IBM Business Consulting Services

IBM Institute for Business Value

The agile CFO

Acting on business insight

Financial Management

The agile CFO

Acting on business insight

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Preface

Mark Loughridge, Senior Vice President and Chief Financial Officer, IBM Corporation

As the demands placed on Finance continue to expand, CFOs are challenged with the paradox of delivering a stable, highly effective finance environment while also providing the agility to respond and react to rapidly changing business climates.

Nearly 900 CFOs and Senior Finance Executives around the world were surveyed, representing every major industry sector. Of this total, 267 of these executives made time for in-depth, one-on-one conversations – conducted by IBM Business Consulting Services Partners. The IBM 2005 Global CFO Study highlights how Finance organizations are challenged to balance competing priorities of business growth, risk management and performance insight while adding significant value to the business.

The result is a roadmap that clearly addresses the need to mitigate structural complexity in order to efficiently drive information integration across and throughout the business. This integration, in turn, will help organizations optimize growth opportunities and business performance while improving risk management.

The CFO Study outlines an ambitious path for Finance organizations – the goal of which is attainable and invaluable. I know this because IBM has been traveling this road for over ten years. IBM's own Finance transformation journey began by significantly reducing structural complexity, and driving risk management and performance insight to return real business value to IBM and our clients.

Out in the global market, our Financial Management Consulting and Finance and Administration Business Transformation Outsourcing practices can leverage our internal experience, as well as our deep domain expertise to help clients optimize their performance. We have over 10,000 financial management and accounting specialists who can help you in your efforts to identify, create and deliver lasting business value to your organization.

We would like to take this opportunity to thank each of these CFOs for their time and for the insights that are stimulating new thinking inside IBM about how we can better help our clients innovate and grow. My colleagues and I look forward to continuing this conversation – and this journey – with you.

Mark

Executive summary

The IBM 2005 Global CFO Study surveyed 889 CFOs and senior Finance professionals in 74 countries. This study, which provides a comprehensive assessment of the agenda of CFOs today, underscores Finance's transition from primarily stewarding information to also leveraging that information to deliver predictive business insight to decision makers across the enterprise.

In the IBM 2004 Global CEO Study, CEOs told us that growth and responsiveness topped their agendas. In the IBM 2005 CFO Study, CFOs indicated that Finance's top areas of importance were performance, growth and risk. These responses track with CEOs' agendas. In fact, more than half of the participants in the 2005 CFO Study placed the highest importance on managing enterprise performance, partnering with the enterprise to support growth strategies, continuously making process/business improvements, strengthening controls and meeting fiduciary requirements. The delivery of insight related to each of the top areas of importance is critical to enhancing the responsiveness of decision makers and, thus, the enterprise.

Yet, with the exception of compliance and fiduciary requirements, there are large gaps in most Finance organizations between the importance placed on delivering insight and their ability to deliver it. These gaps are primarily driven by a lack of standardization, a lack of common processes, inconsistent tools/applications and fragmented information.

Highly effective Finance organizations[1] in our study have enabled delivery of insight by addressing its inhibitors: structural complexity and fragmented information. These organizations are:

- *Mitigating enterprisewide structural complexity by standardizing, simplifying and optimizing* – Highly effective Finance organizations employ common and simplified processes and data/information standards. They also reduce the number of ERP systems and rationalize finance budgeting/forecasting tools to improve the integration of information and delivery of insight. Moreover, organizations with optimized delivery models are more likely to have standard policies, common/simplified processes, functional best practices and rationalized technology.
- *Enabling fact-based decisions by integrating information enterprisewide* – Finance organizations that drive global process ownership and establish common information standards – which together help facilitate information integration – are more effective at delivering insights.

Using this foundation, these organizations are enhancing their ability to provide business insights by:

- *Partnering with the enterprise to enhance growth insight* – In keeping with Finance's shift from a historical to a more predictive focus, highly effective Finance organizations place a strong emphasis on partnering with the CEO and business unit executives to identify and assess business opportunities and synergies for growth strategies.
- *Optimizing decision support to enhance performance insight* – These organizations integrate transparent, role-based metrics and exception reporting while fully cascading these metrics consistently throughout the enterprise. In addition, they define quantifiable relationships between business drivers and scorecard/dashboard metrics to enable predictive analysis and improve the accuracy of performance outcome forecasts.
- *Driving beyond compliance to enhance risk insight* – These organizations expand risk management to enterprisewide views of risk and use performance dashboards and analytical tools that are focused on risk/reward planning for decision making. Enhancing end-users' ability to incorporate risk into their decision making helps to create a culture that is in control but not operating in an overly risk-averse environment that inhibits growth.

