



Time is Money

**Improving corporate expense
management in the Nordics**

**Based on a study by
KTH Royal Institute of Technology**



EUROCARD

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Introduction

Today, there is an intense debate about digitization as the driver of sweeping change in business. We often hear talk about start-ups and the sharing economy, and traditional business models are being challenged by new and disruptive digital entrants.

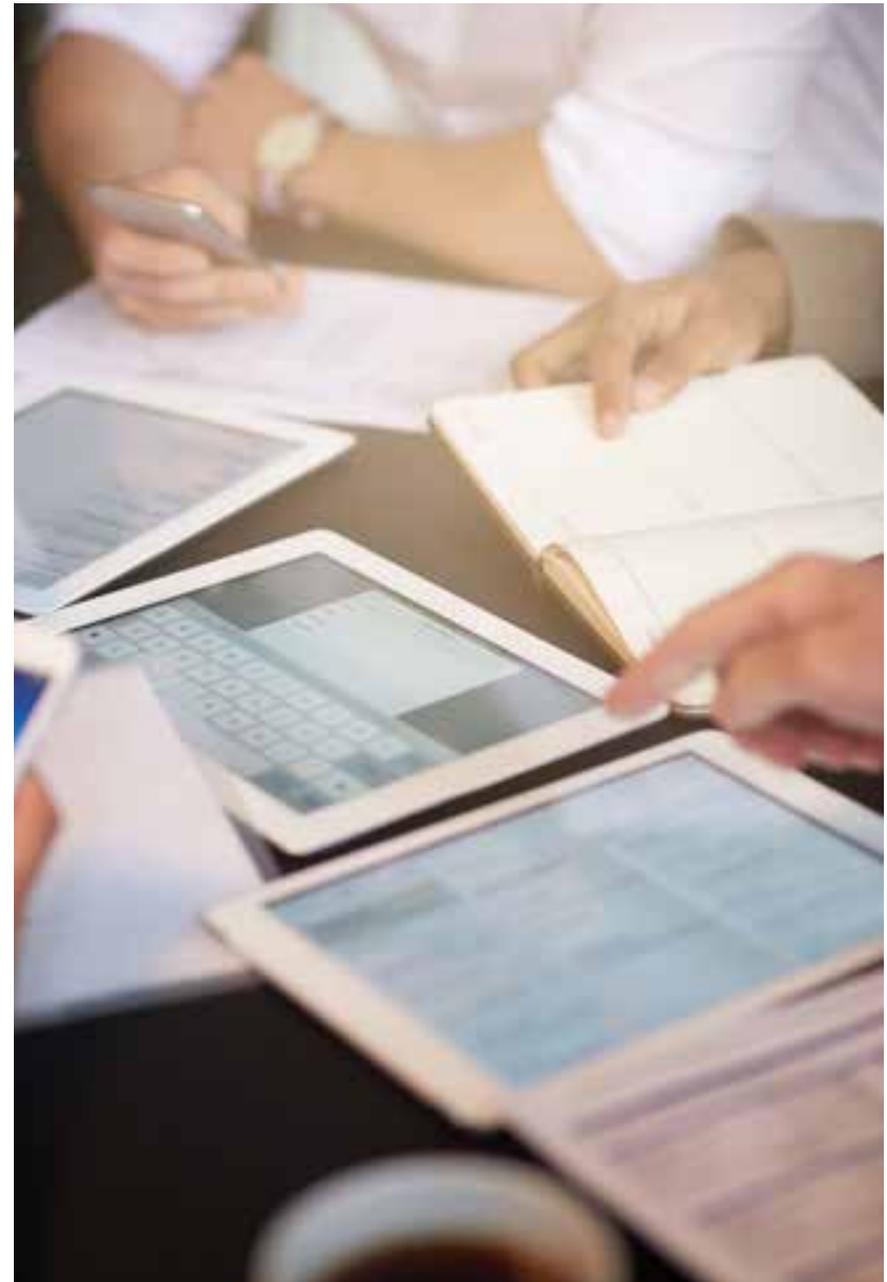
But what many otherwise successful companies are failing to realize is the potential that lies in the digitization of their internal processes. Many companies can realize substantial savings in this field. The research carried out by KTH for this report suggests that there is a substantial potential for savings in administrative costs by employing a higher degree of automation in processing employee-initiated expenses (expense management).

The purpose of this report is to bring more knowledge to the table about how improved expense management processes can create more value for Nordic companies. Our ambition is to understand how companies are processing employee-initiated expenses, and how we can contribute by developing even better solutions. The result is in line with previous analysis performed by A.T. Kearney.

