

# An Analysis of a Fast Financial Closing Process for an International Company

Masterarbeit zur Erlangung des akademischen Grades  
„Master of Science (M.Sc.)“ im Studiengang Wirtschaftswissenschaft der  
Wirtschaftswissenschaftlichen Fakultät der Leibniz Universität Hannover

vorgelegt von:

Name: Ostwald

Vorname: Nicolai



Prüfer: Prof. Dr. Michael Breitner

Hannover, den 30. September 2014

## Table of Contents

Sperrvermerk.....	I
Danksagung .....	II
Table of Contents .....	III
List of Figures.....	V
List of Tables .....	VII
List of Abbreviations .....	VIII
1. Introduction.....	1
2. Financial Closing Process .....	2
2.1 Goals of a Financial Closure.....	3
2.2 Steps of a Financial Closure .....	5
2.2.1 Preparation.....	6
2.2.2 Consolidation .....	7
2.2.3 Audit.....	8
2.2.4 Publication.....	11
2.2.5 Enforcement.....	12
2.4 Deadlines of a Financial Closure .....	12
2.5 Components of Financial Statements .....	13
2.6 Accounting Principles.....	19
2.6.1 in Accordance with HGB .....	19
2.6.2 in Accordance with International Accounting Standards.....	22
2.6.3 Discussion of the Described Accounting Standards .....	24
3. Fast Close .....	27
3.1 Definition of the Term “Fast Close” .....	27
3.2 Reasons for a Faster Financial Closing Process .....	30
3.3 Challenges of a Faster Financial Closing Process.....	34
3.4 Trade-off between Accuracy and Timeliness .....	36

3.5 Measures to Accelerate the Financial Closing Process .....	39
3.5.1 Optimisation of Internal Processes.....	41
3.5.2 IT and Software-Solutions .....	42
3.5.3 Timesaving Methods of Valuation .....	44
3.6 Approach to Realize a Fast Close Project .....	45
3.7 Empirical Research on Closing Speed.....	48
3.7.1 International Efforts on Fast Close .....	49
3.7.2 Benchmark of the Financial Closure in the Pharmaceutical Sector ..	54
4. Fast Financial Closing Process in the Case of Abbott.....	60
4.1 About Abbott.....	61
4.1.1 Historical Background .....	61
4.1.2 Recent Development and the Organisation since 2012 .....	62
4.2 Theoretical Closing Procedure within Abbott .....	66
4.2.1 Monthly Financial Closure of Abbott Hannover .....	71
4.2.2 Annually Financial Closure of Abbott Hannover .....	75
4.2.3 Consolidation within the Abbott Group .....	76
4.3 Technical Closing Procedure within Abbott Laboratories.....	77
4.4 Reduction of Closing Time on Chosen Examples .....	79
4.4.1 Inventory and Invoicing .....	80
4.4.2 Accruals .....	80
4.4.3 Intercompany-Reconciliation .....	84
4.5 Identification of Further Time-Saving Potentials .....	92
5. Critical Review of a Fast Financial Closing Process.....	102
6. Conclusion and Outlook .....	105
Bibliography.....	XI
Appendix .....	XVIII
Ehrenwörtliche Erklärung .....	XIX

## 1. Introduction

The purpose of financial statements is to provide information for current and potential groups of stakeholders. The requirement for this information is very high – especially in terms of reliability, verifiability and correctness. A further requirement – which gained importance over the last few decades – is the timeliness of information. The growing relevance of timeliness refers to the increased economic dynamism on capital markets and to the globalization of commercial markets. In order to be able to react immediately to changing market- and competitive-situations, crucial information must be made available for all economic groups.<sup>1</sup>

However, the aforementioned requirements of financial information lead to a dilemma: Financial departments are caught between two different objectives. The first objective is to generate and provide financial and operating information sooner. But at the same time the second objective refers to keep information in-house for as long as possible, to ensure the reliability and correctness of the information.<sup>2</sup>

This raises the question of how to meet the challenge of providing reliable data in a timely manner.<sup>3</sup> The central objective of this thesis is to provide strategies and measures to find an answer to the question at hand, based on an analysis of the conceptual framework of a “Fast Close”.

After this introduction the following section provides fundamental information about the ordinary financial closing procedure with special regard to the German national accounting-law and the international accounting standards US-GAAP and IFRS.

The third chapter focuses on the theoretical approach of an accelerated financial close, commonly known as “Fast Close”. The chapter includes an analysis

---

<sup>1</sup> Cf. Eggemann and Petry, 2002, p. 1635; Schulte, 2006, p. 1.

<sup>2</sup> Cf. Bragg, 2009, p. 3.

<sup>3</sup> Mäder and Schärli, 2002, p. 1079.

## 2. Financial Closing Process

of reasons and drivers for organisations to accelerate their financial closure. In contrast to this potential challenges are described, which have to be taken into consideration when aiming to be successful at improving processes. On this basis an exemplary approach for the execution of a fast close project is described. To expand the focus, this chapter closes with a provision of empirical investigation on closing speed in different countries and on different stock markets. In addition to that a benchmark analysis about the closing speed of the ten largest pharmaceutical companies in the world provides insights into the development of the closing speed in this industry.

The fourth section transfers the theoretical background knowledge into a practical dimension, where Abbott, an international healthcare group and one of the ten largest pharmaceutical companies in the world, serves as the practical reference of this thesis. The focus in this section is to describe the established processes of the financial closure at the German affiliate-sites in Hannover and Neustadt am Rübenberge. Based on this, already implemented process-improvements are shown and subsequently further practical oriented measures on how to improve the financial closing process in terms of closing speed and closing quality within Abbott are developed.