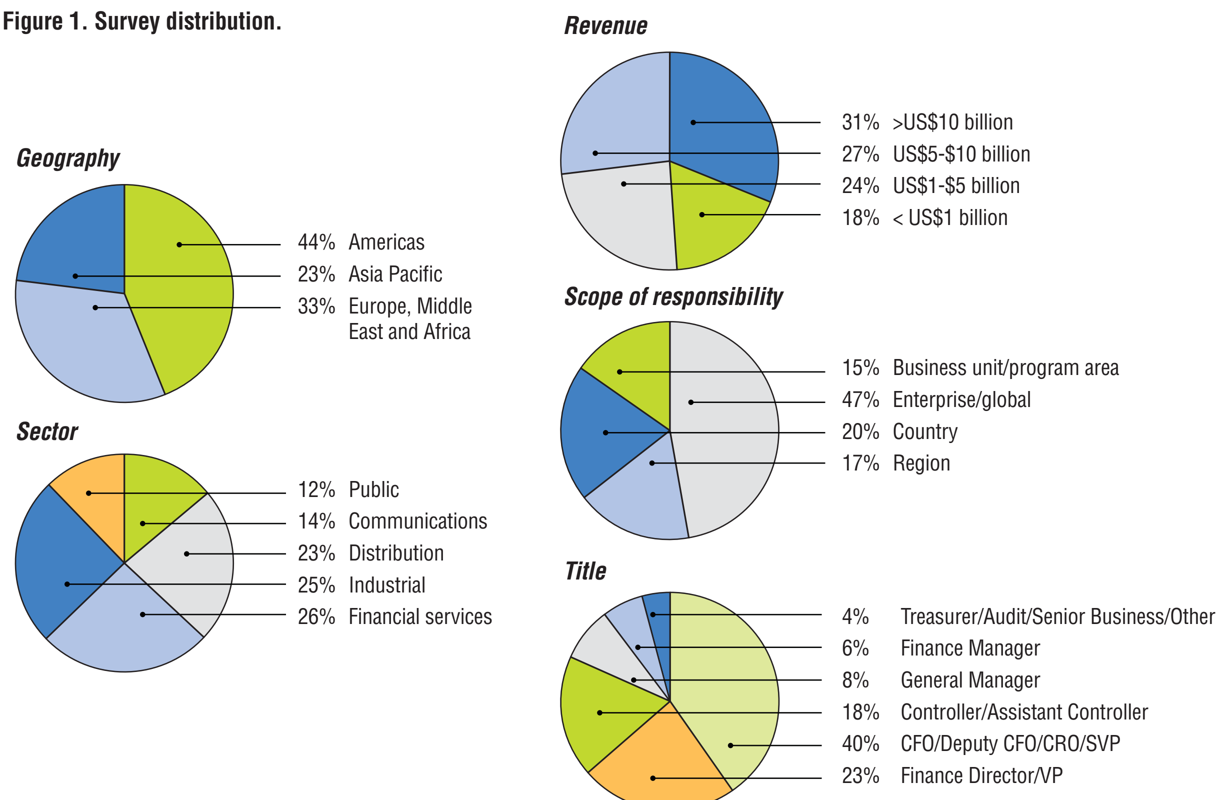
For Finance to stand still in today's complex world is to go backward. Agile CFOs and Finance organizations are leveraging delivery models, enterprise process frameworks, technology and the right people to simultaneously accomplish both the stability and flexibility necessary to remain competitive in today's increasingly complex world.

Research methodology and demographics

IBM Business Consulting Services, in cooperation with the Economist Intelligence Unit, conducted the IBM 2005 Global CFO Study of 889 CFOs and senior Finance professionals to gain perspective on current trends, key challenges and the future direction of Finance. Our objective was to examine Finance's priorities and progress and understand the actions that CFOs are taking to address current and future challenges. This research is part of a series on executive issues, which includes the IBM 2003 Global CFO Survey, the IBM 2004 Global CEO Study, and the IBM 2005 Human Capital Management Study. This report on the IBM 2005 Global CFO Study provides a roadmap for the future state of Finance. Additional detailed study results are provided in the section "The Global CFO Study 2005 participant responses."

