8 Steps to Successful Charity Accounting System Selection

A Finance Directors Guide

Xledger UK Limited www.xledger.co.uk mail@xledger.co.uk T: +44 (0)117 3291050

EXECUTIVE OVERVIEW

It is very common these days to find Senior Finance Managers in Charities & Not for Profits who are highly sceptical about the benefits which would result from any investment in deploying new accounting systems.

Sadly, in all too many cases, this scepticism is completely justified as a high proportion of system projects do fail to deliver the benefits anticipated at the outset.

In contrast with these failures are Charities who derive enormous benefit from the implementation of new systems. The question we should be asking ourselves is:

“What is happening during these successful projects which is not happening in the ones which fail to deliver benefit?”

The purpose of this Whitepaper is to shed some light on the answer to this important question from an accounting system selection perspective.

Most projects which fail to deliver positive results actually go wrong before they even start.

To understand this, let us look at a common set of circumstances which precede a new system implementation.

A TYPICAL PROJECT SCENARIO

The first thing to realise is that most Charities only ever implement a new system when they feel they have to. Understandable given these projects can be complicated, fraught with pain and get in the way of day-to-day operations.

No Charity Finance Director is going to leap out of bed in the morning thinking that it would be a great idea to put a new system into the organisation to transform financial effectiveness. What happens in practice is that the Charity either outgrows whatever “systems” are in place to manage it, and an increasing number of problems come to the surface, or the system has to be replaced because it is no longer supported.

In cases where the system has been outgrown, the resulting problems can be related to the inability to effectively control financial operations or very often they are the result of the inability to clearly measure and understand what is happening with Charity finances. The consequence of these increasing mismatches between the “systems” and the Charity are inefficiencies in operations, increasing headcount to attempt to manage things better and poor decision making based on inaccurate financial information.

Eventually, the pain gets big enough for the subject to be raised at a senior leadership meeting and, if enough of those present are affected by the problems, it is agreed to set up a project to select and implement a new system.

Having gained agreement to launch the project, the leadership team need someone to manage it. Since none of the senior managers feel that they know enough about the subject, they delegate the matter to someone further down the Charity hierarchy – like the Financial Controller or Management Accountant.

The appointed Project Manager's first task is to produce a list of requirements which can be used as a basis for selecting the new system.

In order to get this done as quickly as possible they either visit each relevant department or send a questionnaire to get the appropriate requirements documented.

The requirements are eventually compiled into one document and a consistent approach is taken to describing them. The document will typically have an introduction which sets out they key objectives of the project, which have been passed down to the Project Manager. Typical descriptions found here include:

- The need for better management information for Heads of Department.
- The ability to improve the efficiency of financial operations.
- The requirement for a smoother fund accounting process.
- The need to automate the SORP / SOFA reporting process.

The Project Manager then turns their attention to potential suppliers. A list of possible suitors is gathered from a number of sources, including research on the internet and asking for suggestions from colleagues.

The requirements document is sent to each supplier and a request is made for them to respond formally with their compliance with the requirements.

Following receipt of the responses, along with indicative pricing, the list is slimmed down and the finalists are invited to present their system to an invited group so that a final selection can be made.

The shortlisted suppliers, typically 2 or 3 in number, arrive on the appointed days to give a presentation about their organisation and go through a detailed demonstration of how the specified Charity requirements can be met.

After all of the demonstrations have been seen, those invited to participate in the meetings with the suppliers are brought back together to have a vote on which system is their preferred choice.

Eventually, a recommendation is put back to the leadership team and Trustees for rubber-stamping before contracts are signed with the chosen supplier.

Is there anything wrong with the above scenario?

Yes. This is absolutely not how those aforementioned 'successful' Charities set about selecting a new system.

Let's read on and learn how they have successfully approached system selection.

BUILDING THE PROJECT TEAM

The person put in charge of the selection and implementation process is frequently chosen because of their availability rather than appropriate knowledge.

How valuable are they to the Charity if they have so much spare time?

The person nominated is very seldom a very senior manager who has an understanding of the critical issues that the Charity is facing at that point in time.

Unfortunately it is also common for the leadership team and Trustees to avoid involvement in such projects, either because they do not understand the strategic importance, don't have the time or because they want to distance themselves from something which they fully expect to be problematic.

Highly successful projects start off on a different path. The strategic importance of the new system is recognised and a senior leadership Sponsor is nominated.

