FINANCIAL MANAGEMENT

IN THE ERA OF CHANGE

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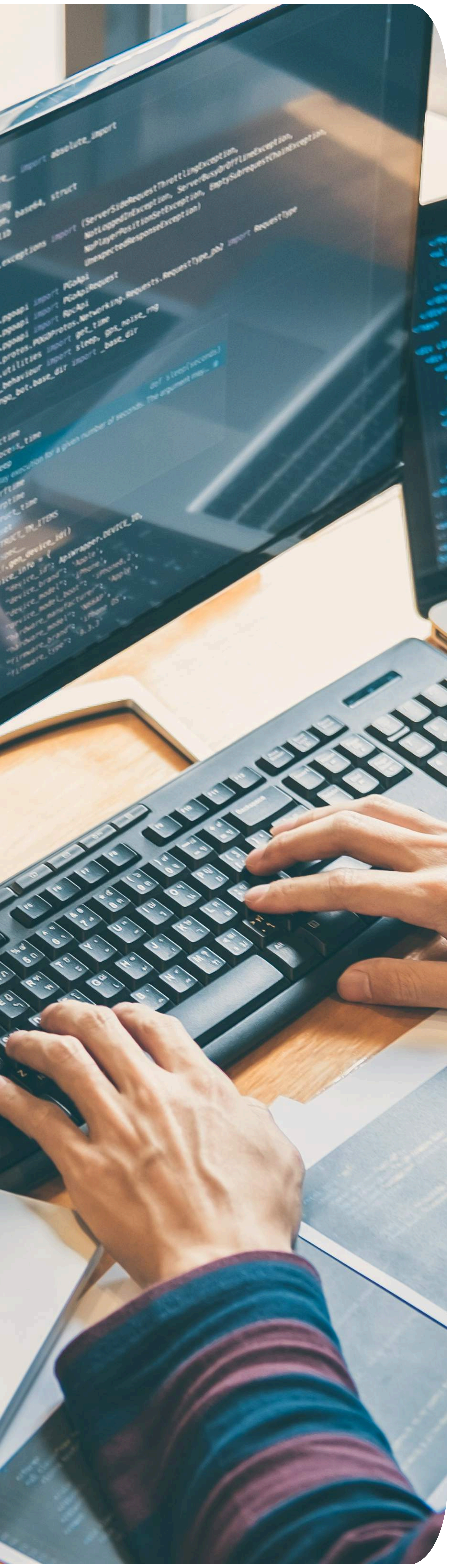

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Introduction

Organisations today are facing unprecedented change, delivering services against the background of constantly shifting goalposts. From managing growth and coping with reorganisations, divestments, and acquisitions to dealing with new markets, accounting regulations, and compliance laws, financial executives in these industries face a host of challenges—irrespective of whether the global economy is in recovery or decline.

Compliance issues are especially trying. Companies have to comply with both global (e.g. IFRS) and local regulations (e.g. VAS). Thus, finance executives will have their hands full for another four years, simply to accommodate changes already on the way.

The impact of these changes on the finance function can be felt in the broadening of reporting requirements, increased complexity around the recording of transactions, and accelerated deadlines for reporting to external regulators. When it comes to managing these types of complex changes, the importance of an organisation's financial management system cannot be underestimated. Systems that are robust yet flexible enough to allow business processes to be adapted on the fly are critical, as they provide easy access to the information and tools needed to effectively manage such a dynamic environment. Yet, many modern-day systems are architecturally constrained, difficult to change, and rooted in outdated concepts designed for the needs of a different generation.

So why is the tail being allowed to wag the dog? Nowadays, companies can no longer afford to be constrained by their financial management systems, knocked off course by every regulatory change, and left exposed to the enormous cost and disruption of implementing change. They need to lighten the burden of managing complex industry requirements and ensure financial management systems enable growth rather than obstruct it. The big question is how.

