

# FINANCE TO THE FORE

*The finance function is flourishing, with changed processes and growing technology investment, reports Cliff Mills of PMP Research.*

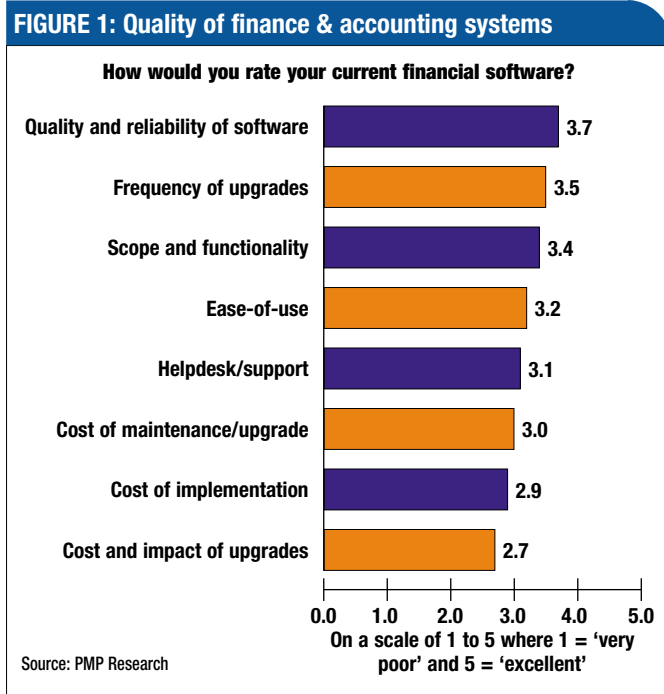
As companies evolve and adapt to remain competitive in today's global markets, then the finance function is far from immune to re-evaluating its position and role within the organisation. Structural changes being investigated include outsourcing, offshoring and shared service centres in order to cut costs, provide a more responsive and consistent service and to streamline business processes.

The continual requirement to provide enhanced insight into the business' operations and performance – so that managers can make more effective and better informed decisions – has led the finance function to adopt more sophisticated software tools to improve financial reporting.

In addition, the growth in regulation means systems need to be able to store and retrieve information more effectively so compliance can be easily demonstrated. Other changes in accounting practices, such as IFRS, have also placed ongoing demands on the finance department.

But according to our latest survey, the main business reason for recent developments in accounting and financial systems (cited by 66% of the respondents) is the continual need to change and update business processes and procedures. Other key drivers are the need to improve management information systems (62%), improve customer-focused processes (48%) and the ever-present demand for cost reduction (45%).

We asked our respondents how they would 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'. Overall, as Figure 1 shows, there is a



high level of satisfaction with the quality and reliability of the software (rated 3.7). The frequency of upgrades is also considered good (3.5), as is the scope and functionality of the software (3.4).

Lower down the scale, the ease-of-use of the system (3.2) and the quality of the supplier's helpdesk and overall support (3.1) are regarded as only moderate. But the main causes for concern among respondents are the cost of maintaining and upgrading the software (3.0), the initial implementation costs (2.9) and – most contentiously – the cost and the impact on business operation of upgrading the system (2.7).

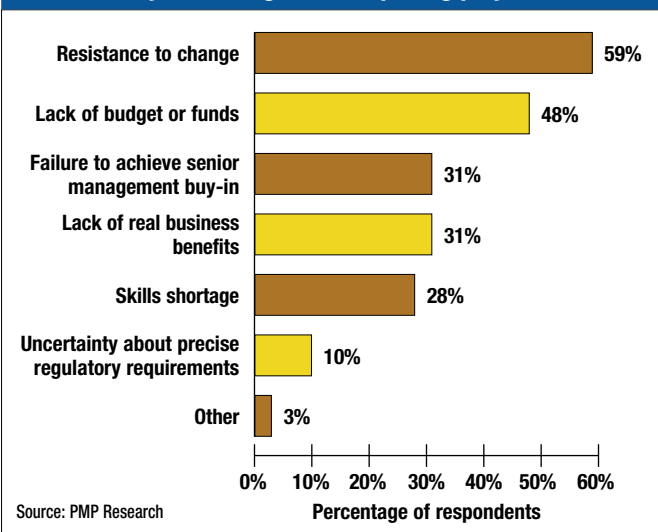
So while companies are generally happy with the quality and functionality of the software, they are far from content with some of the costs they have to pay.

