MONEY MATTERS

Globalisation, online trading and financial regulation have all helped bring accounting systems into the front line, reports Pat Sweet, as she reflects on our latest market research.

In the 21st century, as world economies become further interlinked and more companies go global, so the pressures are building on financial systems of all kinds. And with expanding business horizons come growing business risks. Organisations not only have to ensure their own financial house is in order but those of their associates as well. Knowing what their 'numbers' are in a timely and coherent fashion has never been more important.

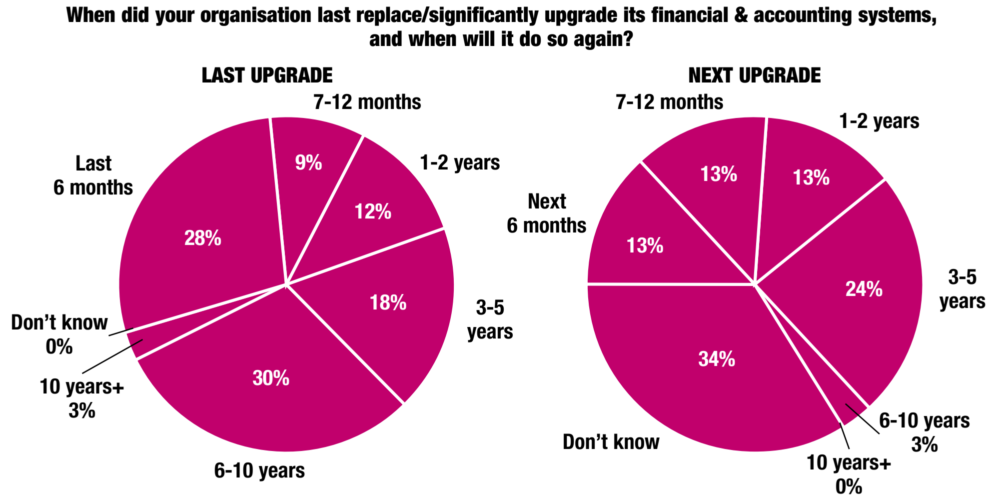
At the same time, the financial scandals of the last decade, including the collapse of WorldCom and Enron, have triggered off a slew of new regulatory requirements, highlighting the need for companies to be able to account for every penny they spend and receive. Financial systems are now front-line rather than back-office. Small wonder, then, that this year's PMP Research survey into the financial and accounting systems market finds that while a third (33%) of companies last replaced or significantly updated their financial and accounting systems more than six years ago, very few (3%) plan to leave it that long again (see Figure 1).

Those that have waited up to a decade to change to their financial and accounting systems are matched by a similar proportion (28%) who have replaced or significantly upgraded them very recently – within the past six months. Of the remainder, 9% have made changes in the past year, 12% over the past one to two years and 18% over a three to five-year timeframe. Looking to the future, although a quarter (24%) reckon they will be leaving changes until three to five years have gone by, the responses suggest a steady stream of developments – with 13% reckoning to make changes in the next six months, 13% over the next year and another 13% over a one to two-year timescale (Figure 1).

UK businesses are facing a barrage of new accounting requirements, many of which are the result of changes in government policy. Some will impact companies which operate in specific market sectors, like the Construction Industry Scheme which alters the way payments to building workers are calculated. However, other changes are much more far reaching. The last couple of years have seen an increased focus on e-filing, with the government initially offering incentives to companies prepared to submit annual PAYE information online rather than in the post. Online working is now becoming a prerequisite, with a recent push for the electronic filing of VAT information via the government gateway.

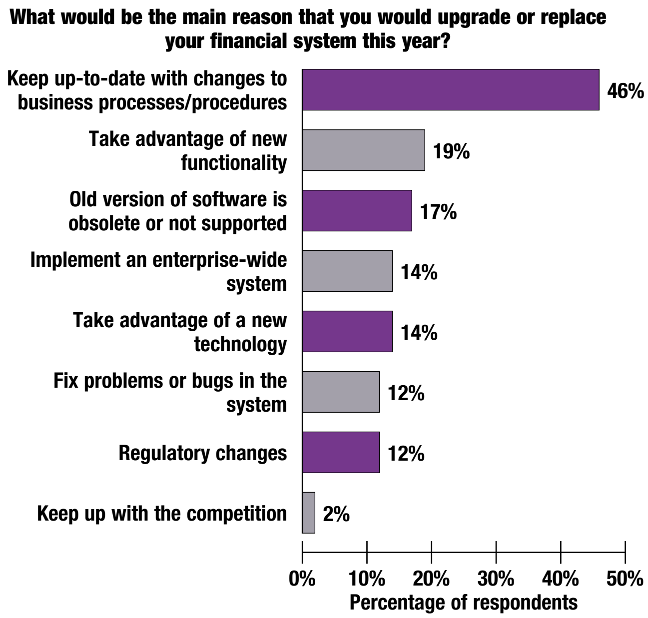
In addition, measures which the government has introduced to combat the growing problem of VAT 'carousel fraud' mean that companies will have to apply 'reverse charging' to the sale of certain items like mobile phones which have

