

Account-to-Report: A Critical Link in the Finance Value Chain

Results from our 2020 Account-to-Report Performance Study showcase the practices of top performers

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EXECUTIVE SUMMARY

Account-to-report organizations faced a difficult challenge early in 2020, when the Covid-19 virus spread across the world. As countries issued shelter-in-place orders, the close process had to "go virtual" almost overnight. Admirably, most organizations responded well and delivered on time despite significant disruption. However, the crisis exposed significant performance gaps between typical and leading account-to-report organizations (i.e., the peer group versus top performers). Fortunately, these are mostly remediable by deploying specific best practices.

A CORE ELEMENT OF THE FINANCE VALUE CHAIN

Account-to-report is at the center of the finance family of processes and is a critical link in the finance information value chain (**Fig. 1** on next page). Its role is to transform transactional data from upstream operational processes into complete, correct and compliant information. That information can then be used to populate group consolidated results, which underpin information provided to stakeholders; feed reporting processes at the legal-entity level; and provide the basis for statutory and tax accounting reports. This information is also consumed by other areas of finance. For example, financial planning and analysis (FP&A) uses it to develop insights and support critical management decisions.

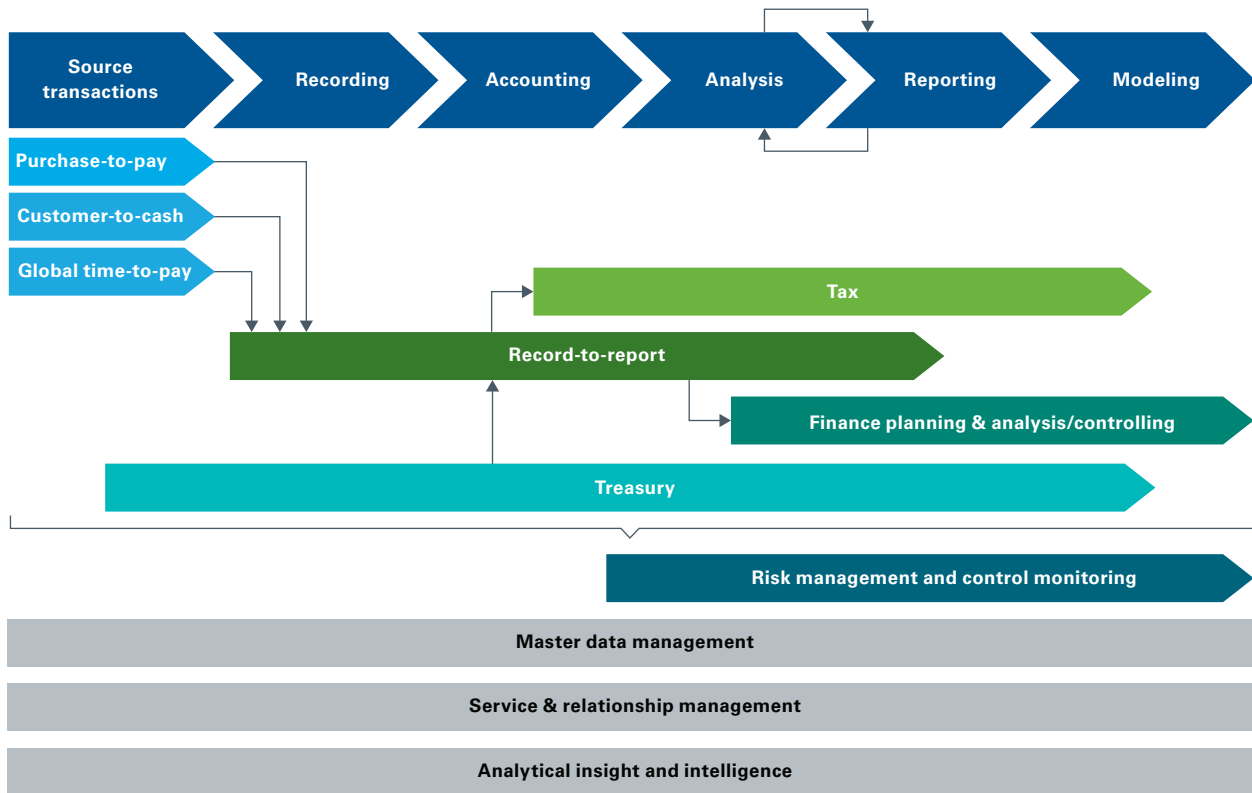
Finding the right balance

Because account-to-report is so essential to the flow of internal information, transformation initiatives must maintain a strong balance between cost reduction, information integrity and service quality. That means

