The Last Mile of Finance: Moving from "Well Enough to Optimal"

Get Past the Tasks… Let the Process Work for You!

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Defining the "Last Mile of Finance"

The "Last Mile" of finance is a term that was coined in 2006 by Eric Keller, CFO at Movaris*, as a way to call out the criticality of the processes that occur in the last few days of a period to bring financial information to the market place. The "last mile is" the final series of quality assurance steps involved in preparing a company's financial results for public release and regulatory filings. The "last mile" runs from sub-ledger close to regulatory filing. Like the production of any good, the quality assurance and finishing processes are comfort and assurance that the company is well represented by its product. Unfortunately for finance, the assurance which should occur in the "last mile" is often tainted by a lack of visibility and manual processes which results in unpredictable and unreliable outcomes. A predictable and transparent "last mile" allows the Office of Finance the agility to sustain long-term growth.

The processes included in the "last mile" encompass: close, account reconciliations, compliance and reporting. The master task list encompasses steps such as closing sub ledgers, consolidating global results, balancing intercompany accounts, reconciling balance sheet accounts, analyzing and verifying final balances, creating accruals for taxes and other payables, calculating judgment entries for intangible asset impairments and amortization, and finally preparing the financial statements including the supporting notes and XBRL tags required for regulatory filings. Running often in parallel are the tests of the controls to ensure the underpinning processes controls are operating as designed. Adding to the complexity is the interdependence of the tasks which requires precision in sequencing and handoffs to ensure the work continues to flow. The list of interdependent tasks is extensive; the time frames are short and the processes notoriously manual which often make the "last mile" the bane of finance.

Why Not Leave Well Enough Alone?

A CFO magazine reader survey cites that 49% of finance professionals surveyed responded that finance is "functioning adequately but not optimally." It is the drive to "optimal" coupled with macroeconomic changes that is moving finance towards a production platform. Since the 1960s, starting with product production and now moving all the way to customer management, most companies have been working towards building in the quality controls and assurance processes that create outcomes which are predictable and reliable. Finance is the last bastion in the company to be given the tools and resources to move to a production mode. Changes such as SOX compliance, declining resources, shortened filing requirements, globalization, outsourcing, shared services and increasing regulatory compliance such as XBRL are pushing companies to reconsider how financial results are created.

In speaking with CFOs and controllers and reading surveys taken in these tough economic times, it is apparent that one of the greatest issues it the mismatch of the goals of controllers and CFOs and the actual daily work of the finance team. The Duke University/CFO Magazine survey shows the top macro concerns for CFOs in their own companies to be: 1. Ability to maintain margins; 2. Cost of health care; 3. Morale and productivity; 4. Working capital; 5. Forecasting results.

The tension between goals and realities always exists and is healthy to a point at keeping employees and management engaged in working towards a vision. However, the gap between goals and daily efforts is currently vast in many finance departments which is resulting on the upside in the movement to change or on the downside declining morale. The skills and time required to support the activities above include the deep analytical skills and technical writing skills most available in the Office of Finance. When this talent is buried in month end closing, finding the means to comply with every changing standard (such as XBRL), or chasing down key supporting documents from across the globe, frustration runs very high.

Much progress has been made in the past 20 years in the Office of Finance. Many clerical tasks that were the source of errors and delays have been virtually eliminated with general ledgers systems and ERP. Shared services and outsourcing have streamlined the payroll, payable and invoicing processes to being the desired "lights out" processes envisioned by finance in the early 1990s. Consolidation systems have quelled the pain on intercompany reconciliations and "rerun" of numbers for adjustments. Analytics have been greatly aided by data warehouses and CPM tools. Finance is involved in critical company projects and the esteem of the CFO has risen to the point that the Office of Finance is a route to the top of many organizational positions including CEO. However; there continues to be the lack of predictability, standardization and reliable outcomes that create opportunities for a higher degree of contribution to overall organizational success by finance. The desire to move the earnings release forward to have the full attention of analysts and the unquenchable need for more exact final numbers early in the cycle continues to drive the desire for faster and better in the "last mile." Leaving "well enough alone" is not the mantra of any Office of Finance in a progressive global company.

