PRODUCTIVITY OUTLOOK: Poor Visibility

By Kishore Bhamidipati

Despite all of the sophisticated computing tools that finance and accounting professionals have at their disposal, these technologies haven't quite meshed yet, leaving companies and organizations with several unresolved challenges. That was the sobering conclusion of *Rising to the Challenge: Achieving Real-time Visibility Across the Organization*, a recent IMA® (Institute of Management Accountants) study sponsored by NetSuite, a leading provider of cloud-based business management software.

Rising to the Challenge analyzed responses from 1,501 IMA members across a wide variety of industries to discover what issues and challenges their teams face in today's economic and business climate. (Go to www.imanet.org/mgi/Rising_to_the_Challenge.aspx to download a copy of the report.) The top challenge, the same one voiced in the 2012 survey, was "streamlining process and improving productivity" followed by "improving the management reporting cycle," "achieving real-time visibility across the organization," and "running a global business efficiently." Many IMA members also expressed frustration with the amount of time spent closing the books—a common refrain, it seems.

In this article, I'll focus on these concerns and try to shed some light on the impediments that management accountants and other financial professionals currently face. Then I'll discuss some of the things you and your team should look for in attempting to solve these problems.

and Bad Reporting Ahead

Achieving Real-time Visibility

Like it or not, accounting and finance teams are expected to spend less time recording and verifying numbers and more time weaving the data into meaningful information that can be shared across the business to aid in decision making and in identifying risks and opportunities. But meeting these higher expectations isn't easy. The IMA survey identified the top three factors that prevent gaining real-time visibility across an organization:

1. Disparate systems across the organization,
2. Lack of integration among these systems, and
3. Systems can't keep up with rapid growth.

Ignoring these realities could potentially lead to sluggish performance, missed opportunities, and poor decision making, which could result in the loss of potential market share and erosion of company and shareholder equity.

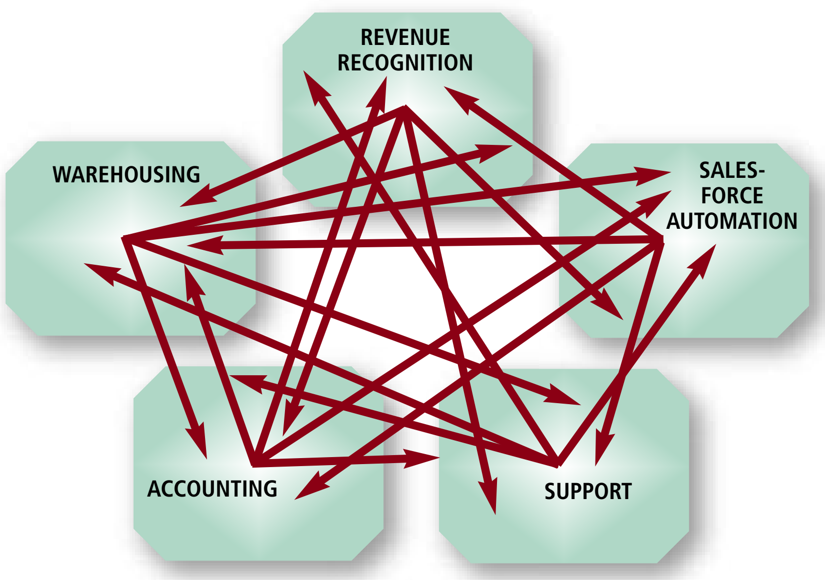
So where did technology take the proverbial wrong turn? Wasn't it supposed to be guiding us?

If you own your own business, think back to when it was in its infancy. You knew that you wanted an accounting solution that would help you manage your finances without breaking the bank, so you looked around and found a desktop solution that was perfect for your business at the time. Fast-forward a few months: Your business grew, and you realized you now needed a tool to track your customer interaction, a tool to manage your marketing campaigns, and so on. Meanwhile, each department within your organization was buying its own favorite "best-of-breed" tool to solve a specific business problem. Therefore, you should have gotten exactly the kind of detailed insight and analysis you were hoping for, right? On the contrary. You wound up with a hairball of tools that served only to drag your business down.

