50+ ways to improve your accounts payable function

By David Parmenter, CEO,

waymark solutions limited

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1. Introduction

The accounts payable team is one of the most important teams in the accounting function and in the company. Is your accounts payable team one of the many who are sucked in by processes which have more in common with Charles Dickens era than the 21st century? Are you still writing more cheques? Many organisations have poor accounts payable routines which culminate in backlogs in processing and late monthly reporting.

This white paper is based around the wisdom and better practices of over 1,000 accounts payable teams principally based in Australia and New Zealand. Many of whom have participated in the ***waymark solutions*** better practice study of finance functions, or have shared their better practices in the many workshops I have run in the last 10 years. We owe a gratitude to these accounts payable teams for showing us the way forward. In this paper 'participant' refers to these people.

I have included some useful checklists, see Appendix 1 for a checklist of the 50+ ways to improve your accounts payable systems & procedures, which has been prepared to help you through the implementation process.

An accounts payable team is the centre of an accounting function for without the team's smooth operation:

- monthly accounts cannot be prepared promptly
- budget holders have no faith in their unit's numbers
- suppliers are forever on the phone querying payments, and
- the management accountants are severely handicapped.

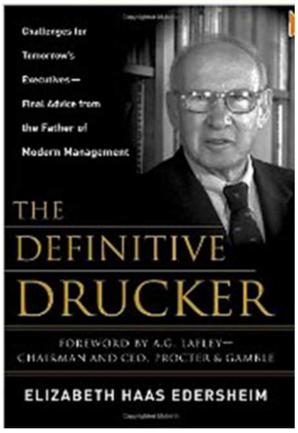
1.1 <u>The waste in accounts payable activities</u>

Like all processes there is a lot of waste within accounts payable.

> *"Most business process are 90% waste and 10% value-added work." Dr Jeffrey Liker[i], and expert on lean processing.*

To start off we need to adopt two mantras from some great thinkers.

Importance of abandonment



Management guru Peter Drucker[ii] who I consider to be the Leonardo de Vinci of management, frequently used the word '*abandonment*'. I think it is one of the top ten gifts Drucker gave us all. He said

"Don't tell me what you're doing, tell me what you've stopped doing."

He frequently said that abandonment is the key to innovation, in other words, the key efficient AP processes.

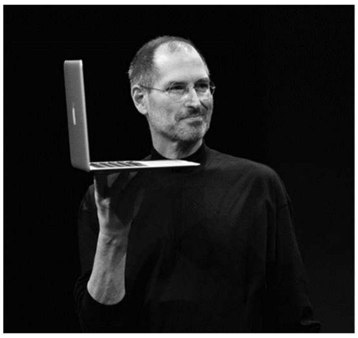
Peter Drucker observed in one organisation that the first Monday of every month is set aside for "abandonment meetings at every management level." Each session targets a different area so that in the course of a year everything is given the once-over. This process would work well in the AP team except we should meet once a week to discuss at least two abandonments each week!

The act of abandonment gives a tremendous sense of relief to the wider finance team for it stops the past from haunting the future. It takes courage and conviction from the CFO. Knowing when to abandon and having the courage to do so are important leadership attributes. In order for the processes in this white paper to work there needs to be:

- an abandonment of processes and procedures
- a letting go of the past, and
- a commitment to change the rules

The importance of challenging the status quo

Far too often we have accepted antiquated and anti-lean practices within the corporate accounting repertoire as the status quo. If the medical profession used our approach, they would probably still be using leeches (well actually they still do I understand in special cases). The medical profession has breakthrough conferences on a regular basis and all the practicing surgeons, in that field attend, and adopt the new procedure. This should be the corporate finance model.



In an interview, called the Lost Interview, Steve Jobs, was asked, "As 22-year-old worth $10m, and a 25-year-old worth $100m, how did he get his business acumen." He said that over time he realized that most business was straight forward. He talked about when Apple had their first computerized manufacturing plant for the Apple II and the accountant sent Steve Jobs his first standard costing report. Jobs asked, "Why do we have a standard cost and not an actual cost" The responses was "that is just the way it's done". He soon realized that the reason was the accounting system. When that was fixed, standard costing reports vanished.

