

**The 20+ system  
improvements all  
corporate accountants  
can do no matter what  
their budget is**

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## 1. Introduction

Many finance teams have under invested in 21st twenty-first-century systems and relied too heavily on spreadsheets. Far too much time and money has been reinvested in upgrading the general ledger (G/L) and far too little on monthly reporting, forecasting, budgeting, accounts payable, and drill - -down and consolidation software.

### 1.1 Banning Spreadsheets from Core Finance Routines

Spreadsheets have no place in forecasting, budgeting and many other core financial routines. Spreadsheets were not designed for many of the tasks they are currently used to accomplish. In fact, at workshops I often remark in jest, that many people, if they worked at NASA, would try to use Microsoft Excel for the US space program and many would believe that it would be appropriate to do so.

A spreadsheet is a great tool for creating static graphs for a report or designing and testing a reporting template. It is not, and never should have been a building block for your company's finance systems. Two accounting firms have pointed out that there is approximately a 90 percent chance of a logic error for every 150 rows in an Excel workbook<sup>1</sup>.

Some of the common problems with spreadsheets are:

**Broken links or formulas.** An individual might add or eliminate a row or column so that, when a group of spreadsheets is rolled up, the master spreadsheet is taking the wrong number from the one that was modified.

**Consolidation errors.** Often, a spreadsheet will lock up or show a screen full of "REF", "REF" "REF" errors, because it was not designed to be a tool for handling a rollup of dozens of different worksheets.

**Input of the wrong numbers.** Entering the wrong number can happen in any process, but spreadsheet-based systems often require rekeying of information, which can produce data inconsistencies. A spreadsheet might use a look-up table that is out of date or an entry might have been inadvertently or mistakenly overwritten.

**Incorrect formulas.** A subtotal might omit one or more rows, columns or both. An individual might overwrite a formula because they believe the replacement is more accurate. Or, someone might use an outdated spreadsheet. Another problem that arises with spreadsheets is that allocation models might not allocate 100 percent of the costs. Allocation methods might also be inconsistent.

**No proper version control.** Using an outdated version of a spreadsheet is very common.

**Lack of robustness.** Confidence in the number a spreadsheet churns out is not assured. Many times you cannot check all the formulas because they can be found in any cell of the spreadsheet.

**Inability to accommodate changes to assumptions quickly.** What would you do if your CEO asked, "If we stopped production of computer printers, what would be the financial impact? I need the answer at the close of play today." Your spreadsheets are not able to provide that quick answer.

**Design is by accounting staff who are not programmers.** Most accounting staff have not been trained in system documentation and quality assurance, which you would expect from a designer of a core company system.

**Lack of corporate office control.** Many people in a business can use spreadsheets to create their own view to a ridiculous level of detail. This can lead, as a friend once said to me "To the march of a million spreadsheets."

Jeremy Hope<sup>2</sup> of Beyond Budgeting fame and more recently author of the groundbreaking book Reinventing the CFO points out that Sarbanes - Oxley may be the sword that finally removes the spreadsheet from key financial monthly routines.

*"In theory at least, every change to a formula or even a change to the number of rows needs to be documented."*

## **1.2 Rule of 100 Rows**

I believe you can build a model in a spreadsheet application and can keep it within 100 rows without much risk. Pass this threshold and you expose yourself, your finance team and the organisation.

Finance teams require a robust tool, not a spreadsheet that was built by an innovative accountant and that, now, no one can understand. I always ask in workshops, "Who has a massive spreadsheet written by someone else that you have to pray before you use it?" You can see the pain in the instant response. Most people know that the person who built the spreadsheet certainly was not trained in operational systems design. The workbook will be a collage of evolving logic that only the originator has a chance to understand. Often, the main hurdle is the finance team's reluctance to divorce itself from the spreadsheet program. It has been a long and comfortable marriage, albeit one that has limited the finance team's performance.

### **New CFO finds an error**

A financial controller came to me with a great tale. He had just completed the annual budget that his team had been working on for many weeks long into the night and on weekends. Proudly, one Friday afternoon, he walked into the office of the recently appointed CFO and announced the first cut of the annual plan. The CFO spent five minutes looking at the plan and after quickly calculating some numbers said, "This annual plan is wrong; the numbers do not make sense."

The financial controller was taken aback, because he had made a special effort to conduct quality assurance on the numbers, and he had done comparisons to last year's plan, along with a few other things. He had wanted to make the best impression.