In conclusion, the conceptual framework of a fast financial closing process is discussed.

## 2. Financial Closing Process

The term “Financial Close” refers to the common explanation of the summarization of records and data about business transactions during a certain period of time. This process requires the continual recording of business events during the business year. Once collected, the recorded data gets processed and summarized into a financial statement. The final statement is put through an auditing process and finally gets published and distributed to different groups of stakeholders, such as shareholders, rating agencies, journalists and employees who are highly interested in information about the organisation.

## 6. Conclusion and Outlook

However, the focus on a closing process revision is not only important for international groups and big corporations, even medium-sized companies should focus on an acceleration of their financial closing process as well, since the rating-agencies and banks often take their annual financial statements into account when granting credits.

To summarise, closing process acceleration is positive if the quality and the reliability of the reported figures do not suffer. If an organisation faces the mentioned trade-off between quality and timeliness, it is important to achieve a good balance between these dimensions and not focus solely on time or quality. In general and in the long run, the expected negative outcome of wrong, but quickly provided figures and information tends to be higher than the outcome of correct figures and information, provided at a later time.

## 6. Conclusion and Outlook

The closing process has to be performed without any delay in every single part of the organisation, no matter of their size. As soon as the financial reporting of the smallest subsidiary in the group is delayed, it does not matter if the reporting of all other parts of the organisation is on time or even before the due date – the consolidation will be delayed until the individual financial information of every sub-division is prepared and transmitted.

The greatest potential to accelerate the closing speed is hidden in steps, where manual process interventions are currently used. Manual process interventions often emerge because of lacks in the uniformity in the software-solutions. This underlines the high potential of a comprehensive and integrated ERP-solution, which is the measure with the greatest effect on the sustainable acceleration of the closing process.

Irrespective of regulatory compliance of deadlines for month-end-, end-of-quarter- and year-end-closing, capital market participants are expecting an in-

## 6. Conclusion and Outlook

creasingly quick publication of financial statements, which is used to formulate a basis for decisions.<sup>207</sup>

This thesis could show several measures and strategies, which an organisation can take into consideration in order to accelerate their financial closing process and to simultaneously ensure high quality data at the same time. The most important ones are:

- Temporal forward displacement of close-relevant tasks and activities;
- Standardisation of in-house processes, across affiliates and entities;
- Reduction of in-house communication lines;
- Simplification of estimation procedures, especially in the field of inventory and fixed assets;
- Improvement of process support on the IT-side;
- Target-oriented optimisation of the process organisation.

Fast close goals and achievements usually become realized within the scope of a project. The corporate head office is reliant on an immediate data submission by the affiliates right after the closing date. Any delay at an early stage is reflected in the publication date of the consolidated financial statement. This underlines the high necessity to involve every single affiliate and to work cross-divisionally. Furthermore, it is important to consider the trade-off between reliability and timeliness, and perhaps other dimensions.<sup>208</sup> To focus on all dimensions at the same time is likely an unfocused choice, since this would lead to target conflicts.

The question of whether to focus on closing speed or accuracy is impossible to answer without considering both ends of the spectrum, the consequences associated with each and the individual companies' context. However, considering the lapse of time, one strategy is to focus on the closing speed first and perhaps exploit of resultant synergetic effects. When focussing on the closing speed, the

---

<sup>207</sup> Cf. Eggemann and Petry, 2002, p. 1639.

<sup>208</sup> Cf. Figure 3: Decision-Triangle, p. 38.

## 6. Conclusion and Outlook

amount of estimations will increase and therewith the quality of financial information will most likely decrease with the first instance. Since the closing process is highly iterative, the estimation methods will most likely improve over time and thereby positively impact the overall quality.

Due to growing competition in the capital markets, the importance of immediate reactions to changes and the commitment to be informed promptly, one can expect that the pressure on organisations to disclose their financial statements in a quicker manner will further grow. In the future also smaller businesses will focus on approaches to accelerate their financial closing processes.

The Abbott group, which represents the case of this thesis, identified the potentials and challenges of a fast close and mobilized to take action at an early stage. To be able to report financial information at an early stage, Abbott developed the internal reporting system AS400, which is used as an interface between the affiliates local IT-solutions, and the HFM-system, used in the head office for the consolidation. This is one reason, why the Abbott group beats its benchmark peers in the speed of publishing their financial statements.<sup>209</sup> Nevertheless Abbott keeps analysing further process optimisations to improve its financial closure. Therefore Abbott initiated a worldwide close-acceleration project, to further improve throughout all phases of the financial closing process.

Today, the AS400 – serving for the data exchange between affiliates with different software-systems in use – seems outdated and hinders a quick data exchange, due to its high inflexibility. The central idea to improve the financial closure process for Abbott is to waive the AS400 and to facilitate the direct data report by the affiliates into the HFM.

As this thesis could show, there are further measures for Abbott, which bear potential for closing process improvement, and even if some of the identified potentials seem to be rather small in comparison to the dimensions of the closing process of an international group, transferred to a larger scale of affiliates, even smaller measures will contribute to a closure optimization.

---

<sup>209</sup> Cf. Section 3.7.2, „Benchmark of the Financial Closure in the Pharmaceutical Sector“, p. 54.



## 6. Conclusion and Outlook

An accelerated financial close is not achievable from one day to another. Based upon gained experiences from previous periods, it rather represents a continuous process. If these experiences are taken into account and analysed with special regard to a sustainable closing process improvement, the organisation will be able to make progress in the long term.