In business Jobs believes that few in management thinks deeply enough about why things are done. He came up with this quote I want to share with you.

> *Your time is limited, so don't waste it living someone else's life. Don't be trapped into living with the results of other people's thinking. Don't let the noise of other's opinions drown your own inner voice"* ***Steve Jobs***

1.2 <u>How far have we progressed in the last 200 years?</u>

Two hundred years ago invoices were prepared by a quill pen and sent by the supplier to the customer to be manually entered, by quill pen into the books. As Exhibit 1.1 shows this was improved with the advent of the typewriter, computer, fax machine. Now invoices can arrive automatically from the supplier's accounting system in the form of a readable PDF.

The problem is that many accounts payable teams are then re-entering an electronic transaction. A classic wasteful process. This means for many accounts payable functions the cost from procurement to paying is costing as much as $90 per transaction.*

* 2017 study of 3400 respondents covering 20 major US and Canadian banks

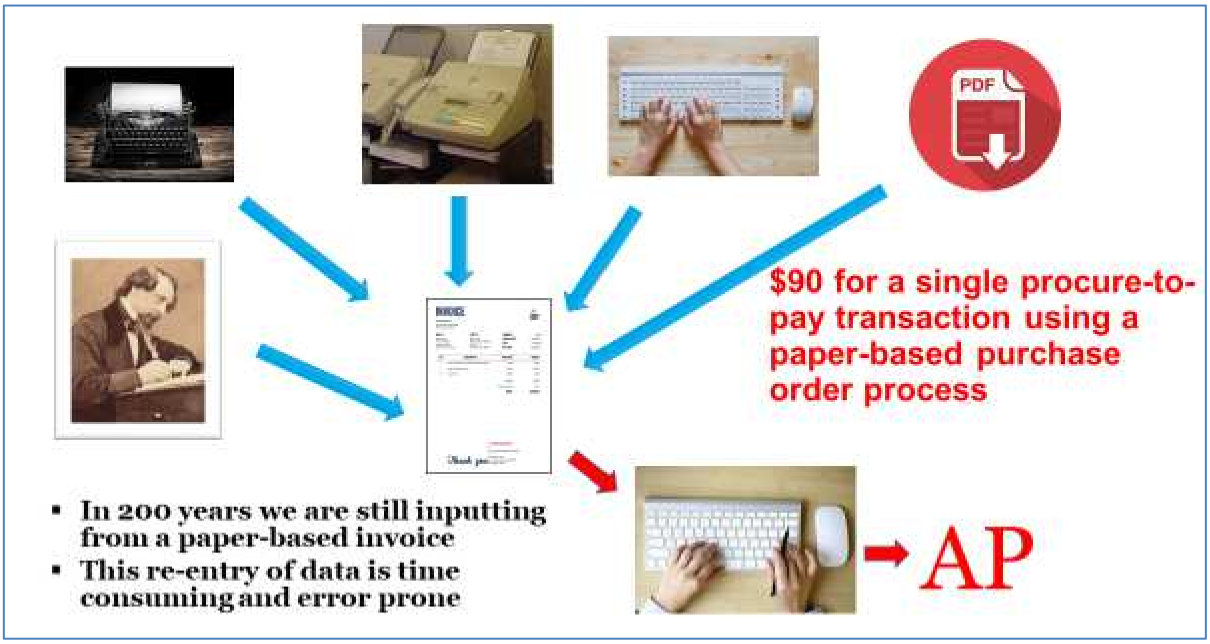


Exhibit 1.1 The manual intervention waste in Accounts payable

The situation is further exacerbated by:

- 80% of organisations being unable to take advantage of discounts (2014 study)
- Time spent searching for lost or misplaced invoices
- The sending of processing offshore that never was an answer in the first place
- Regular material unrecorded liabilities
- Undetected fraud

In a paper "2018 payables Insight report" written by Paystream Advisors the following facts came to light from a survey of 400 participants, see Exhibits 1.2 &1.3.