The CFO called him over to look at his brief calculation, "Pat, we know the planned sales have been signed off already, gross profit margin historically has been around \_\_ percent, overheads are roughly \$\_\_\_, and thus, I am expecting a number around \$\_\_\_ - \$\_\_\_." The financial controller could only agree.

That weekend, the team poured over the spreadsheet, which was enormous and included the consolidation of many worksheets from many sources. Late on Sunday, team members experienced an "eureka" moment.

An error was found and the news was rushed to the financial controller. As they processed the correction, they looked with disbelief because the new number was within the outline the CFO had suggested. "We have a pretty smart CFO; let's see how long this error has been around. Please look at the last two year's annual plan models," Pat requested.

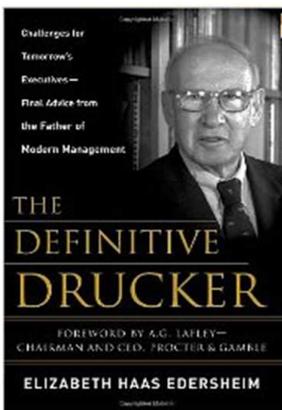
As the financial controller recalled to me, with a wry smile, the error had been in the plans for the previous two years and had gone completely undetected.

### 1.3 **Career Limiting**

As a corporate accountant, being an expert at Excel will show you are a technical dinosaur, one who has not embraced modern tools and does not understand the inherent risks in running core financial systems with a high risk tool.

To those readers who believe spreadsheets are still appropriate for financial systems, I say to them, why not build your general ledger in a spreadsheet program and while you are at it, all your operational systems? Try explaining to the CEO that only one person knows how these systems work and he or she left four years ago. You might as well clear your desk now.

### 1.4 **Importance of Abandonment**



From the time we were at kindergarten we have had a fear of ever omitting we were wrong. In our personal lives we have, in some cases, held on to an abusive relationship for too long because we were scared to admit, to the world at large, we made a mistake. The longer the relationship goes on we hold on to the hope that it will come right and we can always then say to our family "I told you so". In reality this does not happen. If I was to go into a reader's garage what would I find? Maybe an exercise machine that started off life in great excitement as we envisaged a leaner me. After a couple of weeks in the lounge it started its inexorable journey to the garage. There to rest under the dust cover for a day in the future when we would use it again so we

could say "I told you so."

In the world of commerce this trait is equally damaging. We will hold on to systems, keep going with projects, keep writing that report that nobody reads because to remove it would mean a loss of face. Let's get over it.

Management guru Peter Drucker who I consider to be the Leonardo de Vinci of management, frequently used the word 'abandonment'. I think it is one of the top 10 gifts Drucker gave us all. He said "Don't tell me what you're doing, tell me what you've stopped doing."

In finance we need to abandon:

- Spreadsheet forecasting
- Downloading the G/L into complex pivot tables for reporting monthly results
- Consolidating in Excel

I have included in the electronic media a book review of Elizabeth Haas Edersheim's *The Definitive Drucker*<sup>3</sup>. Read the book for more on abandonment

and other great advice. I consider this book one of the top 10 management books I have read. I hope, like me, you will become a follower of the great Peter Drucker.

## 1.5 **The Importance of Challenging the Status Quo**



Far too often, we have accepted antiquated and anti-lean practices within the corporate accounting repertoire as the status quo. If the medical profession used our approach, it would probably still be using leeches. (Well, actually, I understand that leeches are still used in special cases.) The medical profession has breakthrough conferences on a regular basis, and all the practising surgeons, in that field attend and adopt the new procedure. This should be the corporate finance model.

In an interview, called "The Lost Interview", Steve Jobs, was asked, "As a 22-year-old worth \$10m, and a 25-year-old worth \$100m, how did you get your business acumen?" He said that over time he realized that most business was pretty straight forward. He talked about when Apple had its first computerized manufacturing plant for the Apple II and the accountant sent Steve Jobs his first standard costing report. Jobs asked "Why do we have a standard cost and not an actual cost?" The responses was "That is the way it's done". He soon realized that the reason was the accounting system could not record an actual cost quick enough. When that was fixed, standard costing reports vanished.

In business Jobs believed that few in management thought deeply about why things were done. He came up with this quote which I want to share with you. I believe it should be on every wall and in front of every work station in the finance team work area.

