reporting has also resulted in demands for increasing accountability, transparency, and comparability in those reports. For example, with new rules from the U.S. Securities and Exchange Commission (SEC) for the mandated adoption of eXtensible Business Reporting Language (XBRL) for all public companies in 2011, accounting teams face a new layer of complexity and new demands on their scarce time.

Throughout our global interview program, in many cases we found that the executives we spoke to were highly cognizant of the added importance being placed on the quality of their financial close. As V. Balakrishnan, the CFO of Indian software giant Infosys, notes, "Closing quickly and efficiently gives the market more comfort with our numbers. Closing faster reduces uncertainty in the market, which investors appreciate and support."

His view is echoed halfway across the world by Luiz Fernando Rolla, CFO at Companhia Energética de Minas Gerais (Cemig). Cemig is the largest Brazilian electric utility, with 6.2 million customers and annual group revenues of about $6.3 billion. "Of course, there is the question of the regulation, which imposes a very tight schedule," Mr. Rolla says. "But the main motivation for improving our close is to be more efficient in providing the information to investors, because the pressure is strong from the shareholders. They are demanding that the report be made public faster."

And in China, Tony Ho, finance director of Tesco Property, says that "it's very important to show that we are capable of running the business. We have all the information on a timely basis and use it to manage the business, so it's very important that we channel that information off to the public as well."

Changing regulatory and economic landscapes make it essential to have the processes and systems in place for a high-quality close. Accounting standards and filing formats continue to evolve around the world, particularly as more countries push ahead to adopt some version of the International Financial Reporting Standards (IFRS) as their financial reporting standard, replacing versions of the Generally Accepted Accounting Principles (GAAP). Local variants of IFRS—the principle-based framework developed by the International Accounting Standards Board (IASB)—have been implemented in European countries, and fast-developing economies such as Brazil and India are on track to require IFRS conversion within the next two years. In the United States, foreign issuers are allowed to use IFRS in their U.S. filings, although requirements for domestic adoption are still being debated.

In addition, regulatory oversight continues to tighten, as evidenced by the Sarbanes-Oxley Act of 2002 (SOX) and current debates in the United States and Europe over the next wave of regulation in financial industries. And, at the same time, a multinational may still be using local versions of GAAP for individual reporting entities. With the increasing globalization of markets and businesses, many large corporations are in the same position described by Mr. Balakrishnan. He notes that Infosys reports its numbers in eight countries, using both Indian and European GAAPs, while also adapting to India's conversion to IFRS and adjusting its U.S. filings for SOX regulation.

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Closing faster, reporting earlier

Even within this complex environment, some companies are finding ways to close within days of the end of the period, rather than weeks. They often view their ability to conduct a fast, high-quality close as a competitive advantage, rather than simply as a regulatory obligation. Mr. Balakrishnan at Infosys, for example, points with pride to his company's record as a leader in closing and reporting quickly, noting the positive influence on market perceptions of the company that its closing capabilities have fostered.

Mr. Balakrishnan notes that Infosys consistently reports its audited numbers ahead of any other company in India, and he says that the company receives high marks from investors for the detail and transparency of its financial reports. "Infosys historically has adopted the best accounting standards in India and across the world," he says, "and I think people are happy with what we are doing here."

Companies often view their ability to conduct a fast, high-quality close as a competitive advantage, rather than simply as a regulatory obligation.

"Your closing efficiency will always be compared with that of your peer groups in the marketplace," Mr. Balakrishnan explains. "In India, we are always the first company to announce numbers across our industry, and across all companies, for that matter. I think that is a good indicator of the efficiency of our operation."

According to Mr. Balakrishnan, Infosys has made sure that the operating structure of the company does not become too complex, and it has implemented an ERP system across its units that is scalable and "enables us to get timely information on the ground." Infosys has continually integrated other systems into its ERP system, "which enables us to get structured data and analyze the data, and helps us scale our operations," he says.

Companies are once more starting to shave days off their close cycles.

Companies in each region of the globe are finding ways to come to grips with increasing demands from stakeholders and from regulators for timely, detailed, and transparent financial information. According to BPM International (BPMI), a network of European consultancies that publishes annual close cycle rankings, the largest companies in the United States and Europe have been making steady progress in shortening their close cycles. BPMI benchmarks these companies in terms of the number of elapsed days following year-end until they release their preliminary announcement of results, and then again the number of elapsed days until they receive an audit signature.

In 2009, the 30 fastest-closing companies in the FTSE Global 100 averaged 23 days from year-end to public announcement of results; the fastest company, Cisco Systems, announced its results only 10 days after year-end.[1] The companies in this group averaged about a month of additional time until audit signature.

