

A RUDDER FOR THE BUSINESS

Financial information is badly needed to steer companies through the recession. But do accounting systems deliver? Cliff Mills has the results of our latest research.

As we experience a prolonged period of economic uncertainty, the requirement for financial information to enable better management decision making becomes even more pressing.

It is not surprising, therefore, that reporting and analysis is currently very much ‘top of mind’ for the finance department. It represents a continual challenge to improve reporting systems and provide the necessary management information to help direct the business through troubled times.

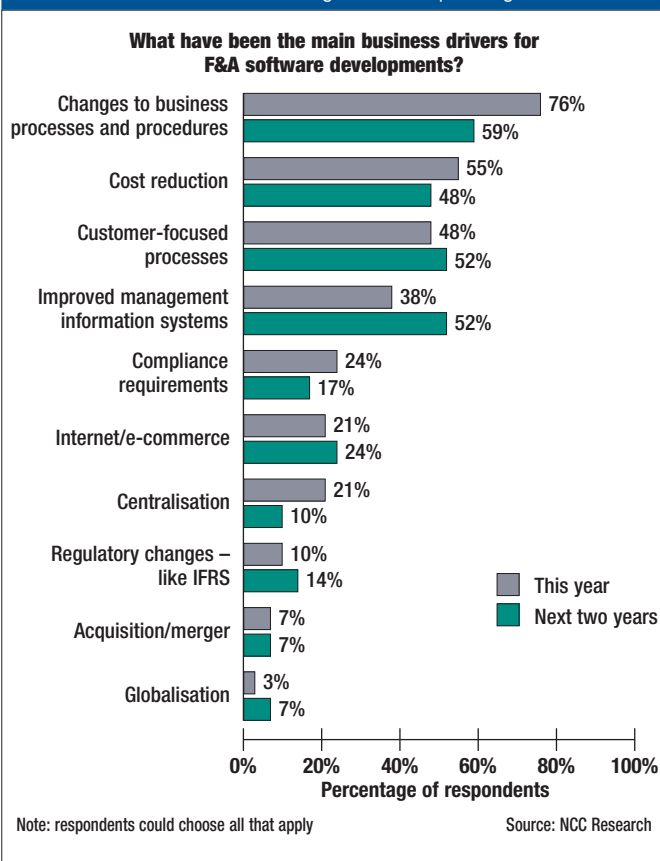
Streamlining and improving the organisation’s business processes is also a key focus – and this requires both integration with other core systems and the ability to process both internal and external documents using technologies such as document management and workflow.

This requirement is highlighted in our latest survey, where the main business driver for recent developments in financial and accounting systems – mentioned by 76% of respondents – is the ongoing need to update business processes and procedures (see Figure 1).

This is followed by the necessity to make cost savings (55%), to enhance customer-focused processes (48%) and improve management information systems (38%). Over the next two years, our respondents see these four areas as remaining the major driving forces for financial systems.

The respondents were asked to rate their current financial & accounting system across a number of key areas, using a scale of 1 to 5 where 1 equates to ‘very poor’ and 5 means ‘excellent’.

FIGURE 1: Reasons for accounting software spending



The quality and reliability of finance & accounting systems is generally rated highly (4.0), as is their scope and functionality (3.7).

Lower down the scale, the ease-of-use of the software (3.4), frequency of software upgrades (3.4), supplier helpdesk and support (3.3) and the cost impact of upgrades (3.3) are all regarded as only moderate.

However, the areas causing most concern are the cost of implementing the software (3.1) and the cost of maintenance and software upgrades (3.0).

