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ACCOUNTING PROCESS IMPROVEMENT STRATEGIES (USING E.S.O.A.R.)

INTRODUCTION

Organizations pursue process improvements to achieve a combination of higher efficiency, higher quality or better accuracy within their operations. To effectively achieve such process improvements, you and your organization can take advantage of a streamlined approach using ESOAR, a process improvement methodology that can help you drive long-term value. When approaching processes using this methodology, one should:

1. **Eliminate** wasteful activities impacting time, cost and effort.
2. **Standardize** processes and templates to limit customization and variability.
3. **Optimize** workflows, technology capabilities, documentation and reporting.
4. **Automate** functionality using available tools to reduce manual work, increase transparency and improve accuracy.
5. **Robotize** remaining rule-based activities performed by a human operator.

ESOAR can be applied to any part of a business, including operations, finance/accounting, supply chain and more. In this whitepaper, let's walk through its application in a financial shared service environment within a multi-entity global organization. To further illustrate the methodology's practical application, we'll leverage an example case in which an accounting team aims to improve its "Provision for Sales Returns" calculation.

GETTING STARTED

When considering a process for ESOAR improvement, managers should evaluate the trade-off between how much effort will be required to complete the process improvement(s) versus the ongoing benefits that will be derived. The following factors can be useful in an assessment:

Criticality

Consider that processes deemed non-critical may not be worthwhile if the effort to implement a process improvement is substantial. However, non-critical processes should receive additional scrutiny for possible elimination.

- What value does the process deliver?
- What would be the impact if the process was discontinued?
- Is the timing of execution, quality or accuracy of utmost importance?
- Who consumes the information?

Frequency

Consider that processes carried out more frequently will inherently extract more benefit when improved.

- How often is the process required?
- Is the process completed on an ad-hoc, monthly, quarterly or annual basis?

Time and Resources

Consider that processes requiring more time and resources could be an indication of underlying inefficiencies and a larger savings opportunity.

- How much time is required to complete the "as-is" process end to end?
- Does the process require systems, programs or computers with limited bandwidth?
- Is the process conducted during a critical or limited timeframe such as month-end close?

Complexity

Consider that complex processes may require more time to evaluate, but they may also signal underlying inefficiencies.

- How many steps does it take to complete the process?
- Is it clear how each step contributes towards the outcome?
- Does it require specialized knowledge or training?
- How difficult is it to learn the process?

In addition to the process itself, as a process owner, you should also evaluate the availability of time and resources to execute ESOAR – not only for you and your team, but also for project sponsors and stakeholders. Critical deadlines and deliverables may influence which process improvements can be carried out at any given time.

For major process improvements, it can be useful to draft a timeline or calendar that showcases major deadlines and deliverables that key contributors may already have planned. As you map out possible ESOAR projects, it will be easier to identify potential time or resource constraints.

Depending on the time available to complete, you can then evaluate how complex or how critical of a process you can improve. If a shorter window doesn't allow for full ESOAR application, you may consider the steps you can get done in the amount of time you have. You may tackle just the "E" (Elimination) for now and then continue to "S" (Standardization) when time allows. Another alternative is to choose a different process altogether that is shorter or simpler.

Project Sponsor

Before getting started, you may also consider pursuing a project sponsor depending on the scope of the process improvement. A supervisor is a good starting place for identifying a project sponsor. If they do not assume the role, they usually can provide insights for the most eligible candidates. The sponsor's role is to provide guidance and suggestions on proposed changes, identify key stakeholders and give advice on the timing of the project. For more critical and complex process improvements, the sponsor also serves as an advocate for the project, exercising their relationships and/or political capital to gain access and buy-in with senior executives and stakeholders.

EXAMPLE: PROVISION FOR SALES RETURNS

Within the organization's accounting close process, a constraint seems to be impairing the team's ability to deliver financial close packages by their deadline. The Accounting Manager was tasked with evaluating and ranking close procedures for possible improvements, according to their cost to implement vs. ongoing benefits. Here is her evaluation for Provision for Sales Returns:

Criticality: HIGH

Provision for Sales Returns represents a significant reduction to Gross Sales that must be estimated at the time of sale (contra-revenue). Due to its significant impact to top-line revenue and inherently variable estimates, it's considered highly critical. Any changes would be highly visible and would require buy-in from appropriate stakeholders.