organizations cannot cut corners to speed up cycle times, risk running afoul of regulatory requirements, or make mistakes that can impact downstream processes like FP&A, management reporting and tax. Consequently, The Hackett Group recommends measuring performance and monitoring the progress of account-to-report transformation projects using a scorecard approach, which includes what we call "the 3Es": efficiency, effectiveness and experience (see sidebar on page 3).

Efficiency refers to the cost, staffing and time it takes to gather, consolidate and vet financial information. Its value is derived from optimizing resource productivity and eliminating waste. Effectiveness refers to the time it takes to disseminate, disclose and file information. Its value is derived from aligning services with defined business needs. Finally, experience refers to the well-being, skills and functions of employees; accounting process integrity; and the perceptions of internal and external customers.

FIG. 1 The finance information value chain



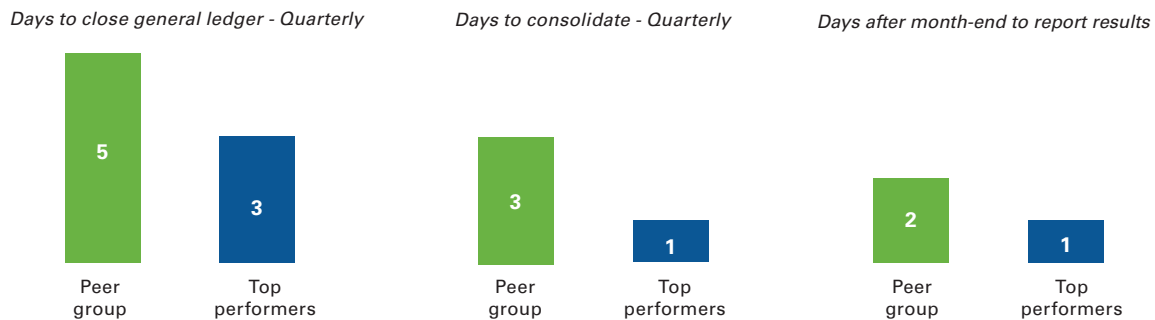
Source: The Hackett Group

DIFFERENTIATORS OF TOP PERFORMANCE

In our 2020 Account-to-Report Performance Study, we collected extensive efficiency and effectiveness metrics and designated as top performers those organizations in the top quartile of both, versus the peer group (i.e., the median of all other organizations). Our analysis revealed substantial differences between the comparison groups.

Fig. 2 captures the cycle times for three critical close activities, showing as well how the three feed into each other. Because top performers close the books 40% faster each quarter and consolidate accounts three times more quickly than the peer group, they are able to report month-end results in half the time (five compared to 10 days).

FIG. 2 Process effectiveness



Source: Account-to-Report Performance Study, The Hackett Group, 2020

The "3 Es" of account-to-report

Efficiency

- Process cost
- Number of FTEs
- Journal entry automation
- Days to close
- Days to consolidate

Effectiveness

- Days to report operating results
- Days to announce earnings
- Days to file with listing exchange
- Audit fees

Experience

- Employee satisfaction
- Customer net promoter score
- Balance sheet quality
- Digital interfaces

As Figs. 3-5 show, top performers realize this advantage without spending more or increasing headcount. On the contrary, their process cost is 54% lower, and they employ half as many staff. One of the important reasons for the difference between the two groups is that top performers have automated a greater share of their journal entries. By nearly eliminating manual work, they have shortened cycle times and reduced cost and staffing needs.

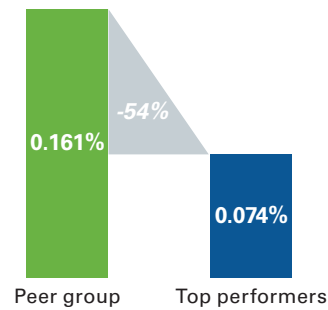
IDENTIFYING BEST PRACTICES

The study results, combined with our experience working with clients, point to six areas of best practices that are associated with top performance.