This whitepaper explores how well organisations have coped with regulatory demands and examines strategies for leveraging technology to establish an enduring platform for dependable decision-making in a climate of regulatory and business uncertainty.

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Which Technology Strategies Are Businesses Using to Cope with the New Demands?

Many companies have many options available for meeting their financial management needs. Often, the choices can be too plentiful, making it difficult to thoroughly assess the benefits and downsides of each approach. However, the process can be simplified by classifying financial management technology strategies into the three broad categories outlined below. These strategies will inevitably evolve along with technology, although companies can easily become locked into systems that cannot adapt as the business grows. That's why, it is so critical to choose a strategy that can accommodate your needs both now and over the long haul. Whether you're starting from scratch or replacing a key piece of your overall technology puzzle, making the right decisions now can ensure that your financial management system is an asset to long-term growth and profitability.

Option 1: The Big ERP Approach

Enterprise resource planning (ERP) systems have long been a challenge for many companies. They offer name-brand credibility, promise robust functionality, and often seem like a safe choice in a sea of options. However, the promise of large-scale ERP for the market has rarely lived up to reality. A primary source of failure to meet market expectations is the one-size-fits-all approach that big ERP companies take—and that size is large. Many companies that choose this route often find themselves with expensive, inflexible, unnecessarily complex solutions that, ultimately, are unable to meet their industry-specific requirements.

So while ERP systems have much to offer, finance directors in the market often look to other options that are more adaptable, far more cost-effective, and more closely aligned with their specific business needs.

Option 2: The Line-of-Business Approach

Line-of-business applications can be defined as systems developed to address a particular business process or need (for example, claims processing), but they frequently have broader functionality (for example, financials) built in. These systems can be vendor-provided, home-grown, or some combination of both. Line-of-business applications are chosen for their focus on complex, industry-driven business needs that broader systems may address at only a superficial level. They have typically been developed over time, and provide deep functionality and industry expertise in their given area of focus.

However, the strength of line-of-business applications is also the source of their weakness, particularly when it comes to financial management. They are so focused, that line-of-business applications rarely provide robust functionality outside their area of expertise.

Often, companies will start using whatever financial management capabilities are provided when they are small and their needs are basic. Within a very short time, however, most outgrow the limited financial management functionality and find themselves stuck with a system that is unable to adapt or grow. The bottom line is that line-of-business applications have much to offer and can be a valuable asset, particularly in complex industries. If the challenges posed by poor integration can be overcome and robust financial management capability incorporated, these applications provide an attractive way forward.

Option 3: Best-in-Class Financial Management System + Line-of-Business Application Approach

Best-in-class applications can be defined as systems that address a single, core business area (e.g., financial management) that is common across industries. These solutions have typically been developed from the ground up to address their area of focus, rather than added to other applications to create a packaged offering. While there is no official classification, best-in-class solutions have a singular focus and robust functionality that broader-based solutions cannot match.

For forward-looking companies, a hybrid approach combining a best-in-class financial management solution with line-of-business applications has been shown to generate very positive results for the simple reason that everybody wins. Financial executives get a highly flexible system that can keep pace with business needs that change overnight, while others get the systems they need to manage complex, industry-specific business processes. Best-in-class financial management solutions put the power in the finance department's hands, providing the flexibility to adapt without the assistance of consultants, application specialists, or even IT. This is especially welcome in enterprises with limited IT resources and skills at their disposal.

So what's the catch? The downside of best-in-class solutions has historically been the difficulty of integration across other applications. Businesses can end up with a host of solutions loosely tied together, with different interfaces, reporting styles, and in some cases, overlapping functionality. However, this is where technology is coming rapidly to the rescue. The development of common technology platforms that allow disparate systems to be easily integrated and given a common user interface is a major trend in the enterprise software industry.

Five Requirements for Success

Many companies find that best-in-class financial management solutions paired with line-of-business applications deliver the strongest capabilities and the greatest flexibility. Still, finding a system capable of operating effectively in such a dynamic and complex environment can be challenging. To ensure you get a system that meets your needs, look for the criteria outlined below. A system that can adhere to these standards should put you firmly on the road to success.