The picture is clear: streamlined processes free up employees' time and lead to savings in administration.

Furthermore, interviews with companies show that an efficient, streamlined expense management process adds even more value for the company. It leads to improved compliance, which has a potential effect on the corporate brand and stakeholder trust and to reduced indirect costs of administrative inefficiency due to errors.

The study behind the report was developed by Niklas Arvidsson and Richard Backteman at KTH Royal Institute of Technology in Stockholm in collaboration with Eurocard. The authors designed and ran the study based on scientific principles and methods.



Key findings



There is considerable potential for savings in Expense Management (EM) related to developing a more automated expense management process. Companies with more automated EM processes indicate saving up to 65 percent of the time spent per expense claim compared to average companies.



Top performers generally have a high usage of credit cards among employees. More than 80 percent offer credit card to all employees having expenses and data integration between cards and financial system. Credit cards are the platform in automated systems where smartphones with Expense Management apps add to automation and drive efficiency.



The most important objectives for companies increasing automation in Expense Management processes are: Increased efficiency in administrative processes, convenience and timesaving for employees and a more reliable system that minimizes potential errors and disputes between employer and employees.



The main challenge in increasing efficiency is neither technology nor organization. It is to increase motivation among employees. To accomplish this, it is crucial to create an intuitive system that is easy to use and that minimizes error. According to the companies surveyed, 80 percent of employees prefer an expense management process that is as automated as possible.



Based on interviews, the research also indicates that companies employing mainly automated expense management processes had fewer and clearer roles in their systems while companies with mainly manual handling relied more on lower level administrators.

Drivers for efficiency

The research from KTH shows obvious benefits for Nordic companies in increasing automation of expense management processes. The time spent on handling an expense claim varies from eight minutes per claim (top performers), to 24 minutes per claim (typical performers) and up to 55 minutes for the least efficient company.

While it is difficult to distinguish the benefits of each tool in the automated Expense Management process, the combined effect of the tools create a platform for considerable efficiency gains. The combined effect of using credit cards, smartphones, Expense Management apps and software can lead to considerable increases in efficiency. Companies with more auto-

mated EM processes indicate saving up to 65 percent time spent per expense claim compared to average companies.

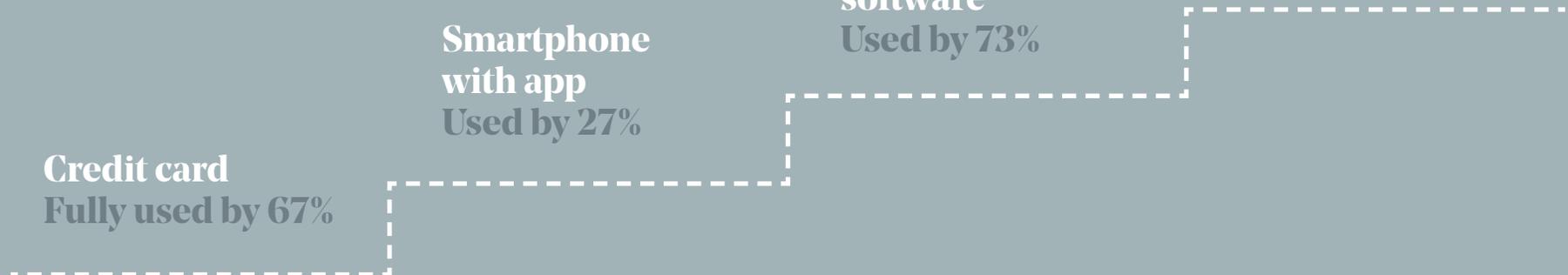
All of the companies questioned use credit cards today as basis for payment but only 68 percent of the companies surveyed offer credit cards to all employees making expenses. Among top performers, adoption

of cards is higher – here 80 percent state that they offer cards to all employees who generate expenses. It is fair to say that the card forms the foundation of efficient processes, and that major gains of efficiency are realized when cards are supplemented with smartphones, Expense Management apps and software and digital receipts.

About 27 percent of the companies offer smart phones with apps to facilitate expense handling, while about 73 percent of the companies use an expense management software. Furthermore, about 79 percent of the companies using digital receipts say that storing and using receipts digitally has made their expense management administration more efficient.

One important factor in realizing the potential efficiency in automated expense management process is employee motivation and behavior. While difficult to capture in statistics, companies surveyed pointed to internal marketing and employee commitment as a main challenge in maximizing the efficiency of automated processes. At the same time, 80 percent of employees prefer an expense management process that is as automated as possible.

