

Part 9 of 20

Financial Process Design: Building What You Actually Want

The four core financial processes the ERP must support — and how to design them for the business you are building, not the one you have

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WHAT YOU WILL LEARN AND WHY IT MATTERS

Financial process design is the activity that translates the requirements documented in Part Four into the operational workflows that will govern how financial transactions flow through the new ERP system. It is the bridge between the analytical work of requirements definition and the technical work of system configuration, and its quality determines whether the configured system reflects genuinely optimal business processes or simply the legacy processes the organization was running before the implementation began.

The most common failure in financial process design is the replication of current state. When the design team documents how the current process works and configures the new system to replicate it, the organization gets a new system running old processes — and the analytical and efficiency benefits that justified the ERP investment are not realized. True financial process design starts from first principles: given the capabilities of the new system, what is the optimal way to perform each financial process? Which manual steps exist because the old system could not enforce controls automatically, and can be eliminated? Which sequential steps exist because data could not flow automatically between systems, and can be parallelized? Which reconciliation activities exist because data was entered in multiple places with inconsistent results, and can be replaced by a single system of record?

This part covers the design of the four core financial processes that every ERP implementation must address: record-to-report, order-to-cash, procure-to-pay, and plan-to-perform. Each process is described in its optimal future-state design — the design enabled by a well-implemented modern ERP — with specific attention to the organizational behavior changes required to operate the new process rather than reverting to legacy habits.

RECORD-TO-REPORT: THE FINANCIAL CLOSE WORKFLOW

The record-to-report process encompasses every activity from the initial recording of a financial transaction through the production of the financial statements and management reports that communicate the organization's financial results. It is the most fundamental financial process in the ERP and the one whose design most directly determines the speed, accuracy, and analytical richness of the financial reporting the organization produces.

The close process in a well-designed ERP environment follows a defined sequence of activities with explicit ownership, defined completion criteria, and automated dependency management. The sequence begins with the subledger close activities — the reconciliation and close of accounts receivable, accounts payable, fixed assets, and inventory subledgers — which must be completed before the general ledger close can begin. The subledger close activities should be assigned to specific team members with defined completion criteria — not reviewed and appears correct but reconciled to the source system and variances investigated — and the ERP should enforce the dependency between subledger close and general ledger close through workflow controls rather than relying on informal coordination.

The journal entry workflow is the component of the record-to-report process that most benefits from ERP automation. In a manual or legacy system environment, recurring journal entries are typically prepared in spreadsheets, reviewed individually, and posted manually — a process that is time-consuming, error-prone, and difficult to audit. In a well-configured modern ERP, recurring journal entries are automated — the system generates them from templates on a defined schedule, applies the defined approval workflow, and posts them without manual intervention after approval. The finance team's role shifts from preparing and entering the entries to reviewing the system-generated entries and investigating any that fall outside expected ranges.

The management reporting production process should be designed as an integrated output of the close workflow rather than as a separate activity that begins after the close is complete. In a well-integrated ERP environment, the management report packages — the monthly business review deck data, the board package financial section, the FP&A; variance analysis data — are generated automatically from the system as soon as the close is complete, without the manual data assembly process that consumes so much finance team time in organizations with inadequate financial systems. The design of the reporting output as an integrated component of the close workflow requires the reporting architecture to be specified during the implementation design phase, not developed after go-live.

ORDER-TO-CASH: FROM CUSTOMER COMMITMENT TO REVENUE RECOGNITION

The order-to-cash process covers the complete lifecycle of a customer transaction from the moment the customer commits to a purchase through the recognition of the associated revenue and the collection of the associated cash. In subscription software companies, this process is among the most complex in the ERP because it must handle the revenue recognition rules of ASC 606 — the allocation of transaction price across performance obligations, the timing of revenue recognition, and the treatment of contract modifications — while maintaining the operational simplicity required for the sales team to use effectively.

The order creation step in the order-to-cash process is the point at which the commercial terms of the customer commitment become financial records in the ERP. The design of the order creation workflow must balance the finance team's need for accounting accuracy — the correct identification of performance obligations, the correct allocation of transaction price, the correct revenue recognition method — against the sales team's need for speed and simplicity. Order templates that pre-configure the correct revenue recognition treatment for the most common contract types — annual subscription, multi-year subscription, subscription plus implementation services, consumption-based subscription — reduce the manual configuration required for each order and reduce the error rate in revenue recognition treatment.

The invoicing and collections workflow in the order-to-cash process is the operational component that directly determines the speed of cash collection and the quality of the accounts receivable aging. A well-designed ERP invoicing workflow generates invoices automatically on the defined billing schedule, routes them for approval when they exceed defined thresholds, delivers them to customers through the

defined channels, and updates the accounts receivable subledger automatically when they are created. The collections workflow monitors the AR aging daily, generates automated collection reminders at defined intervals past due date, escalates overdue accounts to collections management, and records collection activity directly in the ERP — producing the complete AR aging and collections activity report that the CFO needs to manage DSO.

