

# Escaping the Spreadsheet *Quagmire*



Now more than ever, effective use of scarce financial resources is essential to driving higher levels of business performance. Unfortunately, Finance teams spend too much time on the physical machinations of consolidation, internal reporting and external reporting. As a result, Finance can't spend enough time with business leaders analyzing performance and identifying new opportunities.

Finance hampers its own efforts for a fast and effective consolidation by heavily integrating a desktop solution (spreadsheets) for an enterprise-wide process. Companies can escape this "Spreadsheet Quagmire" by implementing a Performance Management (PM) solution.

Performance Management solutions centralize, unify and streamline the financial consolidation process, resulting in faster closing cycle times, more robust financial reporting and more control of consolidation and reporting processes.

## Desktop Tool for an Enterprise Process

Although sophisticated financial consolidation systems exist, the preferred tool for many consolidation activities continues to be spreadsheets (a tool originally intended for desktop-based, ad-hoc personal analysis). A recent survey conducted by Ventana Research <sup>(i)</sup> found that 93% of companies use spreadsheets during the closing process.

Some of the processes essential to the consolidation that are trapped in desktop spreadsheets include:

- Inter-company Eliminations
- \$US Overrides
- Foreign Currency Translation
- Actual Results Analysis and Variance Analysis
- Corporate Reporting
- External Reporting
- One-Time Adjustments
- Normalization Adjustments
- Data file Conversion and Transformation

There is mounting evidence that the excessive use of spreadsheets impedes the consolidation process – so why do most companies still use them? Companies initially used spreadsheets for one piece of the consolidation process because it didn't cost anything. Over time, that one piece evolved and expanded into new processes and is now pervasive. Also, once a process is in place, companies frequently resist change, reasoning “we've always done it that way.”

## Spreadsheet Quagmire

Excessive (or even moderate) use of spreadsheets for consolidation and closing processes can have adverse effects. Six prevalent negative consequences include:

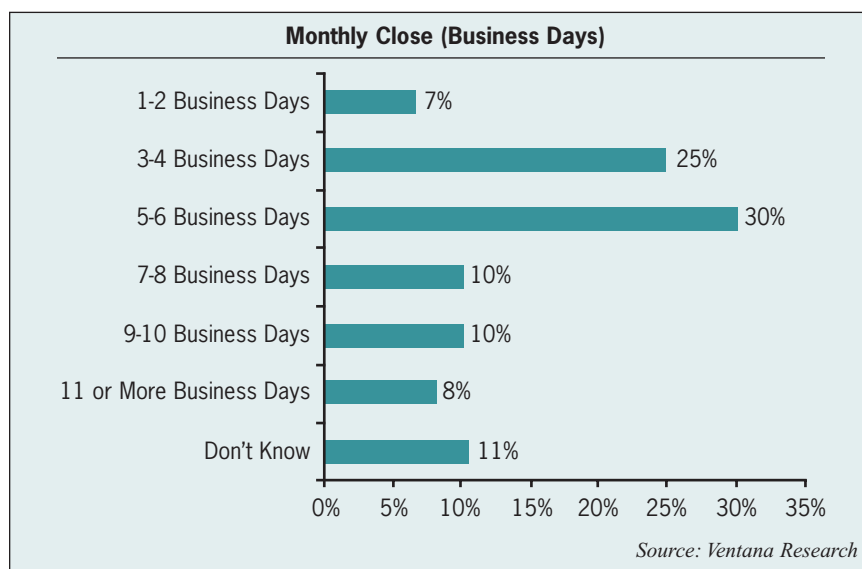
- Longer Closing Times
- Spreadsheet Errors
- Sub-Optimal Sarbanes-Oxley Compliance
- Lack of Institutional Knowledge
- Different Versions of the Same Data
- Disconnected Information Workers

i. Kugel, Robert D. “What Separates High-Performing CFOs from Everybody Else?” [www.ventanaresearch.com](http://www.ventanaresearch.com)

### Longer Closing Times

Although most firms want to accelerate their close, the time needed to complete the close has not changed much since the 1990s. Of the companies Ventana surveyed, 68% have monthly closing times five days or longer:

One of the primary reasons closing times have not shortened in the last decade is excessive use of spreadsheets to meet ever-growing internal and external reporting requirements. Financial analysts spend most of their time updating reports manually, reconciling spreadsheets to account for systemic changes, fixing formulas, etc. – the Spreadsheet Quagmire – leaving little time for high-value analysis.



