When you need to leap ahead, how do you shift from taking small steps?

EY teams can support you to move away from incremental change in favor of holistic transformation as you digitize your record-to-report process.

The better the question. The better the answer.
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> “Corporate controllers have an opportunity to be ready for the Transformative Age by not only taking advantage of digital technologies but also building capabilities and a delivery model designed for it. This is not the time to make incremental change; stakeholders expect finance to be ready, and the time to change is now.

Samir Jaipati
Americas Agile Finance leader

Confronted by rising demand for real-time information, increased uncertainty, more regulations and changing business models, controllers are under tremendous pressure to do more with less. The recent COVID-19 crisis highlighted the need to be more agile and digitally savvy to enable remote work. Current operating models will not be able to deliver new and enhanced capabilities. The path forward involves technology, but that's not all.

69%

of CFOs see the finance leader role fundamentally changing as traditional finance tasks are automated or managed in shared services centers

Digital enterprises require finance to not only help respond quickly to a fast-changing environment, but to anticipate changes in the market, business needs and competitive dynamics. Finance, in its ever-expanding role supporting business decisions, needs real-time and predictive information to make it all work. Time for backward-looking information is gone. But how can controllers jump-start that transition?

Transforming the record-to-report (RTR) process represents a significant opportunity and a strategic imperative. An EY analysis found that top quartile companies have 45% less personnel cost compared to median performance companies. This is also reflected in fewer manual journal entries (54% less for top quartile), a faster closing and reporting timeline (top quartile companies are able to close their books in two-thirds the time of median performance companies), and fewer controls violations (30% lower).[1]

The case for change

Reliance on the traditional month-end closing simply costs too much in terms of missed opportunities. In response to uncertainty and volatility, finance must be more agile; that is, it must become more responsive, insightful and efficient by adopting digitized, near-real-time closing and reporting processes enabled by new technologies and a new operating model.

Responsive RTR means robust processes and agile systems to rapidly respond to business and regulatory changes. Controllers have to help enable new business models. For example, many firms are changing their business model to add more services or bundled revenue, not just product sales. That will require updating revenue recognition, inventory accounting, intercompany policies, processes and systems changes. Similarly, to support a company's M&A strategy, controllers have to build capabilities that support faster integration and quicker availability of detailed financial information, not just consolidated financial reports. To manage growing compliance requirements, finance must transition to an automated risk and controls enforcement framework with real-time monitoring, and it also must support corporate responsibility initiatives.

More insightful RTR means moving toward near-real-time closing and building predictive and analytical capabilities. Today's business environment demands that business leaders make real-time decisions, and a delayed snapshot of numbers from several days or weeks before is insufficient. Controllers have to collect data and provide long-term

Automation and the correct operating model have the potential to save companies up to …

45% **less personnel cost**

30% **fewer control violations**

value measures for the future. That means providing additional sets of information to internal and external stakeholders, not just balance sheet, profit and loss and cash flow statements. Soon, long-term value measures will be further defined and regulators may provide specific guidance. Continued focus on value-based capital allocation and monitoring means that business leaders will require detailed reporting with different dimensions. Social media analytics will become an important part of business analysis. Financial planning and analysis functions will expect controllers to provide actual as well as predictive data to support agile forecasting. And all of that will need to be published on self-service portals and available on mobile devices. Information delayed is time and money wasted. Sixty-five percent of chief financial officers say they need to automate processes and build agility and quality into processes to prepare for future finance, and it's easy to see why.[2] If product sales and margins at mid-month aren't matching forecasts, leaders need that information in real time to correct their course.

Digital RTR also means becoming more **efficient**. To drive efficiency, controllers have to implement and maintain standardized, integrated and highly automated financial accounting systems. End-to-end processes will have to be supported by a service delivery model that includes a higher level of centralization delivered by shared services, centers of excellence and potential co-sourcing/outsourcing providers. Digital audit will become a norm, and digital RTR will enable that to support internal as well as external audits. Controllers should focus on cultivating a culture of continuous improvement that includes optimizing resources and enhancing leadership development.

All of the above puts further strain on finance to do more with less.