According to BPMI, European companies still lag their U.S. counterparts in time to complete their annual close, and, indeed, the list of the fastest closers is dominated by U.S. companies. This may be at least partially due to the head start U.S. companies have by filing quarterly reports throughout the year, instead of half-yearly as is more common in Europe. However, BPMI's latest compilation of cycle times shows that European companies have begun to close the gap, especially in terms of their release of audited statements. Overall, the average close time for European companies has declined from six years ago.

BPMI reports that the average time to announce results for U.S. companies actually went up in 2009 from its low point six years previously. CFO Research's analysis suggests that close cycles in the United States were inflated as companies sorted through rigorous new requirements imposed by the Sarbanes-Oxley Act of 2002, and then again in 2005 following revisions in the way off-balance-sheet items are treated. As these changes are absorbed into financial and accounting systems, CFO Research believes that companies are once more starting to shave days off their close cycles.

[1] Data cited from *Close Cycle Rankings 2009: Top 30 Country and Industry Rankings*, BPM International, 2009, http://www.bpm-international.com/close2009.html. Averages calculated and analysis provided by CFO Research.

Table 1. Reported Reasons for Late Annual Filings in the U.S., 2004–2009

	2004	2005	2006	2007	2008	2009
Total companies filing late	186	182	153	123	104	40
Financial disruption	20	20	26	17	63	19
Organizational disruption	7	10	3	5	3	1
Errors	16	13	8	17	5	4

Financial disruption: Bankruptcy, litigation, contingency, non-compliance of credit agreement; going concern or financial difficulty matters; funding/re-financing, administer/extend/amend credit agreement, capital restructuring, obtain waiver

Organizational disruption: Reorganizations, restructurings and/or disposals, change or dissolution of business

Errors: Discrepancies or errors discovered

Source: Audit Analytics, www.auditanalytics.com

In fact, the number of U.S. companies that failed to meet the year-end filing deadline has always been relatively small, and has been decreasing substantially since 2004. (See Table 1.) The general reason cited most often for late filings is simply "insufficient time." A look at specific reasons cited in Table 1 shows a spike in 2008 in the number of companies missing the deadline due to financial disruption (bankruptcy, funding issues, etc.)—most likely a legacy of the global recession. The number of companies citing outright errors as the cause of a late filing has persistently been very small.

Sources interviewed for this report are at different stages in their financial close process optimization, ranging from best-practice levels of two to three days to consolidate their numbers for quarterly and year-end financial close, to more than three weeks. Interviewees provided these estimates for their internal closes in which they collect and consolidate data from local financial reporting. Post-close activities—management review and sign-off of the consolidated figures, annotation, audit, and report preparation—can add two weeks to a month or more until financial results are published, the interviewees say.

The companies represented in the interviews we conducted for this report also represent different types of business models (see "Different directions, the same destination: Faster, higher-quality closes"), and are at different levels of close cycle automation. Some of these companies already have years of experience working with a fully automated enterprise system in rapidly fluctuating markets, both at the group level (Rossi Residencial in Brazil, Infosys in India) and at the local level, with reporting responsibility to a distant parent (Tesco Property in China). The sources from these companies describe how they have integrated their financial and information systems across their reporting units, and have revised their close processes to reduce manual intervention, eliminate redundancy and rework, and streamline and standardize reporting. These CFOs also stress that their companies are proactive in anticipating and planning for changes in reporting standards and requirements.

Other interviewees come from companies at different stages of automating and streamlining their close processes to reduce cycle time and improve data quality. They include a company that has completed a successful "fast close" initiative (Roche in Switzerland) and companies that are in the process of transitioning from a spreadsheet culture to enterprise systems (Catlin in the UK and IDT Telecom in the United States). Two power companies in Brazil—Cemig and AES Brazil (the subsidiary of a large U.S. power company)—are at similar stages of standardizing their financial processes and optimizing automation in their closing cycles. We also interviewed the CFO of a private company that still relies exclusively on the manipulation of hundreds of spreadsheets to consolidate its numbers each month and generate management reports, but which is starting to look ahead to the time when it can fund its automation initiative.

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Different directions, the same destination: Faster, higher-quality closes

Rossi Residencial is one of the largest home builders in Brazil, and is also among the fastest-growing firms in the country. In recent years, it has expanded both geographically and in its product line, moving into higher-income segments and commercial units. According to its CFO, Cássio Audi, it plans to continue to target aggressive growth over the next two years by doubling the presence it has today, expanding from roughly 64 cities to 130.

To control and manage such a large operation, says Mr. Audi, Rossi made a substantial investment in technology and training during the 1990s. The company's ambitious implementation of a single enterprise system allowed it to reduce its quarterly closing cycle from two weeks to two to three days.