Frequency: MONTHLY

The process is conducted monthly during a critical day during each close. Any efficiency gains would be multiplied by 12, making it more appealing.

Time & Resources: 3 PEOPLE, 9-13 HRS

The process requires a significant amount of time: 6-8 hours for preparer, 1-2 hours for reviewer/approver, 2-3 hours for inputs from FP&A. Focusing efforts to reduce the time requirement will allow for more time-value added activities during the critical close path.

Complexity: HIGH

The process is highly complex with multiple steps and lots of variability. Significant time would be required to work through possible solutions while minimizing disruption to ongoing operations.

Summary

This process is by far the most time-consuming activity during the close and the biggest opportunity for improvement. A handful of easy eliminations could save time as early as next month's close, but any additional, meaningful process improvements must consider other major deadlines and deliverables for all stakeholders and would require significant time and resources. An ideal time for an ESOAR initiative would be in Q1 to avoid competing with year end and other Q4 projects. Due to potential impacts to multiple legal entities' P&Ls, the VP of International Accounting should be the project sponsor. Her existing relationships with international stakeholders could be useful for receiving buy-in.

ELIMINATE

Consider three areas when eliminating work within a process:

1. Outputs

The first step in evaluating possible eliminations within a process is to identify and understand the purpose(s) of the process. Then eliminate any work that produces outputs that don't serve that purpose. For example, a process may satisfy one or more of an organization's needs pertaining to accounting, financial forecasting, management decision support, external reporting, taxes or compliance and regulation. It's also entirely possible an entire process is no longer needed or that major portions of it can be discontinued.

The following questions may help determine the purpose of a process:

- Who needs the output?
- Why does this person/entity need it?
- When is it needed and how frequently?
- What is critical vs. "nice to have"?

If any of the above is unclear, ask the appropriate person to gain a better understanding. It may be determined that the deliverable/output is no longer useful or required, or it may be needed less frequently. Eliminate unnecessary work as appropriate.

2. Unnecessary Steps

Once the outputs and purpose are confirmed, the next step is to evaluate the procedures within the process to identify any unnecessary steps.

Here are some helpful prompts to identify possible eliminations:

- Are there any steps that don't contribute to the final output? Create a process map for any ambiguities.
- Are any steps redundant?
- Are there any calculations or references being maintained that don't contribute to the final output?

3. Superfluous Information

The final step is to eliminate superfluous information. Superfluous information in working files makes calculations more difficult to review for managers, auditors and other third-party users. It also makes it challenging for new hires to learn processes, especially when assuming roles suddenly vacated prior to cross-training. Possible eliminations within working papers include:

- Outdated, redundant or compromised reference sheets
- Prior period calculations (that aren't referenced/linked to current period calculation)
- Personal notes or calculations that are obscure to other users
- Columns, rows or sections within a sheet that are no longer being updated, referenced or used
- Hidden rows and columns
- Erroneous formulas

Additionally, files within a shared directory that are no longer used or referenced, or files that do not pertain to the pertinent month/quarter/year, should be archived or deleted.

Debrief: Elimination

EXAMPLE: PROVISION FOR SALES RETURNS

1. Outputs

A spreadsheet with a calculation supporting the monthly Provision for Sales Returns journal entry is required two days after the ledger is closed. It is sent to the North America Controller for review prior to posting. During a review of the process, it was determined that that the Controller did not typically use most of the accompanying management reporting intended to support estimates used in the calculation. Instead, she only referenced two critical data points. It was determined that all other management reporting would be eliminated from the monthly calculation, but they could be built for ad-hoc requests.

2. Unnecessary Steps

An updated process map showed that the FP&A team was providing inputs to Accounting based on information they received from the Sales Planning team. Since the FP&A team was not making any adjustments to the information, it was determined that the Sales Planning team could send their inputs directly to Accounting (while CCing FP&A) to avoid any potential delays.