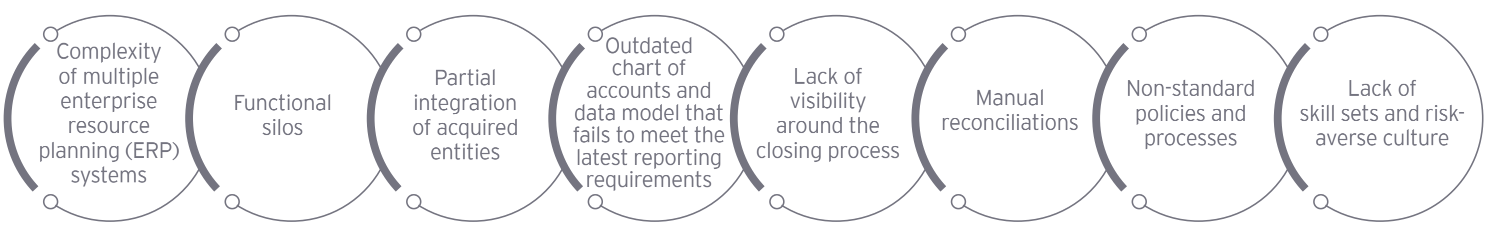
65%

of CFOs say they need to automate processes and build agility and quality into processes to prepare for future finance

Self-imposed constraints

Finance has hindered itself by failing to invest in improvement and by letting its aversion to risk supersede its focus on innovation. Finance tends to be stingy when it comes to investing in its own systems and processes. Deferred maintenance is a problem that compounds over time, and many firms have impediments that make the transition more difficult. In short, a continued focus on short-term cost reduction over value creation has deferred implementation of new ideas and technologies, leaving closing and reporting processes manual and inefficient.

Examples of impediments:



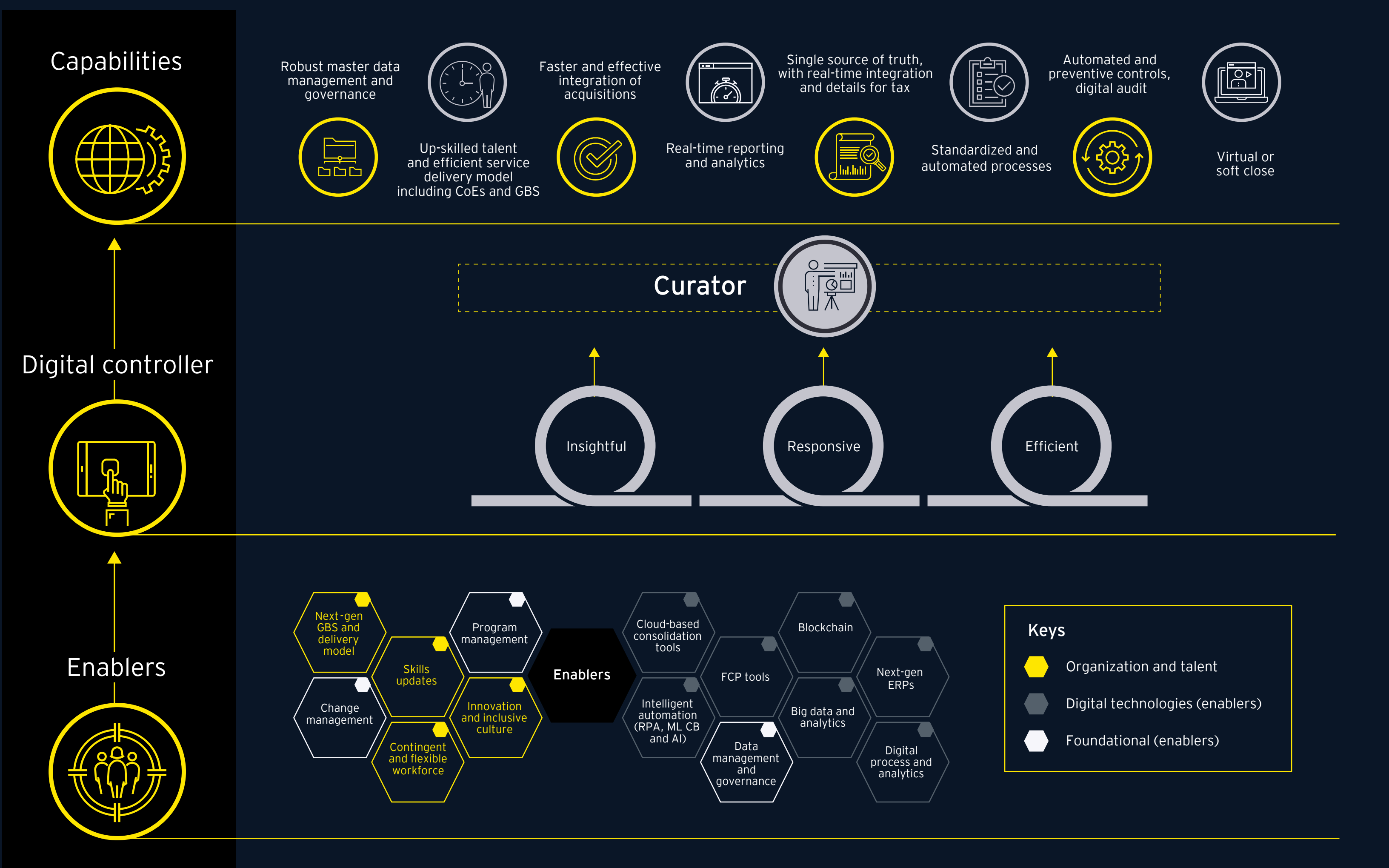
Overcoming the hurdles

To confront these challenges, finance must embrace innovation and shed the risk-averse mentality that for so long has been second nature. Finance must become a change leader by adopting new technologies, defining a future-ready operating model, and creating a climate in which people embrace a new mindset focused on continuous improvement and utilizing new technologies to provide financial information to serve customers. The way to do this effectively is to help ensure the organization is operating under a uniform set of processes, nimble enough to integrate with new regulatory and financial changes. Ultimately, the goal is to create an automated and efficient finance factory.

The focus will shift from processing, validating, correcting, reconciling and reporting information to providing relevant insights that meet the needs of both internal and external stakeholders, all at a low cost. This will be enabled by digital RTR – an environment in which the accounting function will be known as "The Curator" and will be led by the "Digital Controller."

Digital RTR requires enhancing current capabilities as well as building new capabilities (see Figure 1). It calls for a comprehensive redesign of processes and significant updates to technologies and the organization. Controllers need to clearly define and prioritize capabilities and then identify and implement enablers. This can be accomplished by assessing the end-to-end process and executing the strategy of CASE: eliminate, standardize, centralize and automate. The first step is eliminating non-value-added tasks such as immaterial accruals and report distributions. Standardizing means adopting a standard data definition, policies and procedures – an end-to-end closing process enabled by a close management tool with real-time visibility. Centralizing refers to making optimum use of resources, such as Global Business Services and Centers of Excellence. Automating can improve processes for journal entries (JEs), intercompany transactions, workflow-enabled approvals and self-service reporting. Automation also means use of new technologies and tools. Technology enablers have to be implemented along with talent enablers and a new organization design. There is also an opportunity to up-skill talent and change the mindset to be more digital-friendly. Data management, program and change management are foundational capabilities for a successful transition to digital RTR.

Figure 1: Controllers have to enhance existing and build new capabilities using multiple enablers



- CSR – Corporate Social Responsibility
- GBS – Global Business Services
- CoE – Center of Excellence

EY benchmarking data shows that organizations with **higher investment in financial reporting technology** are able to **perform** monthly close activities **five-and-a-half days faster** than organizations with lower technology investment.

