



# Making Sense of Invoice Management

## SUMMARY

*Simon Shorthose, Managing Director, ReadSoft UK, considers the importance of implementing Record to Report (R2R) processes for better strategic decision making*

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If you had to choose one overarching theme that sums up business in recent years it would be the focus on cost reduction. And rightly so, cutting the flab and improving the bottom line, makes sound business sense, and there are many tools in the market that have helped organisations become leaner and more cost effective.

The problem is that whilst achieving cost reduction is a valuable activity in the short term, it invariably fails to quantify original costs or provide the capability to conduct on-going monitoring of processes or give a route to future growth. This is why operational feedback on how a business is performing is so important if a company is to keep ‘on track’ and become smarter, more agile and better aligned with strategies that drive improved business practice, customer relationships and profit.

What holds back many organisations is the poorly defined management processes cycle, where many will ‘plan, do, check and adjust’. It is a navel gazing approach, which fails to link strategy to success. This is why cost reduction programmes are commonplace, and why in six months, managers will find themselves repeating cost cutting exercises, reducing headcount and weakening as opposed to strengthening a business for future growth.

Good management processes require real-time information to align the strategic with the financial and operational, and in every case early intervention is necessary to enable the function of learning, which in turn keeps a business agile. Developing a line of communication is therefore imperative, as this creates the feedback loops that are necessary to power improved management processes. It is feedback that enables organisations to rapidly detect changes, assess the impact upon strategic plans, and where necessary quickly respond with an alternative action to achieve strategic goals. Such feedback loops rely on the right performance indications being identified and regularly monitored – one clear area where such monitoring proves crucial is within the finance function.

Record to Report (R2R) is a management process whereby strategic, operational and financial feedback can be collated in order to better understand how an organisation is performing. The process involves collating, processing and delivering relevant data in a timely and accurate fashion to all key stakeholders, both within and outside of the organisation.

The R2R process delivers two main functions: it provides the necessary feedback to all other management processes and by its very nature enables the managing of the management process itself, helping to provide performance indicators which can measure the cost of management.

Typical opportunities for R2R within AP are to clarify the finance function and to gain control of invoice flow. As all parts of the invoice-handling process, from invoice receipt to the financial-system payment, are monitored in real time it is simple to review a system to see if it is operating up to its capacity. This helps pinpoint the origin of any problems that have occurred, and provides instant access to detailed information for tracking issues as they develop.

Advantages of R2R include enabling real time intra-period tracking of cost-centre billing, spending, collections, purchasing and account payables. If a finance department is regularly struggling to meet period end consolidations, and demanding additional staff to manage accounts receivables, then there is a clear opportunity to improve the R2R process which helps to support performance development in an accurate and timely fashion.

The other key area of opportunity revolves around the many issues of audit and compliance; from local and international accounting standards to comparing multiple charts of accounts across business units and systems. R2R enables the provision of data to streamline the processes which keep both stakeholders and external bodies satisfied with the level of both financial and non-financial disclosures, and the manner in which filings are made to regulatory bodies. R2R is one of the only processes scrutinised by outside auditors who then draw conclusions regarding an organisation's internal control mechanisms during financial close and reporting cycle. R2R tools will therefore provide vital information with the necessary audit trail to comply with the Sarbanes-Oxley Act.

R2R relies on the input of current and historic data from internal systems, and this can be bolstered by data collated from relevant external sources. For the finance function within AP, this means capturing invoice documents into the system, storing their images and extracting and collating important data, no matter the format of the original, whether paper based or an electronic document. This enables best practice steps to be applied to the data.

With data extracted from the transactional system, it becomes possible to transform it into meaningful strategic, operational and financial performance information and thus indicators that help create a framework for 'strategy to success.' The latest generation of R2R tools offer a self service web-based interface through which it becomes simple to determine the optimum way to present business critical data, providing company strategists and department managers with the ability to define performance indicators, personal preferences and security requirements, with results displayed in clear, easy-to-evaluate graphical representations. Operating with R2R tools enables an organisation to quickly select a subject and click to dig as deep as required, following any parameter and returning with immediate, real time answers. Associative Data Mining means organisations can select any combination of

parameters and get an assessment in a variety of formats, including reports, scorecards, and dashboards.

Deploying R2R within the workflow process of any finance function within an organisation is simple common sense. It is going to help an organisation to keep track of documents, give the finance team control of all payments and the ability to quickly spot bottlenecks within invoice processing, improving efficiency and controlling costs.

As business becomes more complex and gaps in traditional reporting have become prominent, new reporting requirements have been added through a patchwork of laws, regulations, standards, codes, guidance requirements. Because R2R provides accurate real-time information, it becomes a truly powerful tool for delivering positive strategic business decisions. If an organisation is to succeed within its business environment, R2R needs to become the backbone of integrated reporting strategy.

These strategies will build on the foundations of financial, management commentary, governance and remuneration and sustainability reporting in a way which provides a clear and concise representation of how an organisation creates and sustains value. Its good management sense and that is really what organisations need right now if they are to exhibit breakaway success and future growth.

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