FIGURE 1: Frequency of upgrades



Source: PMP Research

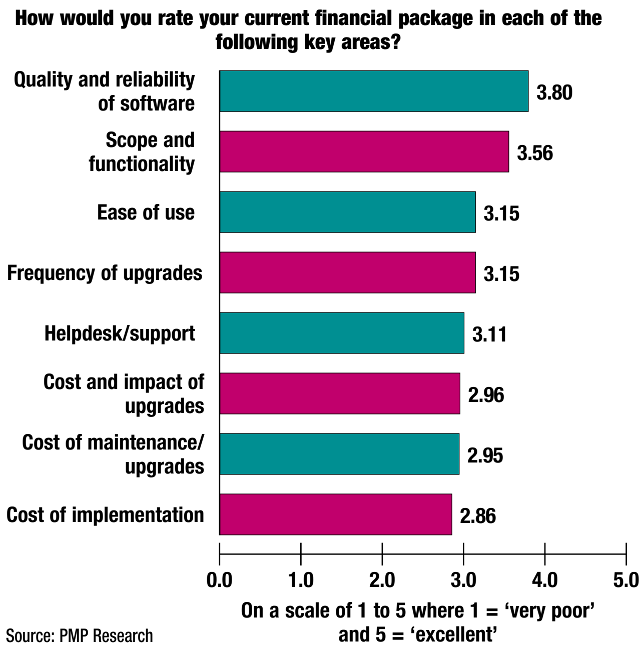
FIGURE 2: Business drivers for F&A upgrades



Note: respondents could choose all that apply

Source: PMP Research

FIGURE 3: Satisfaction with current financial software



Source: PMP Research

been the target of this kind of fraud activity. Software developers are still trying to work out just how such requirements can be reflected in computer systems, so further upheaval is likely. It is small wonder, therefore, that companies identify the need to respond to changes to business processes and procedures as the key reason they will be upgrading or replacing their financial systems this year (see Figure 2). This is cited by nearly half (46%) and is viewed as a much more pressing concern than traditional drivers such as software obsolescence (17%), the need to fix bugs in the system (12%) or the desire to keep up with the competition (2%).

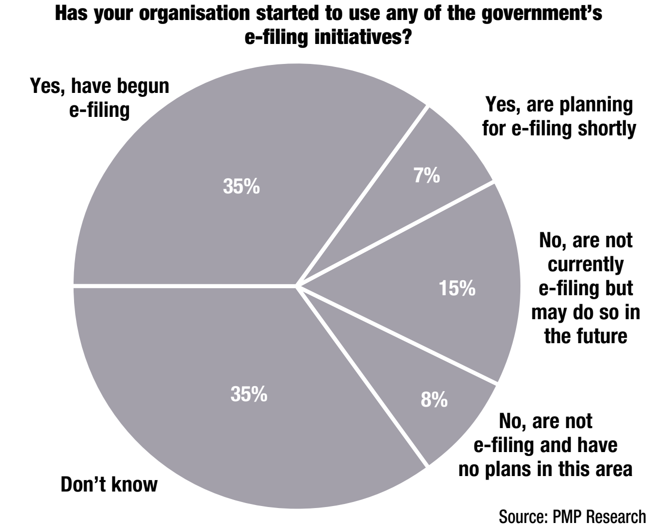
But when it comes to deciding what to buy, companies are currently evenly split between those who favour integrated solutions, which are often based on ERP modules, and those who opt for a 'mix and match' approach of selecting the best choices from different suppliers (both 38%). A further 18% prefer a combination of the two approaches, while just 6% build their own accounting systems inhouse.