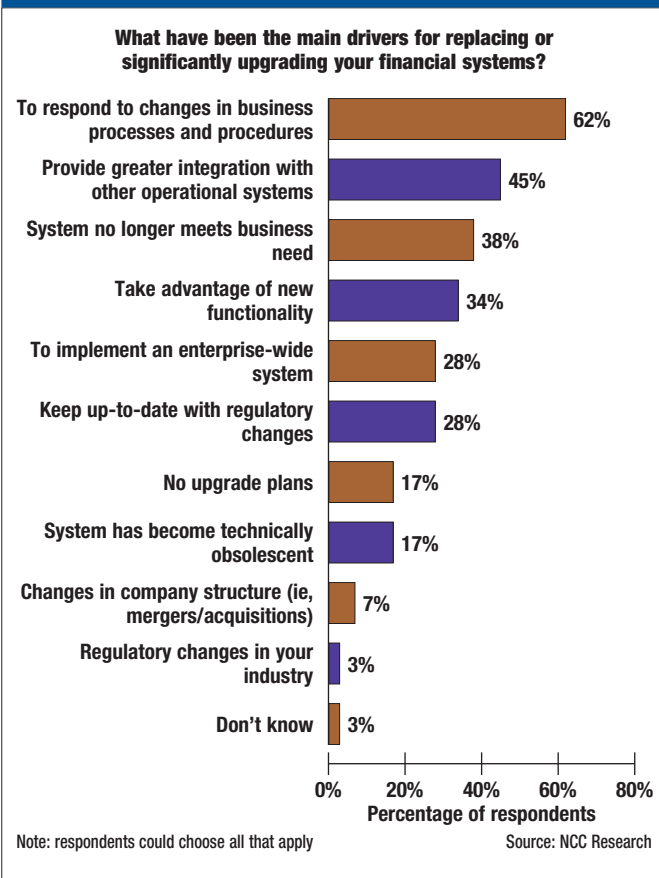
So while companies are generally happy with the quality and functionality of their systems, they would like to see the ongoing costs reduced.

Most financial systems have been in place for less than four years, with 10% having been implemented for less than six months and 10% for under a year.

The largest number (31%) has been in place between two and four years, and 21% between one and two years. Only 21% of systems are more than four years old.

To keep pace with changing business requirements, organisations are planning to replace or significantly upgrade

FIGURE 2: Key reasons for changing systems



their financial systems on a fairly regular basis – 15% expect to do so in the next six months and another 15% within the coming year.

In the next one to two years 22% will enhance their systems and 7% in the next two to four years. On the other hand, 30% of companies do not envisage replacing or upgrading their systems.

The principal motivation for changing or upgrading financial software – given by 62% of respondents – is the ability to adapt to changes in the company’s business processes and procedures (see Figure 2).

Next, cited by 45% of respondents, is the need to provide greater integration with other operational systems. A further 38% say their system no longer meets all their business needs, while 34% want to take advantage of new functionality.

For development projects currently being undertaken in finance & accounting, the overriding obstacle to success is seen as a lack of budget or funds allocated to them – mentioned by 50% of respondents.

Other key problem areas include overcoming resistance to change within the organisation (36%), a shortage of necessary skills (32%) and identifying real business benefits (29%).

The level of investment made in financial & accounting systems over the past year obviously varies across organisations, depending on their size and current stage of system development.

While nearly half the companies (48%) have spent less than £100,000 on hardware, software and consultancy, and 14% between £100,000 and £250,000, others have spent substantially more. At the top end 3% have invested between £1 million and £2 million, 7% between £500,000 and £1 million and 3% between £250,000 and £500,000.

With all this activity and investment in financial systems, it is encouraging that 56% of the companies have met all their original objectives and a further 10% have exceeded their original aims. However, this still leaves a sizeable minority (31%) who do not see their systems as being completely successful.