Requirement 1: A Unified Ledger

A unified ledger is essential as it simplifies multi-source transaction processing while opening up the possibility of more sophisticated analysis, reducing complexity, and eliminating unnecessary integration since all transactions are physically recorded in the same environment. It also reduces interface costs, as a single ledger means that users don't have to interface with different sub-ledgers in different formats.

Additionally, a unified ledger can leverage "smart transactions" (see below) allowing rich analysis to be added on demand and maintained in one place (that is, without the need to move detail to sub-ledgers). As a result, you get an adaptable and dependable core that enforces common standards of control (through consistent data validation), is infinitely extensible, and is easy for users to understand.

The unified ledger has also proven to be particularly valuable in the context of IFRS and multi-GAAP reporting regimes, as it can provide significant flexibility around the length and segmentation of account codes. It can allow multiple analysis codes to be held at the level of an account, greatly simplifying the accommodation of multiple GAAP and adjustment accounts. The ease with which analysis codes are added, coupled with their implementation within a single ledger, means that users can readily pull out complex multi-GAAP reports and show the transition (comparatives and adjustments) between one basis of reporting and another.

This flexibility of the unified ledger also has profound implications for segmental reporting, which may vary between different GAAP regimes and possibly between management and statutory reporting. Multiple analysis codes at the account level allow items to be segmented one way for the purposes of local GAAP and another for IFRS or internal reporting.

The analysis structure also provides the basis for dealing with some of the complexities of Solvency II, which is more demanding about which assets can back which classes of liabilities, together with capital requirements different from those under current solvency rules. The ability to "tag" and match different asset and liability classes is not typically available in traditional systems that artificially segregate accounts into different sub-ledgers.

Finally, a unified ledger accommodates multi-company structures (entities) within the unified database (each configured to suit different geographies as desired) or multiple entities within one entity.

Requirement 2: Smart Transactions

Smart transactions are a type of analysis that provides a deeper level of granularity, allowing your business to add dimension and context to transactions that are important in performance management and vital to regulatory and compliance reporting. Not widely available in traditional financial management systems, smart transactions are becoming vital for companies that face complex regulatory requirements.

With smart transactions, transaction types are not rigorously prescribed, which means you can define your transactions (financial or statistical) from scratch (e.g., accounts posted and validation logic, calculations and allocations applied). The flexibility to define unique transaction types and then analyse them in a user-defined "smart" way without IT intervention and without compromising control is extremely potent. The ability to add additional analysis to transactions without a practical limit also helps "future-proof" financial management systems from unexpected changes.

Requirement 3: Integration

For many companies that want to leverage the capabilities of a best-in-class financial management solution, the key is integration. As mentioned above, integrating systems across other core business applications is critical to success. The rising popularity of Cloud technology is compounding these concerns. With more and more companies allowing at least some of their business systems to reside in the Cloud, integration across systems takes on an additional level of complexity. To be effective, your financial management system must be able to securely incorporate data from other systems—whether on-premises or Cloud-based—or link to a unified database, all while preserving the same level of control for other organisational systems.

The good news is that integration options are expanding. Technology that delivers simple integration between best-in-class and line-of-business components is rapidly evolving, allowing you to take advantage of superior functionality without compromising the overall ease of operation.

Requirement 4: Robust Reporting Capabilities

All financial executives understand the criticality of reporting, but the capabilities of financial management systems vary widely in this area. Nearly every system will provide some standardised reports that can be generated quickly and easily; however, reporting capabilities tend to drop off quickly beyond that. Finance departments must routinely depend on the IT department to develop new reports, which severely limits their ability to access critical business data in a timely fashion.

An effective financial management system will ideally be able to reach across the data model of your entire organisation, allowing users with relatively modest IT skills to navigate through data and produce meaningful reports on their own. Tight links to the Microsoft® Office environment are also beneficial, as they put various familiar tools at the users' disposal like reporting and dashboarding. Access to integrated performance management tools (budgeting, planning, forecasting, and consolidation) is also a major plus.

