Eliminating the Risks of Spreadsheets in Finance

Better Tools Allow More Time for Strategic Action

RESEARCH PERSPECTIVE

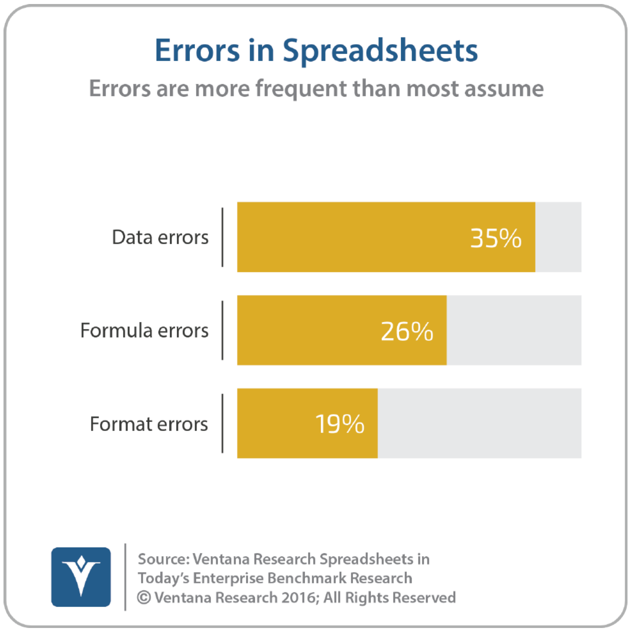
Ventana Research

Sponsored by

Intacct

The Case Against Spreadsheets

Finance organizations, especially those in growing midsize companies, often find their workloads overwhelming. They'd like to find ways to operate more efficiently but think they're too busy to look for ways to save time. As our research makes clear, the most practical step these departments can take to free up time and other resources is to replace desktop spreadsheets being used for specific tasks with software designed for and dedicated to finance activities. Such software can automate steps, facilitate data entry, simplify reporting, curtail errors and streamline processes by reducing steps.



Spreadsheets are indispensable for some personal productivity functions, but when used inappropriately they can be a barrier to effective processes in finance departments. For one thing, they are error-prone. Our research on spreadsheets in the enterprise shows that one-third (35%) of companies find data errors in their most important spreadsheets.

Opting for software-driven automation to replace manual spreadsheet-based tasks enables more rapid delivery of financial performance information by providing reliable data in a continuous flow. With access to timely insights, organizations can respond to market changes faster, drive growth and improve customer satisfaction.

Executives, especially those in midsize companies, increasingly want their finance departments to play a more strategic role in the organization. Nearly all (91%) participants in our research on Finance Innovation in Midsize Companies said that it's important or very important for their finance organization to exert more leadership in the company. However, finance executives are challenged by a lack of time and other resources.

A pragmatic approach to improving efficiency involves methodically identifying processes that currently are handled using spreadsheets and exploring the benefits of transitioning each to dedicated software. Three primary financial activities offer useful examples of task categories in which replacing spreadsheets with dedicated software saves substantial time. One is automating a complex task such as revenue recognition. The second is reducing or eliminating the use of spreadsheets in a core finance process such as the accounting close. And the third is improving the accuracy and efficiency of the seemingly straightforward process of collecting and reporting time and expense information.

Addressing New Revenue Recognition Rules

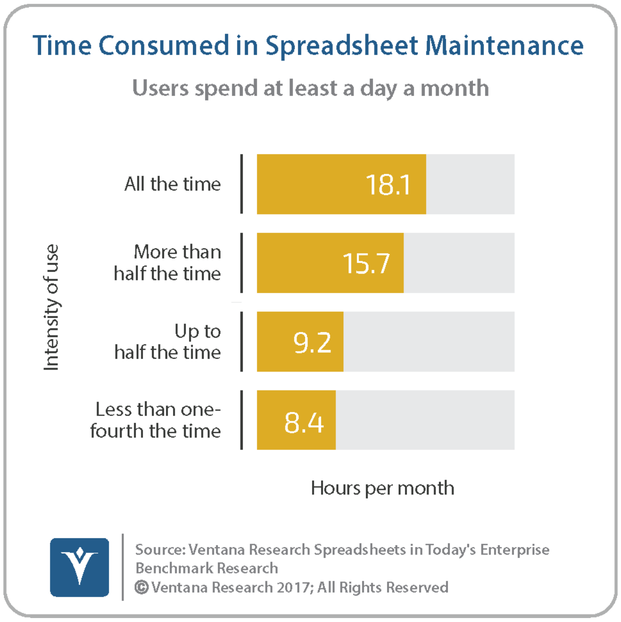
New rules governing revenue recognition for contracts are set to go into effect for most companies beginning in 2018. The Financial Accounting Standards Board (FASB), which administers Generally Accepted Accounting Principles in the U.S. (US-GAAP), and the International Accounting Standards Board (IASB), which administers the International Financial Reporting Standards (IFRS) that are used in most other countries, are fundamentally altering the accounting for revenue from contracts. Companies affected by ASC 606 in the U.S. and IFRS 15 elsewhere should determine whether their existing ERP or financial management software will support these sweeping changes to the accounting process.

> Companies affected by ASC 606 and IFRS 15 should determine whether their existing software will support changes to the accounting process.