Two factors stand out in financial systems not delivering all the anticipated benefits. The first, mentioned by 43% of the

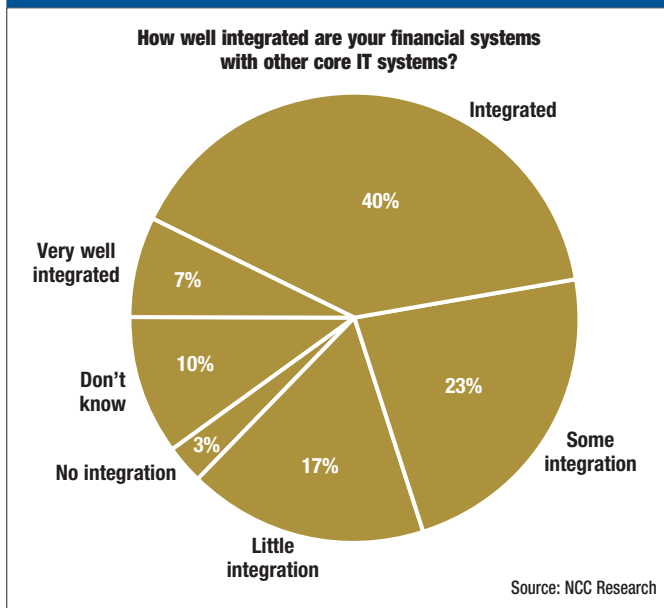
SURVEY STATISTICS

For the survey, we asked a cross-section of organisations about their use and development of financial, accounting and reporting software. The sample includes companies from banking & finance (27%), the public sector (26%), retail (10%), business services (10%), information technology & telecoms (9%) and manufacturing (9%).

The organisations vary in size, with 13% having in excess of a £5 billion turnover, 12% in the £1 billion to £5 billion bracket and 9% in the £500 million to £1 billion range.

In the mid-range 23% have a turnover of between £100 million and £500 million, and 16% record a turnover of £50 million to £100 million. At the smaller end, 13% record a turnover of between £10 million and £50 million, and 10% £5 million to £10 million. Not-for-profit organisations account for 3% of the sample.

FIGURE 3: Level of integration



sample, is the failure to change internal business processes; the second is that the system does not work in the way the company would like to operate (38%).

Financial systems are essential to the successful operation of any organisation, but to be truly beneficial they need to access all the critical information in the company and must therefore be integrated with other core IT systems.

Yet as Figure 3 shows, only 7% of respondents believe their financial systems are very well integrated, while 40% feel they have a good level of integration. The remainder have either moderate levels of integration (23%) or little or no integration (20%).

Being able to easily and rapidly analyse corporate data is now a crucial requirement to aid decision making in the organisation. And while financial systems have a level of reporting capability incorporated as standard within the system, in general they cannot offer the same quality of reporting,

analysis and forecasting as is available in business intelligence (BI) or corporate performance management (CPM) applications.

As a result, most respondents (63%) say they are using specialist BI and reporting tools linked into their financial systems to provide the detailed management information required. Only 17% do not use any specialist reporting tools, while 10% are planning to and 3% are evaluating the option.

Despite this use of sophisticated reporting and analysis tools, the spreadsheet is still a key application in the finance department, as discussed in our accompanying Expert Opinion article.

Spreadsheets are used to produce reports outside of the financial system frequently by 63% of companies and occasionally by a further 34%. Only 3% of the sample do not use them. Although organisations use a variety of methods to process documents, the trend is very much towards electronic transmission wherever possible. This reduces transaction costs, speeds up processing and improves the accuracy of information.

The most common method now used for sending documents to suppliers is email (83%). Other methods are fax (66%), electronic data interchange or EDI (17%) and electronically using XML (10%).

However, this move to process documents electronically is by no means ubiquitous and there is still some way to go before manual processing is eliminated. Only 3% of companies say that more than 90% of their documents are sent electronically, 3% send 75-90% and 21% transmit 51-75%.

Organisations have also implemented a number of electronic links into their financial software. The most popular allow payments to be made electronically (81%) or provide links to the bank for reconciliation or enquiries (41%).

In addition, the finance system is linked to an e-procurement system in 37% of cases and to a document management system by 37% of companies.