To keep pace with their changing requirements, organisations are replacing or significantly upgrading their accounts systems on a fairly regular basis – 34% expect to do so within the next two years and a further

21% in the next three to five years. The overriding reason for changing or upgrading financial software, given by 76% of respondents, is that the system no longer fulfils all the business needs. Technical obsolescence or the system no longer being supported is mentioned by 55% and the need for the software to more readily respond to changes in business processes or procedures by 52%.

Lower down the scale, at 31%, is the need to provide a greater level of integration between operational systems so data

**FIGURE 2: Major challenges to completing projects**



can flow more easily across the organisation. One area now having less impact is the need for software changes, due to either general (17%) or industry-specific (14%) regulatory or compliance requirements.

When it comes to purchasing a new system, there is a clear move away from selecting 'best of breed' in favour of more integrated solutions. Whereas 28% of companies have selected 'best of breed' software currently, only 14% expect to do so in the future. The difference is largely taken up by integrated or ERP solutions growing from 35% to 39%, or the use of a combination of options increasing from 3% to 7%.

When it comes to development projects currently being undertaken in finance and accounting, the biggest challenge to their success is resistance to change within the organisation, cited by 59% of

respondents (see Figure 2). Lack of budget or funds is identified by 48% and failure to achieve senior management buy-in by 31%. Also mentioned is a lack of skills (28%) and uncertainty over precise regulatory requirements (10%).

The level of investment made in financial and accounting systems over the past year obviously varies depending on the stage of system development in the organisation. While the largest number of companies, 35%, have spent less than £100,000 on hardware, software and consultancy, and 28% between £100,000 and £250,000, others have spent substantially more. At the top end, 10% have invested over £2 million, 6% between £500,000 and £2 million, and 7% between £250,000 and £500,000.

With all this investment it is reassuring that over half the companies (51%) feel that their financial systems have met their original objectives. However this still leaves a significant minority (35%) who are not completely satisfied and view their systems as only a qualified success.

Two reasons stand out for financial systems not delivering all the anticipated benefits. The first, mentioned by 39% of the sample, is a poor or inappropriate approach to the implementation of the system; the second, also cited by 39%, is the failure to change the internal business processes, thus failing to take full advantage of the new capabilities. A further 26% simply say their system has failed to operate in the way the company wanted.

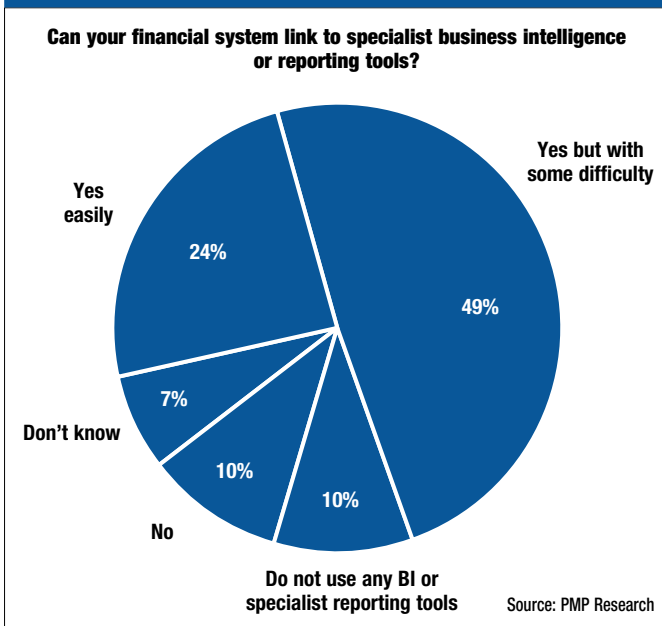
Financial systems are no longer standalone entities but should be able to transfer information to and from a range of other key systems; this avoids manual re-keying of information and allows business processes to be fully automated.

