

FSN Executive Briefing



Why Modern Finance functions are moving to a Financial Close with a 'Digital Edge'

by Gary Simon

Why Modern Finance functions are moving to a Financial Close with a Digital Edge

Despite the vast sums of money invested in the financial close process, historical levels of dissatisfaction remain stubbornly high. According to one recent report¹, 68 percent of respondents say they have inadequate visibility into reporting processes, 84 percent of finance managers say they find it difficult to control the quality of financial data and 15 percent of global businesses have missed statutory deadlines.

In the light of these disappointing findings, modern finance functions are turning their backs on standalone financial consolidation solutions developed in the nineties and looking to modern solutions based on 'digital' technologies (cloud, mobile, Big Data and social) to provide a more holistic and agile approach to the governance and conduct of the financial close process.

Another survey² highlights that CFOs who disregard 'digital technologies', such as cloud, are putting their businesses at risk. That's because agile competitors are not only leveraging digital technology to create new and disruptive business models but are also using cloud technology to re-imagine and transform internal processes such as the financial close.

A 2014 survey³ illustrates even more compellingly that more CFOs are looking to the cloud to modernize the finance function. The study, carried out by Longitude Research, says that more than two-thirds of executives have adopted a cloud-based system for core financials (24%), or are planning to do so (45%). Even higher numbers are adopting cloud-based financial consolidation and reporting.

Indeed, 29.1% are already deploying financial consolidation and reporting in the cloud and 24.6% expect to be in the cloud within a year. Only a mere 17.5% say that they do not anticipate using the cloud for financial reporting.

Clearly, organizations that ignore these trends risk being left behind and missing out on significant cost savings as their peers adopt more nimble and efficient close processes. In fact a 2014 McKinsey study⁴ shows that the bottom line gains from innovation around internal processes using cloud and other digital technologies are frequently superior to new customer-facing or other external uses of digital technologies.

So how can CFOs give their organizations a 'digital edge' in financial close management?

Completeness of process

Traditionally, the close process has been supported by financial consolidation systems and to a much lesser extent, ERP systems. Complex multinationals with heterogeneous operations tend to be heavily reliant on consolidation systems that can be superimposed on diverse operational systems, whereas, more

homogeneous organizations, can more easily rely on a corporate-wide standard chart of accounts in an ERP system. But over the last decade, the financial close process (which runs from period close in subsidiaries through to electronic filing to regulators) has been continuously stretched by regulation, broadening information needs, increasing business complexity and change. And yet despite this background, financial close applications have hardly changed, leaving large gaps in functional capability and process support, most notably, around account reconciliations, task management, transaction matching and even journal entry.

Some of these needs have been met by software vendors on a piecemeal basis, but smart CFOs know that straight-through processing (everything right first time) requires end-to-end process support. But as a result of the shortcomings in the process, business analysis and decision-making (a key outcome of financial close management) remains fraught with difficulty for many organizations. No wonder that facilitating analysis and decision-making remains a top priority for CFOs⁴ and IT professionals⁵.

¹ "The Challenges of Corporate Financial Reporting", May 2012, Accenture and Oracle

² Getting on Board: Why 'Crossing the CASM' Is Key to Minimizing Risk; Wharton, University Of Pennsylvania March 2014

³ "Empowering Modern Finance" 2014 Longitude Research on behalf of Accenture and Oracle

⁴ Survey Analysis: CFOs' Technology Imperatives for 2014 FERF Issue Alert 2014.

⁵ 2015 Society of Information Managers (SIM) IT Trends Comprehensive Report 2015

The emergence of cloud platforms

However, the advent of the cloud and in particular comprehensive financial control and automation platforms supported in the cloud is having a profound affect by bringing together all of the essential application 'components' into a single sharable environment, in which applications are built to a common design standard, they can share common metadata (structural information, such as cost centres and accounts), security, user set up and user interface.

The scalability, immediacy and accessibility of cloud platforms such as BlackLine enables all parts of the organization to enjoy access to the extra functionality it needs, wherever it may reside and this is particularly important in relation to the financial close in which there is a need to

1. reach out across the entire organization with high user participation;
2. where management needs complete visibility of the process, on-demand and
3. where there is a need to support collaboration between individuals within business function and between business functions.

The cloud encourages collaboration

Enhancing the user experience with collaboration allows the finance functions to evolve from the historic approach in which close tasks were handled sequentially to a position in which more of the key processes can be managed in parallel. A new report, "Modern Finance

in the Digital Age⁵", points out that this allows the finance function to take care of a significant number of account reconciliations outside of the critical path of the close, rather than in the middle of it, which is traditional – and problematic – way to handle reconciliations.

And it's not just balance sheet account reconciliations that can be shifted off the critical path. It is also possible to bring forward detailed transaction matching and journal entries which form an essential part of close tasks in subsidiaries and the corporate centre.

Furthermore, task management in the cloud allows the tasks and issues that are intrinsic to the financial close such as audit evidence, management commentaries, externally generated documents such as balance confirmations, compliance sign-offs, checklist of close tasks and instructions to be maintained in a central and secure environment. And embedded workflows allows tasks to be routed between the different users in a process chain. This may be to obtain a compliance approval, to escalate an issue to a supervisory level or simply to invoke the next stage of the process. Linked to email and alerting systems including mobile devices, this provides the means to expedite the close process whilst maintaining appropriate levels of control.

And once tasks are accessible in a single shared environment they become visible to authorized users anywhere in the process, their status can be captured courtesy of integrated workflow and they are amenable

to measurement. A rich repository of performance built up over time and embedded in the application helps to identify the delinquent tasks that hold up the overall financial close, yet if tackled could bring about profound improvements in financial close management.

Summary

Financial close management capabilities have not kept pace with market, regulatory and technology developments. Many information and process requirements fall into the cracks between stand-alone consolidation systems developed in the nineties and old ERP systems. But the pronounced shift to digital technologies and the emergence of complete financial controls and automation platforms in the cloud, such as BlackLine, is providing a step-change in capability and a way forward for process improvement.

Cloud platforms such as BlackLine's offer the prospect of complete process support for task management, balance sheet account reconciliation, transaction matching and journal entries without disrupting existing architectures, enabling the delivery of enhanced collaboration, process visibility and business agility. Now that the cloud is maturing, new research is emerging which shows that businesses that leverage digital technologies to improve internal processes are rewarded with superior returns on the bottom line as well – the so called 'digital edge'.

About Gary Simon

Gary Simon is Group Publisher of FSN Publishing Limited and Managing Editor of FSN Newswire. He is a graduate of London University, a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the British Computer Society with more than 27 years' experience of implementing management and financial reporting systems. He is the author of four books, many product reviews and whitepapers and as a leading authority on the financial systems market is a popular and independent speaker on market developments. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

About BlackLine

BlackLine is the leader in Enhanced Finance Controls and Automation software and the only provider today offering a completely unified cloud platform—built from a single code base—that supports the entire close-to-disclose process, as well as a host of other key accounting and financial processes. BlackLine's Finance Controls and Automation Platform increases business efficiency and visibility, while ensuring the highest degree of balance sheet integrity.

Delivered through a scalable and highly secure cloud model, BlackLine empowers more than 900 global companies to reduce the time and resources required to execute month-end closing with unparalleled accuracy, fueling confidence throughout the entire accounting cycle. With more than 100,000 users in over 100 countries, BlackLine complements existing Corporate Performance Management (CPM), Governance Risk and Compliance (GRC) and Enterprise Resource Planning (ERP) systems.

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