A number of companies now offer direct access to financial & accounting information to line managers, enabling them to view their financial performance more easily on a regular basis.

Over a third of the respondents (35%) allow non-financial staff direct access to relevant financial data and to create their own reports; a further 24% just have access to relevant financial data. In 31% of cases, non-financial staff can only access financial data via the finance department.

FIGURE 4: Benefits of creating a finance shared service centre



How finance & accounting facilities are provided within organisations is continually evolving – and one increasingly popular approach is via a shared service centre. While some private sector companies have already moved in this direction, it is also now a key objective for public sector organisations.

Shared service centres provide services, often in conjunction with a call centre and intranet, to all parts of an organisation. The tasks, previously performed locally by divisions or business units, are re-engineered, streamlined and centralised.

Of the companies interviewed, 21% have implemented a shared service centre, while 4% plan to in the future and 4% are evaluating the option. The remaining 60% have no immediate plans to go down this route.

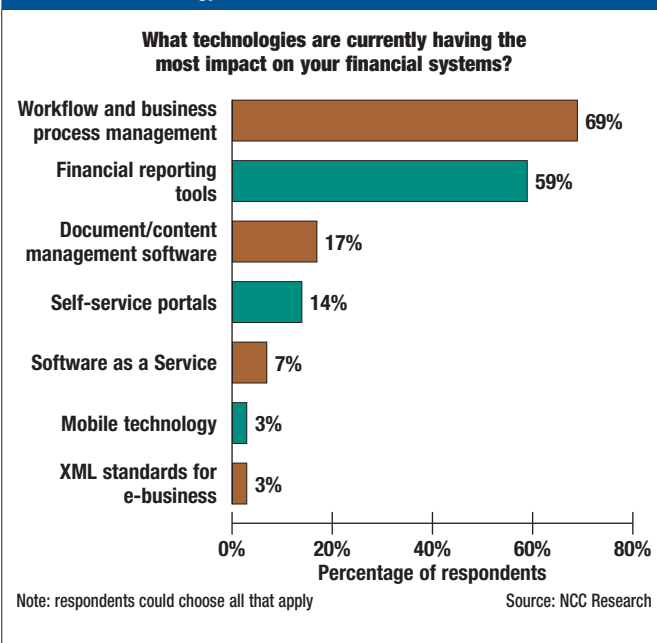
The key benefit of a shared services approach, mentioned by 68% of respondents, is cost saving in performing routine activities (see Figure 4). In addition, 56% see this as a way of delivering improved service levels throughout the organisation and 52% as a means of streamlining business processes.

Although business process outsourcing is growing in popularity, it is still in its relative infancy – with only 10% of the companies interviewed choosing to go down this route and a further 3% evaluating the option. The majority of companies (77%) have no plans to outsource their finance function.

Moving the finance function to another country, known as offshoring, is another option – but again this approach is only being taken by a few companies.

From those surveyed, 72% do not use any offshoring. This compares to 3% who outsource directly to a third party in another country, 7% who offshore as part of an outsourcing contract with a UK-based organisation, and 3% who are evaluating the option.

FIGURE 5: Technology trends



Two technologies stand out currently as having the most impact on the development of financial & accounting systems (see Figure 5). The first, mentioned by 69% of respondents, is workflow and business process management, as organisations seek to make their internal operations as efficient as possible. The second is financial reporting tools (59%), as it is becoming increasingly important for organisations to be able to analyse their data more effectively.

While these technologies continue to remain important drivers, in the future they will be joined by document and content management software (45%) as having a key impact on financial systems. Also of growing significance will be self-service portals (31%) and mobile technology (28%).

In summary, the pressure on the finance function to deliver better management information, to improve business processes and provide cost savings is set to continue and may force companies to rethink the structure of their finance department.

But even without restructuring, companies will need to assimilate a number of new technologies if they are to deliver the improvements required by the business to remain competitive in the current economic climate.

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