Four hidden costs of legacy close and consolidation

Why evolving your close and consolidation process can't wait

Wolters Kluwer

Executive summary

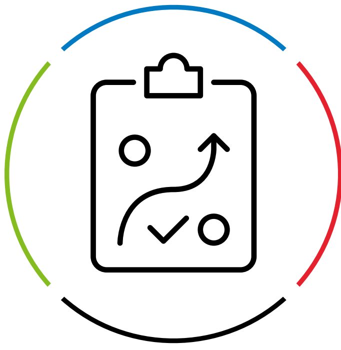
For many companies, consolidation is a process that simply exists. We don't refine it. We don't tinker with it.
We don't look at ways of innovating it. Especially when sexier innovations to analytics turn our attention to seemingly more influential financial processes.

When it comes to consolidation software, we believe we have the functionality we need, even if the process isn't ideal. The phrase, "If it works, don't fix it" comes to mind. But this mentality is inherently detrimental. While passing off a software upgrade could mean you're avoiding the inevitable, something even more worrisome could be underlying; staying with an inefficient system could be symptomatic of a Finance team so stuck in the trenches, you can't see there is a bigger battle to be won.

What if we told you that outdated consolidation processes are costing Finance more than time? In this whitepaper, we'll lay out unexpected ways traditional consolidation methods are draining your resources — financial, operational, and human — and tease out why an end-to-end, automated consolidation strategy is the key to unlocking consolidation's — and Finance's — insight generating potential.

In this whitepaper, you'll learn:

- The key indicators of a costly consolidation process
- Why we ignore mission-critical consolidation updates
- Four cost drains of legacy consolidation systems
  1. Financial statement errors
  2. Human resources consumed by menial tasks
  3. Data-less decision making
  4. Bound to the office in a virtual world
- How to evolve financial close and consolidation with automation



Key indicators of a costly consolidation process

How do you know if your financial close and consolidation process is slow leaking resources?If you're reading this, chances are you have an inkling something is amiss with your process. Have you experienced one — or more — of these pain points

- Late nights at the office during your financial close
- Extremely slow data processing
- Inability to easily update the system for the latest organization change or M&A activity or you are waiting to have IT update the system for you
- Ever-growing number of side Excel workbooks in addition to your consolidation software
- Frustration when last-minute changes occur, forcing you to reconsolidate the figures over and over again
- Worrisome low-level data quality and risk of errors that keeps increasing
- Inability to fulfill your potential as a business partner because you're overwhelmed with menial tasks, lack trasparency and analytic tools

If you answered "yes" to any of the above, your consolidation solution is likely not doing its job. An ailing consolidation software has one or more of these four indicators:

1. Your monthly or quarterly close takes longer than six days.
2. You haven't replaced your consolidation software in the last 11 years.
3. Your system requires high levels of customization in any one of the following critical capabilities: allocations, FX/currency conversions, intercompany eliminations, M&A.
4. Your close and consolidation software are divided by point solutions. E.g. one solution for account reconciliation, one for local close, one for group consolidation, reporting, disclosure, iXBRL, planning and by specific regulatory requirement.

If you see these maladies reflected in your consolidation process, we'll tell you now, they're not insurmountable. All it takes is a little automation to drastically turn this process around. In fact, **88% percent** of companies that completely automate the close meet the coveted benchmark of closing in under six days. **Seventy-one percent** of companies that use substantial automation complete their close in 6 days or less, compared to **43% who use some and 23% use little or none.** A little automation goes a long way.

Now, if you're thinking: "But we are comfortable with our current process," or other excusing thoughts like, "but are the resources, time, and mental energy of an implementation worth it?" Or "but we just made all the necessary customizations to our existing system." Consider this: your legacy consolidation system isn't a car that you can drive into the ground, even though the muffler's falling off. Your legacy consolidation system is like a smartphone that, without new models and regular upgrades, fails to patch through to the latest apps, begins lagging in its responses to your commands, loses its battery charge, and forces you to remain plugged in at all times. Technically, it works. But at what cost?

With that said, let's take a look at the four underlying costs of a legacy consolidation system.

Cost 1: Financial statement errors

Misstatements most often occur when information systems fail to accurately capture business transactions, or when financial reporting processes are not adequately aligned with the requirements in the applicable financial reporting framework. From changing reporting requirements to currency translations, from sub-group to group, child to parent company, one accounting system to the next: the chance for accounting errors and misstatements to evade internal controls is high, especially when completed in uncontrolled spreadsheets or in consolidation processes wrought with data that's collected by hand.