The combined effects of tools shorten time spent per claim



Costs and benefits



The 162 Nordic companies in the survey handle 18,839 claims per year on average. The average time spent on handling an expense claim varies from eight minutes per claim (top performers) to 24 minutes per claim (typical performers) and up to 55 minutes for the least efficient companies. The average number of employees per company surveyed is 3,750.

The high average number of employees is due to a few major corporations included in the study, thus raising the average number of employees. The survey also included a number of smaller and medium-sized companies.

However, the time it takes to handle each claim is not directly dependent on the total number of claims handled per year. Thus it appears that smaller companies can achieve the same benefits from automation as larger companies.

On average, time spent per claim is lower in Sweden than in Norway despite the fact that Norwegian companies surveyed handle more claims per year on average. Danish companies have the lowest time spent per claim.

In the survey, the typical performers spend on average 600 workdays per year more on expense handling than the top performers, roughly equaling three full-time employees. The least efficient company could use ten times as long time to handle a claim as the

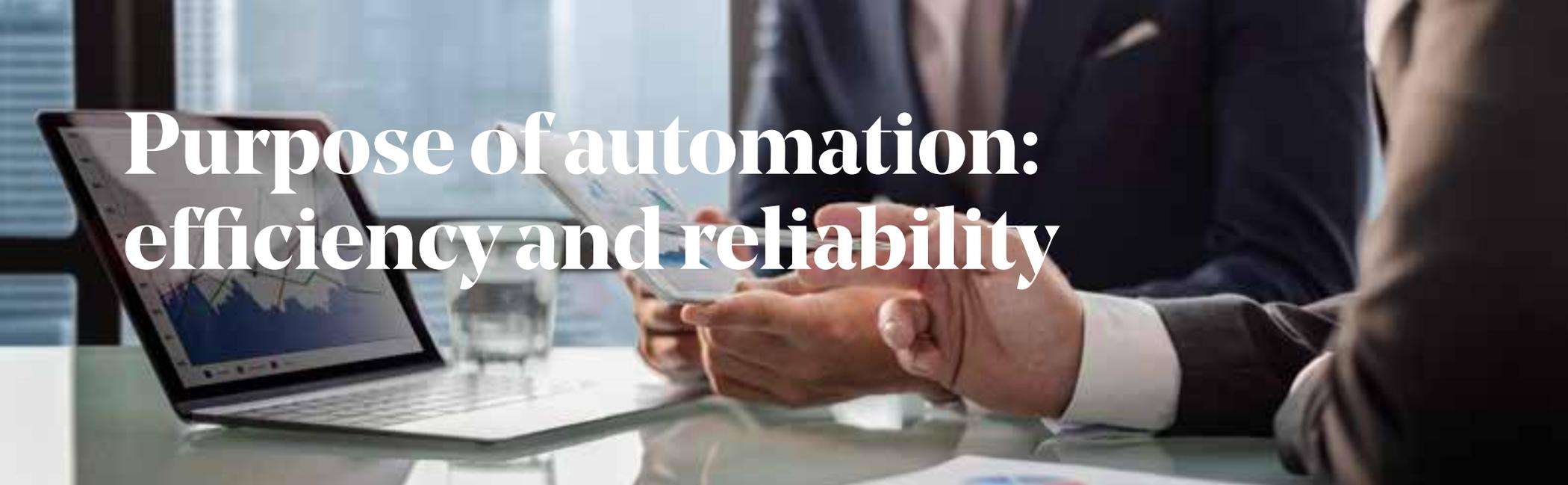
most efficient company. And the companies see a huge potential in reducing the number of man-hours needed to process expenses, which is particularly important for growing companies where the number of expense claims can increase rapidly.

More advanced users of automated expense management processes point out there may be significant benefits of a more automated expense management process. They see a great value in more robustness and reliability rather than the reduction in direct costs. The indirect costs of errors and administrative inefficiency are difficult to measure, but nevertheless burdensome for companies.

In addition to this, automated expense management solutions can facilitate policy enforcement. This might be very important to companies and public sector organizations that are heavily dependent on

the trust of their stakeholders, and exposed to a great deal of media scrutiny, thereby acting as a powerful means to protect their brand and reputation.

“ Consider this: people here make 25,000 travel expense claims per year...If we could reduce this time by just five minutes per claim, the savings would be significant.

A photograph of a business meeting. In the foreground, a laptop is open on a table, displaying a line graph. A person's hands are visible, holding a document. In the background, another person is partially visible, also in a business suit. The scene is set in a modern office with large windows in the background.