Automation

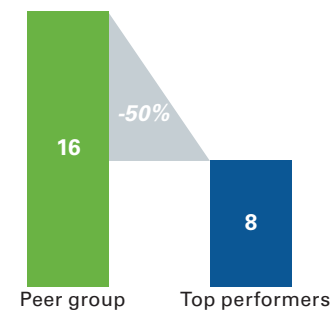
Successful automation depends on identifying process areas with high volumes or that require a significant degree of human touch. In account-to-report, the usual suspects include journal entries, account reconciliations, intercompany accounting, the management of workflows

FIG. 3 Process cost as percentage of revenue



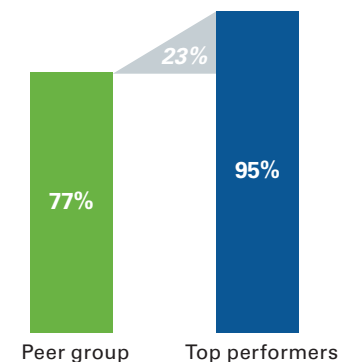
Source: Account-to-Report Performance Study, The Hackett Group, 2020

FIG. 4 FTEs per \$1 billion of revenue



Source: Account-to-Report Performance Study, The Hackett Group, 2020

FIG. 5 Percentage of journal entries that are automated



Source: Account-to-Report Performance Study, The Hackett Group, 2020

around master data, processes connected to the asset register, and the preparation and issuance of standard analysis and reports. Top performers in this area:

- **Focus on automation:** Because they have already achieved synergies and wage-arbitrage benefits through centralization in global business services (GBS) organizations, they can concentrate on automation as the key lever for productivity enhancement.
- **Target higher-return projects:** With much of the basic levels of automation in place, top performers are more likely than peers to adopt bolder and more creative solutions.
- **Screen processes carefully:** It is critical to identify the best use-cases within each subprocess before rolling out a technology solution. Top performers are more successful at identifying opportunities to create value through automation because they use strong criteria and maintain a disciplined approach to screening potential initiatives.

Close and consolidation

The core account-to-report process, from general ledger (G/L) accounting through consolidation and local and group reporting, is a critical path with a defined start and finish. It must be well-controlled and managed to maintain quality, consistency, timely delivery of financial results and adherence to regulatory requirements. However, too often, organizations handle consolidation separately, (preventing an end-to-end view of the process) and creating inefficiencies and control risks in consolidation and external reporting. By contrast, top performers:

- **Extend the close process footprint:** Handling consolidation separately can exacerbate manual work in account-to-report and raise compliance risk by opening the door to miscommunication and information corruption. Top performers have extended the close process to include consolidation.
- **Implement a standard global close calendar:** Many companies have tried to centralize account-to-report work in GBS organizations without first optimizing opportunities to standardize at the task level. By committing to a standard global close calendar, developing common accounting

approaches and encouraging business units to converge towards them, top performers are more effective at managing and monitoring the close.

- **Establish a closing coordinator:** To track this sometimes bifurcated process, organizations need a dedicated resource. The job should entail identifying which business units are having trouble producing information in time, and working with them to encourage continuous improvement and use of best practices. Top performers are more likely to have a closing coordinator who monitors activities throughout the process and ensures results are reported in compliance with internal and external deadlines.
- **Ensure accountability:** Top performers clearly define execution and accountability for each participant in the process: corporate, business unit or the GBS organization. Their visibility into multiple workstreams allows them to identify automation candidates across these different areas. More work automated upstream translates into less time spent by accountants compiling and reviewing information. Freed from drudge work, they can pay more attention to producing fully supported, externally reported results and actionable management information.