This lack of integration brings a host of inevitable problems. Tasks that used to take minutes now stretch into hours and days. For example, closing the books, which took a couple of days, now takes weeks. Why? Because those pesky one-off systems have mushroomed all around your company, with each department or subsidiary running its own accounting system. As a result, you now have 20 or more different products, each chosen by their respective departments based on word-of-mouth recommendations from their friends or peers. (Figure 1 shows what such a Rube Goldberg-like system might look like.)

When it's time to reconcile accounts and close the books, this lack of integration forces the team to export data from each of these systems to a "common" tool, which usually turns out to be a spreadsheet. And that's

Figure 1: A Tangled Mess of Siloed Systems



where you're losing time: manually stitching together data that should have existed in one place to begin with.

The third impediment preventing you from getting real-time visibility is the prevalence of outdated systems. Consider a system that you installed three to five years ago. You'd like to replace it with a new system, but you don't know how to transfer all of the old data into the new one. Upgrading the old system is no longer an option because the vendor doesn't support it anymore. That means it can't receive automatic tax updates and such. Thus, you have to take that additional tedious but crucial step manually as you reconcile your books. The result is you're stuck with an antiquated system that has lost its value and is hard to get rid of—not to mention the money, time, and resources it takes just to manage it.

Improving the Management Reporting Cycle

IMA members who responded to the survey said getting an accurate view of the business through consistent, periodic management reporting cycles is the second-biggest challenge they face after the lack of real-time visibility. The three biggest factors that make it impossible to get accurate management reporting are:

1. Timeliness of performance reports and analysis,
2. Integrating multiple data sources, and
3. Length of time required to close books.

You might wonder why it's so difficult to get answers to simple yet critical questions regarding the health and state of your business. For example, as a CFO, you would probably want to know which three subsidiaries best manage employee-related costs. Or, as a fiscal quarter comes to a close, you might want to know where you are with respect to accounts receivable. You might also want to be able to respond to your CEO's requests about revenue goals across different market segments, product lines, and the like. The list goes on. The key to getting answers to these and similar questions is more efficient management reporting. But before we examine what a reporting solution should look like, let's delve deeper into the causes of bad reporting in the first place.

A big reason cited in the IMA study as the root cause of a lack of useful management reporting is a shortage of timely reports and analyses. But why is that? It isn't because there's a dearth of tools. Rather, it's because the data needs to be gathered from a number of different sources and synthesized to get anything meaningful and actionable. As with the challenge in gaining real-time visibility, the underlying cause of this is the multitude of data sources.

How to integrate these multiple data sources becomes the next logical obstacle in your path to getting accurate and timely reports. You need to find a common lingo in which to translate this data and then apply manual analytics to get the business insights that you want. As mentioned earlier, most of the time this involves converting all of the data to a spreadsheet and doing things manually, which is both time-consuming and error-prone. It's no wonder it takes forever to close the books!

Now that you've seen the problems, let's consider how you might be able to address them.

Shrinking Financial Consolidation Times

Keeping the books in any company is increasingly challenging in the face of U.S. Generally Accepted Accounting Principles (GAAP), Sarbanes-Oxley Act (SOX) requirements, and International Financial Reporting Standards (IFRS). Rapidly changing revenue-recognition regulations and the convergence of reporting standards complicate the challenge even further.

Financial consolidation remains a serious headache fraught with regulatory risk. Many companies try to track consolidated financial data on spreadsheets, manually map across different charts of accounts, and have to wait until the last minute for data from their subsidiaries, all of which compound delays in the consolidation process. Furthermore, there's always the currency in which the corporation as a whole is run and the task of consolidating the accounts into a single base currency for reporting purposes.

As discussed earlier, however, many of these divisions or subsidiaries have evolved into running on different accounting systems, which makes the consolidation task onerous. This tangle of different financial systems requires substantial manual processes and spreadsheets to keep each level of the business in sync.