In the United States, IDT Corporation, the communications and energy company, has recently completed a period of downsizing and divestment of non-core businesses. According to Marcelo Fischer—CFO of IDT's largest subsidiary, IDT Telecom—the restructuring has enabled IDT to better focus on the technology needs of its remaining core businesses. Mr. Fischer adds that, as a result, MIS and technology resources have also become more available within IDT to engage in productivity and business process enhancements.

As a result of IDT's rapid growth since going public in 1996, IDT realized the need and importance of "leveraging core financial data and KPIs across the entire organization," explains Mr. Fischer. A big step toward this goal, he says, was taken in 2000–2001, when the company began implementing a single ERP platform across the enterprise and automating the loading of core financials into the integrated system.

Now, although challenges still exist for managing information flows across the portfolio of businesses, Mr. Fischer says that the close process has become much more streamlined. Since the beginning of IDT's ERP platform implementation, IDT has reduced the time needed for its monthly internal close by about 50%, according to Mr. Fischer, and he is spearheading the drive to get that number down even further. "We need to [shorten the close cycle further]," he says, "in order to remain competitive and timely in our reporting and our compliance."

Both companies rely on an integrated, automated financial system that ties together their distinct parts and provides flexibility.

These two cases illustrate different ends of the spectrum—the one company growing in complexity, the other refocusing itself on its core businesses. Yet to help them control critical financial information flows, generate insightful management reports, and manage their complex closes effectively, both companies find they can draw upon the same solution: an integrated, automated financial system that ties together their distinct parts and provides the flexibility to change with the business.

More security, less error

Some of the CFOs interviewed for this report feel that they have nearly optimized their closing processes; they may still be able to improve in discrete activities, but overall, they have invested in processes, staffing, and systems needed to close their books with speed and accuracy.

Others that we interviewed had either begun to make the same kind of investment or were planning to do so. All of the interviewees agreed, however, on the end game: a closing process that eliminates wasteful effort while ensuring the integrity and quality of the company's financial information.

When the sources for this report describe their initiatives to improve their closing processes, they often talk in terms of more than just speed (see "Moving beyond the spreadsheet culture: Lessons from a private company"). The interviewees variously cite the need for accuracy, uniformity, transparency, adaptability, and repeatability to optimize their processes. For most of the interviewees, greater data integrity is the primary benefit of a high-quality close; process and staffing cost reductions are tangible, but secondary. The actual speed of the close, by itself, is not the primary driver of change, according to many of these sources—rather, increasing security, having confidence in the quality of the financial data, and managing financial risk are paramount. A high-quality, well-managed close process is important for building investor and marketplace confidence in the company.

The end game: A closing process that eliminates wasteful effort while ensuring the integrity and quality of financial information.

For Catlin Group Limited, a global specialty insurer and reinsurer, better control is one of the most important priorities for switching from an over-reliance on spreadsheets to a new, integrated consolidation and planning system that will underpin its financial close and forecasting processes. According to Catlin's UK CFO, Neil Freshwater, "That's undoubtedly top of the list—to enhance the existing controls within the close and consolidation process. Our internal and external financial reporting will be driven from a comprehensive data warehouse and the new consolidation system, which secondarily should also allow us to realize some efficiencies. But the primary driver is enhanced, automated, robust controls, which a spreadsheet environment doesn't easily give you."

Because the risk of manual error is reduced with Catlin's new technology, Mr. Freshwater anticipates that eventually the company will be able to eliminate the need to run an early "soft" close and move directly to a "fast close," possibly taking a couple of days off the close. His priority, however, is data integrity and consistency: "We would be looking to improve data, improve process, and improve the integrity of systems. That should take the stress out of the process, and then once we've done that, we could look at whether we wanted to take time out of the process." Fully integrating all of Catlin's administration, underwriting, and insurance accounting systems is an ambitious medium-term project and a significant investment by Catlin, but with good progress being made, Mr. Freshwater expects that "we will progressively enhance controls, efficiencies, and effectiveness."

Erwin Schneider, head of Corporate Finance Accounting and Controlling at the Swiss pharmaceutical firm Roche, cites a similar rationale behind the decision to move forward with that company's Fast Close project. "At the beginning, there was this issue about the trade-off between quality and speed," Mr. Schneider says. "But there was never really a question. I always said we can only achieve speed if the quality is good. So we had to invest on the quality side. Now, that's one of our strengths—the quality of the process and the data quality. We have a lot of standardization and automated controls built into the process, so when our companies report their results, they're mostly clean results. The focus is more on this, rather than speed."

Mr. Ho at Tesco Property in China agrees. "The advantages of a five-day close are not so much the speed but reduction of risk, more security, and less error," he says.

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Moving beyond the spreadsheet culture: Lessons from a private company

The CFO at a privately held, international distributor of consumer products describes many of the same issues for his financial close that public companies are now grappling with. While the company prefers to retain its anonymity, this CFO spoke with us about the risks associated with relying exclusively on manual journal entries in extensive spreadsheets for closing.

