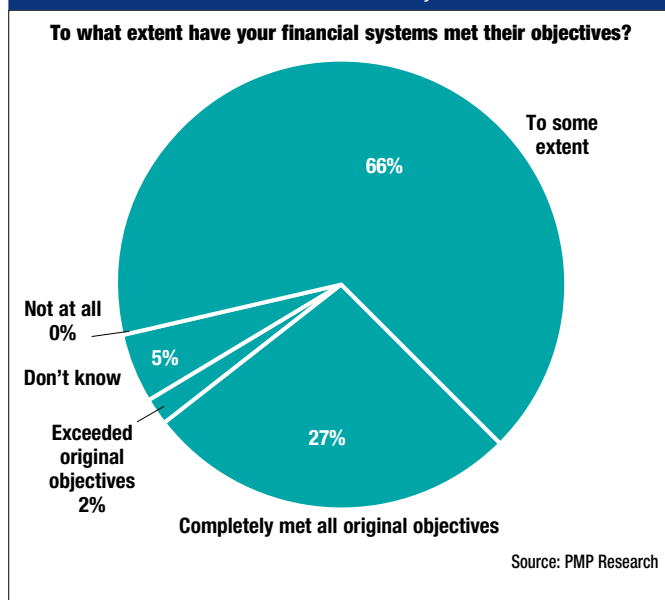


KEEPING THE HEARTBEAT HEALTHY

Companies know it's vital to update their finance and accounting systems, says Pat Sweet, reporting on our latest user research.

FIGURE 1: Level of success with financial systems



Financial data is a company's lifeblood and its accounting systems pump vital information to all parts of the organisation. Any interruptions or blockages in the supply can seriously affect the health of the business. But few organisations feel they have the perfect system for their particular set of challenges, and most would agree that it is difficult to keep pace with constantly changing requirements. A little over a quarter (27%) of the companies we polled in this year's survey into financial, accounting and reporting systems feel their current applications completely meet all their original objectives (see Figure 1). Only 2% claim their accounting software has exceeded expectations, while the majority (66%) feel their goals have been only partially fulfilled.

The most common reason for financial systems not delivering the anticipated benefits is acknowledged to be the company's own failure to change internal processes, cited by half (49%). This is viewed as a much more common roadblock to success than either inadequate training (24%), changes in

requirements or regulations (17%), or running out of budget (7%). But while companies are having some trouble getting the technology to perform as they would like, only 29% say their systems do not support the way they wish to operate – with 19% admitting to problems with their implementation approach and the same proportion finding their chosen systems are too complicated for them to master successfully (19%).

Most companies have also had to make significant alterations to the way they work in the accounting area. The top two drivers for recent development projects, for example, are the need to improve management information systems (62%) and the requirement to make changes to business processes and procedures (61%). The impact of e-commerce (56%), regulatory changes such as IFRS (52%) and compliance requirements (48%) are also putting pressure on companies to re-think their approach to their accounts systems.

The clear message from the survey is that companies recognise they need to refresh their core financial applications. Nor is this just a one-off exercise, designed to increase the flow of financial information to line managers. Once they have made improvements in these specific areas, organisations are signalling their intentions to fix their sights on even more ambitious goals. Asked to assess the main drivers for future development projects over the next two years, many cite the need for

