The Future of SAP Finance in an Era of Accounting Change

In 2014, the Hackett Group consultancy discovered that the average median budget for finance departments dropped below 1 percent for the first time since it began tracking this metric in the 1990s. This is just one example of how companies continue to squeeze every bit of margin out of various departments, especially for those viewed as "cost centers." As a result, departments that don't generate revenue—such as finance—are frequently asked to do more with less.

This mandates that these departments must get smarter. Finance teams need to find solutions that will help streamline processes and free up time to be able to meet increased expectations. The good news is that finance departments are aided by new technologies focused on this process.

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The Future of SAP Financial Tech is on its Way

SAP has a strong presence in this space. The SAP® BusinessObjects™ product on Financial Planning and Consolidation has been available for more than 10 years to help meet the needs of this audience. In 2014, SAP deployed SAP S/4HANA® Finance to help ease the transition of financial systems to the cloud. Due to the sensitive nature of the data involved, financial systems remain largely on-premise at this point. According to a 2017 ASUG research study, finance is near the very bottom of the ladder of systems being migrated to the cloud—on par with business-critical systems like shipping and warehouse management.

Still, we know the transition is coming, so it is worthwhile to examine the financial technology industry to see what trends are likely to play out in the next few years and where companies need help. If your company is discussing where to head next with your financial systems and you are looking to see what other companies are doing, the following information is designed for you.

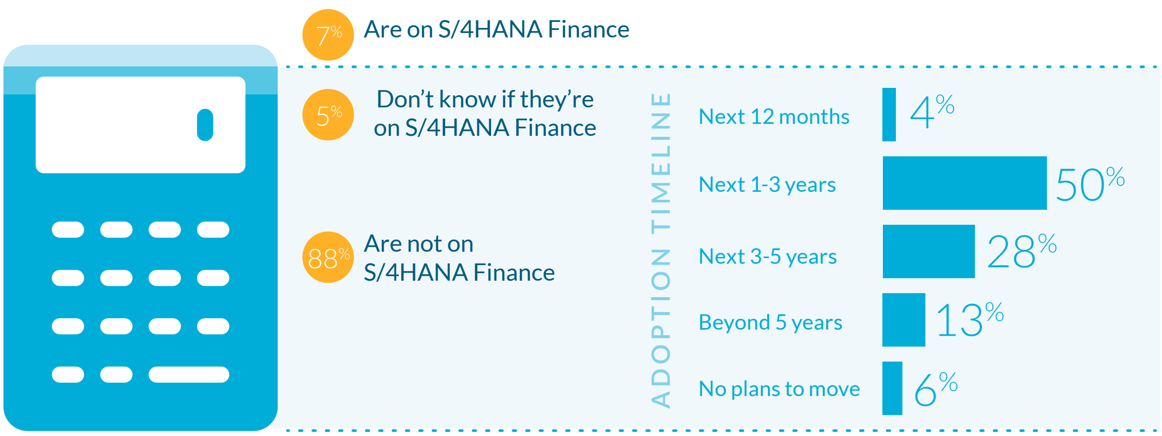
Insights About the Finance Tech Community

ASUG partnered with LeaseAccelerator on a research study that examines areas related to financial accounting and the close process within many companies. In a survey of ASUG members who have purchase influence over financial technology in large-enterprise companies, we found these key insights:

1 The largest share of companies running financial technology are planning the move to SAP S/4HANA Finance within the next one to three years.

Only 7 percent of companies have already adopted SAP S/4HANA Finance, but it appears the conversations have begun for many. More than 80 percent of companies yet to transition to SAP S/4HANA Finance plan to do so in the next five years. Data suggests the bulk of this move could happen between 2019–2021. This lines up with other ASUG research that shows the larger SAP S/4HANA transition will be on a two- to five-year timeline.