It seems that buying intentions will alter very little in the future. The proportion choosing best of breed packages looks set to dip very slightly to 35%, with a corresponding rise in those plumping for an integrated solution (41%). No-one envisages developing their own applications, while a quarter reckon they will combine ERP solutions with some specialist software.

When it comes to their current financial packages, companies declare themselves generally pleased with the initial software they have bought, but raise concerns about the ongoing costs of many implementations. We asked the sample to assess their current financial and accounting system in a number of different areas, using a scale of 1 to 5 where 1 is 'very poor' and 5 is 'excellent'. The scores put software quality and reliability at the head of the list (3.80), as the one area where satisfaction levels are high (Figure 3). This is followed by scope and functionality (3.56), with ease of use and frequency of upgrades (both 3.15) tying for third place.

These findings strongly suggest that vendors are now delivering what customers want in terms of good-quality, flexible packages with a wide spread of features. However, the cost and impact of upgrades emerges as a problem (2.96), along with maintenance costs (2.95) and the overall costs of implementation (2.86). Interestingly, only 12% of those polled feel regulatory changes are a key factor in any decision to upgrade or replace their financial systems, which means that vendors do not have the luxury of seeing many existing customers making a compulsory purchase to meet new legislative demands.

FIGURE 4: Adoption of e-filing



For example, none of the respondents are looking for new software to handle the requirements of Basel II, while just 10% are making purchases to cover IFRS requirements and 13% to meet the compliance issues raised by Sarbanes-Oxley legislation. Of course, for some companies the new regulations are not an issue, simply because they do not apply to their area of operation.

Asked to rate the impact of legislation like Basel II and Sarbanes-Oxley on their existing financial systems, a quarter of the sample (26%) opt for the lowest score, suggesting the effect will be minimal. Just 6% anticipate any major impact on their accounting applications and the biggest proportion (37%) feel there will be little to worry about.

In the event of action being required, most companies (55%) are undecided about how they will introduce the computer systems needed to address such demands, while 29% expect to be able to use the existing business intelligence or reporting capabilities within their current financial and accounting systems. It is clear from these findings that any financial systems vendor that has been expecting a spending bonanza fuelled by fears of being caught out by the regulators is likely to be disappointed.

However, online working is receiving a much warmer response. Take-up of the government's e-filing initiatives is growing, with 35% currently filing online in areas such as PAYE, Corporation Tax and Companies House information. A further 22% either plan to begin e-filing shortly (7%) or some time in the future (15%). Of the remainder, only 8% have definitely ruled out this option, with the rest undecided (see Figure 4). At the moment, the respondents are fairly evenly split between those who have implemented web technology in their financial systems environment (46%) and those who have resisted (49%), with 5% uncertain.

Among those who have introduced online working, the most compelling business benefit emerges as reduced transaction costs, cited by 51%. This is followed by better management information (48%) and operational gains from reduced re-keying of transaction data (46%) and greater office efficiency (36%). Based on their experience, the biggest number (49%) plan to introduce more e-business enabled functionality into their financial systems, in areas as varied as procurement, e-recruitment, invoice handling and e-payments.

There is no doubt that online working is making a significant difference to the way many companies operate, and in particular to the way they communicate with partners, customers and suppliers. However, other technologies are also set to have an impact on financial and accounting systems. One of the most popular in this respect is reporting tools, which the majority of companies (73%) point to as a key development. Having a lot of financial data available is one step in making an organisation more responsive; but to derive real value from that information, users need tools to drill-down to the nuggets that will make a difference to business performance.

Companies are increasingly extending access to their financial and accounting information to non-finance department staff, so that line managers can look directly at the figures which are important to their role or requirements, rather than having to rely on standard reports put out by the finance function.

As Figure 5 (next page) shows, three-quarters of respondents (77%) say it is now common for managers in their organisation to be able to access some financial data themselves, while a further 15% allow non-finance specialists access to some data via the finance department which acts as gatekeeper.