This study engaged CFOs and senior Finance professionals across the communications, distribution, financial, industrial and public sectors in 74 countries (see Figure 1). Each sector had a similar breakdown in terms of company size (based on revenue), participant titles and participants' scope of responsibility. The study included interviews with 267 CFOs based in Asia Pacific, Europe, North America and Latin America and an online survey of 622 participants, which was conducted in cooperation with the Economist Intelligence Unit. Organizations in the study ranged in size from less than US$1 billion to over US$10 billion in annual revenue, and more than half had annual revenues of US$5 billion or more. Nearly half of the participants had enterprisewide or global responsibility, with the balance evenly divided between regional, country and business unit responsibility.

Figure 1. Survey distribution.



Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Acknowledgments

The IBM 2005 Global CFO Study is the result of several months of collaborative effort. IBM Business Consulting Services would like to thank all those who contributed:

- The CFOs and senior Finance professionals across all sectors and geographies who contributed their time and valuable insights
- IBM Business Consulting Services Partners and IBM client account teams who conducted the interviews
- The IBM Financial Management practice and leaders who managed the effort in each geographical region or country
- The Economist Intelligence Unit for valuable methodological guidance, contribution to the design of the survey questions, and collecting 662 survey responses
- IBM Business Consulting Services General Management and Marketing leadership
- The IBM global benchmarking organization for assistance during the data collection and analysis
- The IBM Institute for Business Value for methodological guidance, subject matter expertise and commitment to success.

The transition to delivering predictive business insight

In the last few years, corporate governance-related headlines and high-profile corporate bankruptcies have placed an increased emphasis on financial integrity and business control. While this emphasis has had Finance circling back to the basics, effective CFOs continue to aspire to a more proactive role than simply assuring the accuracy and transparency of financial statements. After all, keeping score is just the price of admission, not a competitive advantage.

In the IBM 2004 Global CEO Study, CEOs indicated that growth and responsiveness topped their agendas. In the current CFO study, Finance leaders place high importance on managing enterprise performance, partnering with the enterprise to support growth strategies, continuously making processes / business improvements, strengthening controls and meeting fiduciary requirements. Thus, CFOs share CEOs' clear business imperatives of profitable growth and responsiveness.

Finance's move toward enhancing flexibility and responsiveness is a progressive one. The IBM 2005 Global CFO Study shows that Finance organizations that are highly effective can attribute their achievements to moving from a role of static reporting and data stewardship to a more predictive role of providing dynamic business insight to decision makers. Moreover, CFOs aspire to deliver insight simultaneously across the three top areas of importance for an enterprise – performance, growth and risk.

In the past, practical limitations forced Finance organizations to focus primarily on only one of these focus areas (e.g., performance, growth or risk), but process and technology improvements make it possible to do more. Indeed, by applying financial management discipline to the enterprisewide delivery of predictive business insight, CFOs seek to strengthen their roles as trusted advisers and become true business partners with their CEOs and business unit leaders.

Additionally, our analysis of publicly available financial data from the June 2003 to June 2005 quarterly reports of nearly 300 of the study participants suggests a financial benefit may be linked to the effectiveness of delivering insight. Participants with highly effective delivery of performance insight, growth insight and risk insight have higher revenue growth and are driving more value creation than their industry peers with less effective insight delivery.[2]

"We must install good control practices while keeping operational flexibility."

– Director Finance and Administration, Global Automobile Manufacturer

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Links between insight and business results

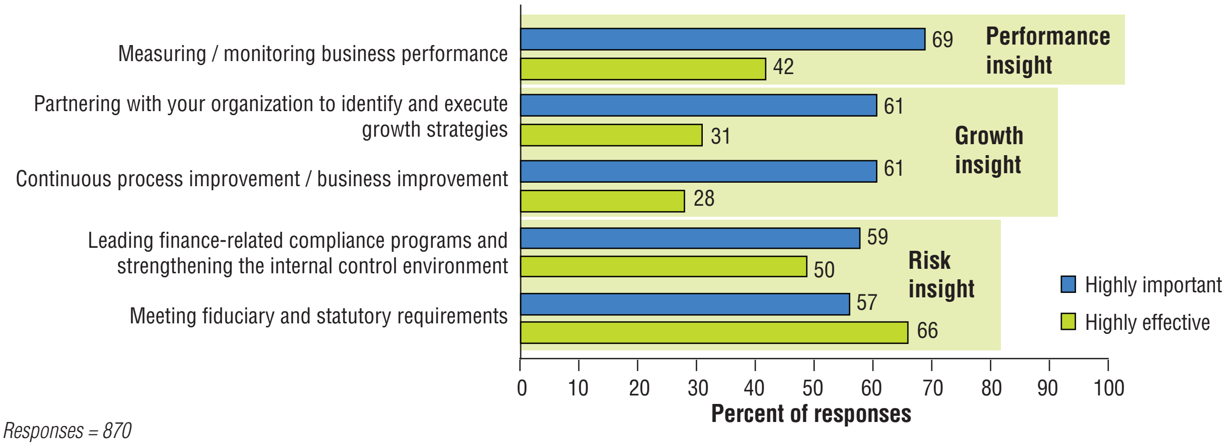
For our analysis, revenue growth was defined as revenue growth over a two-year period (June 2003 – June 2005), and value creation was defined as shareholder return performance over the same two-year period. As part of our analysis of the quarterly reports of 289 public companies in our sample, we ran regression models to investigate the drivers of revenue growth and value creation. Based on this analysis, we identified that growth insight (in particular, planning growth strategy, continuous process / business improvement and sound costing and profitability methods) and information integration are drivers of value creation. We also identified that performance insight (more specifically, rolling forecasts based on business events and proactive business portfolio management), growth insight (including business opportunity identification/assessment and idea collaboration) and risk insight (in particular, risk identification and risk management strategies) are correlated with revenue growth.