A Project Manager with appropriate experience is then chosen either from inside the Charity or from an outside Consultancy - this person works very closely with the Project Sponsor to ensure that key objectives stay in focus.

Nominate a Project Sponsor from the Senior Charity Leadership team.

IDENTIFYING SYSTEM REQUIREMENTS

When gathering requirements, the Project Manager frequently seeks input from everyone in the Charity except the senior leadership team.

This may be due to their view that this is an operational level matter and the leadership team do not need to be troubled with it.

It should be remembered that most projects only come into existence because the level of pain in the Charity became great enough to surface at leadership level. Does it not therefore make sense for the Project Manager to initially work with the leadership team to investigate what gave birth to the project and understand the key drivers?

This will result in very specific key objectives being produced. For example, rather than the woolly statement "we need better management information", a list would be produced of the specific types of information which are needed at all levels to effectively run the Charity.

Understanding the key drivers of a project leads to the creation of more specific and measurable objectives for the Charity.

EMRACING NEW PROCESSES

The departmental representatives who provide requirements to the Project Manager typically generate information based on what they already know i.e. how they do things at the moment.

This means that a great deal of time is spent collating system requirements which are actually detailed description of the current computerised and manual systems combined and already used within the Charity.

Little, if any, consideration is given to how processes could be improved by doing things differently, particularly where this may result in efficiency gains, via financial process automation, and the resultant benefit of headcount reduction or repurposing.

The end result of such a system selection process is the selection of a new system which does just what the old system did, in a slightly cleverer way, but which offers little significant benefit - a worryingly frequent occurrence even today.

By embracing new processes and practices Charities can benefit from, for example, the automation of the entire fund accounting process, real-time grant and donor tracking and live bank reconciliation.

System Vendors invest heavily in software development. Embrace process automation and new practices.

PRIORITISING REQUIREMENTS

Challenges which need to be addressed will be at varying levels within the Charity and have hugely varying consequences.

For example, addressing the problems experienced by an accountant in managing depreciation of fixed assets has completely different consequences to providing the Chief Executive or Board of Trustees with the management information they need to evaluate new sources of funding.

One of these may save a few hours of clerical time each month whereas the other enables the Charity to strengthen its ongoing financial health and contribute to a growing surplus – or, perhaps more realistically given current market conditions, a reduction in deficit.

Each of these requirements needs to have recognition of its relative impact on the Charity. This is particularly important because there is no such thing as a perfect accounting system and each solution will have its own strengths and weaknesses.

Focus on the requirements that will have the greatest positive impact on the Charity when addressed.

DON'T GET PRECIOUS ABOUT YOUR PRACTICES

In any Charity there are processes that differentiate the organisation and there are processes which exist because of habit. When selecting a new system it is critically important to be able to differentiate between the two.

Processes which are critical to the success of the Charity absolutely need to be implemented without compromise.

However, most processes involved in support functions of a Charity do not need to be carried out in precisely the same way year after year. There are often very good reasons to change process - like efficiency gains or cost savings.

Systems that have been chosen on the condition that they are modified to behave just like the previous system will not deliver those types of benefits.

Insisting on such modifications frequently result in delays and disagreements during the implementation process and will lead to inevitable problems with future software upgrades.

✓ **Ensure the Charity secures efficiency gains and cost savings by adopting modern and innovative financial practices for non-Charity critical processes.**

AVOID BEING PRESCRIPTIVE

Rather than putting in a great deal of effort into being prescriptive about how an entire new system should work, why not invite potential suppliers to present how they would address the really important Charity issues.

Suppliers who have existing Charity customers may have readymade solutions for you. This enables meaningful discussion and brings fresh thinking to problems.

Suppliers will bring insight into how their system can be used to improve efficiency and provide easier management in areas which had not even been considered.

It is essential that the Charity leadership team is involved in this type of discussion.

✓ **Keep an open mind to supplier suggestions and insights. They may have solved many of your key issues before – with other Charities.**

DISCOUNTING SUPPLIERS TOO EARLY

Assuming that potential suppliers have a successful track record with other Charities, then it is reasonable to assume that their system will be able to handle most detailed operational requirements one way or another.

Where short-listing is carried out based on responses to prescribed functionality, this will frequently eliminate the most creative and beneficial future partners.

As stated previously, much of this prescription is looking backwards rather than forwards.