It is worth noting that while extending the availability of key corporate data in this way has obvious advantages in terms of

FIGURE 5: Links with the business

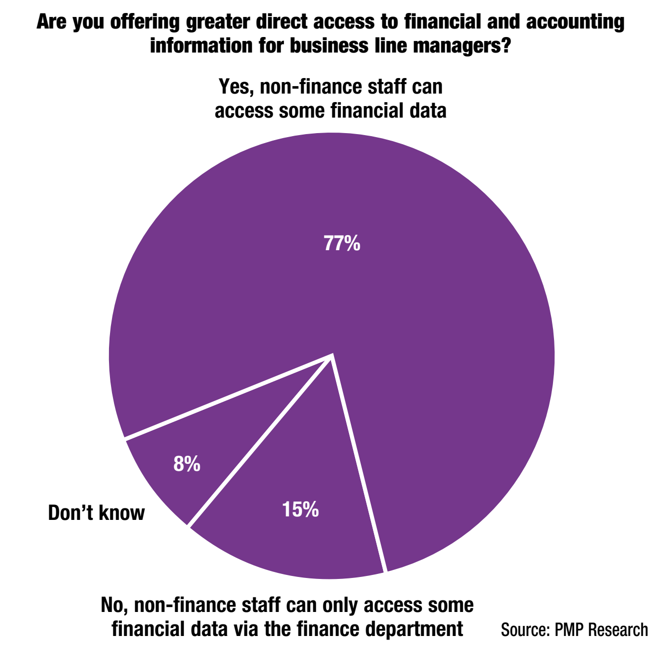
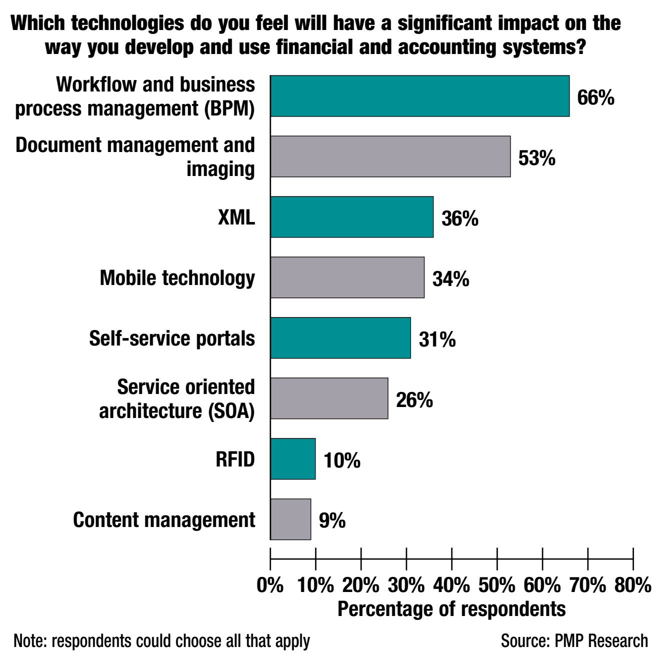


FIGURE 6: Key technological innovations



improved decision making, there is also a downside. The majority of companies (68%) report a substantial rise in the data volumes held by their organisation in the past three years, and one in ten log increases of more than 100%. This soaring volume of data in turn produces extra storage and management costs, and can be a major headache for companies who need to keep financial data for a prescribed time to meet regulatory requirements. Technology improvements allow refined views of financial data, which means that ever-growing amounts are now retained.

Given this background, it is not surprising that two-thirds of companies (66%) cite workflow or business process management (BPM) software as the technology most likely to have a significant impact on the way their financial and accounting systems are developed (see Figure 6). BPM solutions should make it easier to streamline the collection and dissemination of financial data and control over who sees it. For much the same reasons, document management and imaging software is another popular choice (53%).

Overall, this year's survey confirms the trends of previous research. While companies are broadly happy with their underlying financial and accounting technologies and can see real benefit in options such as e-filing, they remain concerned about high upgrade and maintenance costs at a time when requirements are changing faster than ever.

● *Pat Sweet is the research analyst on PMP Research. If you are interested in this study, please contact Cliff Mills at PMP Research. Email: cliffm@pmpresearch.co.uk.*

● *If you would like more information about this article or any of the products or companies mentioned in the article, please contact us at info@ evaluationcentre.com.*

SURVEY STATISTICS

We spoke to a broad cross-section of organisations for this year's survey into financial, accounting and reporting systems. One in ten of our sample is a 'not for profit' operation, while 10% report a turnover of less than £10 million and 19% fall into the £10 million to £50 million bracket. At the other end of the scale, 12% have an annual turnover of between £1 billion and £5 billion and 10% top the £5 billion mark.

The industry backgrounds of the respondents are equally varied. Both manufacturing (14%) and the public sector (10%) feature strongly, and these are two areas where control of costs and accountability have become critical issues. The financial sector provides 7% of respondents, while other areas represented include distribution & logistics (7%), retail (7%), transport (7%) and chemical & pharmaceutical (5%).