Finance benchmarks and better practice

Finance executives increasingly demand information on finance better practice, and key metrics that can support the business case for change. In the past there has been a lack of Australian metrics, but for three years an Australian report has been produced. **Jamie McBrien** provides a snapshot from the most recent data.

The Australian Benchmark Initiative was established in 2011 with the objective of building a set of local finance function benchmarks, and to facilitate the sharing of better practice between Australian companies. Now entering its fourth year, the annual studies have focused on the functional areas of purchase to pay, receivables, and payroll.

The 2013 studies were published in February, with 70 companies participating. Not only has there been an increasing number of participants (up from 51 in 2012), the median participant revenue of $750 million and headcount at 1500 is indicative of the quality of respondents, ensuring that findings accurately reflect the Australian market. This provides process owners with the confidence required to support their business cases, as well as providing insights and guidance on areas of improvement.

Each study focused on a range of qualitative and quantitative factors, including metrics, process maturity and future improvement strategies. A theme across each of the studies was that while processes are predominantly delivered as a shared service, and there has been an effort to standardise, improvement opportunities still exist. In particular, areas impacting performance were identified to be highly manual processes, lack of finance engagement with the business, service level expectations not being met, and poor policy compliance.

Interestingly, there is still a relatively low interest in outsourcing, with payroll being the area of most appeal (9 per cent). A contributor to this may be that in the area of payroll, quality of staff was indicated as a key area of concern. While this was also the case for receivables, it was of less concern in the payables function. Salaries did not materially change from 2012, with median salaries for payables $56,800, receivables $59,502, and payroll $75,142.

Across the three years of study, a consistent future strategy has been the automation of processes. This includes key initiatives such as invoice automation for accounts payable, employee self service for payroll, and collections automation for receivables. While this is the case, there has been limited improvement over that time. A potential inhibitor may be that many organisations have indicated that their focus has been on improving and standardising processes, while at the same time there are some misconceptions and lack of understanding in relation to process automation. When combined with the observation that organisations also often take a silo, rather than 'end-to-end' process view, this reduces the ability to drive transformational change.

Each functional study provided the following snapshots:

Purchase to pay

- 90 per cent of organisations are using purchase orders, with the vast majority of them being online, with supporting approval workflows
- An increasing number of organisations are mandating purchase orders, requiring them for all categories of spend
- There has been an increased take up of corporate cards. 96 per cent of organisations have some form of corporate card, with an increasing number using them as pure purchasing cards for low value items
- 80 per cent of invoices are being received centrally, and an increasing number are receiving invoices predominantly by email
- The majority of respondents had standard payment terms of 30 days
- The top ranked future strategies were standardising processes, and delivering invoice automation
- The median invoices processed per FTE per annum was 11,292. The top quartile significantly outperformed this benchmark.

Payroll

- Employee files are still highly manual, with parts, or duplicates, spread across the organisation
- The majority of participants have embraced employee self service, and provide a range of information including payslips, leave balances and remuneration online
- While employee self service has been embraced, may organisations are still providing payslips in hard copy, not online or by email
- There is a lack of standardisation of timesheets, impacting on award interpretation, control, and processing efficiency
- Time and attendance processing is highly manual, with less than half of participants having implemented automated time and attendance
- The top ranked future strategies were documenting procedures, and improving employee self service
- The median payroll payments processed per Payroll FTE was 770 per month.

Receivables

- Credit assessment rigour is generally improving, with most organisations indicating that their processes are highly rigorous
- Customer files are still highly manual, and stored in multiple locations
- Invoicing and statements are still highly manual, with only around a quarter providing online access to payment information
- The median DSO was 45 days, worsening from 38 days in 2012, and the reduction of DSO is the key area of focus for 2014
- Electronic payment methods are increasing, with 90 per cent of payments being received electronically (up from 86 per cent in 2012)
- Collections are still largely managed through spreadsheets or manually, with limited use of automated solutions
- The majority of participants noted that bad debts are improving

The full study provides a detailed analysis of better practice, and in depth metrics, including quantile measurements for 'poor', 'average' and 'good' for a range of different performance indicators. Further information, including access to the full results, and registration for the 2014 study, can be found at australianbenchmarks.com.au

JAMIE MCBRIEN is a director at optim2.

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