But only 14% of organisations think their systems are 'very well' integrated with other core IT systems, while 21% feel they have a 'good' level of integration. The majority of respondents say they have either 'moderate levels' of integration (30%) or 'little integration' (28%).

Financial systems hold a wealth of information and this, together with data from other systems, needs to be analysed so that management can have a more in-depth view of the company's overall financial position. A range of business intelligence (BI) or corporate performance management (CPM) software tools are now available to perform this function.

Just under a quarter of the respondents (24%) say that their financial systems can link easily into BI and reporting tools, compared to 49% who have difficulty in doing this (see Figure 3, next page). Only 10% have no links from their financial systems to their BI and reporting tools, while 10% do not use any BI or reporting tools. One reason – given by 31% of respondents – for significantly upgrading or changing their financial system is to provide greater integration with other operational systems.

**FIGURE 3: Links to other systems**

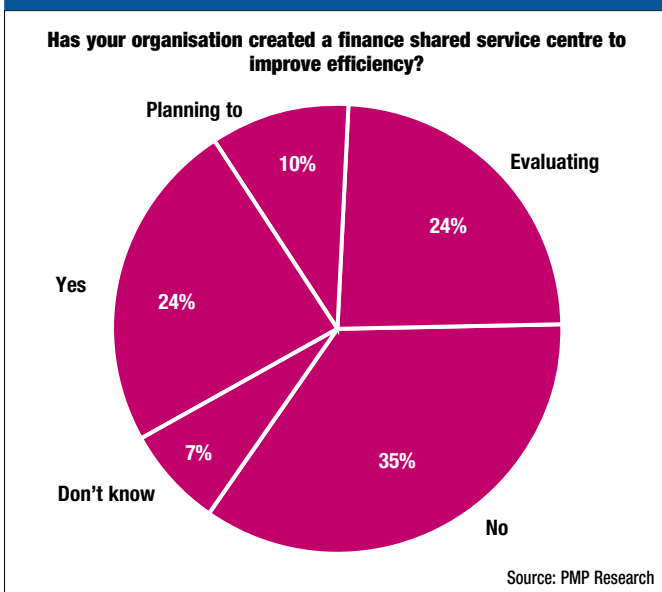


Spreadsheets have long been beloved by the accounting fraternity and, despite the availability of more sophisticated reporting systems, they are still used frequently to produce reports outside of the financial system by 52% of companies and occasionally by a further 35%. Only 10% of the sample do not use them.

Line-of-business managers need to have up-to-date access to financial information to monitor their performance on a regular basis. Most companies now provide a level of direct access to financial and accounting information to non-financial staff. Over a third, 34%, allow non-financial staff direct access to relevant financial data and also to create their own reports; a further 28% can only have access to relevant financial data.

In 28% of cases, non-financial staff can only access financial data via the finance department. How the finance function is structured is split between those who have a centralised operation (55%) and those who are decentralised or distributed (41%).

**FIGURE 4: Use of shared services**



### Outsourcing

The finance department has come under review in many organisations and one approach for delivering financial services that is growing in popularity is through a shared service centre. While many large private sector companies have already adopted this approach, it is also now a key objective for public sector organisations.

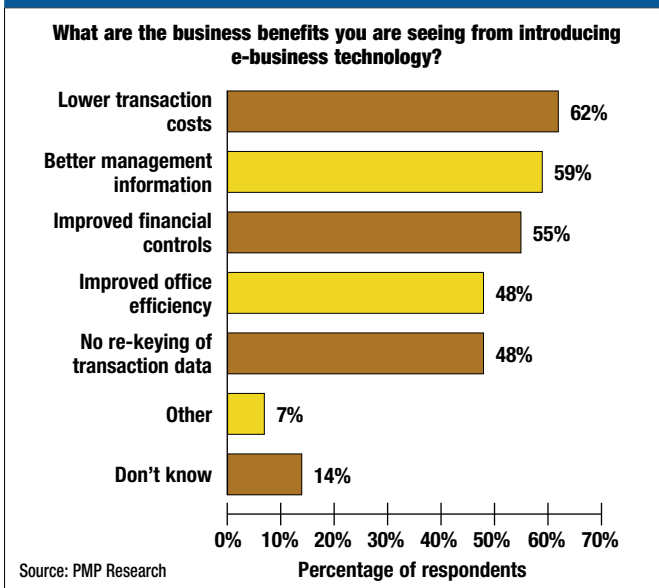
Shared centres provide services, often in conjunction with a call centre and the intranet, to all parts of an organisation. The tasks, previously performed locally by divisions or business units, are re-engineered, streamlined and centralised. This has the advantage of offering cost benefits through the economies of

scale and potentially providing a more knowledgeable resource to process queries more rapidly.