3. Superfluous Information

Upon examination of the related calculation's Excel file, it was evident that many preparers had rolled over the file for many years, leading to a significant amount of superfluous information. Hidden rows and columns with outdated information were removed, personal notes within cell comments were deleted and sheets with redundant prior-period calculations were removed after confirming the information existed in historical files. After deletions, a final check was performed to ensure all impacted formulas were updated and functioning as intended.

STANDARDIZE

The next process improvement tool is standardization. This is recommended when multiple processes exist to produce similar outputs, which may be common in enterprises with multiple entities (e.g., business units or international offices). Look for processes with these characteristics:

- Routine, regularly occurring
- Repetitive in nature
- Results/output varies depending on methodology used
- Independent results are consolidated

When implementing a standardized process, make sure the process is well conceived and contains most, if not all, of the critical features currently relied upon by existing processes. Your standardized process should represent the best practice available to the organization. Here are five steps for developing best practice processes:

1. Collect Information

To collect the right information about the processes you're examining, you need to first identify the subject matter experts (SMEs). These are people most familiar with their business entity's relevant process who also have access to requisite working files and supporting systems. It may be necessary to consult with a supervisor or local office manager to identify appropriate SMEs for your standardization.

After identifying SMEs, use surveys, questionnaires, interviews, meetings, phone conversations or any other preferred method to collect information about an entity's process. Be sure to inquire about critical and non-critical outputs, the timing of their delivery and the level of precision required. Also, inquire on the process to deliver the outputs, including all inputs, systems/software requirements, staff roles and responsibilities and the timing of each step in the process. Lastly, you want to understand the SMEs' qualitative assessment of the process, including what works well and potential shortcomings. Make sure you ask a standard set of questions to every SME, so collected information is consistent, which will help with comparability.

2. Compare and Evaluate

As you collect information from SMEs, organize the information in a way that allows for easy comparisons. With the information at hand, identify critical outputs and commonalities from the process evaluations. Identify common attributes among the most- and least-effective processes. Also, note any non-critical steps, "nice to haves" and exceptions to put in a parking lot for now.

3. Create Standardized Framework

Next, create a first draft of the standardized process that delivers as many of the critical outputs as possible, while minimizing complexity. In some situations, it won't be possible to incorporate feature(s) that only a small portion of the population considers critical. In these cases, be sure to recognize these omitted features and highlight potential substitutes. Also, keep the initial draft flexible enough to incorporate feedback from stakeholders. The goal is to have something that is presentable and well-conceived, but also pliable. Lastly, review your framework with your project sponsor and adjust as necessary.

4. Receive Buy-in From Stakeholders

With your prototype available, the next step is to pursue buy-in from process stakeholders. Stakeholders are typically responsible or accountable for process outputs, or they are leaders who use the outputs to inform decisions. Potential stakeholders include Finance and Accounting personnel, Financial Compliance, business unit general managers or executives, Legal, HR, Tax or anyone else who may be directly or indirectly impacted. Receiving their buy-in ensures no surprises and that they have a baseline of comfort with the changes.

Once the stakeholders have been identified, choose the best medium to share the proposed standardized process, and modify the communication based on the audience. Whether you choose to share a PowerPoint deck via email, conference call or in person depends on a variety of factors including criticality, complexity and geographical considerations. For example, you may choose to send an email for a simple process or opt for a conference call for a complex process involving SMEs from different offices. You may also consider using multiple meetings to allow ample time for SMEs and stakeholders to ask questions and share feedback for critical or complex processes. Don't forget to host conference calls or meetings that are convenient for international stakeholders in different time zones.

When sharing your initial model, be strategic in how you pursue buy-in from entities. Keep in mind that standardizations are most successful when there are minimal exceptions to the standard, and that not all entities will be prepared to make concessions. In some cases, it might be best to build consensus by first pursuing buy-in from entities that are typically open to changes and would be willing partners in the standardization efforts. In other cases, it might be more conducive to initially work with entities who are more critical or outspoken and prefer to be consulted with on all company initiatives. This is especially true if someone has particular seniority or influence over the enterprise. All situations are different, but the key is to be mindful in the strategy used to gain buy-in from all entities.