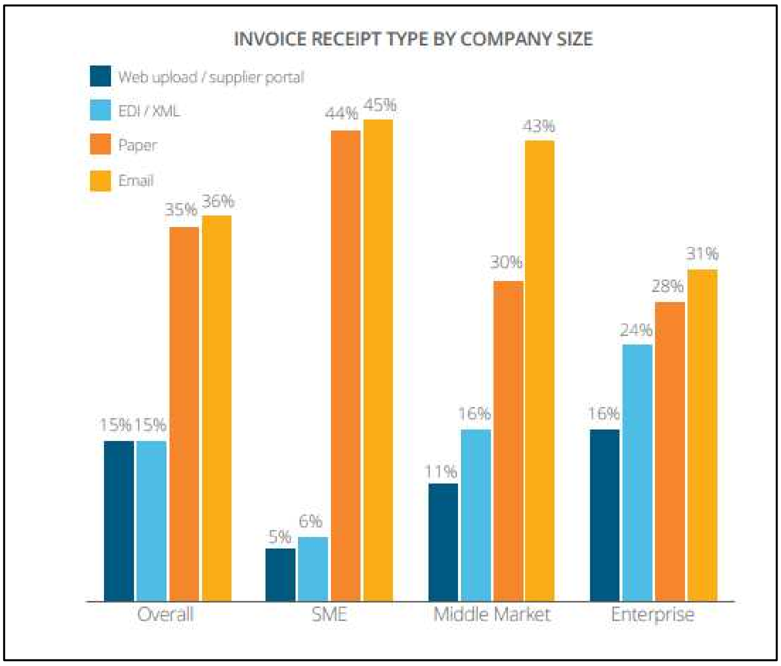


Exhibit 1.2 65% of supplier invoices now coming in electronically

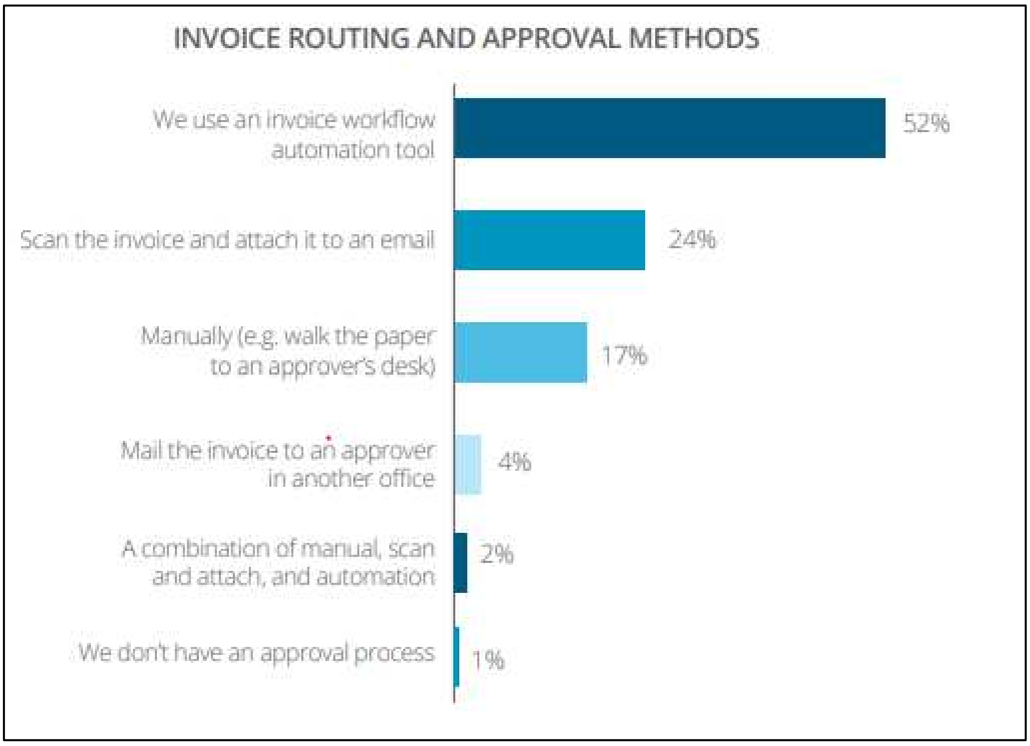


Exhibit 1.3 Just over 50% are using an invoice workflow tool

2. The impact of better practices on the accounts payable workload

The impact of the better practices listed in this white paper and accompanying workshop is to move accounts payable work away from the low value processing activities into the more value-added areas, as shown in Exhibit 2.1. This move, at the same time, will increase AP team job satisfaction and appreciation from budget holders.

