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# Making Accounting Productive

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# Making accounting productive

**Various benchmarks can be used to improve the productivity of the accounting profession, says THEMIN SUWARDY**

ACCOUNTANTS play a major role in helping organisations manage their businesses and operations.

In a recent survey by the Institute of Management Accountants, CFOs, controllers and accountants cite "streamlining processes and improving productivity" as the most critical challenge facing their organisations.

The measurement of efficiency and effectiveness are indeed close to accountants and their traditional training. They are used to evaluating the profitability of business units, analysing cost variances and tracking key performance indicators (KPIs). They are the "scorekeepers" of every unit, function and process in a business.

In 2012, the accountancy sector was added to the list of sectors identified by the National Productivity and Continuing Education Council (NPCEC) as having the potential for productivity improvements.

The newly formed Singapore Accountancy Commission has also established a Productivity Advisory Council with the aim of raising the productivity of public accounting firms and public accountants in business.

As all businesses have some form of accounting or finance functions, any productivity improvements are expected to result in a multiplier effect on the rest of the economy.

At the same time, the finance department is also under pressure to enhance its own value contribution to the business, deliver high quality information and maintain effective controls. It is subject to the same continuing internal demands to reduce the cost of its own operations, to be more efficient, to be more productive.

This poses new challenges for the accounting profession. Accountants are used to measuring and assessing other business units and functions. Little has been asked about their own efficiency, let alone their productivity.

Thus, many organisations and finance departments are in a quandary. They are unsure about how to demonstrate whether they are delivering real value to the business and to what extent they meet best practice standards for world-class finance departments.

**How do we measure, and subsequently, improve productivity of our own accounting or finance function?**

We could look at benchmarking studies done in other parts of the world. They use an overall "cost to sales" indicator as a proxy for the effectiveness of a finance department.

This is calculated as the percentage of total finance costs over total sales or revenue.

Finance costs would include both internal staffing costs and any outsourcing costs. It is a very simplistic measure but a useful starting point that most companies can relate to.

The global benchmark for cost of the accounting function is less than 1 per cent according to a PwC survey in 2012. In the larger organisations, this may be as low as 0.5 per cent as they enjoy economies of scale and have the ability to invest in automated systems and technologies.

In Singapore, we have started to ask the right questions about productivity in the accounting sector. A recent PwC-ACCA study of Singapore businesses showed only 41 per cent of respondents is within the 1 per cent cost of sales benchmark.

An ISCA (previously ICPAS)-SAP survey earlier this year showed that Singapore businesses employ more finance manpower per 100 million of revenue.

For specific measures, a number of finance KPIs have been suggested. The table on the right shows the median values of finance KPI benchmarks based on various international studies.

**So how do you pick the right metrics or KPIs to measure, and then improve your finance functions?**

The big trap in productivity measurements is to go overboard with all the possible measures you can think of, resulting in a tortuous affliction appropriately nicknamed "death by KPIs".

**'The big trap in productivity measurements is to go overboard with all the possible measures you can think of, resulting in a tortuous affliction appropriately nicknamed "death by KPIs".'**
**– Associate Professor Themin Suwardy (above)**

| ACCOUNTING FUNCTION BENCHMARKS | MEDIAN VALUES |
|---|---|
| **Accounting cycle days** | |
| ■ Number of days to produce financial statements ("close days") | **10 days** (quarterly) **22 days** (annual) |
| ■ Budgeting cycle days | **120 days** |
| ■ Forecasting cycle days | **20 days** |
| **Accounts payable** | |
| ■ Accounts payable invoices per assigned FTE (full-time equivalent) | **7,398** to **9,552** invoices |
| ■ Percentage of electronic invoices | **30-40%** |
| ■ Percentage of disbursement that are first time error free | **99.6%** |
| ■ Total cost per supplier invoice | **US$9.59** |
| **Accounts receivable** | |
| ■ Accounts receivable remittances per assigned FTE | **5,828** remittances |
| ■ Number of invoices processed per assigned FTE | **12,801** invoices |
| ■ Cycle time to generate complete and correct invoices | **3 days** |
| ■ Percentage of invoiced line items paid in full the first time | **94.0%** |
| ■ Cycle time to resolve an invoice error | **7 days** |
| ■ Total cost per invoice to customer | **US$7.65** |

The pitfalls of KPI selection apply to accounting functions just like any other department or function in the organisation. For example, we should avoid setting too many KPIs that are not used for any decision making.

Similarly, productivity will decrease if the KPIs require excessive manual effort to tabulate. Finally, we must ensure the KPIs reflect our organisational aims and strategies.

Each potential metric has to be put through a set of big questions. Why is it measured? What is to be measured? When and how should it be measured? How are the measurements reported? What do you really do with the measurements? The answers to these questions should be documented and reviewed by parties involved in and affected by each of the steps.

Accountants are used to designing and monitoring performance metrics for other business functions and organisational units. Now that they are being asked to improve their own productivity, it is time to apply those skills to their own operations.

*Themin Suwardy is Associate Professor of Accounting (Practice) and Master of Professional Accounting Programme Director, SMU School of Accountancy, and President of CPA Australia Singapore Division. This article was based on the book "Accounting and Productivity: Answering the Big Questions" (edited by Themin Suwardy and Gary Pan, published by CPA Australia, ©2012).*

**This is the fourth in a monthly series by the Singapore Management University. Next month's feature in September will examine Big Data and Business, Consumer and Social Insights.**


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