After choosing the desired communication method, you'll need to follow through with a walkthrough of the project charter:

- **Business Case:** State the purpose or mission statement of the project.
- **Problem Statement:** State why the status quo is flawed. Use data and statistics from the "Collect Information" stage as much as possible. For example, "it takes over 'x' amount of time to produce 'y' output in 95% of territories."
- **Project Scope:** Define what is included in the project and what is excluded.
- **Goal Statement:** Demonstrate how the standardization initiative will solve the problem and the benefits it strives to achieve.
- **Walkthrough:** Walk through proposed standardized process while identifying key inputs and outputs.
- **Key Deliverables:** Create proposed roadmap with key dates, milestones and deliverables.
- **Required Resources:** State any specific resources or budget required to carry out the standardization.
- **Roles & Responsibilities:** Identify who will be working on the initiative, including the project manager, project sponsor, SMEs and stakeholders.
- **Next Steps:** Define and continue ongoing communication on progress
- **Q&A**

5. Implement

Once buy-in is received from all stakeholders, the next step is to implement the standardized process. However, before doing so, you'll want to complete the development of beta templates, desktop procedures and quality assurance programs if you have not previously done so. Once those are completed, you can schedule and conduct training with process operators/preparers, as well as set a tentative "go-live" date. Depending on the scope or complexity of the project, you may decide to go live in phases or "waves" to collect focused feedback and make necessary adjustments before subsequent waves. You may also consider a pilot run with only one or two entities going live in the first wave.

EXAMPLE: PROVISION FOR SALES RETURNS

Although the process for calculating the Provision for Sales Returns in the U.S. has been improved through elimination, the VP of International Accounting has consistently expressed concerns over her ability to meaningfully evaluate consolidated results. When explaining variances comparing actual results to forecast or prior-year results, it's cumbersome to identify the drivers of the variances. Being familiar with over 20 entities' returns provision methodology is an exercise in itself, but being able to explain the mechanics to executives and auditors is becoming increasingly difficult. She has requested the processes be standardized.

STANDARDIZATION

1. Collect Information

Due to the number of international entities calculating their own Provision for Sales Returns, we decided to send a questionnaire to each SME via email and requested detailed information on their process by a given deadline. After reviewing their submissions, we sent follow up questions via email. For more complex or limited responses, we scheduled calls for further clarification.

2. Compare and Evaluate

To better compare the different processes, we recorded responses in an Excel table and categorized qualitative information. For example, some territories utilized historical data to support return %, while others used the Sales Planning team for specific return %s.

3. Create Standardized Framework

We created a rough standardization framework derived from multiple processes. The hybrid methodology applies return % estimates based on historical averages for catalog product and specific return % estimates from the Sales Planning team for new releases. Noted exceptions and challenges included Germany's utilization of SaaS software to estimate return % that no other territory had access to. Statutory filings required that the software continue to be used until license expiration.

Also, in Denmark, the timing of when the calculation is performed comes much later during the close process compared to other entities (i.e., 1–2 days), which is normally acceptable for the much smaller entity. However, in order to align with the standardized schedule, their process needs to shift earlier, which will impact contingent activities such as revenue accruals. We decided to work with the SME in Denmark to evaluate ways to make their revenue accruals more efficient, so it could be completed sooner and allow the returns calculation to begin a day earlier.

4. Receive Buy-in from Stakeholders

We first met with internal Financial Compliance to ensure that our proposal was valid under GAAP and that we addressed any of their concerns upfront. This also gave us credence during our next set of meetings described below.

We identified CFOs and/or Controllers in each territory as key stakeholders that would also serve as liaisons with their local HR, Legal, Tax and General Managers. Additionally, we identified appropriate Home Office business unit stakeholders that were responsible for global consolidated results.

Due to the number of international attendees in various time zones, we scheduled three conference calls to walk through the proposed process: North America and South America (11am PST), EMEA (Europe, Middle East, Africa) (7am PST), and Asia (6pm PST).