Journal entry management

A great deal of effort occurs during the period from the final day of the fiscal month until the general ledger is closed, resulting in process bottlenecks, long hours and increased risk of mistakes. Top performers in this area:

- **Challenge the status quo:** Top performers are more willing to try new approaches, like revising materiality thresholds to avoid unnecessary levels of precision. They can then spread the workload more evenly across the close period. This approach also lends itself to more rule-based automation, including leveraging models to analyze financial transactions and data earlier than today's high-pressure, workday-1-to-workday-3 timeframe.
- **Preapprove a high percentage of manual journals:** At typical companies, the highest volume of G/L postings comes directly from order-to-cash, logistics, payroll, cost accounting, fixed assets, and purchase-to-pay processes. Due to the existence of many controls along the way, credits and debits produced by these processes can land in the G/L

without further approval. Top performers are more likely to accept the effectiveness of upstream controls (and eliminating a layer of non-essential approvals in so doing), while working with internal control and auditors to demonstrate that sufficient controls are baked into the process.

Account reconciliations

Balance-sheet reconciliation is a diagnostic, investigative and control process that forces finance to demonstrate that reported numbers can be trusted and have been substantiated with evidence of activity. The process has traditionally been manual and time-consuming. While it is essential to retain adequate controls, organizations should also reassess process steps. Top performers in this area:

- **Assess balance sheet risk:** Top performers prioritize how they spend their time by focusing on the parts of the balance sheet with the greatest risk. They assess risk gradations using variables such as materiality, volatility, subjectivity and potential for fraud. Top performers review the risk/effort tradeoff. They reduce the frequency and timing of reconciliations of low- and medium-risk accounts from monthly to quarterly, while reconciling high-risk areas every month.
- **Automate balance-sheet reconciliations:** Ensuring balance-sheet integrity requires a strong understanding of the underlying processes that generate the postings into the account being reconciled. By simplifying, standardizing and automating upstream work, top performers eliminate manual information downstream, which in turn improves information consistency and sets the stage for further automation.
- **Investigate root causes:** Top performers apply root-cause analysis to manual interventions, considering not just the automation potential but also what is driving the persistence of manual work at certain stages of the process.

Intercompany accounting

For multinational companies, intercompany transactions are a necessity of doing business across international boundaries. However, many organizations operate a maze of legal entities; plus, intercompany arrangements vary by trade route and are often subject to local transfer-pricing rules. This high level of complexity makes it essential for account-to-report to establish a

robust, standard intercompany accounting governance process. Automation will simplify compliance by reducing transactional and reconciliation workloads. Intercompany accounting still offers significant improvement opportunities for many organizations. Top performers in this area:

- **Target incremental improvement:** The web of intercompany transactions includes processes with different characteristics, so it's essential that account-to-report leaders gain visibility into each scenario and capture specific volume and value characteristics. While a single solution may not be able to accommodate such process diversity, by understanding the different permutations, top performers choose specific point solutions and achieve greater automation in an incremental fashion.
- **Change the mindset:** Standardizing intercompany policies, processes and compliance can be difficult. Top performers recognize the need for strong change-management practices and are more adept at securing a mandate for standardization from the CFO and senior finance leadership.

Service placement

By migrating more activities into GBS organizations, account-to-report can distinguish between controllable and non-controllable activities, and then leverage economies of scale to increase efficiency. They can also identify process commonalities, clarify roles and responsibilities, and coordinate hand-offs to others in the organization, including business unit finance directors, controllers, chief accounting officers and CFOs. Top performers in this area:

- **Standardize to the fullest extent:** While local statutory requirements must be met, top performers pull out as many activities as possible from other areas of finance to achieve standardization at the top level. They then manage each variant as an adjustment to the standard, as part of their statutory accounts process.
- **Clarify roles and responsibilities:** Top performers take an end-to-end process view. Considering activities holistically, while assigning standard roles and responsibilities, prevents ambiguity about accountability for various aspects of the process (e.g., country, HQ or GBS organization).

- **Extract capacity from business-unit finance:** By pulling capacity from local finance teams, top performers achieve savings through greater efficiency. This also prevents the emergence of local, shadow processes that often create process leakage into FP&A/controllers, tax and treasury.