### Spreadsheet Errors

Another factor that many companies struggle with is rampant errors throughout spreadsheets. According to Panko<sup>(ii)</sup>, spreadsheet error auditors determined that nearly every single spreadsheet has some sort of error – with a majority of firms still using spreadsheets for many consolidation processes, the risk of financial results having errors is too high to ignore.

### Sub-Optimal Sarbanes-Oxley Compliance

Spreadsheet errors can create additional risk for companies in a post-Sarbanes-Oxley world, where tight controls on financial reporting systems are essential. Now that executives of publicly-traded companies have to personally sign off on financial statements, it's more important than ever to have tight controls in place. Using error-prone spreadsheets for the close makes it difficult for firms to be compliant with Sarbanes-Oxley.

### Lack of Institutional Knowledge

DiSandro<sup>(iii)</sup> calls this phenomenon “that one guy that owns the spreadsheet with all the macros.” Part of being stuck in The Spreadsheet Quagmire is that there tends to be many desktop-specific knowledge centers, created by members of Finance. These knowledge centers are extremely fragmented and not well-controlled – which becomes a significant problem if the person who owns an important consolidation spreadsheet with all the macros leaves the organization, and nobody else knows how to use it.

ii. Panko, Raymond R. “What We Know About Spreadsheet Errors.” <http://panko.cba.hawaii.edu/ssr/whatknow.htm>

iii. DiSandro, Ernie. “Claymont Steel: Business Finance Mid-Enterprise Customer Story.” [www.isaconsulting.com](http://www.isaconsulting.com)

## Different Versions of the Same Data

Spreadsheets hold data. They are not connected to a central database and therefore can show different versions of the same data. Examples of these issues include:

- Multiple versions of “Actual” results – Corporate Accounting has different financials than Financial Planning & Analysis, based on different treatment of accounts; also, Corporate HQ has a different version of a Foreign Subsidiary’s results than the Foreign Subsidiary. In short: Different Versions of the Same Data. (See Exhibit 1 for example of the Spreadsheet Quagmire.)
- Divisions, departments and other groups in the company treat certain accounts (expenses, charges, etc.) inconsistently – account roll-ups are different for different groups (and in some cases, completely different Charts of Accounts).
- Multiple calculations of the same KPI depending on the group.
- Difficulty tying reports to the General Ledger (G/L) – when an account is added to the G/L, or if there is a change to the legal entity structure (restructuring, acquisition/divestiture, etc.), or division/department re-alignment – each spreadsheet needs to be updated accordingly. It is a maintenance nightmare.
- Version control – having spreadsheets on multiple desktops makes controlling versions difficult. Updates to a spreadsheet from one user may not transfer to another user’s version of the “same” report. This leads to reconciliation issues between departments, divisions, etc.

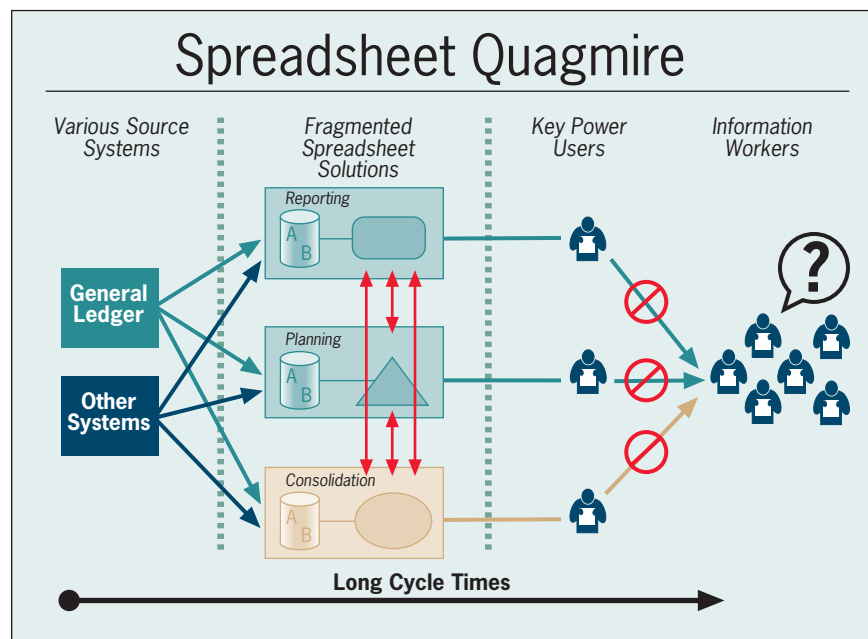
## Disconnected Information Workers

Firms use multiple data sources for daily operations and need to aggregate those systems in order to close the books and produce consolidated results. Spreadsheets fragment that process, as key power users will likely have various versions of the same data on various spreadsheets, which are not connected to any central enterprise-wide system. This leads to bottlenecks and disconnects between the source systems, spreadsheets, power users and information workers, as illustrated in Exhibit 1 below:

Exhibit 1:

### **Performance Management to the Rescue**

How can firms escape the Spreadsheet Quagmire? An escape is possible with a Performance Management solution. PM centralizes financial and non-financial data in a single database with controls and workflow, helping to streamline the consolidation process.