The company's operations are concentrated in North America, but it has several thousand employees in dozens of distribution centers in six countries. "For our domestic units [in the United States]," says the CFO, "we give them three business days to close, using an external vendor for accounting software. We are on a 5-4-4 calendar for the domestic units and for Canada, which means the January close covers five weeks, February is four, March is four, then back to five for April, and so on. That means we don't have calendar month-ends here or in Canada. Our official reporting dates are those random kinds of Saturday dates."

"Unfortunately," he continues, "our South American unit and our unit in Europe have calendar closes. All their systems are set up to close on calendars, so we have a disconnect there. Even though we can close North America pretty efficiently, within three days, a lot of times we're done before the business month closes for the South American and European operations. It takes them longer because they're on different systems, and so we have to wait for them."

The CFO brings up the challenges to an efficient and accurate close that are posed by the company's reliance on spreadsheets to record and report financial information. "Everything comes together using Excel spreadsheets," he says, "even though we use the accounting software for accepting journal entries and keeping track of everything by account—all the details. But even though the Canadians can close quickly and are on our calendar, they're not on our financial system. So they send us an Excel file using standardized formats, and that gets combined with the U.S. file. The European operation and the South American operation all send in Excel files as well. We then take that information and dump it into an Excel file, which is used by our consolidation guys to marry up all the domestic detail. We do our elimination entries, currency conversion, and everything in Excel."

It's not just the effort, but the risk involved with the spreadsheet culture that concerns this CFO the most: "That's the thing I am least happy about, the fact that we have everything—all that critical information—in a spreadsheet application. There is just a lot of manual intervention at every step in the close process. It's not the most stable environment—you run the risk of losing the data if you bump the system."

Of course, the company has introduced a number of checkpoints to manage that risk. "My corporate controller routinely does backups so that there is always an alternative set of the data somewhere," the CFO explains. "We also have a bunch of checks in the system to make sure that nobody typed a number in a cell that distorts everything. It would get caught by taking a look at all these numerical checks that are built in." This level of manual oversight is substantial, and our source notes that, "even though we back it up and we have precautions, it's just not as good as a mainframe system. It just seems a little too fragile."

Within the next couple of years, the CFO hopes to be able to fund a comprehensive initiative to move everything to a mainframe system. The value of an integrated consolidation system lies both in the risk reduction—"You're not going to lose your data"—and in the increased reaction speed it affords. This CFO notes that such a system allows more-robust scenario or "what-if" modeling, and also makes it easier to adjust to organization changes quickly, such as an acquisition or opening a new facility.

Integrating the different units' financial systems would also let finance "get back to actually doing some of the things a world-class finance organization should do," says our source. "That means a lot less of accessing data, manipulating data, and doing journal entries, and a lot more of being the planner, the thinker, the business partner for the general managers in the locations that they serve."

"My team wants to be users of the data, not just generators of the data," he concludes.

Optimizing across the close cycle

At the companies interviewed, accelerating the close cycle means making changes at all stages: at the local level, at the group level, and in the "last mile" post-close, when finance and management conduct their analyses, annotate the reports, prepare reports for auditing, announce results, and, ultimately, file the regulatory reports. The executives interviewed indicate different areas of focus for improvement at each stage, while stressing the interconnections between all activities.

Local close. Mismatched systems and processes in the different companies or reporting entities are certain to increase the time, effort, and cost of the financial close, according to the interviewees. Getting everyone on the same system and standardizing charts of accounts and close processes from unit to unit allows a company to reduce the need for manual reconciliation while still providing the flexibility needed to accommodate local statutory requirements.

Mr. Schneider explains how automating the rollups from the local closes as part of Roche's Fast Close initiative allowed the company to shorten its cycle: "All the affiliates have to report on workday three, at 6 p.m. local time. So everybody has the same amount of time available to do the local close. This means, of course, that the companies in Asia are already starting to report here in Switzerland on the morning of workday three. The European companies report basically at 6 p.m. our time, and then the Latin American companies, U.S. and Canada, and so on—they're reporting during the night. With our automatic consolidation, once all the companies are in we can start our work on the morning of workday four with the full consolidation available."

At IDT, Mr. Fischer believes that having everybody on the same system is key to improving the close process. "Any multinational or complex corporation that wants to work on improving the closing processes should select an appropriate ERP system," he says. "Then they will have to make the investment in both resources and capital to roll out that ERP system across their various entities within their consolidated group. This usually is time-consuming because, for example, different countries may require specialized customizations of the basic ERP system to accommodate the local statutory and/or regulatory requirements."

