Strategic Considerations for Financial Consolidation Systems

Deciding When Dedicated Software Is the Right Choice

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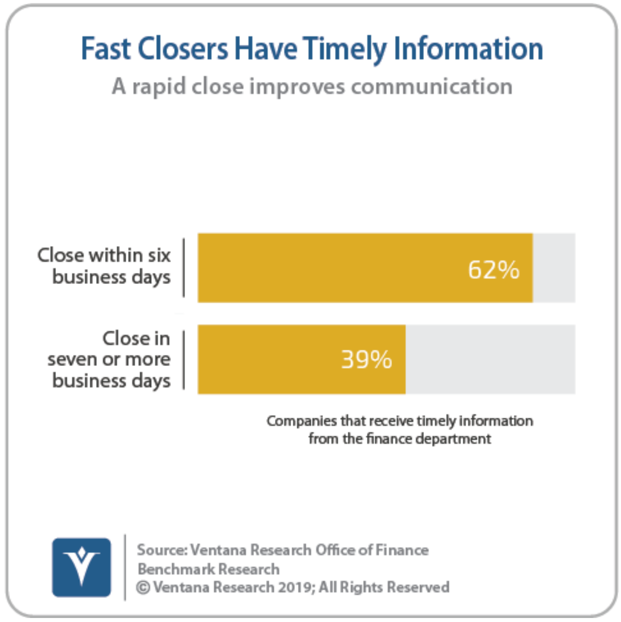
Speed and Quality of the Accounting Close

Consolidating and closing the accounting books is an essential core process for the Office of Finance. Efficient and reliable consolidation — the process of combining financial results from multiple legal entities and subsidiary companies — is essential for creating timely, consistently accurate corporate financial reports. Organizations periodically examine the software they use for consolidation to improve efficiency, enhance quality or accelerate their close.



The accounting close should be completed within one business week. This ensures that executives and managers get timely financial and managerial information on which to act. Our Office of Finance research finds that nearly two-thirds of those companies (62%) that close within six business days say they provide timely information to their stakeholders, compared to 39 percent of those that take longer. The research also finds that half (49%) of organizations take seven or more business days to complete their close.

When Finance and senior management decide they want to accelerate the close, make the process more efficient or improve its quality, they often examine how the financial consolidation software in use affects its close. This paper suggests a strategic framework for performing that examination and making subsequent decisions regarding any software changes.

GL Structures and Consolidation Options

Before beginning an evaluation of financial consolidation software, it is important to identify the structure of the organization's general ledger (GL) since the decision on how to replace consolidation software will depend chiefly on this structure. There are three basic ways in which a GL system can be structured.

- All business units and legal entities use a single GL from one vendor that has a single chart of accounts (referred to as a "single instance").
- All business units and legal entities use a GL from a single vendor but with multiple charts of accounts (or instances).

- The organization uses multiple GLs from multiple vendors. This usually develops over time as, for instance, business units make their own GL purchasing decisions or through mergers and acquisitions. Our research finds that in companies with 1,000 or more employees, 69 percent of companies have general ledgers from multiple vendors and 27 percent have them from four or more vendors.

Organizations have three primary options for the consolidation tool they use: spreadsheets, the GL's built-in consolidation capabilities or dedicated consolidation software. Each option should be considered in the context of the organization's GL structure.

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Spreadsheets

Spreadsheets are a poor choice for managing consolidations for three main reasons: They are error-prone, they are time-consuming relative to using an application because using them typically is a labor-intensive manual process, and they are inherently less controllable and auditable than enterprise systems. Using spreadsheets to perform the accounting consolidation is likely to drive external audit fees higher than other alternatives and consume a greater amount of staff time. Our spreadsheet research shows that 35 percent of participants routinely find data errors and 26 percent find errors in formulas in the most important spreadsheet they use. Our research also reveals that companies that are heavy users of spreadsheets in the close process estimate that they could save an average of 1.7 days in their close process if all errors were eliminated.

A General Ledger's Consolidation Capabilities

If an organization has a single-vendor, single-instance GL structure, using the consolidation capabilities of the general ledger is usually the easiest and most cost-effective choice. It's really that simple.

The exception is when the consolidation capabilities provided by the GL are inadequate for the organization's needs. For example, when it has a complex legal entity structure with multiple joint ventures or cross-shareholdings, or when it routinely must make a complex set of allocations as part of the close, the GL's consolidation capabilities may not suffice. The heavy use of spreadsheets to supplement the consolidation process is a key indicator that the GL's capabilities are inadequate. Heavy spreadsheet use is time-consuming and poses a compliance risk because attempts to control spreadsheets aren't always effective.

For organizations that use a GL from a single vendor but have multiple instances, the choice isn't as clear-cut, but the essence of the evaluation is the same. If it can utilize the capabilities of the GL without resorting to a heavy use of spreadsheets, then the GL is likely the best choice. Otherwise, it is worth considering a dedicated consolidation system.

Consolidation Software

Dedicated consolidation software was created to simplify and speed the consolidation process for business entities with multiple GLs. Our research finds 69 percent of companies with 1,000 or more employees have general ledgers from multiple vendors and 27 percent have them from four or more vendors. Ventana Research advises organizations using GLs from multiple vendors to use a dedicated consolidation system that is designed to make their close more efficient and reliable. A dedicated consolidation system may also be the right choice for an organization using a single GL vendor but relying on multiple instances, especially if it is using spreadsheets to address shortcomings in their GL's consolidation capabilities.

Migrating to a Single-Vendor, Single-Instance Structure

Organizations that have multiple GLs and are considering replacing existing consolidation software are sometimes advised to move to a single-vendor, single-instance structure. There are situations where this approach is a good alternative, especially if the process of moving to a single instance of a single GL is relatively simple and inexpensive. However, that is not always the case and it may be difficult to sustain this structure, especially if an organization subsequently makes an acquisition that is large or complex.

Make a Fact-Based Decision

If an organization hasn't already done so, it's important for it to have a clear vision of what the future consolidation and close process should be. For instance, the objective may be to streamline the process, to close one or more days sooner to provide executives and managers with financial and management reports sooner, to make the process more efficient, to facilitate post-merger integration or some combination of these four. This vision should drive any RFP process.

When an organization is contemplating changing the software it's using to manage its statutory consolidation process it's almost always a sign that there's something wrong with the status quo or that there are concerns about its ability to support the company's strategic direction. Especially if the organization has delayed taking action in the past, take this as an indicator that doing nothing is likely the wrong option.

Next Steps

We recommend the following next steps:

1. Evaluate the effectiveness of your current consolidation system and process and its ability to meet future requirements.
2. Using our framework, determine the most appropriate structure for both your consolidation process today and the corporation's strategic direction.
3. Find out what your peers are doing. What direction have those using your same vendor, product, and version taken? Are they happy with their decision? What would they do differently?

It's also useful to evaluate your current vendor's strategic direction to determine if it's aligned with your future requirements. To have an informed understanding of your options, compare offerings from two or three other vendors to determine the best choice for the current and future state of your enterprise.

About Ventana Research

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