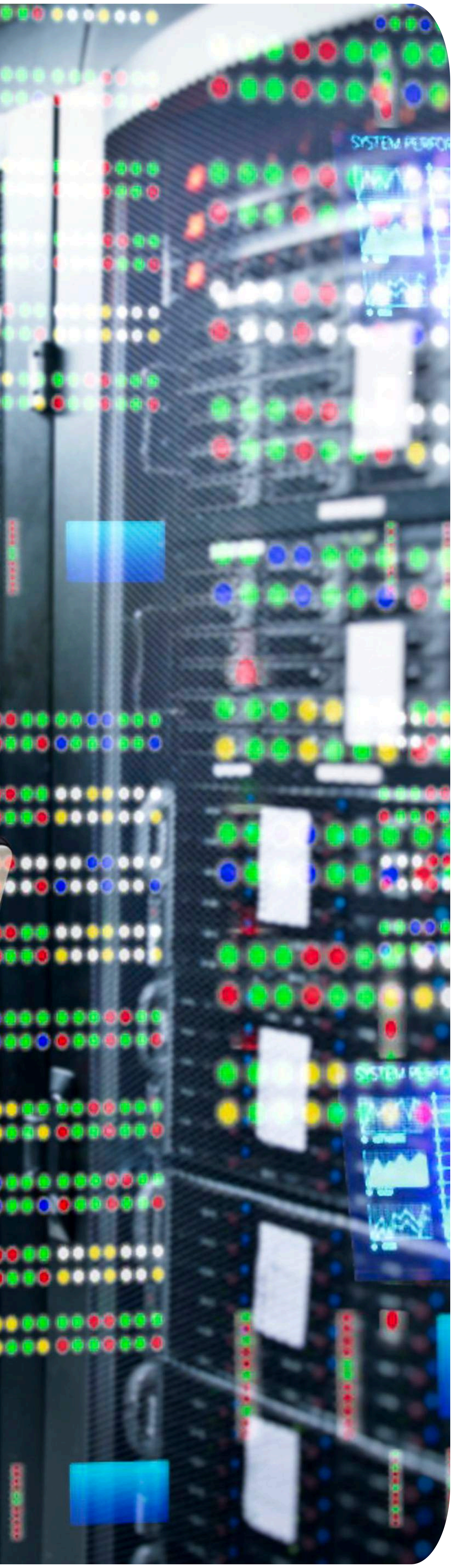
Requirement 5: Global Capabilities

If your company does not currently operate internationally and you have no plans to do so, you might be wondering why global financial management capabilities are required. With the business world continuing its progression towards becoming truly one world, there are precious few organisations that can say with absolute certainty that global financial management will never be required. Furthermore, systems with the ability to accommodate a wide range of requirements (including global) are the most capable of effectively managing changes that may occur in your own region.

The worst outcome of a financial management system implementation or switchover is to discover in a few years that the system no longer meets your needs. For many companies, options exist that provide excellent global finance capabilities while delivering all other required core functionalities. The best option is to take a strategic approach that allows you to handle the "now" but be prepared for what's around the corner.

When evaluating global financial capabilities, look for a solution with the global essentials, including

- Multi-currency, ideally up to four currencies at the transaction level
- Multi-language
- Multi-calendar
- Multi-company, independent locales (meaning the ability to create as many companies as required within one installation)
- Multi-tax
- Parallel chart of accounts
- Parallel books for different accounting treatments
- Localised reporting
- Global access



Nice to Have: Common User Interface

A common user interface across applications has long been greatly desired but largely unattainable. Given the way technology and companies evolve, it's rare for an organisation to have a single, company-wide system and, therefore, a single user interface.