Figure 1: SAP S/4HANA Finance Penetration and Adoption Timeline



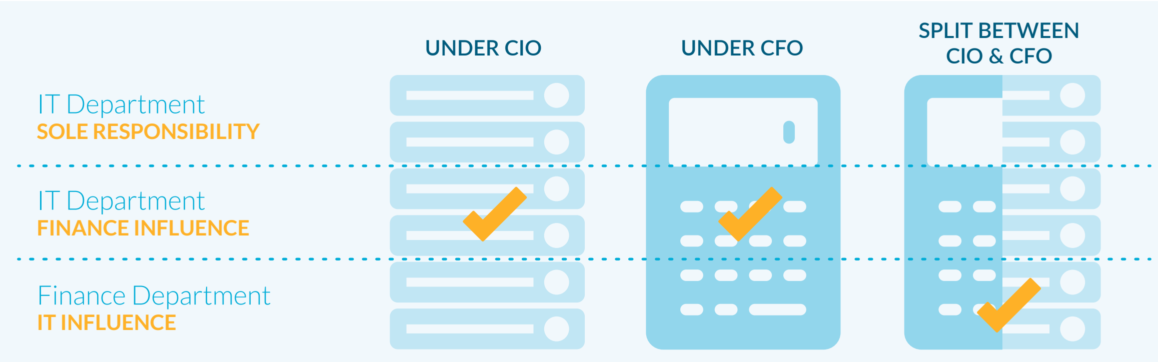
What this could mean: Companies may be tying an SAP S/4HANA Finance transition to an overarching SAP S/4HANA business case. Doing this all at once may result in cost and implementation efficiencies for the customer, but it also means these implementations will be larger in scope and will require more resources to execute. Finding software solution providers with SAP S/4HANA Finance expertise is something to do now. This will ensure your company has the necessary staff in place to successfully complete a bigger SAP S/4HANA implementation that includes these additional systems.

2 The IT and finance departments split the responsibility for finance technology decisions in most organizations.

We asked a couple of different questions about finance systems to better understand where decision makers on financial software sit within an organization. Nearly half of companies place the staff responsible for finance systems under the CFO. Just over a quarter assign these roles under the CIO, and the remaining quarter split these functions between the CFO and CIO's management. Most companies also report that the IT and finance departments have influence on finance tech purchases, but it is evenly split as to who has the final authority. Half the time the IT department makes the call with finance's input, and the other half of the time finance takes the lead with IT's input.

What is interesting is how this split breaks out depending on where in the organization the finance systems staff sits. If it sits solely under either the CFO or CIO, the IT department takes the lead in both cases. If the staff is split between the CFO and CIO, however, then the finance department tends to have more decision-making authority.

Figure 2: Authority and Influence in Finance Tech Purchases



What this could mean: These decisions often involve both departments, so language around financial technology needs to be common to both. In an industry like technology that's filled with jargon and acronyms, this truth becomes even more powerful. Finance technology needs to be presented in simple language that draws in potential users instead of confusing them and pushing them away.

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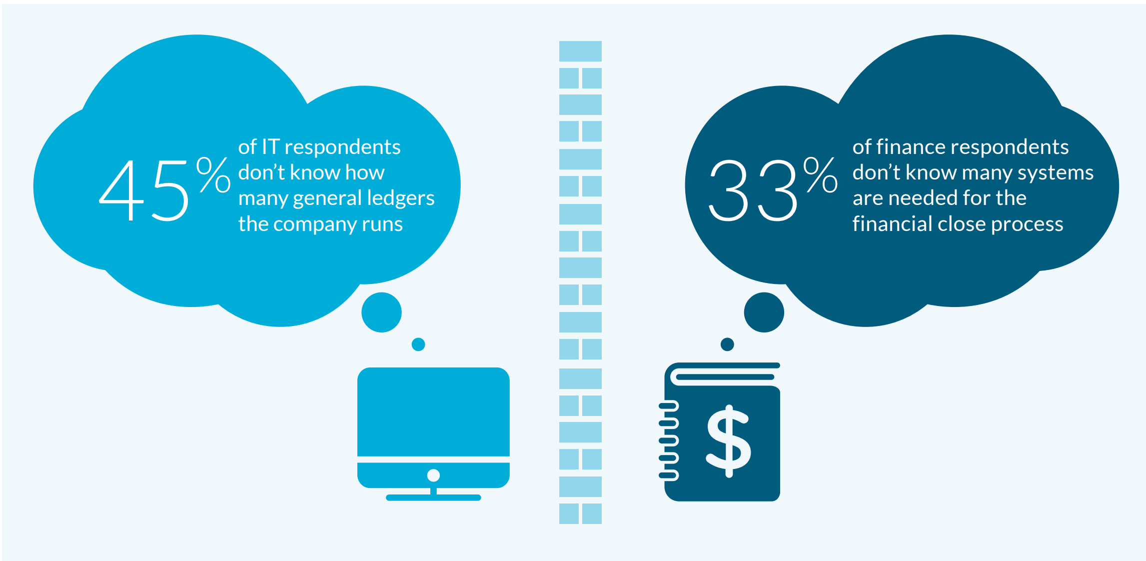
3 There are significant knowledge gaps within both IT and finance on the finance process and supporting technology.

For as intertwined as finance and IT are when it comes to purchase decisions, they are seemingly unaware of how the other department goes about its business. Those in finance are much more aware of things like how many general ledgers they run and even what application they are using to handle the new revenue recognition accounting changes. They are, however, much less aware than the IT department about how many systems are involved in running their financial close process.