Of the companies interviewed, 24% have already implemented a shared service centre (see Figure 4) with a further 10% planning to in the future and 24% evaluating the option. The remaining 35% of companies have no plans to go down this route. The key benefit of adopting this approach, mentioned by 77% of respondents, is the opportunity to streamline their business processes. In addition, 65% see it as a way of implementing a standard system and delivering improved service levels throughout the organisation.

Cost savings in routine activities are also cited by 59% of companies and the fact that the finance department is freed from routine tasks to concentrate on more strategic issues is mentioned by 41%. While business process outsourcing is popular among some major organisations, in general it has not found favour with the companies interviewed: 87% do not currently outsource any finance functions and have no plans to do so. Among the sample, only 7% have outsourced

**FIGURE 5: Benefits of going online**



electronically by 38% with 24% filing VAT returns electronically. Among those who have introduced online working, Figure 5 shows the most compelling business benefit is reduced transaction costs, mentioned by 62%. This is followed by better management information (59%) and improved financial controls (55%). Also mentioned are improved office efficiency (48%) and operational gains from reduced re-keying of transaction data (48%).

Based on their experience of adding e-business functionality to their financial systems, 41% will be introducing additional online capability. However 49% are still undecided whether to go further down this route. The last few years have seen an increased focus by the government on online filing for all returns, such as PAYE and VAT. Among the sample, 41% have implemented such e-filing initiatives with 7% planning to do so and 14% considering the option in the future.

The technology currently having the biggest impact on the way financial and accounting systems are developed is the use of financial reporting tools – mentioned by 62% of respondents. It is becoming increasingly important for organisations to be able to analyse their data more effectively which has led to the growing importance of financial reporting software. Document management systems (41%) have also had a key effect as organisations seek to more effectively manage the storage of key documents, both for their own purposes and to meet compliance and legislative requirements.

The other main driving force currently is workflow and business process management software (cited by 38%) as organisations seek to improve their business operations. Two-thirds of respondents see this as becoming an increasingly important technology driver. Also growing significantly in the future will be the adoption of self-service

the finance function with a further 3% evaluating this option.

If outsourcing finance is not popular, likewise only a few companies (3%) have offshored any finance functions. A further 10% might look at this option in the future, while 10% have offshored some operations to their own facilities in another country. A sizeable 62% would not consider using an offshore outsourcing company. Nevertheless, the majority (72%) have implemented web technology in their financial systems environment, with a further 7% planning to do so. The most popular processes enabled are electronic payments (62%) and providing electronic links to the bank for reconciliation or enquiries (52%).

A majority of companies (52%) are able to send or receive orders or invoices and 38% purchase goods online. Inland Revenue PAYE information is sent

## SURVEY STATISTICS

For this study, we interviewed a cross-section of organisations for their opinions on issues relating to their use of financial, accounting and reporting software. The sample includes companies from the public sector (21%), banking & finance (17%), manufacturing (14%), retail (14%), distribution & logistics (10%) and IT & telecoms (10%).

The companies vary in size, with 11% having in excess of £5 billion turnover, 17% in the £1 billion to £5 billion range, and 17% in the £500 million to £1 billion bracket. In the mid-range, 21% have a turnover of between £100 million and £500 million and 7% £50 million to £100 million. At the smaller end, 14% turn over between £10 million and £50 million and 6% £5 million to £10 million. Not-for-profit organisations account for 7% of the sample.

portals (48%), which will allow financial functions to be delivered without the direct involvement of the finance department.

In summary, the growing range of technologies likely to be applied to the finance operation suggests the rate of innovation and change will continue – providing potential improvements in service delivery, management information and the optimisation of business processes.

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