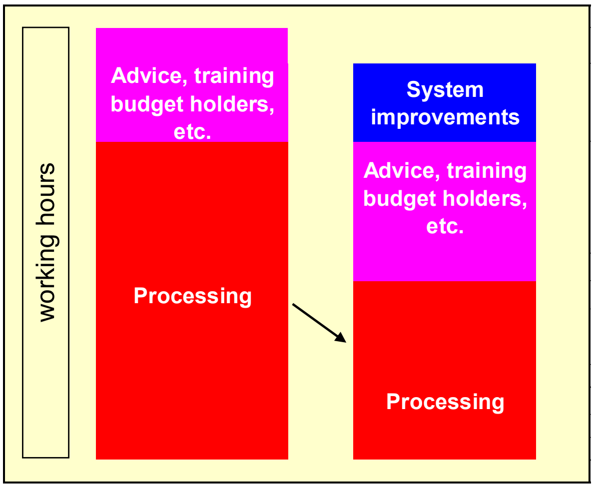


Exhibit 2.1 Changes in the balance of work

What is your response to these questions?

Is your accounts payable cut-off after the last working day of the month?

Are your accruals finalised after the last working day?

Do you have a peak workload at month-end?

Are some major monthly invoices arriving without a matching order?

Is your purchase card system used mainly by 20% of budget holders?

Do you receive and process paper-based invoices?

Do you have more than one approval round for ordering and payment?

If you answer no to all of these questions you are one of the small minority who have got to grips with efficient and effective accounts payable operations. Your story should be told!!

3. The easy administration improvements to Accounts Payable

There are some ways that administration within the accounts payable can be improved.

- Set up **account management** within your AP team type of supplier, rather than letter of the alphabet e.g. instead of Pat doing A-H suppliers, Pat works on all builders' accounts
- Route invoices directly to accounts payable by setting up a new email e.g. accounts payable@___________
- Write a procedures manual and load it on the Intranet, covering ordering, approving, delegated authorities, expense claims, frequently asked questions etc.
- Develop a quick form for credits, charge backs, so that staff can immediately return goods which have not been ordered or do not meet specification to the supplier. One copy goes to the supplier, one copy retained by the issuing team, one copy going to AP.
- Reduce the number of G/L codes. Particularly in expenses. Many companies manage successfully with as little as 100 P&L account codes. The more G/L expense codes you have the more coding errors you may have.
- Ensure the mail room returns all hard copy invoices to the suppliers with standard letter.

3.1 Limit your account codes for the P/L to less than 60

Show me a company with less than 60 account codes for their P/L and I will show you a management accountant who has seen the light. However, I have seen many charts of accounts with more than 300 expense account codes in the G/L, with up to 30 accounts for repairs and maintenance creating a volume like the one shown in Exhibit 3.1.

Exhibit 3.1 The chart of accounts that is certainly not lean

Why is it that the least experienced accountant volunteers for re-setting the chart of accounts? I think I know the answer! All the wise owls duck for cover. Yet, the chart of accounts sets the Finance team up for disaster in many ways. It determines how we report and set targets.

Common sense goes out the window, the CFO eyes just glaze over at the chart of accounts progress meetings, the objective to reduce the account codes by over 40% gets lost and slowly but surely, just like the budget instructions, the chart of accounts takes on a life of its own.

Suggested action:

- Do not breakdown costs into a separate account unless they represent at least 1% or greater of total expenses. This will reduce your costs to somewhere between 40 to 60 account codes.
- Do not break revenue in separate codes unless revenues represent over 3% or greater of total revenue. This will reduce your revenue to somewhere between 15 to 20 account codes.