"We have an ongoing rollout of our large system integration, with the goal of moving all of our foreign divisions and subsidiaries into one consolidated ERP system," Mr. Fischer says. "As part of that, we have to customize our ERP software for certain countries—for example, France, Spain, Italy, and Greece—that have specific statutory requirements for items such as the general ledger chart of accounts numbering. In other words, specific numbering of how the general ledger has to look. That's different than what we use for the rest of the world, so that requires customization. To execute on these types of customizations, we often need to install additional software patches on our core ERP system."

But Rinaldo Pecchio, CFO at the Brazilian arm of $14 billion U.S. utility company AES Corporation, says the work processes are at least as important as the technology for streamlining the financial close. "Of course, you can do some pre-closing and try to anticipate some accounting issues [at the group level], but there are limits to that," he says. "The limits really are in the process, getting all the information available [at the local level] and putting it into the ERP system." In fact, he continues, "the most important thing [for integrating ERP systems across companies] is selecting the right processes."

Standardizing data collection processes and accounting standards among different companies is central to efficiency gains, according to the CFO of a Brazilian utility.

Due to legacy issues, AES Brazil still employs a separate ERP system at each of its three Brazilian reporting entities, which increases the work required for consolidation. Mr. Pecchio notes that the consolidation and close process could be improved by integrating the systems, but, he warns, "just installing a different version of the system with the same processes doesn't help you much. You have to take the opportunity to revise the process."

Standardizing data collection processes and accounting standards among the different companies is central to efficiency gains, believes Mr. Rolla at Cemig. "We are optimizing this process in order to reduce the time spent preparing the information, in each company," he says. "We are reviewing the process of cutting certain activities that can be done in parallel and so reducing the total [time]."

Mr. Fischer at IDT talks about the importance of taking a holistic view across the enterprise, not just concentrating on the individual pieces: "The key is not to look at any specific location implementation on an isolated basis. We look at each entity within our consolidated group as an individual organ, part of the bigger body that shares information and

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data in a uniform manner. It's very important for any corporation that has multiple locations or multiple users to be talking the same financial language, and for all of them to be using and accessing the same accounting and reporting system in order to create uniformity in the data."

Mr. Fischer acknowledges the effort that is required to make these kinds of changes. "The local units will have to get adjusted to using the new financial package, which currently they are not familiar with," he explains. "The local divisions will also need to adjust to the fact that the new system is often more time-consuming or the user interface often not as friendly, simply because it's more robust, so it requires more-detailed data inputs or more-detailed process steps to be done at the local level, before it can automatically roll up and facilitate the work at the group level." Consequently, employee acceptance and training are significant requirements in successfully implementing an ERP system rollout, he notes.

Integrating local entities into the enterprise system is a continuous process, adds Mr. Schneider of Roche: "At the local level I would say about 99% of the monthly data that we need can be extracted automatically from the underlying ERP systems, but in the future we see even better integration of our consolidation system. There are still a few data points, like headcount, that you do not find in your general ledger, which need to be added."

Group consolidation and close. Automating interfaces with reporting entities and adopting a "common language" enhances control, data quality, and responsiveness, note the interviewees. Just as important is actively anticipating and preparing for change by building flexibility into data collection, preparation, and reporting processes.

Like IDT, Catlin is in the midst of integrating financial systems across its units to optimize its closing cycle. Catlin operates four underwriting platforms—the Catlin Syndicate at Lloyd's, Catlin UK, Catlin Bermuda, and Catlin US—as well as a network of international offices. Currently, Catlin runs a monthly close for internal management reporting and a full hard close for quarterly external reporting. It runs an early close a month in advance and then "trues up" the numbers for the final close, if required.

Catlin's local entities currently submit Excel reporting packs, which are signed off on by their CFOs. These are then consolidated in Excel by the group finance function. This close process is labor-intensive, tying up the entity and group finance reporting teams as they manipulate the spreadsheets fed in from other functions, validate them, and maintain controls over the whole process. With the need for running the early close, says Mr. Freshwater, "The [finance team] is currently heads down in financial reporting for a large part of the year."

Automating interfaces, adopting a "common language," and anticipating change are important for optimizing group consolidation and close processes, say interviewees.

Although the early close allows Catlin to report results from its "hard" close at year-end faster than its peers, the company plans to eliminate the duplication of effort required by this practice (which is effectively a dual close). The company is investing heavily in implementing a leading consolidation software package, which Mr. Freshwater says will replace the need to produce the spreadsheet packs they currently prepare manually for their group consolidation and CFO sign-off.

Underlying the software package are a standard chart of accounts and a data model that are consistent across all of the entities. The integrated software being implemented by Catlin includes a full forecasting and planning system that will enable Catlin to improve its ability to manage a rolling forecast and ultimately replace the early close process with a robust, well-controlled hard close, with no surprises. "These initiatives in progress will create more time for value-added analysis through process improvements and automation," says Mr. Freshwater.

