Chapter 1

Introduction

A chief executive officer (CEO) spends months deciding on a corporate strategy. The plan probably includes a mix of changes in products, customers, and markets, as well as demands for increased efficiencies or information in a number of existing areas. The CEO then hands off the plan to a group of managers who are quite capable of implementing many of the changes, but who scratch their heads over how to squeeze greater efficiencies or information out of existing departments in order to meet their strategic goals. This is where best practices come into play.

A best practice is really *any* improvement over existing systems, though some consultants prefer to confine the definition to those few high-end and very advanced improvements that have been successfully installed by a few world-class companies. This book uses the broader definition of any improvement over existing systems, since the vast majority of companies are in no position, in terms of either technological capabilities, monetary resources, or management skill, to make use of truly world-class best practices. Using this wider definition, a best practice can be anything that increases the existing level of efficiency, such as switching to blanket purchase orders, signature stamps, and procurement cards to streamline the accounts payable function. It can also lead to improved levels of reporting for use by other parts of the company, such as activity-based costing, target costing, or direct costing reports in the costing function. Further, it can reduce the number of transaction errors, by such means as automated employee expense reports, automated bank account deductions, or a simplified commission calculation system. By implementing a plethora of best practices, a company can greatly improve its level of efficiency and information reporting, which fits nicely into the requirements of most strategic plans.

One can go further than describing best practices as an excellent *contributor* to the fulfillment of a company's strategy, and even state that a strategy does not have much chance of success *unless* best practices are involved. The reason is that best practices have such a large impact on overall efficiencies, they unleash a large number of excess people who can then work on other strategic issues, as well as reduce a company's cash requirements, releasing more cash for investment in strategic targets. In addition, some best practices link company functions more closely together, resulting in better overall functionality—this is a singular improvement when a company is in the throes of changes caused by strategy shifts. Further, best practices can operate quite well in the *absence* of a strategic plan. For example, any department manager can install a variety of best practices with no approval or oversight from above, resulting in a multitude of beneficial changes. Thus, best practices are a linchpin of the successful corporate strategy, and can also lead to improvements even if they are not part of a grand strategic vision.

The scope of this book does not encompass all of the best practices that a company should consider, only those used by the accounting department. This area is especially susceptible to improvement through best practices, since it is heavily procedure-driven. When there are many procedures, there are many opportunities to enhance the multitude of procedure steps through automation, simplification, elimination of tasks, error-proofing, and outsourcing. Thus, of all the corporate functions, this is the one that reacts best to treatment through best practices.

Chapter 2 covers a variety of issues related to the implementation of best practices, such as differentiating between incremental and reengineering changes, circumstances under which best practices are most likely to succeed, and how to plan and proceed with these implementations. Most important, there is a discussion of the multitude of reasons why a best practice implementation can fail, which is excellent reading prior to embarking on a new project, in order to be aware of all possible pitfalls. The chapter ends with a brief review of the impact of best practices on employees. This chapter is fundamental to the book, for it serves as the groundwork on which the remaining chapters are built. For example, if you are interested in modifying the general ledger account structure for use by an activity-based costing system, it is necessary to first review the implementation chapter to see how any programming, software package, or interdepartmental issues might impact the project.

Chapters 3 through 18 each describe a cluster of best practices, with a functional area itemized under each chapter. For example, Chapter 9 covers a variety of improvements to a company's commission calculation and payment systems, while Chapter 18 is strictly concerned with a variety of payroll-streamlining issues related to the collection of employee time information, processing it into payments, and distributing those payments. Chapter 14 is a catchall chapter. It covers a variety of general best practices that do not fit easily into other, more specific chapters. Examples of these best practices are the use of process-centering, on-line reporting, and creating a contract-terms database. Chapters 3 through 18 are the heart of the book since they contain information related to over 400 best practices.

For Chapters 3 through 18, there is an exhibit near the beginning that shows the general level of implementation cost and duration for each of the best practices in the chapter. This information gives the reader a good idea of which best practices to search for and read through, in case these criteria are a strong consideration. For each chapter, there are a number of sections, each one describing a best practice. There is a brief description of the problems it can fix, as well as notes on how it can be implemented, and any problems one may encounter while doing so. Each chapter concludes with a section that describes the impact of a recommended mix of best practices on the functional area being covered. This last section almost always includes a graphical representation of how certain best practices impact specific activities. Not all the best practices in each chapter are included in this graphic, since some are mutually exclusive. This chapter layout is designed to give the reader a quick overview of the best practices that are most likely to make a significant impact on a functional area of the accounting department.

Appendix A lists all of the best practices in each of the preceding chapters. This list allows the reader to quickly find a potentially useful best practice. It is then a simple matter to refer back to the main text to obtain more information about each item.

This book is designed to assist anyone who needs to either improve the efficiency of the accounting department, reduce its error rates, or provide better information to other parts of a company. The best practices noted on the following pages will greatly assist in attaining this goal, which may be part of a grand strategic vision or simply a desire by an accounting manager to improve the department. The layout of the book is extremely practical: to list as many best practices as possible, to assist the reader in finding the most suitable ones, and to describe any implementation problems that may arise. In short, this is the perfect do-it-yourself fix-it book for the manager who likes to tinker with the accounting department.