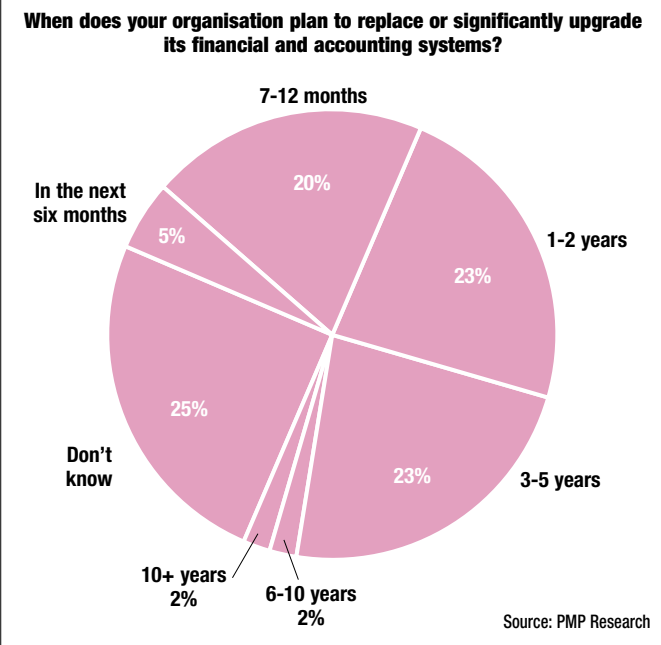
SURVEY STATISTICS

We spoke to a broad cross-section of organisations for this year's survey into financial, accounting and reporting systems. At one end of the spectrum, a quarter (24%) of our sample have a turnover of between £150 million and £1 billion, while 10% come into the £1 billion to £5 billion bracket and 12% top the £5 billion mark.

But we also include the views and experiences of smaller companies: 10% of respondents have a turnover of less than £5 million, and 10% fall into the £5 million to £10 million range.

The industry backgrounds of our respondents are equally varied. Both the public sector (14% of our sample) and financial services organisations (12%) feature strongly: local authority and healthcare providers are currently facing close scrutiny of their financial performance, while banks and insurance companies depend on their financial systems for their core operations. Other respondents are drawn from areas ranging from manufacturing (12%), retail (5%), and publishing (3%),

FIGURE 2: Speed of system replacement



customer-focused processes (64%) as the trend which will have the greatest impact. Globalisation (52%) is another force to be reckoned with, although there is an easing of concerns about reducing costs. While 56% currently identify this as one reason for recent development projects, the proportion falls to 40% over the next couple of years.

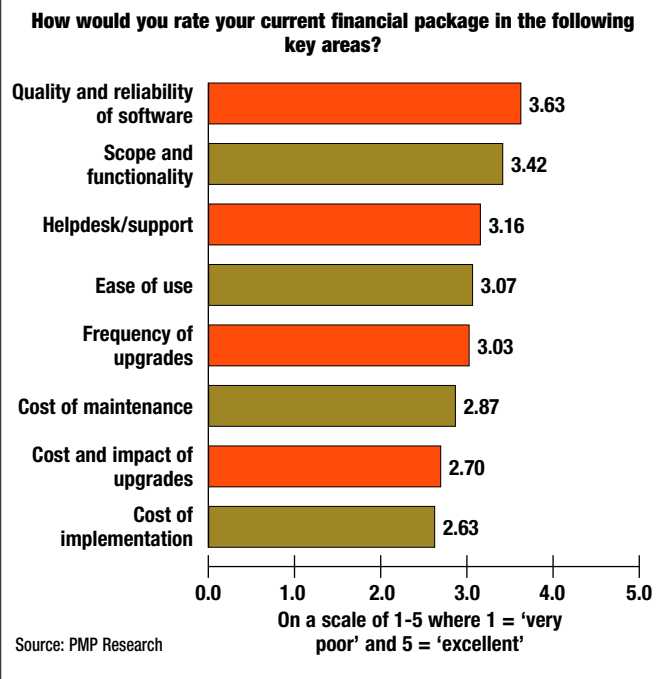
In the light of this, it is not surprising to learn that a quarter of respondents plan to replace or significantly upgrade their financial and accounting systems in the near future: 5% intend to do this within six months, and 20% within the year (see Figure 2). The proportion expecting to wait longer than five years to install new applications is very small. Just 2% have a six to 10-year timeframe for replacement, and 2% are looking beyond that horizon. The bulk of companies plan to make changes in the next one to two years (23%) or within a three to five-year span (23%).

Although there has been a plethora of new regulatory requirements, and organisations do recognise that their systems will need to be adjusted to cope with their demands, most companies anticipate that their existing systems will meet these needs. One in five (20%) say that they will be looking for new software in order to handle Sarbanes-Oxley compliance requirements, but the proportion seeking specialist applications to address either IFRS needs (10%) or Basel II requirements (7%) is much lower. Those who do intend to make a special purchase say they are most likely to buy from their existing vendor (30%) rather than switching to a different supplier (8%).

However, overall investment levels remain fairly low, with the majority (70%) reporting they have spent less than £250,000 on financial and accounting systems over the past year. Of the rest, 15% have put in between £250,000 and £500,000 and 10% have invested up to £1 million. Ongoing economic uncertainty may be one reason why companies are less keen to splurge cash on new financial systems. Another is likely to be continuing questions about the performance of accounting software packages.