The revenue recognition module integration is the most technically demanding component of the order-to-cash design for subscription companies. The revenue recognition module must receive the contract data from the order management module, apply the ASC 606 rules to determine the appropriate recognition treatment, generate the revenue recognition journal entries on the correct schedule, and produce the VSOE or SSP documentation required for audit. The design of this integration — including the specific fields that must flow from the order module to the revenue recognition module and the specific rules that govern the recognition treatment — should be reviewed by the company's external auditors during the implementation design phase, not after the system is configured and difficult to change.

PROCURE-TO-PAY: FROM PURCHASE REQUISITION TO VENDOR PAYMENT

The procure-to-pay process covers the complete lifecycle of a vendor transaction from the initial purchase request through the receipt of goods or services, the matching of the vendor invoice to the purchase order, and the payment of the vendor. In growth-stage companies, the P2P process is frequently the least systematically managed of the major financial processes — purchases are often made without formal requisitions, vendor invoices are received through informal channels, and the approval process is inconsistently applied. A well-designed ERP P2P workflow creates the financial controls and process discipline that most growth-stage companies need to scale without the compliance failures that informal procurement produces.

The purchase requisition and approval workflow is the entry point of the P2P process and the control point that ensures spending is authorized before commitments are made rather than after invoices arrive. The ERP workflow should enforce that purchase requisitions above defined thresholds require approval from the appropriate authority — the functional manager for routine operational purchases, the department head for larger purchases, the CFO for significant capital commitments — before a purchase order is issued. The approval workflow should be automated in the ERP, with automatic routing to the approver, automatic reminder escalation for approvals not completed within defined timeframes, and automatic rejection routing for requests that do not meet the defined criteria.

The three-way match — the automatic reconciliation of the purchase order, the receiving record, and the vendor invoice before payment is released — is the most important financial control in the P2P process and one of the most impactful ERP automation opportunities in the accounts payable function. In a manual environment, the three-way match is performed by accounts payable staff through a time-consuming comparison of paper documents. In a well-configured ERP, the match is performed automatically when

the vendor invoice is entered — the system compares the invoice to the associated purchase order and receiving record, releases invoices that match within defined tolerances for automatic payment processing, and routes mismatched invoices to the appropriate resolution workflow. The automation of the three-way match typically reduces the accounts payable team's processing time per invoice by forty to sixty percent while improving matching accuracy relative to manual comparison.

The vendor master data management component of the P2P process deserves specific design attention because vendor master data quality directly affects both financial control effectiveness and payment efficiency. The vendor master should include complete banking information for electronic payment processing, validated tax identification information for 1099 reporting, spend category classifications for spend analytics, and preferred payment terms that are enforced automatically by the AP workflow. The duplicate vendor control — the system check that prevents the creation of a vendor record for a vendor already in the system under a different name — is the most important data quality control in the vendor master and should be configured as a mandatory check rather than an optional warning.

PLAN-TO-PERFORM: CONNECTING THE ERP TO THE FP&A; CYCLE

The plan-to-perform process is the integration between the ERP's financial actuals and the FP&A; function's planning and performance management activities — the mechanism through which the historical financial data recorded in the ERP flows into the planning models, variance analyses, and management reports that the FP&A; team produces. This integration is the most analytically consequential component of the ERP design for the CFO who aspires to the financial intelligence platform described in Part One.

The actuals-to-plan integration requires that the ERP's chart of accounts and dimensional structure — the hierarchy of legal entities, cost centers, and analytical dimensions in which financial transactions are recorded — maps directly to the planning model structure used by the FP&A; team. When the ERP and the planning model use inconsistent dimension structures, the actuals-to-plan comparison requires manual reconciliation that consumes analyst time and introduces the mapping errors that undermine the analytical precision of the variance analysis. Designing the ERP and the FP&A; planning tool with a shared dimensional structure — or designing the ERP's reporting structure to produce the dimensions the FP&A; tool requires — is one of the most valuable design investments available in the ERP implementation.

The variance analysis data production is the specific output of the plan-to-perform integration that the FP&A; team uses most regularly. The ERP should be configured to produce the period-over-period and actual-versus-plan variance data that forms the input to the variance narrative described in the FP&A; series — specifically, the revenue and cost actuals broken down by the dimensions required for the price-volume-mix decomposition and the rate-efficiency decomposition. When this data is produced automatically by the ERP in a format that flows directly into the variance analysis template without manual

reformatting, the time from close completion to variance analysis delivery shrinks significantly, and the analytical quality improves because the analyst's time is available for interpretation rather than data assembly.