Companies that have even moderately complex contracts with customers – for example, those that have tiered pricing or volume discounts or routinely involve modifications (such as adding or dropping users or that allow seasonal changes to services) – will find that the new rules have extensive impacts on how they account for revenue. These changes necessitate an extensive review of contracting and accounting policies and processes and likely will require changes to procedures and systems. The software being used must help efficiently standardize and automate the process as well as ensure compliance.

Companies that use spreadsheets to manage revenue recognition will find that the greater complexity of the new standards will add substantially to the workloads of their accounting staff and increase the probability of errors and misstatements. Spreadsheets do not easily enable oversight and controls and by themselves do not offer an audit trail to track changes. The new rules require significant management judgment in accounting for contracts and the use of a consistent, five-step model for determining how revenue from a contract will be recognized.

In addition, keeping track of all of the elements of every contract and their attributes (such as dates, status, billing and payments) isn't easy in a spreadsheet. When details of the contracts change, as they often do, it's difficult to ensure that the spreadsheet is up-to-date and accurate. A revenue recognition spreadsheet effectively becomes the system of record, but such a system must tie back to the company's ERP or financial management systems. Even with a modest number of items, managing this can consume a considerable amount of time in keeping the spreadsheets and the financial system of record synchronized.



According to our benchmark research, spreadsheets that are used all or almost all of the time on average require two to three days of maintenance per month to ensure they are reliable. Consequently, companies (especially rapidly growing ones) may find that they aren't able to scale and hold down administrative expense as they process increasing amounts of data and generate more reports.

Even when a revenue recognition spreadsheet is well documented, it can be difficult for anyone other than its creator to use. This leaves the company vulnerable to disruption in a key process if the spreadsheet's creator leaves its employ.

Closing Faster

Our benchmark research finds that three-quarters (75%) of midsize companies are extensive users of spreadsheets in their closing process. In addition to other issues, using spreadsheets to handle allocations and analyses associated with the close also consumes time. As a result, heavy users of spreadsheets take longer to complete their quarterly close than those that limit their use or use them only for complex calculations and one-time events.

Our research also finds that a majority (53%) of midsize companies use spreadsheets to manage their consolidation process, and that companies that use spreadsheets for this purpose take longer to complete their monthly and quarterly closes than those that use their ERP system or a dedicated consolidation system.

Organizations that have multiple entities and use spreadsheets for consolidations must cope with a time-consuming and error-prone process that involves various sets of calculations and adjustments in the spreadsheets and manual journal entries to adjust balances among entities. When the reliance on spreadsheets is eliminated, the time saved in the accounting close enables a company to generate financial and man-agerial reports faster, in time to take corrective actions sooner. It also frees up staff time that can be used in more productive ways and can save money if overtime is reduced or eliminated.

Streamlining Time and Expense Processes

Companies that have professional services organizations must be able to collect, approve and account for time and expense data accurately and quickly. They then must be able to use the information to create financial and management reports, bill clients and reimburse employees.

> Spreadsheets do not offer controlled workflow to ensure that information is collected and processed in a timely fashion.

In a spreadsheet environment, collecting this data from employees can be tedious and frustrating for both the employees who must supply it and those in accounting who must re-enter the data in the financial system. Spreadsheets do not offer controlled workflow to ensure that information is collected and processed in a timely fashion and that controls such as approvals take place.

It's also surprisingly difficult to handle the routine complexities of tracking time and expenses in a two-dimensional grid. Some expenses are billable, but others are not. Some are tax-deductible, others are not. Professionals often are assigned to multiple projects and must be able to easily allocate time and document expenses for each. Analyzing and allocating expenses can be time-consuming, especially if they involve creating multiple sets of pivot tables to provide full insight into all expense types – for example, tracking expenses by client, by project, by type, by time period and whether it is billed or unbilled.

To ensure client satisfaction, companies must be able to provide detailed invoices that are timely and guaranteed to be accurate; doing so enables them to accelerate cash flow and reimburse employees promptly. They also must be able to respond quickly and correctly to billing inquiries. Relying on spreadsheets to track time and expenses can make it difficult to provide clients with the transparency and detail they want.

When Spreadsheets Don't Fit

Spreadsheets are seductive because they are easy to set up and people are familiar with them. However, they have inherent technological flaws that make them time-consuming and error-prone. Replacing spreadsheets with some form of an enterprise system such as ERP usually saves a company time and money. It also improves accuracy and increases control and auditability.

Reducing a finance organization's reliance on spreadsheets enables it to begin reallocating the time it spends on mechanical, repetitive transaction processing and report generation to activities such as analytics that enhance the value of its contribution to the company. Implementing these changes doesn't have to be risky or burdensome. A sequential, step-by-step program will get results and free up time – time that finance executives can use to greater effect in improving their company's performance and their department's standing in it.

About Ventana Research

Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including benchmark research and technology evaluation assessments, education workshops and our research and advisory services, Ventana On-Demand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This benchmark research plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

Ventana Research provides the most comprehensive analyst and research coverage in the industry; business and IT professionals worldwide are members of our community and benefit from Ventana Research's insights, as do highly regarded media and association partners around the globe. Our views and analyses are distributed daily through blogs and social media channels including Twitter, Facebook and LinkedIn.

To learn how Ventana Research advances the maturity of organizations' use of information and technology through benchmark research, education and advisory services, visit www.ventanaresearch.com.