It is important to carefully investigate the market and talk to suppliers which appear to be in tune with the real challenges which the Charity is facing.

✓ **Discounting suppliers because they do not match your exact prescribed functionality is a sure fire way of eliminating the most creative and beneficial future partners.**

CUSTOMISATION VERSUS CONFIGURATION

Systems have not all be designed with the same goals in mind. There are many extremely customisable applications which can be made to do virtually anything during the initial implementation. However, this level of customisability can mean that change later on is very difficult and costly.

Highly customisable systems also tend to have more complex technical structures, and require a high level of ongoing management, as well as large resources deployed when testing new releases. Ongoing management of the system can also require a lot of manpower.

Some systems on the market have been specifically designed to have more of a "best practice" approach to functionality and are not customisable but, instead, configurable. These will have massively lower costs of implementation, upgrading and ongoing management than heavily customisable applications.

✓ **Accounting systems should not be a major drain on Charity resources. Opting for configuration over customisation substantially lowers new system costs.**

FUTURE PROOFING

A recent study by Thomson Reuters highlighted that 63% of finance teams had failed to update or upgrade their on-premise accounts systems for 5 years or more.

The key reasons for this?

The effort required and costs associated with a full upgrade and worries that customisations wouldn't translate into the new release.

Many Charities, then, are making do with technology 5+ years old to run their organisations.

Herein lies one of the fundamental differences between traditional on-premise and modern cloud systems.

Had these finance teams been using cloud accounting systems they would have automatically been using the most up to date version of the software. No upgrades required.

To avoid costly future system upgrades consider cloud-based accounting systems for your Charity.

IMPROVED MI & REPORTING

Advisory firm PwC revealed, in their recent benchmark report, that the best finance professionals today are producing actionable information - not circulating numbers that are likely to be out of date as soon as they are released.

These top performing teams are spending far more time analysing information, sometimes up to 40% more time, than gathering it. The actionable intelligence this provides is invaluable to those responsible for making decisions.

There are 2 key principles to the provision of this kind of insightful management information. The first is that it's up-to-date and accurate and the second is that it's immediately accessible for use. On-premise solutions struggle on both these counts due to their inflexibility.

The need to use spreadsheet workarounds to bolster the gathering and analysis of information within an on-premise system leads to both inaccuracies (due to double and, sometimes, triple data entry) and major time lags slowing the process and, in the end, providing out of date information.

Then there's accessibility. With many senior professionals now out on the road, or hopping from meeting to meeting, vital information needs to be available on the go from anywhere on any device – not only via your desktop in the office.

These on-premise issues are supported by findings in a recent benchmark study by Deloitte. Deloitte found that 60% of organisations agreed their finance team's management information was not sufficiently insightful.

One of the key reasons identified for this were the limitations of traditional on-premise accounting systems.

Cloud accounting systems solve this issue instantly with access to information assured instantaneously from anywhere with a browser. Data is communicated via real-time online dashboards tailored at role level to the individual.

Because cloud accounting systems are accessible to everyone in a Charity, via any device at all times, there are none of the inaccuracy issues associated with double keying and all data entered is available for immediate analysis.

To improve the level of insight provided by your Charities management information consider cloud-based accounting systems as information is delivered in real time just when you need it.

ABOUT XLEDGER

Xledger is a leading supplier of Cloud Accounting systems to over 8,000 organisations in 40 countries. With operations in the UK, US, Norway and Sweden, and via a global network of 80 Partners, Xledger is designed to meet the financial management needs of forward thinking organisations.

The solution is proven to help Charities & Not for Profits like The Salvation Army, The Church of England, CURE International and the South West Heritage Trust to run leaner, more efficient finance departments in the Cloud.

Xledger empowers Charity & Not for Profits to prosper through:

- Innovative Process Automation - Simplify day to day financial operations through process automation for efficiency gains, cost reduction and increased productivity.
- Real-time Insight - Improve financial control through real-time business insight and reporting for improved decision-making.
- Strategic Partner - Step back from the immersion of day to day financial operations and gain the freedom to support organisational strategy and growth.

Xledger is available to Charity and Not for Profit organisations on a monthly subscription which means no vendor lock-in, no upfront capital investment, no IT headaches like upgrades and access for users from any device anywhere anytime.

Available in over 22 languages, with multi-currency and multi-entity capability, Xledger is a great choice for both UK and International organisations

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