Establishing common and flexible standards across all entities, to the extent possible, also enhances control and adaptability at the group level. In some cases, companies need make only minor manipulations to conform local closes to the group close. Mr. Ho at Tesco Property says that the People's Republic of China GAAP is already very close to IFRS, which is the standard used at the group level in Hong Kong. "We just do China ourselves, and then on the Hong Kong level, we do a consolidation," he says. "Then we send it to the UK. Hong Kong probably has to do some of adjustment, but not much to fit the UK accounting."

Interviewees advocate for improving the finance function's ability to analyze closing data, as well as for keeping in close contact with auditors and regulators.

Mr. Ho does not see the different standards as an issue. "It's not necessary for us to do double accounting or run two sets of books," he says. "All the reporting formats are the same regardless of where they are located."

Catlin is in a similar position, but is looking to increase the degree it can leverage standardization even further. "We report externally under USGAAP," Mr. Freshwater explains, "but within the UK we do require some conversion from UKGAAP, although this is relatively minor."

And Mr. Balakrishnan says of Infosys, "Whichever GAAP is used [of the eight countries in which Infosys reports], we try to align our accounting policies as much as we can. If you look at our numbers in the different GAAPs, for example, the revenue and profitability are the same."

However, sometimes a company must pursue dual paths to accommodate different reporting requirements. In these cases, Mr. Schneider at Roche points out, careful planning to integrate the different sets of requirements as much as possible is essential. He explains, "Our concept is that, for all companies, the primary financial statements are prepared according to our internal group accounting and reporting guidelines, which are in accordance with IFRS. The local statutories are prepared from those records."

Rossi Residencial takes a similar approach in order to maximize its flexibility. As Mr. Audi notes, "IFRS is just upon us," and Rossi will be required to report in IFRS in 2010. However, the company has planned ahead for the transition, and feels it is well positioned to make the adjustment. "We report in BRGAAP, or the Brazilian GAAP and the USGAAP," says Mr. Audi. "The fiscal year 2010 has to be reported in IFRS, so that has changed the way that we consolidate. But the good thing about the systems and the organization that we currently have is that we have already incorporated the IFRS reporting internally, to analyze the impact. Internally, we follow what will be the impact on our business under the IFRS methods. This is one of the challenges we face, but we are very well prepared for these accounting changes, and the actual impact in the reporting cycle is going to be minimal."

Incorporating best practices internally ahead of anticipated changes in regulatory requirements has also benefited Infosys, Mr. Balakrishnan says: "For example, the U.S. made changes in its reporting when the SOX regulation came into effect, but we were practicing most of that long before the regulations. So when the change happened, we did not have any major difficulty in absorbing it."

The "last mile": Post-close activities. Following consolidation, improving the ability to analyze and use the financial data is important, say our sources, and paying close attention to control of the data and how it is communicated—among companies internally and with the auditors—can streamline the reporting cycle. Even with a high degree of automation, notes Mr. Schneider, "there are some manual steps involved from a validation and an internal control point of view."

At this stage of the closing cycle, says Mr. Pecchio of AES Brazil, "most of the time that we spend is on the financial analysis, the accompanying notes of the financial statements, on the explanation of the results, and on preparing the release—and that takes a long time." Adopting a process of continuous improvement is important for these areas that require management judgment, notes Mr. Pecchio.

Similarly, Mr. Ho reports that Tesco Property actively and explicitly pursues improvements in its close. "We have monthly management meetings where we think about how we can do it better," he says. "Not just to get to a four-day close, but more importantly how to make better use of the management reports or better use of the closing report, how to make our information better."

"The auditors' work is another time delay as well," notes Mr. Rolla at Cemig. "The auditors' work on the quarterly report is three people, and today it takes 15 days to complete. On the annual report, the auditors' work takes longer. They have to review the information, the balance sheet lines, and so on, so it takes longer. Our plan is to reduce this to a week, so cut it by half the time."

Preparation is central to Infosys's ability to maintain a strong and efficient working relationship with its auditors. Mr. Balakrishnan explains, "Our auditors do a continuous audit, so we do not come across any major audit issues at the end of the quarter. Any new contracts or accounting issues are discussed up front with the auditors."

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IDT has achieved similar results through simplification. "Downsizing and streamlining our close processes have improved our relationship with our auditors," says Mr. Fischer, "in the sense that now a smaller number of key finance staff control more of the total closing process, and thus, the people who are responsible for the closing process have better knowledge and a better grasp of the information they need to have productive discussions with the external auditor. Also, the auditors can access all the information that they need from fewer sources. It becomes an easier process for the auditors to get the full picture from fewer people."

