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ACCOUNTING

Stuck in the Middle

Finance automation is lagging in the mid-market—where it is needed more than ever.

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By Chris Kiehn.

Across the world last year, CFOs at many mid-sized companies realized that the traditional manual accounting processes that they relied on to provide visibility into business performance and customer demand were not effective. Manual processes and disparate systems impaired their ability to quickly revise strategy and operations to account for disruption.

In many instances, real-time financial data was unavailable or came too late to pivot the organization to moderate the impact on revenue and purse alternative growth opportunities.

Without real-time data, CFOs at mid-sized companies risked making uninformed business decisions, making the ramifications of disruption even worse. Alternatively, CFOs at many large and even small companies experienced less difficulty in operationalizing accounting and finance despite changing environments.

The reason, according to a global survey commissioned by Capstone Insights, is that large organizations generally have the resources and headcount to invest in robust finance and accounting processes and automation solutions. And small organizations, by virtue of their size, have better visibility into and understanding of their data at all levels.

According to the survey of more than 1,500 professionals working in finance, accounting, and executive management, mid-sized organizations (with revenues between $100 million and $749 million) lacked smaller companies' clear line of sight and larger companies' scale and established processes, making it harder to address the increasing complexity brought on by the pandemic.

Growing Pains

The survey findings emphasize what has long been a challenge for mid-sized companies. Such organizations are strategically driven to invest heavily in market growth opportunities, and much less so in the processes and technology needed to attain operational excellence and dexterity.

Instead of allocating more of the budget to back office technology, money is earmarked to enter new geographic regions and hire sales and marketing professionals to generate fast revenue.

While one can understand the logic in this decision, insufficient investments in operations can undermine the strategic goal of scaling the business. A case in point is that many mid-sized companies struggled to adjust to a virtual close because they were dependent on spreadsheets, institutional knowledge, and in-person communication.

Nearly two in three (63 percent) of the Capstone survey respondents said that they rely on spreadsheets and manual processes to perform the month-end close. For example, collecting important financial data and continually sharing this information back and forth with colleagues via email or through a shared drive. According to the survey, manual processes resulted in version control and accuracy issues during the month-end close.

"Finance and accounting professionals find themselves stuck chasing down errors, reconciling data, and trying to make decisions based on an assortment of often incomplete and/or inaccurate data," the survey stated. "Continued reliance on manual processes puts organizations at a competitive disadvantage. …Deploying tools to automate the finance function should be high on the to-do list."

Navigating Uncharted Terrain

CFOs at many mid-sized companies acutely felt this disadvantage when the pandemic hit. Hampered by manual processes and spreadsheets, finance chiefs were unable to access real-time financial data to interpret complex demand fluctuations, as the board of directors ramped up the pressure to provide an accurate picture of company performance.

In 2021, this pressure has not subsided, according to a January 2021 survey by BlackLine of 1,300 C-level executives and finance and accounting professionals in the U.S., Canada, United Kingdom, Germany, France, Australia and Singapore. More than one-quarter (28 percent) of the respondents remain worried that the finance function will be unable to provide accurate data quickly enough to respond to continuing market volatility, with four in ten (39 percent) respondents expressing concerns over their collaborations with external auditors.

The irony is that most CEOs believe their organization's financial data is accurate, whereas those closest to the numbers in the finance and accounting function express skepticism. Only 35 percent of finance and accounting professionals completely trust the accuracy of their organization's financial data, compared to 81 percent of C-level executives, according to the BlackLine survey.

When asked why they distrusted the data, the finance and accounting professionals said the main reasons were "clunky spreadsheets" and "outdated processes."

The Capstone Insights survey came to a similar conclusion. “Manual processes increase the risk of inaccurate or incomplete data on which important decisions are made. Spreadsheets and manual data reconciliation take up too much time and are more prone to error and lack of control, given the human element.”

A More Streamlined Close

Ultimately, the responsibility is on CFOs to elevate the importance of accurate data and related access to effectively respond to a business crisis. Relying on manual processes and spreadsheets increases the risk of imprecise and delayed data, slowing down a decisive response when disruption occurs.

Leading practices for ERP integration, workflow management, automated reconciliations, close task tracking, reporting, and more, allow CFOs can dramatically reduce time consuming manual workloads that delay reporting, and shift their focus to strategic business initiatives.

Companies of all sizes must adapt to the business realities imposed by continued disruption. As CFOs lead their organizations to become more data-driven and analytical, the companies will be positioned to make effective use of scenario planning and other forecasting exercises, strengthening their strategic growth plans, operational excellence and financial statement integrity.

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