We have noted the following successes after implementing a PM solution:

Shorter Closing Time – with PM, Finance can close the books and produce consolidated financial results much faster with less time and effort. This means a more strategic view of financials. Since a company spends less time compiling results, Finance now has more opportunity to be forward-thinking and look at its operations in a more analytical and strategic way.

Centralized Report Library – a report library is maintained on the server with database-level calculations, which eliminate the risk of errors in spreadsheet formulas.

Enterprise-level Controls – a PM solution has enterprise-level security and safeguards, allowing financials to be Sarbanes-Oxley compliant.

Institutional Knowledge of Reporting – No more “that one guy that owns the spreadsheet with all the macros” issues, since knowledge is documented and shared throughout the organization. Additionally, sophisticated tools within the PM platform allow more robust analysis without the need for spreadsheet-specific macros.

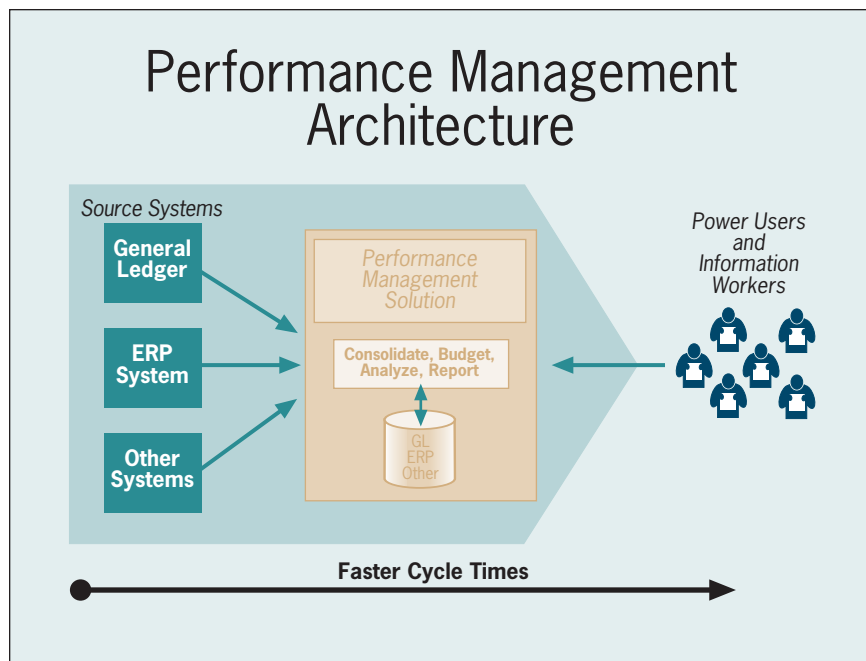
One Version of the Truth – all data is now centralized in an On Line Analytical Processing (OLAP) database, so everyone is looking at the same numbers. Now, Corporate Accounting and Financial Planning & Analysis have the same results; and Corporate HQ and all of its Foreign Subsidiaries have the same results. There is no more ambiguity. (See Exhibit 2 for an example of a Performance Management Architecture.)

Connected Information Workers – as depicted below, a PM solution can unify all financial and operational information, so every worker is accessing the same information, allowing for more in-depth analysis and more informed decision-making capability.

Exhibit 2:

### Conclusion & Next Steps

The financial consolidation process can be complex – especially if your company is relying heavily on spreadsheets. However, there is hope for escaping the Spreadsheet Quagmire: a Performance Management solution that centralizes, unifies and streamlines the financial consolidation process, eliminates the risk associated with spreadsheets, shortens closing time and creates One Version of the Truth.



The next steps typically involve getting your team in place to define the business requirements that a PM solution must meet. Once your team agrees on the requirements, a review of the software marketplace is a must. Entertain two to three competitive bids in this process to assure a leveraged process and to get the best deal. From there, you can decide on the best fit for your business. Finally, it's basic project management and hard work.

Do not modify the software; instead, challenge and change your processes to take advantage of the software. Manage the initiative as you would any important project: track changes, manage issues and hold people accountable. When you are done, the benefits should be well worth the investment.

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