Ultimately, keeping in close contact with auditors and with regulators is important for anticipating and responding effectively to change. "[It's critical to keep] updated with the changes [to reporting requirements]—knowing what changes are being requested, and understanding them," comments Mr. Pecchio. He says that AES Brazil keeps abreast of ongoing changes in reporting requirements and tries to anticipate the discussion with the regulatory authorities before the end of the reporting period. "At least we know what criteria should be used [ahead of time]," Mr. Pecchio says, "and we understand the implications of the change. As soon as we are aware of the change, we will discuss it, and we will define what has to be changed in the accounting."

One such change that U.S. filers will have to address will be the SEC's requirement for all public companies to use the interactive data format XBRL by June 2011. Inserting these data tags into financial reports—including footnotes—will allow investors and analysts to download them more easily, search for comparable data, and conduct more-robust comparative analyses. The largest companies are already required to provide XBRL filings in the U.S., with remaining companies being phased in this year and next according to company size. Many companies have begun preparing for this additional requirement, either internally by adding software modules or by outsourcing tagging activities to financial services companies. In either case, finance, accounting, and IT staff are likely to face additional demands on their time to prepare and monitor the data-tagging exercise.

Finally, quality and speed of the close have an impact beyond the statutory reporting, says Mr. Schneider. For the 2009 transaction that took Genentech private, for example, he notes that Roche's ability to announce high-quality financial results early was instrumental for issuing the required $45 billion of debt quickly and successfully. "Of course, you can also imagine the discussions we had with the rating agencies," he says. "It was an important point that we could demonstrate that we really have a full understanding and full control of what is going on with the cash flow side." The systems put in place for Roche's Fast Close project were instrumental in providing that assurance.

Improving the value of management reporting

Companies are finding value-added benefits from accelerating the close cycle across the entire process and throughout the enterprise. Beyond simply lowering costs and complying with reporting and filing deadlines, interviewees stress the value of "knowing where we are." Mr. Schneider says, "The first and most important driver behind Roche's Fast Close project was really the need for management to know the results within a short period of time, to be able to understand important critical developments, and to be able to act fast."

> The CFO at a U.S. telecommunications company notes, "Our goal is to give our business managers better control over how their businesses are tracking."

By moving beyond the spreadsheet culture and integrating close processes, companies are able to tie internal management reporting more closely to external financial reporting. Integration of internal and external financial reporting provides better controls over a company's financial processes. Better control translates into better safeguarding of assets, better compliance with regulatory requirements such as SOX in the U.S., and a stronger ability to ensure the quality and timeliness of management reporting. As Mr. Fischer of IDT acknowledges, "The benefits [of accelerating the monthly close] are extremely valuable in providing business managers with a more-timely understanding of their business performance, thus allowing managers to react more quickly and more proactively. Our goal is to give our business managers better control over how their businesses are tracking, both in terms of comparisons to agreed-upon or anticipated targets and in terms of past performance."

"When it comes to financial reporting and the closing process," he continues, "we find that our biggest challenge isn't getting our GAAP financials and SEC reporting in good shape under tight deadlines; rather, it's the ever-evolving managerial reporting needs which are more difficult to deliver when the organization is complex."

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For example, in many companies cash flow is something of an afterthought in the consolidation. But, as a result of Roche's reporting initiatives, notes Mr. Schneider, "for us it's a fully integrated part of the closing. Now, we always have a full understanding of the cash flows and their drivers at the same time as the income statement."

Letting the finance staff focus more of its time on what it does best in this way enhances the quality of the finance function itself. Mr. Balakrishnan of Infosys says, "We have around 250 or 260 employees in finance, but we outsource the routine transactions to our operations, so that finance staff handles the strategic aspects of the finance function, as well as the risk function and some of the legal and tax functions. A high-quality workforce, which focuses more on the high-end aspects and does not do traditional transaction work, helps to build a good finance team that can last for a long time."

A senior finance executive at a European pharmaceutical firm explains, "One of the rationales for the fast close was to free up resources on the finance side...to shift it toward more value-added activity."

While Mr. Freshwater anticipates that the automation of existing manual processes and additional controls implicit within the new systems will also result in some resource efficiencies for Catlin's close, the primary benefit is an improved automated controls environment. He also believes that the company will be able to "free up more [finance] time in the process, so that the balance between production, analysis, and understanding the numbers shifts and we have more time to really get into the numbers."

Mr. Fischer agrees, noting that, even with just partial implementation of IDT's integrated financial system rollout, IDT can more readily form a view of "the entire pie, not just a slice of the pie." This gives finance staff a faster and more accurate understanding of financial and operational performance. "By accelerating the close process, now we can devote more time to analyzing the numbers and their implications," concludes Mr. Fischer.