3.2 Introduce scrum to the AP team

This is a technique that was developed to radically reduce the time it took to write new software applications. It recognized that teams in very intense work periods do not always function properly.

Scrum (an Agile technique) – started off as a rethink of project management by Jeff Sutherland, a fighter pilot in Vietnam. He saw that combat fighter planes and big projects had a lot in common. They had to avoid being shot down. He noticed that large projects:

- were typically, late with lots of pressure and no fun
- ran even later as more resources were applied in the mistaken belief they would help speed the project up. Typically, the new staff were "tripping over each other" and having long dysfunctional meetings, going nowhere quickly

- often had duplication of effort
- were over planned much of which soon became redundant as the “game had changed”
- constantly hit roadblocks which the team members frequently were unable to surmount as they did not have the skills or internal respect within the organisation.

Sutherland had a challenge to produce a new product in six months. He discovered:

- a 1986 HBR study "The New Product Development Game" by Hirotaka Takeuchi and Ikujiro Nonaka that noted best teams looked like sports teams, all linked together, overcoming obstacles with intensity
- discovered a company called Borland who thrived on - communication saturation - a daily meeting

The features of SCRUM, a stand up meeting as shown in Exhibit 3.2, are as follows:

Exhibit 3.2: How SCRUM works

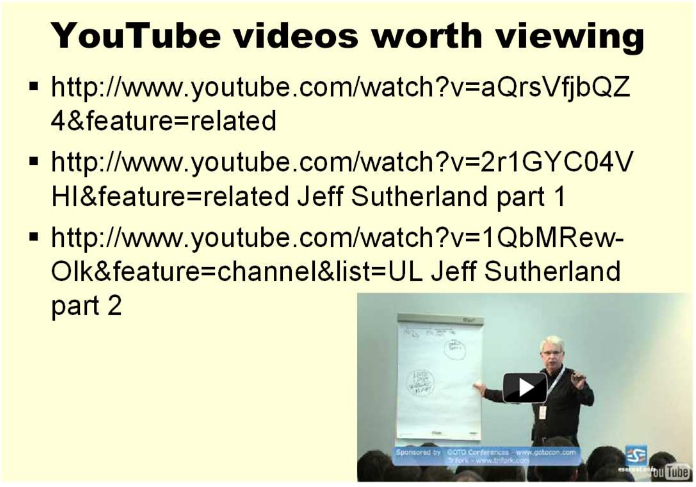
- Each day the team’s members delivering the sprint meet in a stand-up meeting. They are asked to talk about:
    - what they did yesterday
    - what they are they doing today
    - what the barriers to progress are

Their debrief is to take no more than a minute or so and some teams even have a dumb bell to be held out with the rule you can only talk as long as you can hold it up. The team leader renamed the “scrum master” notes all the roadblocks and immediately sets about removing them with an appropriate phone call or walkabout “Pat, please will you make time this morning to see my corporate accountant. I understand Sam has being trying, for the last few days, to meet you. This is now holding up the year-end and the CEO and auditors will soon be on mine and your back shortly if we cannot resolve the issue today”.

At the end of the session the group end the session touching fists, a homage to the source of this technique.

This scrum does many things, it replaces loads of emails, as the team members get to know what has been done and going to be done and by whom. It makes everyone accountable. There is no place for a cruiser.

Visit Jeff Sutherland's YouTube presentation to understand more details. The following presentations will help you to understand more about this great technique.



3.3 Introduce a Kanban Board to the AP team

Here we need to adopt visual control techniques which are part of the lean or agile movement.

Creating a Kanban board to visually manage your work is a great way to increase your overall effectiveness and efficiency. Kanban is also a substantial method by which to instil a sense of accomplishment among a team. Let's look at why this is.

A Kanban board is a visual process and project management tool that helps teams organise and manage their work. Kanban boards allow teams to visualize their work and understand what is going on at a glance. Using note cards or sticky notes to represent work items, you can show any sized body of work such as a project (involving numerous tasks) or a task (usually involving only one person). Different colours are for different staff, or work groups. Columns are used to represent backlog, doing, and done as shown in Exhibit 3.3.