The push to make the common user interface a more achievable goal can in part be credited to the online consumer world. As users have grown accustomed to sophisticated user experiences in their personal lives, they have come to expect (and now demand) the same in their professional work environments. The enterprise software industry is responding, working rapidly to develop easy-to-use integration platforms that pull all systems together and deliver a consistent user experience.

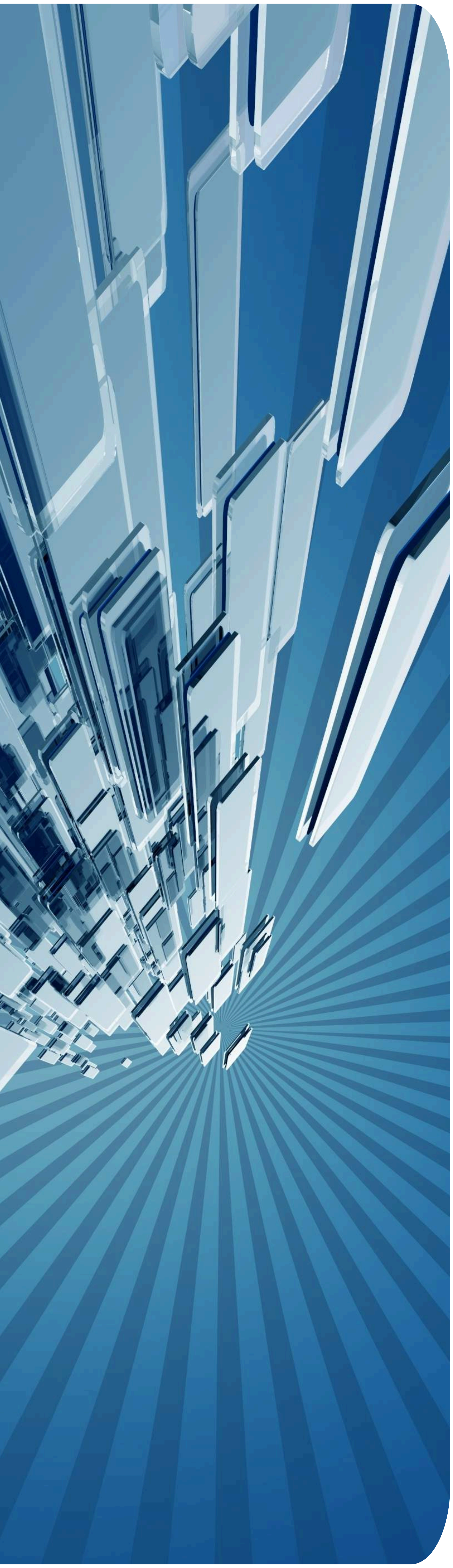
Although this capability is currently only present in a small number of systems, it will soon become a necessity. User interfaces do far more than just deliver a positive user experience. They increase productivity, reduce errors, and make it easier to get a single view of data throughout the organisation. This combination of usability and bottom-line impact will lead to the common user interface being de facto for enterprise software applications, leaving us to marvel one day at the way things used to be.

Summary

In recent years, businesses have been subjected to continuous changes in the global economy, regulations, and compliance. In the face of this turbulence, traditional ERP systems have proven inflexible, time-consuming, and costly to change. On the other hand, line-of-business applications, which provide specialised vertical market capabilities, are often held back by weak financials.

As a result, more and more companies are deciding that a hybrid approach is the optimum way forward. By leveraging best-in-class financial management systems that have robust integration capabilities, they can leverage third-party applications without jeopardising data accuracy, reporting, and control. The result is the best of both worlds—applications that are the best of the best for their specific business area but able to work seamlessly together.

When evaluating financial management systems, you must get beyond today's needs and keep an eye on what's coming, both in terms of your organisation's needs and market trends. The right decision will put you in control and ensure that you have a finance department with the tools and resources to handle anything that comes its way.



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Our activities focus on enabling businesses and people to perform better.

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- People solutions to select the right people and develop them to their full potential.

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- 30+ years of proven success of implementation services.

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