MEASURE AND MONITOR

Account-to-report performance is measured by delivering value across efficiency, effectiveness and experience dimensions. To realize the benefits of transformation and continuous process improvement, as well as demonstrate them to stakeholders, organizations need to use KPIs that are tightly aligned to process objectives. Top performers in this area:

- **Focus on the "3 Es":** Before launching transformation projects, top performers run a baseline assessment by benchmarking against others or conducting a current-state analysis. They then set clear objectives for cost efficiency, process quality and user experience, and align select KPIs against these, making sure to balance outcomes and driver metrics.
- **Create a dedicated continuous improvement team:** To maintain improvement momentum, top performers establish dedicated continuous improvement (CI) capacity. Typically residing in the GBS organization, CI teams work on uncovering root causes for process delays or inefficiencies and developing solutions to enhance performance around key metrics. Top performers are also better at ensuring alignment between global process owners and the CI teams.

CONCLUSION AND RECOMMENDATIONS

The Hackett Group recommends the following steps for achieving top performance in account-to-report:

1. **Eliminate, simplify, standardize and automate:** As we saw above, top performers are significantly more effective and efficient than the peer group, mostly because they automate a greater share of activities. However, automation alone is not enough to achieve top performance. Organizations in the peer group should start by assessing their current state or benchmarking against external organizations to identify improvement opportunities, paying special attention to areas of high volume or where

substantial amounts of manual work are necessary. Then, simplify and standardize process design, for example by establishing a global close calendar. Apply automation solutions to eliminate manual work, reduce errors, speed up cycle time and improve compliance. Because some processes have inherent idiosyncrasies, consider using multiple point solutions and smart automation technologies like RPA, artificial intelligence and machine learning.

2. **Migrate more activities to a GBS organization:** Processes should be transferred to a GBS organization to improve efficiency and effectiveness. Extract routine tasks to liberate accountants from executing unnecessary hand-offs. Focus instead on the interpretation of, and compliance with, changing accounting regulations and providing predictive insights to business partners. Assign end-to-end process ownership with clearly defined responsibilities at the country, HQ and GBS levels.
3. **Select KPIs that matter and focus on delivering against targets:** Identify KPIs that cover the three dimensions of process performance: efficiency, effectiveness and experience. This way, meeting one set of targets does not come at the expense of others. Identify both drivers of and KPIs for outcomes to understand their interdependencies. Use the KPIs to run a current process assessment or compare to the performance of others. Set up clear targets with related KPIs to track progress and evaluate whether initiatives meet business expectations.
4. **Accelerate the timing of journal activity:** At many organizations, closing takes longer because a disproportionate share of the work occurs during the first few days after month-end. To reduce bottlenecks, preapprove a higher percentage of transactions based on effective upstream controls. Reconsider materiality thresholds to determine which entries can be posted early, which saves time at the end of the month for high-value transactions.
5. **Speed up reconciliation:** Many account-to-report organizations have not optimized the risk assessment of their balance sheet. Plus, they run their reconciliation process too close to the end of the period, delaying the close. Prioritize reconciliation activities by segmenting the balance sheet into low-, medium- and high-risk areas. Reconcile the low- and medium-risk activities quarterly, while continuing to reconcile riskier areas monthly.

RELATED RESEARCH

[Covid-19: Stress-Testing the Close Process, May 2020](#)

[Automating the Closing Process in a Fragmented Business-Application Landscape, February 2019](#)

[Automation in Account-to-Report: From Proof of Concept to Proof of Sustainable Value, December 2018](#)

About the Advisors



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Ms. Essaides has over 25 years of experience researching, writing, and speaking about finance and treasury issues, with a focus on the way finance adds value to the enterprise through excellence in financial management and planning processes. Previously, she worked at the Association for Financial Professionals, where she led the Financial Planning and Analysis practice. A prolific blogger with thousands of LinkedIn followers, she writes for publications such as Digitalist. In addition, she co-authored a book about the internal transfer of best practices, titled *If Only We Knew What We Know* (Simon & Schuster).



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Mr. Marchionni provides CFOs and other finance leaders with insight and analysis gained during over 30 years of work in public accounting, industry and consulting. His expertise is in the areas of cost management, process reengineering, financial reporting and strategic planning, and forecasting and analysis. Prior to joining The Hackett Group, Mr. Marchionni served as CFO of a privately held diversified consumer products company and before that, he held an executive-level finance position in the energy industry.

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