The technology difference

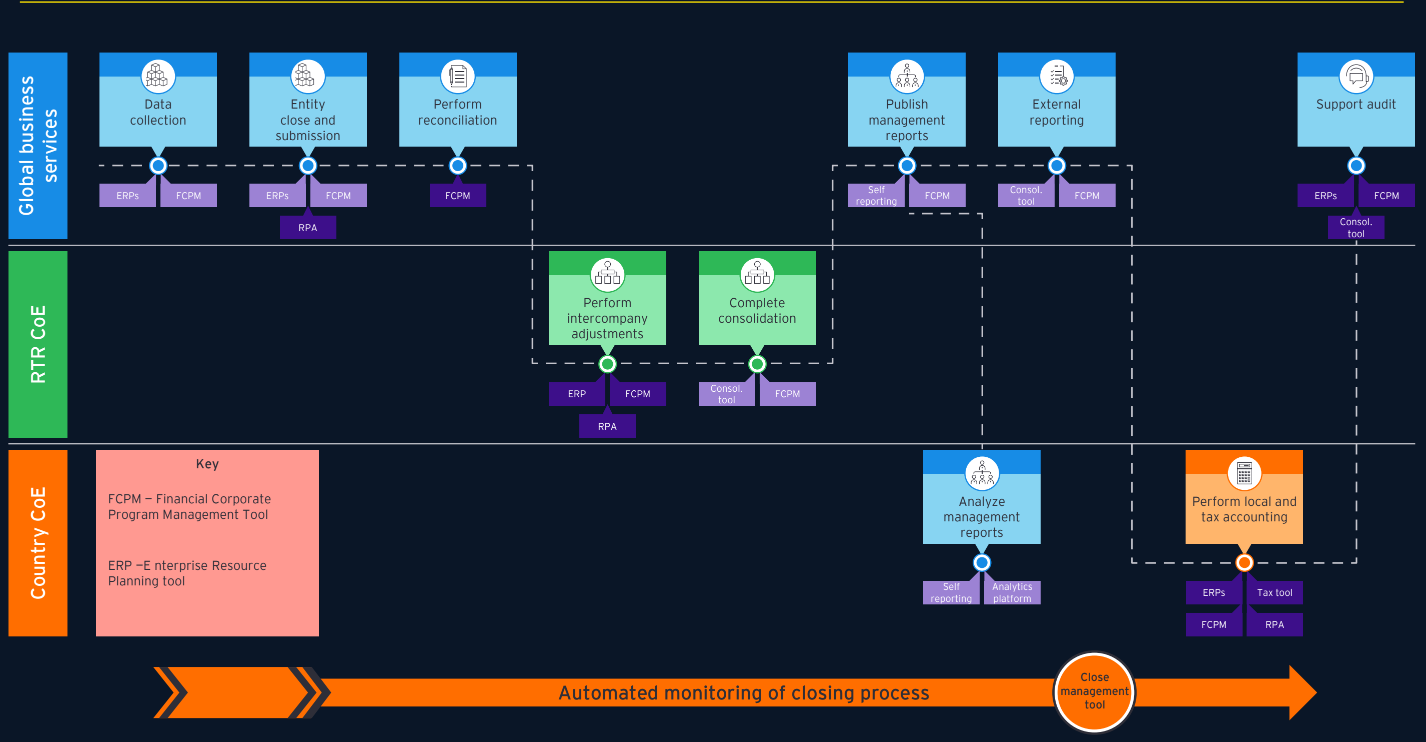
As daunting as the challenges to transform may seem, new technologies offer a path forward. These technologies – including next-generation enterprise resource planning systems and cloud-based consolidation applications – are foundational for digital RTR. For example, many companies are implementing solutions like SAP S/4HANA for central finance in a multiple-ERP landscape to gain access to a single source of truth and real-time ledger and to streamline the closing process.

Complementary solutions

Financial Corporate Performance Management (FCPM) tools such as BlackLine further automate the process and reduce risks. Additionally, intelligent automation, such as robotic process automation (RPA), machine learning, chatbots and blockchain, will increase automation and make processes more efficient. The key for organizations is to decide the right mix of technologies and tools to enable an end-to-end process. A perfect combination will solve complex sub-processes like reconciliation, intercompany, foreign currency and report publications. It can reduce manual work up to 50-60% and improve real-time visibility. EY benchmarking data shows that organizations with higher investment in financial reporting technology are able to perform monthly close activities five-and-a-half days faster than organizations with lower technology investment.[3]

The classic record-to-report function allows little time for analytics and review and remains heavily focused on the tedium of data gathering and manual transaction processing. If designed and implemented correctly, digital RTR can reduce closing and reporting time by up to 50%, thus freeing resources to conduct analytical reviews and offer strategic support on issues such as business model enablement, mergers and acquisitions, scenario planning and new reporting and analysis needs.[4]

Figure 2: In the example below, a combination of ERPs, FCPM tools, self reporting tools, consolidation tools, tax tools, and intelligent automation technologies enable an end-to-end digital controllership process.