But standardizing with a single, on-premise accounting/financial management system—whether you're planning to operate it on a separate chart of accounts for each company or on a single set of accounts—is often simply prohibitive. While finance teams may envision that enterprise resource planning (ERP) systems can help align their business systems to their consolidation needs, that hope can be unreasonable from the standpoint of time and cost.

Can you accelerate consolidation processes? Yes, through a potent combination of cloud computing and comprehensive financial consolidation—impossible to achieve with on-premise accounting/financial management systems. Cloud delivery offers a path to sophisticated financial consolidation in a fraction of the time—and without the substantial capital expenditure—of a typical on-premise financial system. Businesses that use a robust cloud-based financial system can adjust for currency, taxation, and legal compliance differences at the local level while also allowing for regional and global business consolidation and roll-up strategies.

Improving Transparency Throughout the Organization

Poor visibility into the performance of divisions and subsidiaries is another key challenge faced by multiple-entity businesses. This can range from a lack of data necessary to create external financial reports in a timely manner to lack of easy access to management reporting required to monitor performance.

In many multiple-entity businesses that run a mixture of solutions, such as Microsoft Dynamics GP, Intuit QuickBooks, and MYOB software, corporate has to rely on periodic spreadsheets that offer a late, summarized view of performance at best. Spreadsheets used for management reporting typically provide little visibility into underlying detail. For example, a spreadsheet or report of key performance measures may provide a days' sales outstanding (DSO) metric or an aging summary of a division's customers, but it offers no visibility into underlying invoice detail or why an invoice may be late. The result can be time wasted exchanging e-mail messages between corporate and the individual business unit and a trickle of incoming report fragments trying to resolve the issue.

Another failed approach that organizations take to unite the view of the business and speed up the corporate reporting process is a large-scale business intelligence (BI) or data warehousing (DW) project, which periodically extracts data from the subsidiaries and loads it into a centralized repository. Such projects have a notoriously high failure rate, however, and are extremely complex and expensive to implement. Reasons for these difficulties include a mismatch between what's stored in the repository and what finance needs on a daily basis as well as the fact that the data is never real-time (which means it's of limited use at month-end). These kinds of systems also often lack the necessary level of detail to make them truly useful: The most granular transactions are often buried in the underlying accounting systems of the subsidiaries (or in some other operational system that's autonomously managed by the subsidiary).

Questions to Ask Your ERP System Vendor

1. Do you offer a Web-based solution? Can I access it from my mobile device?
2. Can your solution support a global business? What if I have dozens of subsidiaries spread across four continents? Do you support easy account roll-ups, reporting, and so on?
3. How big a data center should I plan to have? How many full-time IT staff do I need to employ to support your solution?
4. If you're a cloud-based provider, who's hosting my data and the app? How many instances do you have running?
5. What kind of security measures do you have in place to keep my data safe?
6. How about uptime? What kind of service level agreements (SLAs) do you provide, and what happens if your cloud solution suffers an outage?
7. Can I extend, customize, and integrate your ERP solution with other software? How easy is it to upgrade my customizations?

BI and DW systems also are deeply inflexible. As businesses change their organizational structure and other master data, BI and DW become yet another system to maintain and attempt to keep in sync.

So, you ask, what should an ideal solution look like?

Characterizing a Value-added Solution

If you're part of a global business, you know that you need to be able to manage your finances across the world (among several subsidiaries, joint ventures, and so on) with up-to-the-minute information on sales, outstanding invoices, accounts payable, accounts receivable, and countless other data points. In short, you need a solution that can help you drive financial and operational efficiency, deliver real-time visibility and consolidation, and provide flexibility for customization to corporate and its subsidiaries. Obviously, when you're looking for a solution, you need to consider such decisions as whether you should adopt a "best-of-breed" strategy or choose a suite, whether you should go for an on-premise or a cloud-based offering, or whether you should partner with a small vendor or a large vendor, among others.

Out of all these, the first, most critical choice is between an on-premise and a cloud-based financial management system. Can a finance department realize the benefits of operating in the cloud? Of course. Cloud-based financial/accounting applications are suitable to assist CFOs tasked with funding budgets, controlling expenses, investing cash, improving profitability, and adhering to strict and ever-shifting compliance regimens. As you choose an accounting/financial management solution, consider the long-term vision for your company and what it will take to help you achieve that vision. From that perspective, a true cloud-based solution makes most sense. With that said, here are the most important characteristics you should look for in a solution to help you address all these challenges.