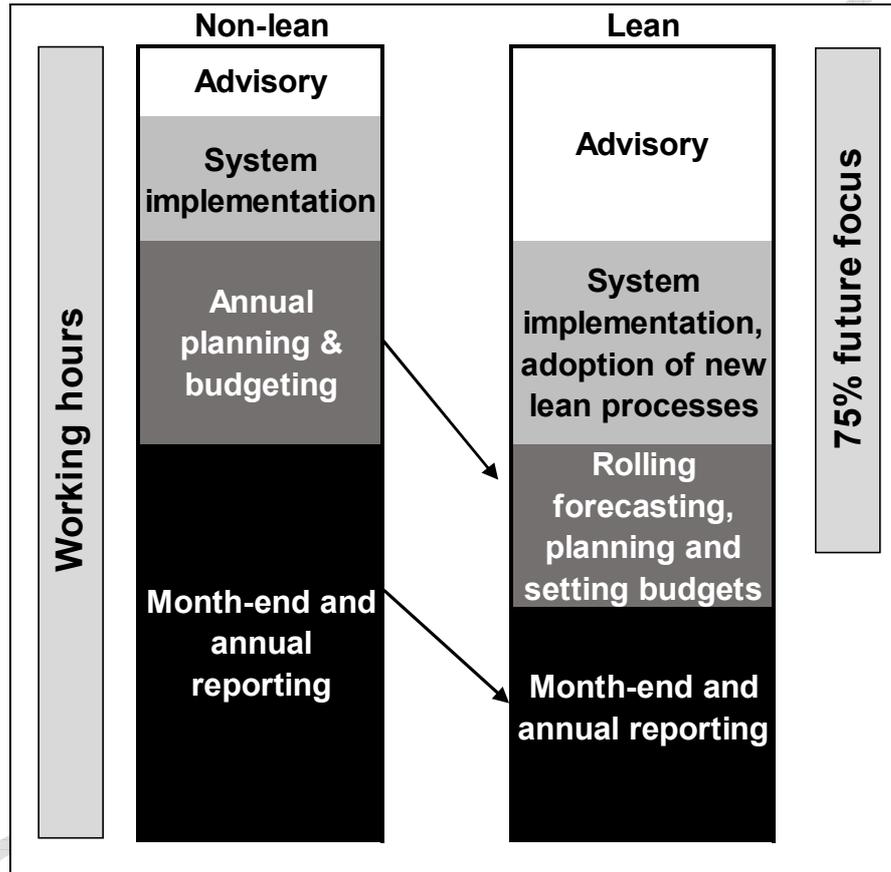
*"Your time is limited, so don't waste it living someone else's life. Don't be trapped into living with the results of other people's thinking. Don't let the noise of other's opinions drown your own inner voice." Steve Jobs*

I believe this quote should be on every wall and in front of every work station in the finance team work area.

## 2. The impact of better systems on the accounting team's workload

The impact of the better practices listed in this white paper and accompanying workshop is to move accounting team work away from the low value processing activities into the more value added areas, as shown in Exhibit 2.1. This at the same time will increase the accounting team's job satisfaction and appreciation from budget holders.

Exhibit 2.1 Changing the balance of work in the finance team



### 3. The system improvements for the greatest gain

Instead of changing your G/L, I believe the CFO and the finance team have better investment opportunities elsewhere, which will turn the accounting function into a paperless office. The order of priority should be:

There are seven must adopt technologies on the journey from average to good to a great finance function. These are:

A planning and forecasting tool	These tools replace Excel. You need to place these larger models in the appropriate software.
Accounts payable solutions	Moving to a paperless accounts payable situation is a must have for larger organisations. The investment in systems pays off in a reduction in transaction volumes, eliminating re-keying and the taking of all prompt payment discounts.
A reporting tool to enhance accuracy and make them paperless	Reporting tools enable the finance team to move to paperless reporting utilising better practise presentation styles e.g. Tableau, Qlikview, Dundas, Targit
A drill - down front end to the G/L	Add a drill - down front end to the G/L if it is not already part of your G/L e.g., PowerPlay and Crystal Reporting.
Consolidation	A proper consolidation tool is a must have for any organisation with over two subsidiaries. We all have built a consolidation tool in Excel, however, it is not appropriate for large consolidations.
Intercompany transaction software	A system by which subsidiaries' G/L are update automatically and simultaneously regardless of what package they are running. to remove the disputes.
Collaborative Disclosure Management software	This software ensures that you have one database that is the sole source of the truth. All reports, presentations and public documents are automatically updated from this software if the numbers have changed. It even recalculates any disclosed variances.
Electronic board papers	Electronic board paper systems offer many features including: access to papers from anywhere, anytime, as soon as they are available; instantaneous edits, page numbering; and absolute security.