Purpose of automation: efficiency and reliability

Users of automated expense management processes have identified a number of objectives driving automation. The most important of these objectives include:

- Increased efficiency in administrative processes
- Convenience and timesaving for employees
- A more reliable system that minimizes potential errors and disputes between the employer and employees

Increase efficiency and timesaving for employees go hand in hand. The key success factor in achieving this is the extensive use of credit cards, mobile phone apps, expense management software and digital receipts. The ideal solution would be the company having acquired a credit card solution used by all employees for all types of expenses. All information including receipts is collected in real time in a mobile

phone app, where the information can be stored and distributed efficiently. Companies would then benefit from offering standardized payment solutions and mobile phone solutions to all employees.

Minimizing errors and disputes is another key objective for companies seeking to implement automated solutions, since large amounts of manual process-

ing increases the scope for error and the risk for employees (having to bear costs) dramatically. Almost 40 percent of the companies in the survey report an error frequency of five percent or more. The quantitative survey is inconclusive as to whether automation reduces error frequency, but interviewees point out that increased reliability is a major purpose behind automation of expense management processes.

In some labor-intensive businesses such as consulting and other professional service industries, a well-functioning expense management system can enhance the company's own brand, since it improves efficiency and reliability in relation to clients. In this context, additional information connected to business travel – such as environmental impact – could be collected and reported and used to strengthen communication with clients and other

stakeholders. Companies employing predominantly manual expense management processes, on the other hand, do not seem

to have a clear idea of the value that could be created by a more automated system. One reason might be that travel expenses are relatively unimportant compared to other costs such as capital costs in capital-intensive industries.

“ Getting rid of the time cost is our primary goal with a new system, the rest is just a bonus.

Automated processes increase motivation

The companies report that 80 percent of their employees prefer to have an EM process that is as automated as possible.

In this context, it is crucial to create a system with minimum room for error while making it intuitive for users. Employee frustration when systems are difficult or problematic to use is a major reason why manual parts of such processes are not completed.

Developing an efficient, automated expense management processes is a continuous job. Improvements are made continuously but bigger, more fundamental changes are made in conjunction with changes in technology, systems and the organization. It could be noted that 30 percent of the surveyed companies are dissatisfied with their current expense management solution.

The next fundamental change that will drive the impact of automated EM systems is the increased usage of card payment solutions, mobile phone apps and digital receipts, which will all increase coverage and standardize functions.

Today, all of the companies surveyed to some extent provide their employees with corporate cards but only 27 percent of companies offer their employees a corporate smartphone with an app for expense handling. Potential time savings are seven to eight minutes per claim if smartphones apps are used.

The most important challenge, however, is neither technology nor organization. It is human behavior within the company. How can employees be motivated to change their behavior? Several companies have expressed concerns about selling new processes to employees and launching them. Companies know that internal marketing as well as using role models is crucial, since the efficiency of any systems implemented ultimately depends on employees' willingness to adopt them.

“ We can build a strong system but ultimately it will always be up to each employee to realize the full potential of the system.





Roles & responsibilities

It is obvious that companies with mainly automated systems benefit from fewer and clearer roles than companies with primarily manual expense management.

In a fully automated structure, the individual takes the responsibility for a credit card and takes some risk in that he or she would have to assume the costs if all steps in the EM process aren't completed. Managers generally approve trips beforehand and check the associated expenses afterwards. In addition to that, the finance or accounting function may play a role as the last filter to check expenses.

Manual expense processing means that lower-level administrators play a larger role in the EM process. Each individual employee uses a credit card for purchases

and must complete a set of manual tasks such as data entry, scanning and emailing of supporting vouchers – after the trip. In one instance, the employee had to complete more than 20 steps! This large amount of manual processing increases the scope for error and the risks for employees (having to bear costs) dramatically. Almost 40 percent of the companies in the survey report an error frequency of five percent or more.

Structure and tasks

Many companies, primarily those with manual systems, use credit cards without realizing the full potential of an expense management software. The post-trip process in this group may include quite a number of manual handling steps from the employee.

One issue is that the more manual the process is, the greater the danger of miscommunication and misunderstanding between individuals. Those miscommunications cause delays which entail unnecessary administrative costs.

For these companies, there seems to be a lack of motivation to analyze larger volumes of card purchase data to look for valuable insights that might be used to develop the company or its administrative processes.

In companies that mainly employ automated EM systems, the card is the central foundation of expense management and

reporting. It is clear, however, that the structure and functionality of the expense management system depend heavily on the software and IT solutions in place. Organizations appear to be heavily dependent on capable in-house IT departments or their IT consultancy solutions.

