

COMPLIANCE WEEK

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Adding Compliance Solutions To ERP Systems

By Christine Dunn — June 5, 2007

Companies invest a lot of time and money in enterprise resource planning software—and yet, at the end of the day, those weighty ERP systems still don't necessarily fulfill all a company's needs when it comes to financial reporting requirements, such as those outlined under the Sarbanes-Oxley Act.

ERP systems aim to integrate all of the divisions and functions across a company onto a single computer system and database, so that various departments can easily share information and communicate with each other. This means that the systems of, say, the manufacturing department, are connected to the finance or human resource operations; employees in each division can view the information, update it, and help speed along a process, such as fulfilling an order.

Some companies, however, may find they need to supplement their ERP systems with additional software to enhance specific areas of financial reporting.



Van Decker

“Many companies are operating on multiple ERP systems, and may look for a more global approach. They may need software to provide guidance and support for their business processes,” says John Van Decker, a research analyst at the Gartner Group. “Most of the ERP systems implemented over the past 10 years focused on transaction processing, and may be lacking on the business intelligence and performance management front. Going back and fixing ERP is sometimes not the easiest thing to do, so companies look to bring in additional solutions.”

The additional software may be a temporary fix until an ERP provider offers its own solution, or it may be permanent, Van Decker says. Typically, companies are looking for a solution that will last three to five years, and then they re-evaluate the needs of their systems.

ERP systems—think Oracle, SAP, IBM, and Microsoft—sometimes need support from additional software because traditionally they were designed to provide high-level financial reporting and analysis for senior executives, such as chief financial officers. That may not meet the level of detail needed by the business-unit managers who now play a vital role in compliance, says Tim Minahan, a vice president at Procuri, which makes supply chain management software.

“The business ecosystem that was once very vertically integrated is now very diverse and globally dispersed,” Minahan explains. “A company’s supply chain has grown into a constantly changing ecosystem. The level of collaboration and communication that needs to go on between parties also is changing rapidly. ERP still needs to maintain a company’s core internal functions, but it can’t keep up with many of the emerging inter-enterprise requirements. Companies are increasingly realizing that you should have a core ERP for the central nervous system and best-of-breeds solutions to plug in and augment it.”

Potential Weak Spots



Minahan

When analyzing spending, for example, ERP systems should contain all of the transactional information needed to give users an idea of where and on what a company is spending, Minahan says. “The challenge there is that the data in an ERP system is structured for high-level financial analysis, and doesn’t provide details,” Minahan says. “A supply team might know they’re spending a lot of dollars, but they won’t know on what. They may require a tool that ‘cleanses’ the data to get that detail.”

ERP systems may also need to help in contract management, with solutions that alert users to updated information, such as price changes or volume-break discounts. And “supplier performance management software” can help ERP systems manage information about a company’s vendors, which in turn can help with achieving compliance with environmental and financial regulations, Minahan says.

The wide world of revenue—analyzing, reporting and forecasting it—might require additional solutions, too. That’s particularly true in industries with complex revenue-recognition accounting such as technology, construction, media, and entertainment, says Gottfried Sehringer, vice president of marketing at Softrax Corp., which makes such financial analysis software.

“Revenue is not a simple number, particularly in companies where a bill or cash doesn’t necessarily equal revenue,” Sehringer says. “More than 200 accounting rules deal with revenue recognition. A lot of companies are struggling with those rules and how to apply them accurately and consistently across their entire business.”

ERP systems help a company increase the efficiency of operations, improving the cycle of fulfilling orders and collecting cash, Sehringer says. “The accounting of how that gets translated into a number called ‘revenue’ ... usually happens behind the scenes by accountants in a back office, often in spreadsheets.”

Softrax designed a software package that runs in tandem with an ERP system, tracking revenue recognition in detail and providing auditors with the backup information needed to approve the final revenue figure. “It’s an eye-opener to people that there is an alternative,” Sehringer says.



Sehringer

Larger IT Issues

While niche software can help companies develop solutions for specific issues, at the core they still need a system that provides all of their departments and staff with a foundation for sharing and communicating about data.

“A lot of global 2000 companies are dealing with multiple IT vendors. What we try to do is lessen the pain of dealing with multiple vendors by providing a variety of software and hardware services,” says Todd Cadley, a spokesman for EMC Corp., which develops information infrastructure technology such as archiving and storage management solutions.

In addition to its technology products, EMC has a services division that assists companies with the planning and implementation of strategies that help companies prepare and meet governance requirements, whether for the Securities and Exchange Commission, the National Association of Securities Dealers, or other regulators.

While EMC doesn’t provide ERP systems, it is seeing ERP vendors such as Oracle trying to move into its area of technology with content management and collaboration solutions, Cadley says. “They’re seeing the value of expanding out like that,” he says. “Four or five years ago everything was very niche. You were one or another but not both. Now, everything is becoming ubiquitous.”

SAP, one of the world’s largest makers business software, has “very robust” solutions, from accounting to financial reporting, and companies using its products shouldn’t need to go out and acquire additional software, says Jim D’Addario, a spokesman for SAP ERP Financials.

“I’m not surprised if a company is using an add-on. Given that rules change so much and there are differences [for reporting] among industries, there may be instances where there’s a best of breed solution that interfaces—in a legacy system, for instance,” D’Addario says. But, he adds, “I would be surprised if they were to have to go out and acquire a best-of-breed solution because of a shortcoming to accounting or reporting within our” systems.

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— *John Van Decker,*
Analyst,
Gartner Group

D’Addario says he’s not aware of any customer using add-on systems to manage revenue

recognition issues, for example. “As new rules come up, there are ways to work around the system,” he says.

SAP works with its customers and user groups to track any changes made to the system to accommodate new rules, he explains. “We make every effort to include those in enhancement packs that we ship several times a year,” D’Addario says. “In my opinion, we’re very much on top of it.”

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