Upgrade the G/L only after you have acquired the above systems and maximized the existing G/L.

## Writer's Biography



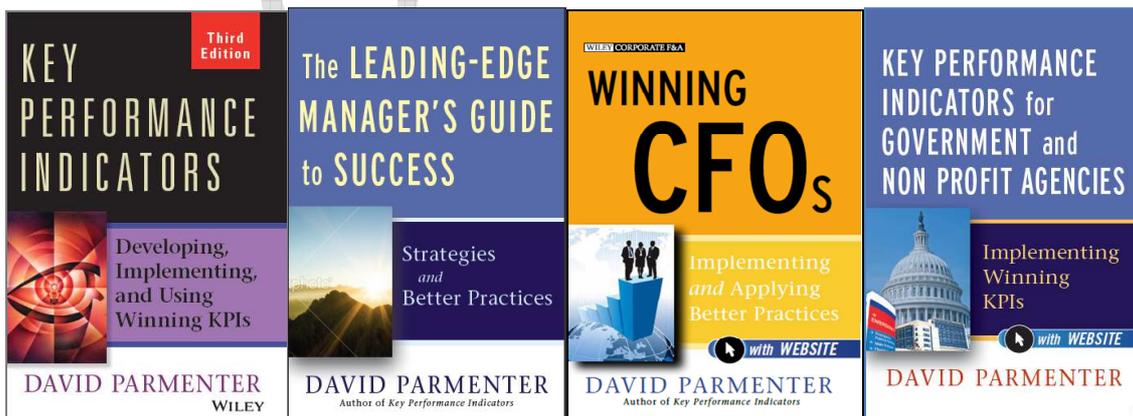
**David Parmenter** is an international presenter who is known for his thought provoking and lively sessions, which have led to substantial change in many organisations. He has spoken in over 30 countries and in most continents in the world. Besides delivering in-depth workshops he has been a keynote speaker for the IBM Finance Forum, The World Capability

Congress, TEC Malaysia, and Profiles International Romania. David is a leading expert in: the development of winning KPIs, replacing the annual planning process with quarterly rolling planning, quick month-end processes and making reporting a decision based tool.

John Wiley & Sons Inc have published his four books, including "Winning CFOs: Implementing and Applying Better Practices", "The leading-edge Manager's guide to success – strategies and better practices", "Key Performance Indicators – developing, implementing and using winning KPIs" and "Key Performance Indicators for Government and Non Profit Agencies".

David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants in England and Wales.

He has written over 50 articles for the accounting and management journals. He has won two 'article of merit' awards from the International Federation of Accountants. (2007 and 2009). His published articles titles include: "Quarterly rolling planning - removing the barriers to success", "Throw away the annual budget", "Beware corporate mergers", "Implementing a Balanced Scorecard in 16 weeks not 16 months", "Convert your monthly reporting to a management tool", "Smash through the performance barrier", "Is your board reporting process out of control?" "Implementing winning Key Performance Indicators", "Quick month end reporting" "Conquest leadership- lessons from Sir Ernest Shackleton" "Should we abandon performance measures?" "Putting the finance team on the map" etc.



<sup>1</sup> Coopers and Lybrand found 90% of all spreadsheets comprised of more than 150 rows contained errors (Journal of Accountancy, "How to Make Spreadsheets Error-Proof") and KPMG found 91% of 22 spreadsheets taken from an industry sample contained errors (KPMG Management Consulting, "Supporting the Decision Maker: A Guide to the Value of Business Modelling".)

- <sup>2</sup> Jeremy Hope, *Reinventing the CFO: How Financial Managers Can Transform Their Roles and Add Greater Value*, Harvard Business Press, 2006.
- <sup>3</sup> Elizabeth Haas Edersheim, *The Definitive Drucker: Challengers for Tomorrow's Executives — Final Advice from the Father of Modern Management*, McGraw-Hill, 2006.

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