One point made by Swedish companies is that storing only digital photocopies of receipts is not sufficient to fully comply with legal requirements in Sweden, which creates a barrier to fully automated procedures in Sweden.



Degrees of routinization

Many steps in the automated systems are error-free and speed up processes, since time lags between steps are minimized. Card and smartphone adaptation is key to capturing the full potential of automated expense management.

The difficult parts to routinize are the attitudes and behavior of individual employees. Consequently, one of the companies interviewed has employed a means of automation but is still stuck with some manual processing, and thus is not being able to fully reap the benefits of its EM system automation.

If travel costs and expenses are marginal in relation to other costs, the development of automated expense management systems and procedures will not be a priority. Under-

standable as that may be, the absence of automated procedures generates costs and challenges. In manual systems, the quality and timing of each step becomes dependent on the capabilities and discretion of individuals. There might be large discrepancies between departments and individuals, creating unnecessary administrative slack and additional costs. The results and efficiency of expense management therefore becomes less reliable and predictable.



Appendix

BACKGROUND AND PURPOSE

There is a third industrial revolution taking place in service industries, with a far-reaching trend of standardization and efficiency enhancement in service operations. Outsourcing is becoming increasingly commonplace.

One area of outsourcing and rationalization is Expense Management (EM). EM can be defined as the systems deployed by a business to process, pay, and audit employee-

initiated expenses. Often companies are using an expense management software and importing credit card transactions electronically to save time and money. Today, some companies use predominantly manual methods to handle claims processes, while others use more automated, digitized methods. How does the cost of manual time relate to the cost of the automation of these activities? What are the benefits and costs of a more automated

system for EM? What are the benefits, drawbacks, needs and challenges in relation to implementing a modern EM system?

The purpose of this report is to describe how expense management activities and procedures are carried out at Eurocard customers and to identify opportunities and challenges in realizing the potential of automated expense management processes, including lessons learnt during their implementation.

The study behind the report was developed by Niklas Arvidsson and Richard Backteman at the Royal Institute of Technology in Stockholm (KTH) in collaboration with SEB/Eurocard. The authors designed and ran the study based on scientific principles and methods with the aim of writing academic journal articles based on the data collected in the study.

METHOD

Our study builds on a qualitative interview study and a quantitative survey. These two parts are in the end combined to develop a broad, quantitative understanding of how companies perform their expense management but at the same time a deep, qualitative understanding of their challenges.

The bulk of the data was collected from in-depth, semi-structured interviews. An analysis of written background material was combined with interviews within Eurocard in order to gain an understanding of the field and the relevant issues. Subsequently, five diverse companies were selected based on different nationality and how far they have come in developing their travel expense management procedures.

In each company (with one exception), two individuals with different roles related to expense management were selected and

interviewed. In total, twelve interviews were conducted, resulting in close to nine hours of recorded material.

The data collection for the interviews was based on two main themes:

1. Descriptions of manual procedures for EM
2. Descriptions of alternative, digitized procedures

This data was then explored under the following sub-themes:

- Roles and responsibilities
- Structure and tasks
- Degrees of routinization
- Aims
- Process and challenges
- Costs and benefits

The analysis was conducted by arranging the data according to the aforementioned

themes and grouping it into two different groups for analysis: 1) Primarily automated EM system; or 2) Primarily manual EM system. All companies had a combination of automated and manual systems. Thus, the unit of analysis was the systems and their components, rather than the companies as whole.

The survey was designed by the researchers at the Royal Institute of Technology (KTH) and sent to key managers in 1,000 Nordic companies. We received responses from 162 companies resulting in a response rate of around 16 percent. The questionnaire was built on the following components:

- The responding individual's role and his or hers type of company, plus various financial indicators.
- The current state of art of their expense management solution under nine Likert-scale questions.

- The functional set up and performance indicators regarding their expense management process with open questions and several interval choices.
- The prevalence of current tools enabling their expense management process (cards, smartphones, apps, software and digital receipts)
- The current attitudes, employee knowledge and ease of use of the current expense management solution, under 16 Likert-scale questions.

Questions were designed based on previous reports, academic theory as well as in close discussion with Eurocard on what question components and interval levels that were appropriate. The analysis was done by the researchers from KTH.



Contact

Denmark

Alex Sandø,

alex.sando@eurocard.dk

Finland

Tove Zilliacus,

tove.zilliacus@eurocard.fi

Norway

Marianne Ovnerud,

marianne.ovnerud@eurocard.no

Sweden

Michael Afram,

michael.afram@eurocard.se



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