We asked our sample to rate their current solutions using a scale of 1 to 5, where 1 equates to 'very poor' and 5 is

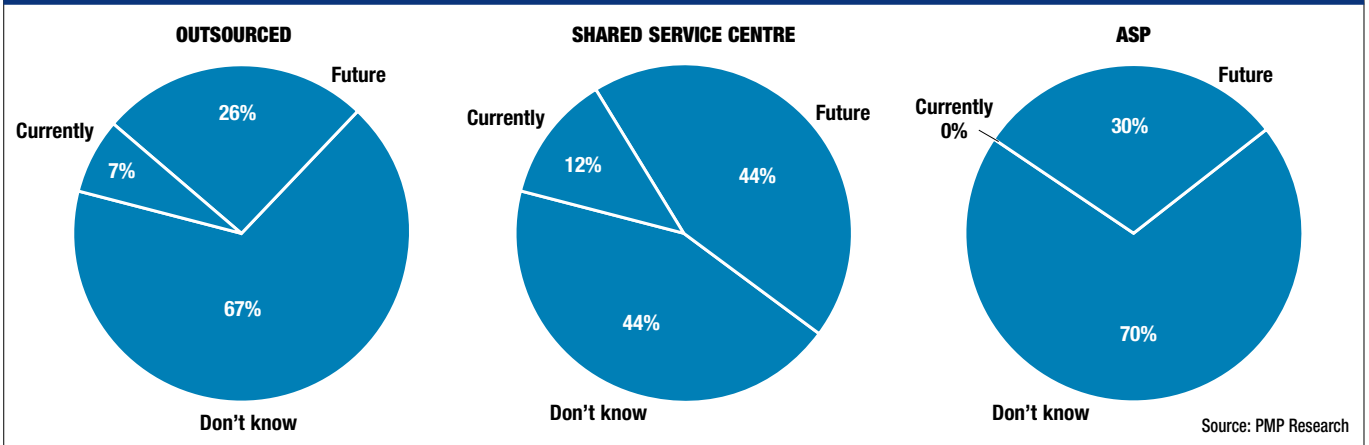
FIGURE 3: Satisfaction with key features of system



'excellent'. The aggregated scores from this exercise, which we also conducted in last year's survey, confirm that many companies remain far from satisfied with certain aspects of their current packages. As before, respondents draw a distinction between the performance of the actual software and the add-on costs of any implementation. So, as Figure 3 shows, the quality and reliability of the software scores highly (3.63), along with its scope and functionality (3.42), the helpdesk and other support features (3.16) and the software's ease of use (3.07).

However, the cost of implementation remains a running sore for many (2.63), along with the cost and the potential impact of upgrade activity (2.70) and the cost of maintenance (2.87). The implication seems to be that while companies value the actual

FIGURE 4: Trends in finance function organisation

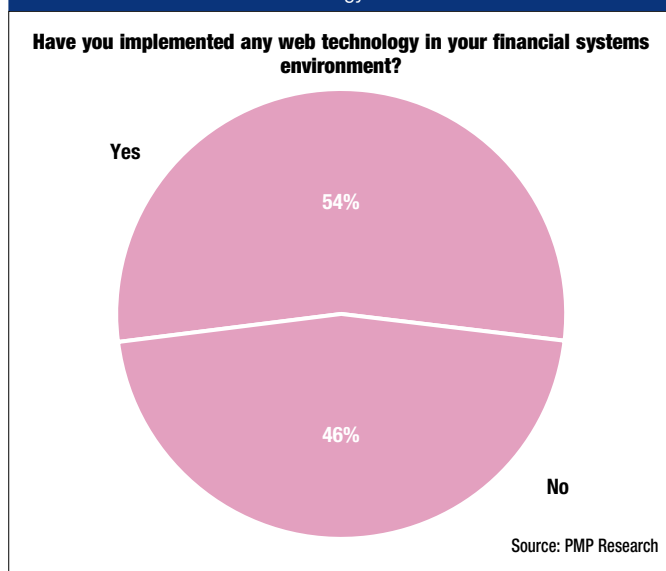


software and the way it operates, they are finding it expensive to install and to keep up-to-date. Moreover, these findings mirror the responses to the same question in last year's survey, suggesting that vendors have some way to go before addressing companies' concerns about unacceptably high additional costs. In the meantime, it looks like companies are taking action to minimise this problem for themselves. We asked our respondents to describe their current finance function now and their future plans for how finance will be organised in the coming years. The results reveal significant levels of interest in handing over at least some responsibility for running financial and accounting systems to a third party. Currently just 12% of our sample make use of shared service centres, but this proportion is set to increase to 44% over the next two to five years (see Figure 4).