Let's look at account reconciliation. It's a great example of a close process that's especially vulnerable to error. According to a Robert Half and Financial Executives Research Foundation benchmarking study, 48% of U.S. companies that responded to the survey do not use any type of technology, tool, or system to reconcile accounts. In other words, these companies reconcile their accounts through human power. (We should note this trend is on a downward trajectory. More and more organizations are adopting technology compared to years previous.)

The survey also found that that 91% of U.S. organizations reconcile some 500 GL accounts at least quarterly. That's a lot of accounts to reconcile by hand! We all know account reconciliation is an essential vetting process going into the close. And yet, we also know that when executed manually in spreadsheets, account or balance sheet reconciliation is akin to gold panning. There you are, standing knee-deep in a cold glacial stream of accounts, sifting through line items for erroneous, fraudulent or irreconcilable transactions, one pan, one number at a time. The same goes for other processes within the umbrella of close and consolidation, whether that occurs during data collection, calculation, reconciliation, or roll up.

The consolidation process is onerous at best, and massively erroneous at worst. It's risky. It's taxes internal controls. It makes audits incredibly difficult. Afterall, it's pretty easy to gloss over an out-of-place figure when you're spreadsheet-blind after a day spent zoomed in at 150% in Excel.

Misstatements chip away at essential foundations: FTE time, money, and reputation. Ask yourself, or better yet, ask your boss: are these costs you're willing to incur?

Cost 2: Human resources

The cost of human resources swallowed by legacy consolidation system is layered like an onion. First, there's the obvious top layer: long, manual consolidations require someone — or some few — to oversee the process. Investigating unreconciled accounts takes time, as does hunting down the latest numbers, vetting them, and running them through a system with achingly slow data processing. Sixty-one percent of respondents in a **recent Ventana Research study** reported using spreadsheets to manage post-close and consolidation processes. These spreadsheet-based processes are spilling even more costs than their legacy system contemporaries.
How do spreadsheet-based processes impact staff? By consuming them.

The president of IT consulting firm, Resolute Technology Solutions, Rod De Vos, **sums up the impacts nicely**: "As a company expands, the growing number of accounts, entities, transactions, and amplified organizational complexity all increase the probability of errors and risk. Without automated systems, these issues must be addressed by an ever-increasing headcount. And usually, until the urgent need for staff is addressed, individual workloads and stress will increase resulting in a suboptimal work environment." Not only is close and consolidation an efficiency and cost issue, but it quickly transforms into an HR issue that could cost your organization in turnover, re-training, and one specific benefit that's hard to quantify until it's lost: talent.
Then, to continue the onion analogy, there's the more conspicuous layer of human resource consumption: IT. Legacy consolidation systems inundate IT departments with systems management, the task-list of which is never-ending.
De Vos **breaks it down as**:

"The problems [with legacy systems] would be the language. [...] The languages are borderline obsolete, no longer supported, they don't scale well. If you want to open up different locations, they don't necessarily transition themselves to be a distributed environment. That's a technical problem. The other problem is they've not been able to necessarily keep up with the functionality that the modern customer has come to expect. Things like drop downs, filling-out forms, AI and other things that run in the background – make automation much more efficient."
He goes on to list their inability to mine data and integrate new features, the development and maintenance of which fall on IT's shoulders.

Ultimately, the more you automate, the more your staff is freed up to focus on mission critical, value-driven aspects of their job. Finance can focus more on analysis and reporting. IT can focus on maintaining critical networks and assisting operational units. For those with legacy systems, tweaking the software code to include automation or new capabilities only adds to the burden on both departments. The only real path forward is an entirely new one.

Cost 3: Data-less decision making

"Drive strategy!" "Tell us what's going to happen next!" "What are the risks of this initiative?" "How should we proceed?" Finance's role has evolved.
The c-suite has come to see Finance as a stratic partner to the business. All the while, Finance is still learning to juggle its new roles as data steward, data interpreter, and, more recently, data prophet.

And yet, if you can't be confident in your consolidation, how will you ever be confident in your analytics, your reporting, or your recommendations? Close and consolidation are the foundation that all other financial processes branch out from. This means that a lagging, isolated, poorly systematized close and consolidation software eats away at the success and impact of all other processes.