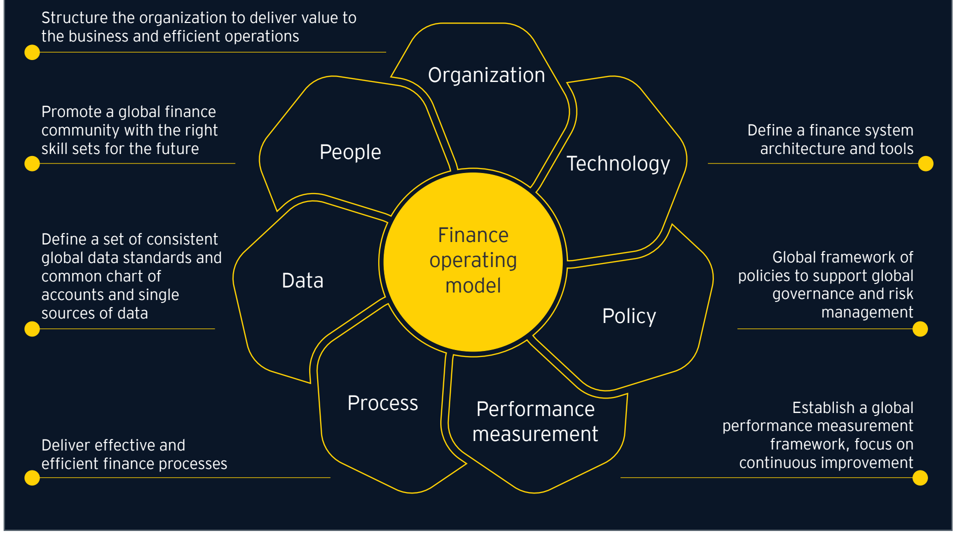


A digital RTR can reduce reporting and processing times by up to 50%

The operating model

Although technology is essential, digital RTR requires enhancement of all components of the finance operating model (see Figure 3). No decision, whether it be a process change or technology upgrade, can be made in a vacuum. The impact on all aspects of the model – the organization, people, technology, policy, performance measurement, process and data – must be considered throughout the transformation journey. For example, an organization that decides to use RPA technologies to automate manual processes must consider the impact to its people, policies and controls. The change also affects the organization and support model. The following examples illustrate the shift in the operating model as organizations transition their RTR processes to a more digital approach:

Figure 3: All components of the finance operating model must be considered throughout the transformation journey



Data and technology: In the digital RTR world, the finance data model will be updated to support future reporting and analytics requirements. All IT applications will be fully integrated and auto-checked for data accuracy, and an automated finance data management process will be established. Reporting and analytics capabilities will be available to all stakeholders on their mobile devices. In the future, 60-70% of record-to-report processes will be automated using technologies and tools. All underlying source systems and modules will be well-integrated with validation, auto-reconciliation and exception reporting available. Predictive analytics will be heavily used to enable enhanced visibility into future trends and scenario planning. Tax departments will access the same ledger, and tax planning and compliance will be automated.

People and organization: Higher levels of automation will allow finance professionals to focus on high-value tasks, such as balance sheet review and analysis of financial statements. Pressure for month-end closing will be reduced because most of the tasks will be performed every day and period-end tasks will be automated. RTR teams will have people with non-accounting backgrounds, such as data scientists, RPA analysts and people with other skill sets. Professionals will learn new skills such as social media analysis, digital audit and long-term value reporting. More transaction processing and reporting tasks will be performed by GBS/shared services, and RTR centers of excellence will handle complex tasks, such as consolidation, elimination and foreign currency functions.