Outsourcing is also on the rise, from a current base of 7% of companies, to 26% over the same timeframe. Most significantly of all – given the long-established concerns about the costs of upgrading and maintaining software – there are signs of real enthusiasm about embracing ASP services. Not one of our respondents currently uses a hosted service in this way, but 30% plan to in the near future. We asked the respondents to assess their company's level of interest in such options, and a third (34%) report greater interest in shared service centres now compared with recent times, while a quarter (25%) declare a greater interest in outsourcing.

The main reason why these two options seem so appealing is the chance to cut costs, mentioned by 68%. There is a sign that the type of costs organisations are looking to reduce relate to upgrade and maintenance, since having a fixed-price contract is viewed as less of a benefit (34%). Companies also feel that using a third-party service will offer benefits in areas such as skills availability (44%) and will allow the finance department the freedom to concentrate on strategic issues rather than routine day-to-day tasks (44%). Just over a quarter (27%) feel they will receive better service as a result.

FIGURE 5: Use of internet technology



Pushing on

Despite the fact that their experiences of new technology have been mixed, the companies in our survey seem determined to keep pushing at the boundaries of what financial and accounting systems can deliver. Half (54%) have already implemented web-based applications within their financial systems environment (Figure 5), and 20% of the remainder plan to do so in future. Typically, such applications allow the company to make payment electronically (44%), send and receive orders and/or invoices (39%) and purchase goods online (24%). Government initiatives to persuade more

companies online also seem to be having an impact, as more than half of respondents have begun e-filing in areas such as the submission of tax and PAYE information. Currently 44% of respondents are already e-filing, while another 15% plan to start doing so shortly. A quarter (24%) may take this route in the future, and not one company has ruled out e-filing completely. The remaining 17% are unsure of their plans in this area.

We asked companies to assess the importance of a whole range of new technologies to the development of their financial and accounting systems, both now and in the future. Currently, financial reporting tools are the technology generating the most interest (60%), in response to growing demands for more detailed analysis of financial data for managers both within the finance department itself and beyond. XML standards, which offer a straightforward method of exchanging financial information between different companies' systems, are also highlighted by 50%. But organisations clearly have much greater ambitions in the future. For example, only 9% of our sample currently rate self-service portals as important, but 91% believe they will be a critical technology for the future.

This may pave the way for the finance department, like the HR department before it, to hand responsibility for day-to-day administration over to employees and line managers. By providing a finance portal on the company intranet, employees would be able to check salary entitlements and update contact details, for instance. Companies also expect to make much greater use of document management and imaging software, which is nominated as important by 19% at present, rising to 80% in the future.

Enthusiasm for content management solutions doubles, from 33% to 66%. Such applications will be useful for archiving financial information, much of which must be held and made available for specified periods of time. Associated with this is the growth in interest in workflow and business process management (BPM) tools, which 38% rate as critical now and 62% anticipate will be in future. Interest in service oriented architecture (SOA) also rises substantially, up from 21% to 78% as web-enabled applications increase. But one of the most surprising findings of the survey is the strong level of interest in radio frequency identification (RFID) technology. Already 22% of the sample feel this is a significant technology for the finance department, with 78% predicting it will become so in the future.

RFID is typically being used by major retailers to track and trace stock and could, in theory, be used to send back information to update an organisation's general ledger in real time. It remains to be seen how many companies will put this functionality into practice. However, there is no doubting the appetite many companies have for greater innovation in their financial and accounting systems. So far, the results have been mixed and investment levels remain low, but the determination to continue developments still exists.

● *Pat Sweet is the research analyst for PMP Research. If you are interested in this study, please contact Steve Markwell at PMP Research. Email: stevem@pmpresearch.co.uk.*

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