Optimizing the "Last Mile" - What Remains

The high level "last mile" processes are laid out simply below and the current and future states briefly outlined:

Close

Current State	Optimal
Manual task management	System administered global process
Compliance separately managed	Fully integrated close, compliance, reporting
Back end issues and performance reports	Transparency to issues and performance
Preventative quality assurance	Detective quality controls

Compliance

Current State	Optimal
Multiple overlapping efforts	Single view, integrated processes
Scoping manual and static	Business rules driven scoping, dynamic updates
Support created post completion	Support created as process occurs

Reconciliations

Current State	Optimal
Multiple approaches and definitions	Single global standard
Unreconciled amounts unknown	Unreconciled amounts tracked and reported
Global status by account unavailable	Transparency to all reconciliations
Operational reconciliations manual	Fully automated operational reconciliations

Reporting

Current State	Optimal
Centrally executed and managed manually	Centrally managed, globally executed, technology administered
XBRL is a "bolt on"	XBRL embedded
Editing sequential	Editing collaborative and transparent

The remaining issues to be conquered to create a production platform for finance have to do with integration of processes and technologies to enable global standards and create predictable and accurate results. Here is the list of what remains to be done:

Enforceable global standards: Arriving at a standard approach to a process is becoming critical in global companies. SSC and outsourcing are of great help to this effort, but there continue to be many variations on theme among company location in such task as reconciliations, subsidiary reporting, and close requirements. Turnover is often painful as much knowledge is retained in individuals and departs when they leave. A single agreed upon approach that is enabled by technology to enforce the tasks, follow up and report on exceptions is creating stronger controls and efficiencies. The system of record underlying an automated standardized approach allows that approach to be sustained by a system and smooth the transition of human resources.

"Push" Task Management: For finance team members, technology can deliver all of the required information at the right time with all the correct requirements to provide a jump start on doing value added work as opposed to non-value added task set up such as finding last period's data. All the dependencies can be attached and work will be stopped until prior dependencies completed to prevent wasted efforts and inaccuracies. Additionally, the work can then be "packaged" with all the requisite support and sent through an iterative review process. Allowing a system to manage the administration of a process increases productivity and allows people to focus on higher value activities.

Process Transparency: A key to process agility is management's ability to correct course mid process based on issues or business needs. Finance management continues to report the frustration that they are informed or discover issues late in the process which causes a whirlwind of last minute activity and a constant fear of unpleasant surprises. Process management tools are starting to be used in finance to escalate issues and performance failure during "the last mile". Early warning enables process adjustments and work load shifts. For example, notification that allocations have not been run or a key person no longer available, allows management to shift priorities and keep work flowing without sacrificing quality or missing deadlines. The capacity built by having process transparency supported by task management tools is the beginning of a production platform. The ability for finance to be able to react quickly to changes in business and adjust course with operations is critical to a company's growth.

Embedded controls/compliance: One key learning from SOX compliance was to embed controls into the daily operations and to move testing out of the "last mile" cycles where possible. This approach is starting to prove true for XBRL as well. Companies are finding that layering on XBRL tagging, and verification in the final throws before reporting is adding a great deal of stress to the process. The option of managing tagging "off cycle" and keep up with XBRL compliance requirements in house is very appealing. Additionally, having a user friendly interface to translate between HTML code and accounting enhances controls and increases user efficiency.

Integrated technologies: The integration of existing technologies across the "last mile" is where the true ROI is garnered. The interdependency of the "last mile" tasks allows for technology to make the links between close tasks, controls, and the published results which gives management great insights into the processes. For example, the ability to collaborate across the globe to quickly gather the needed data for a footnote such as a lease footnote and see that the numbers have been validated, are comparable and have the required support provides management with embedded control and insight into any issues on that topic. The agility to be able to provide newly acquired accounting department an automated set of standards, task and requirements to close and meet company protocols is a competitive advantage. The recommendation of analyst and preference of most finance managers is to have technologies that can be easily integrated with existing systems and ultimately manage the entire "last mile" in a holistic approach. The synergies created by having an integrated set of "last mile" technologies include tangible ROI and by optimizing resources.

Moving to Optimal

The reasons for having a well managed finance operations are obvious on the surface and include efficient use of resources, meeting regulatory compliance, avoiding embarrassing restatements, being acquisition ready and obtaining needed financing. However, taking a holistic approach to the "last mile" can create synergies across finance governance that can create insights and efficiencies well beyond a check in the regulatory box. As noted by Gartner analyst Jon Van Decker, "When considering the automation and unification of critical financial processes, such as account reconciliations, SOX compliance and financial close, the whole is greater than the sum of its parts. These activities are highly dependent on each other and, when unified, create new insights and return on investment (ROI) savings." W hen finance resources have sustainable and agile processes they are to consult and support key operational projects, create in depth analytics across, and have the streamlined operations to react to business changes. The "last mile" is critical to a company's growth and requires the production mindset and tools to deliver predictable and reliable results to the market place.