Process, policy and performance measurement: The digital record-to-report function will be able to focus on providing a near-real-time close and a single source of truth for stakeholders. Policies and procedures will be updated and published on a digital platform. Controls will be automated, and all transactions will be checked real time. Predictive analytics will stop policy violations. Process mining tools will enable the organization to monitor exceptions and identify root causes for deviations.

The mindset

The mindset of finance must change for true transformation to happen. This entails updating people's skills to incorporate new technologies, establishing a culture that celebrates small wins as well as failures, and focusing on continuous improvement. Indeed, 69% of CFOs see the finance leader role fundamentally changing as traditional finance tasks are automated or managed in shared services centers.[5]

Achieving transformation

True transformation requires a new vision of what's possible, a plan for how to get there, and the determination to make it happen.

Controllers should consider four crucial steps that can help finance organizations navigate the transition to a digital record-to-report process (see Figure 4).

- **Re-imagine** an end-to-end digital record-to-report process. Begin with understanding stakeholder expectations in the digital world, and update the vision to align with the expectations. Define guiding principles and identify required capabilities and technologies that will enable the process.
- **Redesign** the target state operating model that will help realize the vision. This step requires assessment and gap analysis of current vs. target state finance operating model elements, design of digital end-to-end processes, evaluation of technology options, and creation of the business case for change.
- **Plan and execute** how to get to your target state. At this stage, a robust program plan can be built to prioritize initiatives. With the help of a transformation road map, organizations can identify opportunities for quick wins as well as near-term and long-term initiatives. A robust resource plan and change management strategy are critical to executing properly.
- **Monitor and improve** the plan. With the groundwork in place, it's time to implement the plan using the agile development and deployment method. The program must deliver quick wins as well as near-term initiatives and put large, technology-focused programs in order.