This is relevant to the ASUG community because the next 10 years will see a revolution in the use of technology to automate finance functions, as companies invest in robotic process automation, artificial intelligence, and blockchain ledgers. Finance and IT organizations will need to work closely together to define a road map and strategy for integrating these emerging technologies into financial processes across the enterprise.

Figure 3: Awareness of Financial System Information – Finance vs. IT



What this could mean: Simply put, finance and IT need to talk more. The sharing of information between these departments could help increase efficiency. If these two groups stay in their silos and are only aware of their specific roles in the finance process, then this situation can't improve. Finance can reveal to IT that certain systems might not be needed for the financial close process and could be eliminated. IT can help finance better understand what technologies are available to help with new changes and standards in accounting, but not without understanding the top needs and pain points within its own finance team. The IT department often touches every department within a company. If your company is gearing up to make a major transition in its finance systems, now is the time to get time with the IT department and start those conversations to avoid competing with other departments.

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A 2011 article in the Journal of Accountancy also highlights this need:

> It is natural to assume that the intended audience of your financial close communication plan includes only the financial types: accountants, bookkeepers, treasurers, business unit heads, financial analysts, CFOs, controllers, and others closely associated with the close process. While it is critical to include people in these roles in those communications, it could be fatal to a month-end close to include only these people. The larger or more widespread the organization, the wider the communication net should be cast. Providing communication via multiple channels and mediums will be rewarded through lower overall risk.

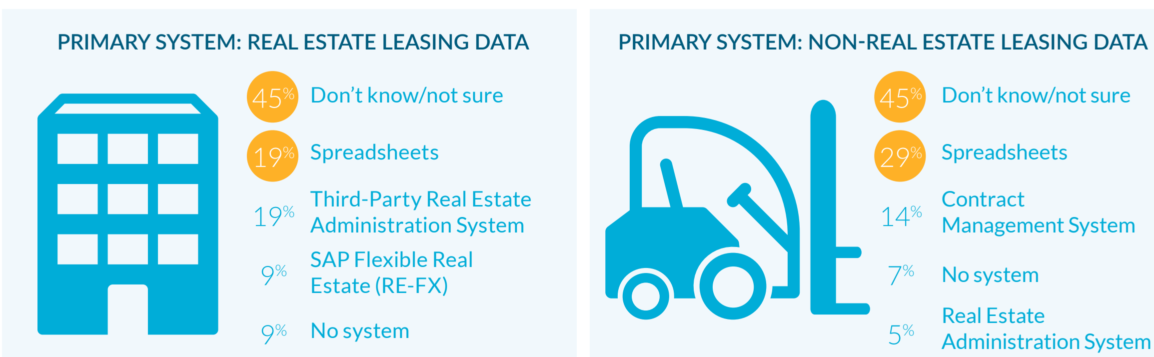
Some of the suggestions in this article to improve the process include publishing a financial close calendar that all can view, verifying report attributes (which can include collaboration between IT and finance), and tracking KPIs (which can be jointly created and shared between the two teams). Improved communication will reduce errors and increase efficiency levels beyond what the team has already achieved.

4 Technology will be critical to managing accounting change.

A quarter of companies use the SAP Revenue Accounting & Reporting® application to handle the 2018 revenue recognition accounting changes. A larger percentage of the customer base (41 percent) simply did not purchase any software packages, possibly due to a lack of a clear understanding of these changes or low awareness of how these packages might improve the revenue recognition process. Finally, nearly a third had no idea what they were doing to handle this. This is a solid indicator that widespread awareness of the company's finance strategy may be lacking.

It also isn't clear how companies are handling their lease accounting data. Nearly half of survey participants (including more than a third of finance department members) don't know what their company is doing to track either real estate or non-real estate leases. Of those that are aware, the most common method is using spreadsheets.

Figure 4: Lack of Awareness of Software Used for Leasing



What this could mean: In a department where time can literally be money, this appears to be an area where efficiencies could be even greater. Automation within accounting could have double the impact, potentially saving hours of time accountants are spending doing manual calculations and freeing them up to handle complex business problems. Automated processes would also reduce the likelihood of human error. At the very least, it's worth doing a little research into how these systems could help with this process and running a cost-benefit analysis on potential options. Systems incorporating automation will be best prepared to handle a digital transformation.

Summing it up—the Crossroads of the Finance Industry

The enterprise finance world appears to be at a turning point. The move to the cloud is around the corner. Now is the time for companies to be planning for their future needs. This includes short-term needs like staffing for an upcoming cloud migration of finance systems and educating this staff on finance processes. It also includes longer-term needs like adapting the system through more standard processes to take advantage of some of the benefits moving to the cloud will provide. Real-time analytics available in systems like SAP S/4HANA won't be much help if these analytics must be processed manually through the finance system to realize the return on investment from this data. It's time for finance and IT teams to communicate, collaborate, and take the next leap together.

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