At Rossi Residencial, Mr. Audi notes that his company's successful implementation of an ERP platform more than 10 years ago allowed Rossi to gain scale in the finance department, enabling it to handle phenomenal growth in the business without adding anyone to the finance team. By leveraging automation to analyze variances in the close, the finance staff can apply its expertise to provide the most value to the company. "Rather than having to do a full analysis of all accounts," Mr. Audi says, "we can 'cherry pick' the type of analysis to do. So it's just one or two accounts that we are analyzing out of more than 100."

Mr. Schneider makes a similar point in describing the benefits Roche is gaining from its Fast Close project. Before undertaking the project, he notes, the company's closing activities took up much of the time of his finance people. "One of the rationales for the Fast Close," he explains, "was to free up resources on the finance side, not necessarily to reduce headcount but to shift it toward more value-added activity." In addition, the costs of the closing processes are clearly lower than they were before, he says, to the point where the initial investment in the technology has paid off relatively quickly.

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Managing change in financial close processes

Simply installing the technology is not enough; just as critical is changing the company culture and people's mindsets to work together and take ownership of financial results. Mr. Schneider comments on the investment in people that underlies Roche's successful adoption of the fast close: "I think the biggest challenge was on the people side. We had to bring all these 200 companies to the point where they were able to report, and they were on time. We did have companies that said, 'We will never be able to do that,' and they had all the reasons why it wasn't possible—the organization's too large and complex, we will have to make tradeoffs, we will have poor quality, and so on."

"Of course, we knew it was possible because we had companies already in the group that had done it and we had also made visits to other companies outside of Roche, to see what was possible," he continues. "But we had to work to change the mindset within our organization. We didn't just say, 'Well, you have to do this,' but it was a process of getting involved with the people in these companies, and helping them to overcome the issues and come up with solutions for any problems on the quality side or on the process side. So we didn't just leave the companies alone—the main point, I would say, was the mindset change."

The CFO at an Indian software multinational says about the company's ability to improve its closing efficiency, "You need to build a high-quality team that is focused and has the right mindset to make this happen."

Investing in rigorous training was key to making the new process work, according to Mr. Schneider. He says Roche has developed industry-leading in-house training courses for accounting and reporting. "These are demanding courses," notes Mr. Schneider, "but they are very rewarding for the employees attending them."

Rossi Residencial also found that implementing its ERP system actually changed the culture of the company. "[The vendor] obliges you to plan, so you have to input the data early in the beginning of the cycle, in order to run the company. So the entire cycle was organized, if you will, from the sale of the unit to the construction to the cash flow. Everything is inside the system, and it's very easy to see on a real-time basis, for example, the cost of a specific material—let's say, a brick in a project in the middle of the forest."

Instilling these changes in mindset and in behaviors was no simple task, Mr. Audi notes. The key was "training, training, training," he says. In much the same way that Roche implemented its Fast Close project, Rossi Residencial "created a kind of school inside the company—a laboratory that is like a company, with its own finance department and representatives—to teach people and the new hires how to do the right things. And then we followed up on their performance, shadowing them and staying closer to them in the early stages in order for them to be able to gain velocity and acquire the ability to report their numbers."

Being able to take full ownership of financial data and performance metrics across the enterprise is critical for allowing finance to employ its expertise to the company's fullest advantage. As a result of IDT's recent organizational downsizing, which affected the finance function headcount as well, IDT had to delegate more responsibility for financial reporting to fewer employees, giving the finance and accounting staff more ownership of the data and of the processes to obtain the data. Mr. Fischer has found that having fewer people working on the close (as a result of downsizing) has actually improved the timeliness and accuracy of IDT's closing process—fewer "fingers" touching every bit of data and introducing the potential for error and miscommunication.

In the end, it is the people who will make the system work better, as well as the system that allows the people to work better. In discussing Infosys's closing efficiency, Mr. Balakrishnan says, "While technology, structure, etc., are important, you also need to build a high-quality team that is focused and has the right mindset to make this happen."

Sponsor's perspective

SAP provides a complete set of solutions to help companies speed closing times, meet external reporting deadline requirements, and reduce errors—all while cutting tangible costs. These solutions span the entire closing cycle, from the local to group level, and include highly automated and standardized accruals, reconciliations, consolidations, and reporting.

For the local close, scheduling tools help you sequence, monitor, and control workflows across your organization, so the entire closing process progresses efficiently. Solutions from SAP include:

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- SAP BusinessObjects XBRL Publishing
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- Remove intercompany reconciliation from the critical path, improving both the speed and accuracy of the closing process
- Maximize productivity, minimize compliance costs, and increase confidence in the results through robust data collection functionality with integration to source systems
- Minimize closing workload and potential for errors by completing tasks before you start the closing cycle
- Meet new compliance challenges such as IFRS and XBRL

If you would like to know more about how SAP solutions can accelerate your financial close, visit our website at: http://www.sap.com/solutions/executiveview/finance/accelerate-financial-closes/index.epx

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