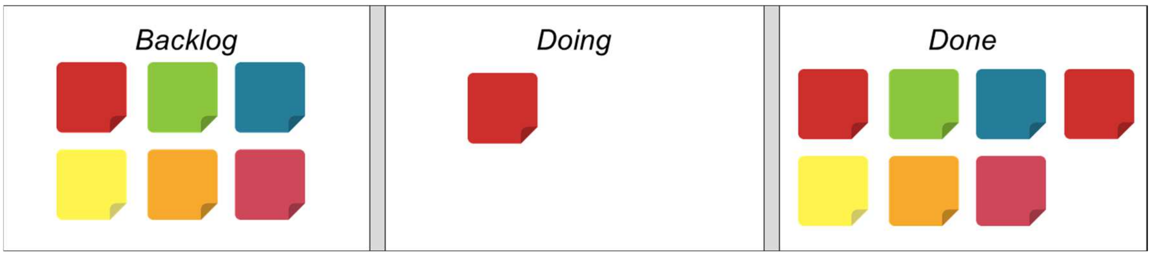


Exhibit 3.3: Kanban board used to help staff manage daily workflow

Kanban boards visually show the work in progress. This way, everyone is kept in the loop. It is particularly powerful when staff hold daily SCRUM meetings which are stand–up 15-minute meetings first thing each morning.

Kanban boards work well for any type of work. It's so flexible that you can start with whatever process you already have.

The Kanban method uses a pull system. Instead of trying to do 10 things at once, manage your personal tasks by "pulling" in new work only when you are finished with the current work.

Kanban boards show a team's accomplishments. Have you ever had a hard time explaining to your boss what you're working on because you have so many things on your "to-do" list that you don't know where to begin? By showing him your Kanban, he will instantly see all of the work completed and still outstanding.

3.4 Applying Kaizen to all accounts payable team processes

One of the guiding management principles that makes Toyota so good is "Become a learning organisation through relentless reflection (Hansei) and continuous improvement (Kaizen)". Adopting Kaizen means that innovation is seen as a daily activity. In Toyota every employee is expected to bring one adopted innovation a month, **their average is 10 per employee per year**. In one plant in Kentucky of 7,000 workers over 92,000 innovations were implemented in one year.

All the great paradigm shifters such as Peter Drucker, Jim Collins, Peters and Waterman have preached the need to innovate and not spend too much time trying to second guess whether it will work or not.

All the built to last companies came up with their big ideas through a bit of serendipity. Jim Collins refers to it as very much like Darwin's survival of the fittest. Try a lot of things and only let the strong ideas survive. In the Motorola example he points out that Motorola see innovation very much like a growing tree, you let it branch out, but you are also constantly pruning.

Jim Collins has created a blueprint for evolutionary progress based on analysing 3M. These five steps are:

- Give it a try and make it quick.- When in doubt, vary, change, solve the problem, seize the opportunity, experiment, try something new even if you can't predict precisely how things will turn out. No matter what, don't sit still.
- Accept that mistakes will be made. Since you can't tell ahead of time, which variations will prove to be favourable, you have to accept failures as an evolutionary process.
- Take small steps. It's easier to tolerate failed experiments when they are just that, experiments, not massive corporate failures.
- Give people the room they need. When you give people a lot of room to act you can't predict precisely what they will do, and this can be beneficial. 3M give their staff 15% of discretionary time to play around with ideas. The "Post It" note was developed this way.
- Mechanisms/build that ticking clock. 3M ideology creates an environment where innovation was cut loose. 3M does not just throw a bunch of smart people in a pot and hope that something will happen. 3M lights a hot fire under the pot and stirs vigorously.

Toyota has a two-step process to evaluate an idea.

- If it does not work will it impact Toyota significantly e.g. it will take a hit below the water line? Over 99% of innovations will pass this test.
- Each member of the team is asked "Is there any reason why we should not adopt this approach?" This puts the onus on the team member to find a good reason or it will go in.