How You Can Achieve World-Class Financial Performance

By Kim Schaefer, CPA

Is Enterprise Resource Planning or ERP really nothing more than hype from the 1990's or does it still have a place in today's ever-changing, global enterprise? When the term was created by the Gartner Group, it had a very specific meaning. Unfortunately in practice, projects tended to be expansive and too encompassing to be successful. Its initial meaning dealt with enterprise back office functions such as financials, human resources, order management, and costing; but the term became so subject to interpretation by vendors and consultants that all products came to be known as ERP and many projects grew to the point of mismanagement and could not be finished in anything less than a year.

The time has come for firms to step back and examine their requirements, evaluate their business processes, and identify clear goals and objectives prior to making any decisions on software applications. Only then, can they expect to achieve the strategic initiatives that have become so elusive in many software implementation projects. Firms that begin the process focusing on acquiring ERP software as their primary objective have already disregarded many avenues of opportunity before giving them proper consideration. This is a path often followed by consulting firms whose concentration is selection and implementation of ERP systems.

After the Y2K panic subsided, IT budgets tightened. Now organizations require significant justification for all technology purchases – the days of unbridled technology spending are over. Each purchase is carefully evaluated to ensure that it fits into the technology landscape already in place. Plus, CFO's are under an enormous amount of pressure to remove complexity and increase visibility in order to meet the ever increasing demands for information placed on them by government regulations and stakeholders.

Increased scrutiny among buyers, coupled with consolidation within the industry, has led to dramatic changes in product offerings among both traditional Best of Breed and ERP vendors alike. What have we learned? The reasons ERP became popular so fast are not as compelling any more, but like any catchy moniker, ERP is here to stay. However, the doors have widened and there is a gap that Best of Breed vendors fill quite nicely as long as they are able to avoid the old misconceptions.

With the introduction of ERP II, Gartner tried to remove the stigma surrounding the ERP vs. Best of Breed debate and shift the focus from a single vendor to the enterprise itself. They acknowledged that the accomplishment of ERP as defined was improbable, as noted by Brian Zrimsek, research director at Garter, "Given that there will likely be no single vendor who provides everything you need as an enterprise, it's going to be up to you to assemble what you need."

Out of the hype, a new breed of vendor has emerged – one that recognizes that financial reporting is no longer a "back office" function and that the scope of the CFO has undergone a massive realignment. Mitigation of risk, documentation of and adherence to internal controls, and automation of processes are important areas for consideration regardless of the type of enterprise.

A whole host of specialty vendors is now available. Even the Best of Breed and ERP vendors of the past are beginning to repackage themselves to appeal to this market by acquiring Best of Breed vendors, merging or developing additional applications themselves. Don't be fooled though, these specialty vendors are focused on service not on products, they use their industry expertise in either public accounting or other applicable fields to assist CFO's in applying best practices to their organizations. They don't start with software, they end with it. But, when it comes to their software, they do focus their research and development and expertise on their core product line, whereas ERP vendors are notorious for lengthy delays in releasing new products and spreading research and development dollars and expertise among multiple product lines.

You will find most of your specialists by the nature of their business will opt not to use external consultants in any part of the implementation process. This typically provides you with a vendor that is selected not out of partiality, but because they best meet your requirements.

Over the past several years, we have experienced a commoditization of the software industry. Most software vendors who have survived for any length of time must have a fairly functional product. But, features and functionality seem to blur during the software selection process. Buyers really aren't interested in talking to vendors who come to the table telling them how great their products are. They want to know how these products are going to solve a specific business need. This is where the specialists come in. CPA's and accountants who have worked in positions similar to the CFO and speak the same language can sit down and discuss business requirements.

According to the Hackett Group, world-class companies score in the top 25 percent in both efficiency and effectiveness in a given functional area. They also typically utilize a central data repository for reporting and integrated budgeting/planning tools. However, they are consolidating on a single ERP to achieve this and are spending an average of 30 percent more on IT. This is why many companies are turning to the Best of Both Worlds solutions offered by this new generation of vendors. Their motto should be, "Become world-class without spending an average of 30 percent more on IT."

How do they do it? Quite simply really. Since they are specialists, they are able to focus on a core product like the Best of Breed vendors. And, like Best of Breed vendors, provide you with the best products available for each business function while taking advantage of software already in place. Then, specialists take that a step further by integrating these systems into a single integrated solution so you don't have to. Specialists are working well in organizations in rapidly changing environments where agility, flexibility, and speed of implementation are important or they have unique business requirements that the average software vendor isn't equipped to handle.

The other key factor in the Best of Both Worlds solution is that their product offerings continue to be supported by the specialist that developed them while the integration is supported by the single solution provider. This is a very significant distinction because the research and development funds of the vendors are not diverted from their core competency and you have the guaranteed integration that you require. The largest argument against the Best of Breed solutions is the maintenance of integration on an ongoing basis and with the Best of Both Worlds this is eliminated.

The following chart identifies key metrics used to determine whether an organization is a world-class organization. Clearly achieving these items will provide the CFO with the ability to meet external and internal demands for the information necessary to run the organization.

As Peter Drucker said, when talking about the failures of traditional financial reporting, *"A loss of market standing or a failure to innovate do not register in the accountant's figures until the damage is done."*

Comparing World-Class and Average Financial Functions*		
Function	**World-Class**	**Average**
Close the books	Less than 2 days	5 days
Estimate	3 days	14 days
Report key metrics	Daily	5.9 days
Report material events	Immediately	Monthly
Tools to access key data	Online/Desktop Applications	Spreadsheets
Focus their people on	Planning and Analysis	Transaction processing and data gathering

** Best Practices to External Financial Reporting by Patrick Slattery, Finance Transformation, Answerthink*

If you read the advice of David Flint, Research Director of the Gartner Group, as he discusses the Real-Time Enterprise or RTE, the Best of Both World Vendors have the exact prescription to take your organization to world-class and beyond. His advice breaks down into the business and IS segments of the organization:

The business imperatives are:

- *Simplify and select the processes you are going to work on*
- *Slash and stabilize*
- *Set goals and sell them to business leaders*

The IS imperatives are:

- *Map the processes and measure where the delays are*
- *Mobilize and get the skills you'll need to make it happen*
- *Architect for agility*

It comes down to this: Set the objective. Rethink the processes. Then think technology.

Flint states that one of the misconceptions is that it is all about technology. That is why technology is last in our model as well. Beware of the software vendor that tells you they have a system that will solve all of your problems. Be ready to put in some hard work in the beginning by thinking through your processes. Like Leonardo DaVinci, question everything. The work you put in at the beginning will pay off one hundred fold in terms of efficiencies and process improvements when the project is complete.

About the Author and the Company

Kim Schaefer, CPA, is President and Chief Operating Officer at Mitchell Humphrey, a company that specializes in business process management, offering financial management and HR/payroll solutions backed by over 28 years of Best Practices methodology.

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