Meeting minutes were provided with specific action items after each walkthrough. An additional follow-up meeting was scheduled with the UK office (i.e., the largest international entity) after the UK expressed concerns about losing management-override powers on resulting calculation results. To address their concerns, we modified the standardized process to include a management-override option, under the condition that any override adjustment would be documented and signed off by the local CFO and the VP of International Accounting.

5. Implement

Over the course of the next month, we built and tested the beta template for standardization. We also drafted a set of desktop procedures that would serve as a training guide for current and future preparers, reviewers and approvers.

We also assigned each territory to either WAVE 1, 2 or 3, with WAVE 1 serving as our pilot. WAVE 1 was intentionally smaller than the other WAVES, so we could closely monitor results and receive focused feedback. WAVE 1 territories were either willing volunteers or other territories who were typically good ambassadors for change. Other considerations for WAVE assignments were geographical location and size of the entity's operations.

Prior to each WAVE'S go-live, training was scheduled to bring participants up to speed.

Each WAVE's implementation was scheduled during a non-quarter-end-close month to allow for more flexibility in the event anything unexpected occurred.

After a few additional adjustments to the template and the timing, we achieved full implementation. Afterward, process narratives and internal controls were updated and shared with Financial Compliance.

Lessons learned were documented for subsequent projects.

OPTIMIZE

Once a standardized process has been successfully implemented, efforts can shift to optimizing the process to derive further value. One such optimization is to update or build documentation to support the process and encompassing controls. Some examples include the following:

- **Drafting a global policy or memo to memorialize the process.** This would be useful if the standardized process begins to erode because entities add exceptions, exclusions or customizations leading to variability within the process.
- **Creating desktop procedures for new hires or offshore/outsourced resources.** This may have been adopted during standardization training. If not, this is a great way to document step-by-step procedures to carry out the process. In case of turnover or shifting of duties, the document can help maintain high efficiency.
- **Updating RACI model and approval workflows.** This would be helpful to answer who is responsible and accountable for the process, or who should be consulted with or informed of results and changes.
- **Process flow charts and narratives for SOX/internal controls.** This would help internal and external auditors become familiar with the process and the control environment.

In addition to enhanced documentation, another way to optimize the process is to develop analytical management reporting or lead sheets that are produced from standardized processes. By standardizing the management reporting, stakeholders and approvers can use standard language and metrics to explain results. This is especially useful for large organizations that consolidate results.

All applicable enterprise tools should also be evaluated for possible optimization opportunities. Custom reporting or software available in ERPs may be able to relieve pain points or enhance capabilities.

Finally, explore opportunities to optimize ancillary processes that use outputs from the newly standardized process. Some examples include balance sheet reconciliations, corporate reporting or audit request lists.

OPTIMIZATION
(Provision For Sales Returns)

After standardizing the Provision for Sales Returns, we saw deviations and customizations within a few territories. To address them, we drafted a global policy stating the purpose of the sales returns provision, defining all inputs and variables and outlining the standardized methodology and template used for calculating the provision. Financial Compliance and the Chief Accounting Officer signed off on the global policy before it was distributed globally.

Additionally, analyzing the adequacy of the provision was becoming a challenge, which led to Controllers developing their own analytical tools for review. To streamline and standardize the review process, we developed a set of accompanying analytical lead sheets to sync with the standardized calculation. This resulted in Controllers reviewing results similarly, leading to consistent metrics and references for variance explanations.

AUTOMATE

After a process has been standardized and optimized, opportunities may exist to drive additional efficiencies and improve accuracy through automation. It may be time to automate when time spent on spreadsheet maintenance and creating reports is substantially larger than the time spent analyzing financials. Also, you may choose to pursue automation if human error diminishes confidence in reported numbers, or if accurate and timely results are wholly dependent on one or two users with specialized knowledge of detailed manual procedures.

If these conditions exist, review the process for repetitive steps, manual steps or rule-based (non-subjective) steps. Consider all available tools for automation such as Excel formulas and macros, automated system interfaces or new/existing software. You'll also want to identify SME and/or IT sponsors who can offer ideas and implement solutions concurrently with the broader implementation rollout (refer to Standardization, 5. Implement).