Gaps between areas of importance and effectiveness

Despite the aspirations of most Finance organizations, there are large gaps between the importance of insight related to performance, growth and risk and Finance's perceived effectiveness in delivering it (see Figure 2).

While performance management topped CFOs' agendas in 2003,[3] progress on the effectiveness in delivering it appears elusive. Nearly 60 percent of 2005 participants indicated that they are less than highly effective in managing performance, which impacts the ability of Finance to plan and forecast future results. Additionally, while CFOs endorse their CEOs' growth agendas, the gaps imply that nearly 70 percent of participants do not perceive themselves as highly effective in providing support for growth. Results also indicate that nearly 60 percent of Finance organizations do not have robust processes in place to support growth. Participants also place a high importance on continuous improvement (61 percent) to drive profitable growth but, again, a major gap exists.

Figure 2. Finance's top areas of importance and gaps in effectiveness.



Responses = 870
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

It takes an agile CFO and Finance organization to deliver insight for the three top areas of importance simultaneously. Our analysis shows that only a handful (3 percent) of CFOs believe they are highly effective at delivering performance, growth and risk insights simultaneously. Furthermore, only 10 percent indicated they are highly effective in two out of three areas, while 35 percent say they are highly effective in only one area. These findings suggest that over half of the 889 study participants feel they are not highly effective at delivering insight for *any* of these three areas.

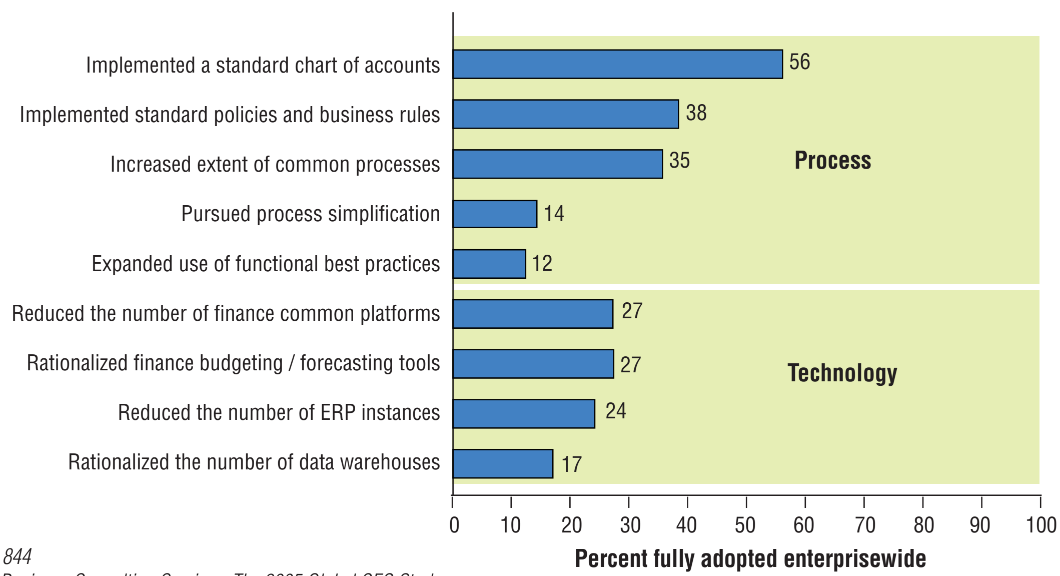
> "We have fragmented systems and inconsistent processes, which impact the integrity of information."
> – *CFO, Large Asia Pacific Food Producer*

Structural complexity…a key issue

The low enterprisewide adoption of standard and consistent processes and technology contributes to structural complexity and, in turn, worsens the effectiveness gaps (see Figure 3). Over 60 percent of participants indicated they have yet to implement enterprisewide standard policies and rules or extend common processes across the entire enterprise. Additionally, more than 80 percent have not pursued enterprisewide process simplification or expanded use of functional best practices across the whole enterprise.