Ventana Research found three factors determine how fast a company performs it's close-to-disclosure:

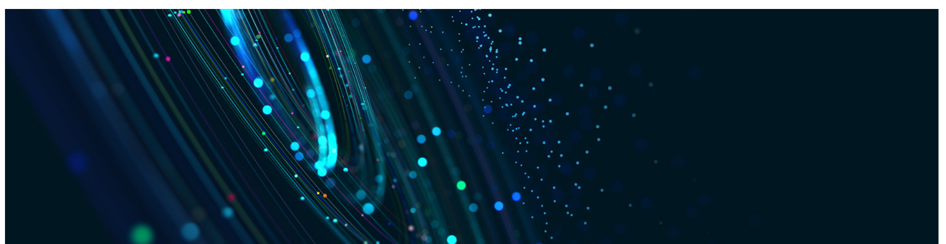
1. How well each process is designed and executed
2. How a company manages its processes and data
3. Software used to support the end-to-end cycle

Everything is interlinked. This is the fundamental reason that fragmented point solutions bog down the close — and all peripheral processes — in data collection. Like the King Midas of inefficiency, everything legacy consolidation solutions touch start to lag.

Intrinsically, problems in the close ricochet upwards into the highest level, including decision-making processes. You could have cultivated the most sophisticated culture of analytics, you could have purchased the most expensive, cutting-edge software, and still, your efforts would be undermined by your inadequate foundational processes.

To make matters worse, most organizations haven't mastered data management at the most basic level. According to **FSN's 2020 Future of Financial Analytics report**, 48% of companies rate their processes as data overloaded (they struggle to organize many conflicting data sources and experience poor governance) or data constrained (they struggle to get ahold of the data they need to drive insight and decision making). Unsurprising then, it is that only 14% of surveyed companies reported that their analytic efforts were insightful, i.e., an analytics mindset pervades everything an organization does. The remaining 86% characterize their analytic capabilities as subpar.

At its core, close and consolidation is a data management issue. Implicitly, it's a large part of the analytics problem. Without integrating the close and consolidation process into the rest of the financial management mix, you'll continue to experience data management issues that hinder your ability to trust your data, your reports, and your decisions.



Cost 4: Bound to the office in a virtual world

Or in other words, agility.

The post-COVID world is a virtual world. In an instant, we've been forced to work from our homes and move entire enterprises online overnight. The digitization of finance has long been touted as an incoming trend, but the pandemic has pushed it through to an urgent red-light action item. If we cannot access our financial systems in a remote environment, how can we complete our financial processes from home?

Ventana Research **recommends** that companies digitize the close first because of its pivotal role in the accounting cycle and to avoid disrupting the entire financial management system.
"Software can manage the checklists that guide the close, ensuring all steps in the process
are performed as they should be in the proper order. Tasks are assigned to specific accounting team members letting them know their assignments and due dates, while alerting managers when tasks are overdue." The benefits go on: software can electronically manage the paper trail of attachments, review notes, signoffs, and comments. Electronic file boxes of all consolidated materials and data changes make for less arduous and faster audits.

There is no end in sight to the new work-from-home culture and the need for agility it has forced upon us. The pandemic, its physical distancing, and its manic twists and turns requires a level of virtual connectedness and strategic fluidity that could very well spell the end of all on-premises software. While the future is up in the air, one thing is certain: critical, repetitive processes, like close and consolidation, must be virtualized if for nothing else other than the safety and well-being of your finance staff.

Closing thoughts

If the impacts of legacy consolidation could be boiled down to a single phrase, it would be
"cha-ching." People costs. Resource costs. IT costs. Time costs. Of course, the costs don't end with those we've broken down in this whitepaper. These costs have longtails that snake into every aspect of financial management. Disjointed consolidation processes muddy the regulatory compliance waters on local and group levels where mixing calculations and methods becomes a dangerous trust game — can you be sure your figures and your subsidiaries are prepped like-for-like? Can you be confident information is gathered accurately? Speaking of subgroups, large global companies with subsidiaries that cross borders also have to deal with currency matching and fluctuating interest rates which require updates so constant, final figures are always behind.

We could go on, but the point has been made; legacy consolidation systems are costing you more than the comfort of using them is worth. It's time for the office of finance to evolve from the bottom-up, starting with the close. Only then can we meet our potential as a strategy-driving, data-centered, forward-thinking department that decision-makers rely on. While we all have an eye on alluring technologies — like predictive analytics and forecasting — we must remember that, to use these technologies, you must have a firm foundation of consolidated data and the human resources available to analyze results. And that's precisely what automated close and consolidation promises.
An accelerated process that streamlines corporate data and allow Finance to do what we do best: understand the numbers.

With CCH® Tagetik financial close and consolidation software, we manage the complexity so you can accelerate the close.

Learn More →

Get a fast and accurate close with CCH® Tagetik

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