EXAMPLE: PROVISION FOR SALES RETURNS

Executives like the ease of reviewing and making decisions based on the standardized consolidated data and variance explanations. However, they're frustrated over the time to produce preliminary financial results during quarter closes. The Provision for Sales Return calculation is the main culprit: it requires 6 hours end to end and can't be initiated until all revenue accruals are completed. Automations are pursued to improve accuracy and efficiency.

AUTOMATION TO-DO LIST

1

Configure JE upload template that will be automatically updated using information from the calculation file. JE upload template can be uploaded to the ERP without manual entry.

2

Schedule standardized reports to be automatically refreshed on a predetermined schedule. Excel calculation pulls required information from the latest reports automatically. (No longer have to manually refresh reports or enter information into the calculation template.)

3

Make quality control sheet to ensure all aggregate information in the provision calculation ties out to consolidated financial statements. (Ensures the calculation references the latest information while accounting for any last-minute adjustments.)

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ROBOTIZE

Robotic process automation (RPA) is an emerging technology that utilizes robots configured and directed by software programs to execute certain tasks. After completing available process eliminations, standardizations, optimizations and automations, a process can be evaluated for RPA. Completing these preliminary steps removes most inefficiencies and variability within a process, leading to more successful RPA implementations and minimized costs. Additionally, benefits such as ongoing efficiencies, effectiveness and value derived from RPA are magnified.

These prerequisite steps will also reveal processes that are not good candidates for RPA due to their complexity, or perhaps because the ROI is not convincing enough after the benefits achieved through ESOA.

RPA is an ideal solution for remaining human-operated tasks that are:

- Repetitive or mundane
- Rule-based activities not previously captured through traditional automation
- At a volume of transactions that justifies the upfront costs for RPA design, development and implementation, staff training and ongoing maintenance

Consultants can offer guidance and help you choose the most effective RPA software for your company. They can also help you configure the software to ensure you maximize your ROI.

After automations and RPA are implemented, remember to consider how time can be reallocated to analytical, high-value-added tasks.

Reputable RPA Software worth consideration includes:

UiPath™ — UiPath RPA

blueprism® — Blue Prism

AUTOMATION ANYWHERE Go be great. — Automation Anywhere RPA

appian — Appian

(Interested in exploring more? Click on any of the logos above to visit their respective websites.)

Debrief: Robotize?

EXAMPLE: PROVISION FOR SALES RETURNS

Due to the complexity of the Provision for Sales Returns calculation, a comprehensive end-to-end RPA solution would not return similar ROI achieved by other processes within the shared financial service center.

Despite this, portions of the process benefit from peripheral RPA programs instituted by the department. The existing RPA process for JE uploads allows the preparer of the Provision for Sales Returns calculation to email the system-generated JE template to a mailbox, where a robot picks it up and automatically posts the JE into our ERP system.

Also, an existing RPA configuration was deployed to send an email notification to the preparer, reviewer and supervisor whenever there's a material change in posted revenue subsequent to the Sales Return Provision being posted. This ensures the team can update their calculation prior to rolling up final results. (Previously, the Accounting Manager had to continuously check the ERP to confirm the numbers hadn't changed.)

Lastly, a robot was programmed to email the Sales Planning team formatted information containing all of the latest new release product revenue. This allows the Sales Planning team to provide specific return % estimates to calculate the Sales Return Provision. (This was a step previously done by a human.)

The calculation will be revisited periodically as the department's RPA program continues to mature.

Bring in *Third-Party Perspective*

We hope this resource offers insight into the strategic process of process improvement. Whether you want leverage ESOAR or other approaches, an 8020 Consultant can offer expert assistance and a third-party perspective in your finance and accounting process improvement efforts. With a team of nearly 100 professionals headquartered in Los Angeles and capable of working remotely to serve companies across Southern California, we can quickly assess and respond to your unique requirements and mandates.

Contact us today to support your finance and accounting process improvement goals!

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