Complete Cloud-based Financial/Accounting System. A cloud-based delivery model enables global businesses to run both corporate and subsidiary operations for much less money while efficiently extending standardized financials to every corner of their business. A cloud-based system saves money because operating costs are very reasonable and there are virtually zero upfront capital expenditures for hardware, software, IT services, and so forth. In addition, a cloud-based system is Web-driven, which allows employees to access it from anywhere in the world.

Global Business Management. You know that your financial system is just a part, albeit the most important one, of a complex toolkit that you need to run your business. Perhaps you currently have a customer relationship management system, a website powered by data from your financial system, marketing automation, and more. It's possible to fashion a platform that provides all these capabilities, but wouldn't it be great if you had to deal with only one system that does all of the above and more?

Clear Visibility. The third characteristic to look for is providing corporate and divisions a clear view into every level of business performance, from summary to detail, through comprehensive financial and operational role-based dashboards and real-time reports. A really transparent system should empower every stakeholder—from finance to sales to service, from the executive suite to the shop floor—with a personalized view of business performance.

Real-time Consolidation. A truly global accounting/financial management system should accelerate financial processes with multicurrency consolidation and real-time roll-up across accounts receivable, accounts payable, payroll, inventory, billing, invoicing, and order fulfillment from local, in-country operations to the regional office to global headquarters.

Multicurrency, Multitax, Multinational Intelligence. A global accounting/financial management system also should provide support for languages, currencies, and taxation rules from different countries around the world. The system must seamlessly meet the individual needs of local operations, customers, suppliers, and distributors while easily adapting to the latest accounting standards and regulations.

Customization. Another key characteristic you should look for as you evaluate various accounting/financial management solutions is that the one you choose is built on a platform that supports comprehensive application customization, allowing each subsidiary to meet specific geographic, organizational, and industry needs, such as a highly tailored regional website, local business-specific workflows, or specific business models. And no matter what the level of customization, the cloud delivery must ensure automated upgrades and the latest innovations so that you aren't forced to reinvent the wheel with each software update.

Rapid Deployment. By virtue of its cloud delivery, the solution should be fast and easy to deploy—definitely many times faster than traditional financial systems—either across the entire organization or at the subsidiary level in a two-tier model that integrates with a corporate ERP installation. The platform also should have built-in support to ensure that the solution can be combined seamlessly with existing investments.

Security and Availability. This is by far one of the most critical criteria in entrusting your data to a cloud-based financial system. You need to feel assured that your vendor not only provides the highest level of compliance and security, but a very high availability as well (because, after all, your business runs on it).

Enables Innovation. A cloud-based solution should free up your IT resources because (1) you don't have to worry about maintaining and upgrading your software every few years, and (2) you aren't locked into an antiquated version of an on-premise financial system because your business-specific customizations are too complex to migrate to a newer version. This means you can actually dedicate your IT resources to develop innovations that will help drive your business rather than waste resources trying to support an old system.

A Final Word on Vendors

Your financial/accounting system should come with functionality to meet and adapt to unique industry

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requirements. Whether for global software companies with advanced revenue recognition needs, manufacturers or wholesale distributors with multisite inventory and production, or a retail/e-tail business with multiple channels and complex multicurrency client billing, your accounting system needs to be up to the challenge.

Finally, you want to choose a vendor that's going to be around for a long time and that has the resources and vision to be your partner for many years. The company should be able to offer you professional advice on how to leverage its technology as you grow your business.

Before you set aside this article, however, take a look at the questions in the sidebar titled "Questions to Ask Your ERP System Vendor" (p. 45). They will help you weed out the contenders from the pretenders in the field of financial/accounting solutions and can save your organization a world of headaches and unnecessary costs down the road. Also check out the February 2013 article "Is a Cloud ERP Solution Right for You?" for more information on cloud software solutions. **SF**

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