

## **Time Is Money: Reducing the Cycle for the Monthly Close**

A company's desire to achieve a sustainable, competitive advantage in today's marketplace frequently filters into every phase of its financial reporting process. One way for a financial manager to make a significant contribution to the organization is by reducing the cycle time for the monthly close through benchmarking.

The purpose of benchmarking is to use the best practices of other organizations to stimulate creative insight on how to improve your own processes. Benchmarking leads to best practices. Best practices leads to knowledge management. Knowledge management leads to leveraged knowledge, which, in turn, can be used to achieve the ultimate goal of enhancing your company's market position and bottom line. Consulting firms estimate a company can realize savings of anywhere from 5 percent to 20 percent by benchmarking the monthly close.

Tom Hertog, manager of benchmarking and best-practices development at Arthur Andersen & Co. in Chicago, uses a disciplined, systematic methodology to measure a company's performance in closing the books. Hertog begins by having those actually involved in closing the books map every step of the process on a flowchart. Many times, Hertog says, this initial step is approached by Controllers themselves who do not understand the specific activities involved.

"Your next step is to determine specific performance measures," Hertog says. "Three measures which are easily quantifiable are time, cost and quality. These three measures can also be used when you receive the results of your benchmarking effort in comparison or contrast to industry companies as part of a reengineering effort."

For example, among the key measures in closing the books is determining how many days it takes from the time the subsidiary modules are closed to the general ledger to actually produce a final, reviewed financial statement. The average company can take up to 14 days to complete the monthly close; the median is 5.1 days. Improvement can be made, regardless of where your company is on the time spectrum. Indeed, experts agree that cutting one day off your monthly cycle is easily done over a 12-month period.

"We recommend in each individual initiative that the progress a company wishes to attain be realistic and derived from incremental improvements," Hertog says. "Initially, it's like anything else — you're going to see a big improvement up front. In some companies, slicing two days off their closing cycle might represent a huge improvement. Other companies might set a goal that they must complete their monthly close in six days."

On the cost side, consulting firms analyze a company's head count to determine the equivalent number of full-time employees needed to close the books in a certain number of days. For example, does your company need 10 people to close the books in 10 days? Or does it use 100 people to close the books in two days?

Arthur Andersen uses a full-time equivalent head count as opposed to a staff head count because best-practices companies are adept at leveraging their financial resources and personnel. These best-practices companies may choose to roll people on to their closing function for those five to 10 days, then roll them back into financial analysis or some other activity.