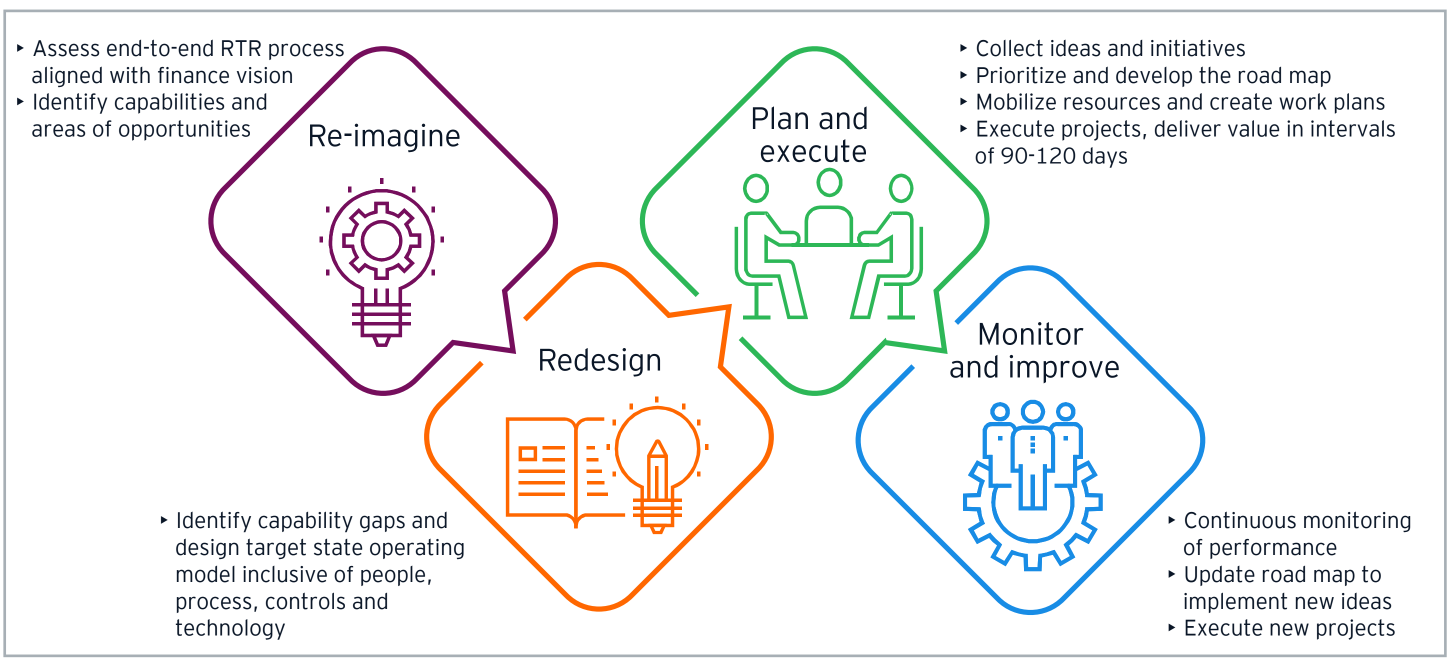


Figure 4: All components of the finance operating model will be considered to achieve expected outcomes

Case studies

EY teams have worked with multiple clients to redesign an end-to-end record-to-report process. Below are two examples:

Case study 1

A $60b consumer products company wanted to reduce its close cycle time and manual work efforts. The EY team assessed the client's record-to-report process and identified opportunities to shorten the close cycle by standardizing processes and leveraging digital technologies. The EY team also helped develop a more efficient and scalable finance operating model designed to work with the new automated processes. EY redesigned and automated the processes based on leading practices and latest technologies and developed a key performance indicators (KPIs) dashboard to foster an environment of continuous improvement. As part of the solution, the client implemented a leading FCPM tool. The project team developed an improvement road map sequencing process, technology and organization changes according to priority, impact and resource requirements. The team also improved use of the existing ERP application.

The new global processes, tools and operating model were deployed in more than 180 countries and helped the client:

- Significantly reduce the length of the close cycle
- Improve financial data accuracy levels, therefore reducing error rates
- Increase finance efficiency and reduce cost through standardization, simplification and automation of business processes
- Improved control environment

Case study 2

The EY team designed the RTR operating model for a growing global life sciences services and products company. The focus was on centralizing all core general accounting activities to the North American Shared Service Center (SSC) and Centers of Excellence (CoEs) while designing and helping a more efficient close process. EY led the transition process to the new operating model by onboarding new hires, executing knowledge transfer activities, implementing three FCPM modules, and performing transition tracking and change management. The EY team also assisted with the setup of two new CoEs for revenue accounting and inventory management.

As a result of this initiative, the client reaped the following benefits:

- Improved governance, monitoring and control over revenue and inventory accounting
- Automated and streamlined account reconciliation processes
- Improved alignment and focus of appropriate skill sets across finance and accounting via the SSC and CoEs
- Centralized journal entry roles into the SSC, standardized and automated much of the process via FCPM and reduced overall manual journal entries and associated labor by 18%
- Improved standardization, transparency and governance over the entire monthly and quarterly close processes
- Received leverageable finance platform leading to more effective integration of acquisitions
- Reduced overall finance headcount by 28%
- Standardization of key R2R processes and implementation support of FCPM helped reduce the design phase timeline of Europe ERP implementation by 15%
- Reduced risk of taking inconsistent positions across tax jurisdictions

Conclusion

In a fast-changing landscape, a digital record-to-report process will be an essential element of an agile finance function in leading organizations. Finance leaders with the clear vision to adopt technology-enabled change, who embrace innovation and risk, will be the ones who meet the demands of the Transformative Age. Pressures on the finance function will remain high, but agile organizations that eliminate, standardize, automate and centralize record-to-report processes and leverage people and technology enablers will not only meet but exceed expectations of their stakeholders.

Notes

[1]APQC OSM Benchmarking Data, accessed January 20, 2020.

[2]DNA of the CFO: Is the future of finance new technology or new people? (https://www.ey.com/en_gl/advisory/is-the-future-of-finance-new-technology-or-new-people)

[3]APQC data

[4]APQC data. Note: The 56% figure refers to monthly consolidated financial statements.

[5]DNA of the CFO: Is the future of finance new technology or new people? (https://www.ey.com/en_gl/advisory/is-the-future-of-finance-new-technology-or-new-people)

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