The forecast update integration allows the rolling forecast described in the FP&A; series to be updated with actual data from the ERP as soon as the close is complete — replacing the period's forecasted figures with actuals and refreshing the forward projection based on the revised trajectory. This integration requires the ERP and the FP&A; planning tool to exchange data through a reliable, automated connection, typically an API integration or a scheduled data export that eliminates the manual data transfer that most organizations currently perform. The design of this integration should be a specific requirement in the FP&A; planning tool vendor selection process and the ERP integration architecture, to ensure that the technical connection is feasible and that the data format exchange is compatible.

PROCESS DOCUMENTATION STANDARDS

Process documentation is the organizational artifact that makes the ERP implementation durable — that ensures the knowledge of how the new processes work is captured in a form that survives the departure of the implementation team and the turnover of finance staff that will inevitably occur during the operational life of the system. The most common post-go-live problem in ERP implementations is not technical failure but knowledge loss: the institutional knowledge of why specific configuration decisions were made, how specific workflows are designed to operate, and how specific exceptions should be handled is held by a small number of individuals and is lost when those individuals leave.

Process documentation should be produced at two levels. The first level is the process flow document: a visual diagram showing the sequence of activities in each process, the roles responsible for each activity, the system actions that occur at each step, and the decision points where the process branches based on specific conditions. Process flow documents should be stored in a location accessible to all process participants and updated whenever the process design changes — not filed in a project folder and never referenced again.

The second level is the procedure document: a written step-by-step description of how to perform each activity in the process flow, written at a level of detail sufficient for a new employee to perform the activity correctly without requiring personal instruction from a colleague. Procedure documents are the training foundation for new team members and the reference document for experienced team members handling infrequent or complex situations. They should be written in plain language, include screenshots of the relevant system screens, and specify the exact fields, values, and actions required for each step.

The process owner model assigns organizational accountability for maintaining the accuracy and currency of process documentation. Each major financial process should have a designated process owner — a senior finance team member who is responsible for the design of the process, the quality of its execution, the currency of its documentation, and the continuous improvement of its performance. Process owners

should review their process documentation quarterly and update it when process changes occur, creating the organizational discipline that prevents the documentation from falling out of sync with actual practice.

ACTIONS TO TAKE IN THE NEXT THIRTY DAYS

The following actions will build the financial process design foundation before or during the ERP implementation.

The first action is to map the current state of each of the four core financial processes described in this part — record-to-report, order-to-cash, procure-to-pay, and plan-to-perform — documenting each step, the responsible role, the system that supports it, and the time required. The current state maps will reveal the manual steps, sequential dependencies, and reconciliation activities that the new ERP should eliminate, providing the specific design targets for the future state.

The second action is to identify the three to five highest-impact process improvements available in each core process — the specific changes that the new ERP enables that would most reduce processing time, most improve data quality, or most enhance control effectiveness. For each identified improvement, estimate the annual value of the improvement in terms of analyst time savings, error reduction, or control improvement. This value mapping will inform the prioritization of configuration work during the build phase.

The third action is to identify the organizational behavior changes required to operate the future-state processes — the habits, workarounds, and informal practices that must change for the new process design to deliver its intended benefits. For each required behavior change, assess the readiness of the affected team members to make the change and identify the specific training, reinforcement, or incentive mechanisms required to support it. This assessment is the foundation of the change management plan described in Part Eleven.

The fourth action is to define the process ownership model for the four core processes — identifying the specific individual who will serve as the process owner for each, documenting their responsibilities, and communicating the model to the finance leadership team before the implementation begins. Establishing process ownership before the implementation creates the accountability structure that ensures process design decisions reflect genuine business requirements and that post-go-live process issues have a clear owner.

CLOSING PERSPECTIVE

Financial process design is the activity that determines whether the ERP delivers a better version of the old financial system or a fundamentally improved financial operating model. The difference between these two outcomes is entirely a function of the design ambition and analytical discipline brought to this phase — the willingness to design for the optimal future state rather than defaulting to the comfortable current state.

The four core processes described in this part — when designed with the future-state orientation and the CFO's analytical requirements at their center — produce the financial infrastructure that enables the FP&A; capabilities described in the FP&A; series. They are the operational foundation of the financial intelligence platform.

COMING NEXT IN THE SERIES

Part 10 — Integration Architecture: Connecting the Financial Core to the Business

Part Ten covers the integration architecture that transforms the ERP from an accounting system into a financial intelligence platform — the integration landscape, integration patterns, testing methodology, data flow mapping, and the governance discipline that maintains the integration layer as systems evolve.

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