On the whole, technology and platform improvements remain fragmented much like the finance processes they attempt to transform. Over 70 percent of participants have not yet reduced the number of common platforms, rationalized budgeting/forecasting tools or reduced the number of enterprise resource planning (ERP) systems enterprisewide. Naturally, this fragmentation and lack of standardization results in various "versions of the truth," manual data reconciliations and ineffective use of technology, inhibiting Finance's ability to influence decisions and deliver insight.

Figure 3. Low enterprisewide adoption of process and technology improvements.



Responses = 844
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Indeed, analysis of the findings indicates that less than 2 percent of participating organizations have adopted each of the suggested process and technology improvements across the entire enterprise. Slightly more organizations have adopted all of the *technology* improvements enterprisewide (6 percent), while 4 percent have adopted the *process* improvements enterprisewide. These findings suggest that organizations often turn first to technology before fixing broken processes, which in the long run may suboptimize the ultimate benefit of technology investments.

Without enterprisewide adoption of common processes and standards, many Finance organizations find themselves managing by intuition instead of fact. Without common processes and standards, organizations rely on the manual effort of smart people to maintain the accuracy and integrity of financial information. This reliance embeds unique knowledge in individuals versus institutionalizing it into repeatable, controlled processes and technology that can be shared more widely. As a result, data gathering is difficult and fact-based insight hard to come by. This relegates decision makers to intuition-based management, which works fine in an upwardly trending market. But when the markets and results become more volatile, intuition may fail – since the true drivers of the business are not clearly understood and linked to the key strategic objectives. Confined to this manual environment, Finance struggles to provide decision makers with the information needed to drive profitable growth or offset emerging risks.

Fragmented information

When we conducted the IBM 2005 Finance Shared Services and Outsourcing Survey of Finance executives, we found that only 9 percent of participants rated themselves as "excellent" at gathering, interpreting and conveying information in a way that drives profits. Contributing to this problem, 50 percent indicated that, while information was plentiful, it was not focused, relevant or suitable for driving action.[4] These findings highlight the need for Finance organizations to actively integrate information at the source, which lessens the need to continuously verify the data's relevance before using the data to make business decisions.

> "Lots of data. Not a lot of information."
>
> *– CFO, North American Software Firm*

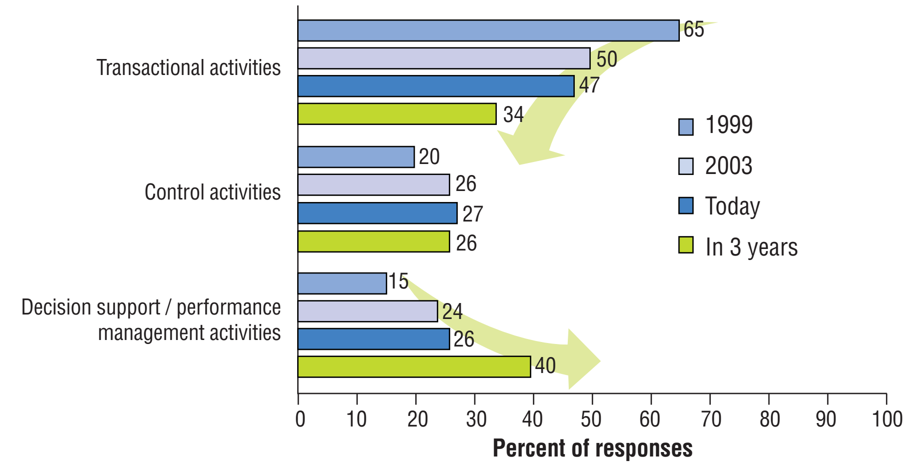
Slowdown in the transformational journey to decision support

A comparison of survey findings from our 1999, 2003 and 2005 Global CFO studies indicates that Finance organizations are shifting steadily from focusing on transactions to decision support activities (see Figure 4). Automation in reporting and transaction processing may explain the progress made from 1999 to 2003. However, this shift appears to have slowed in the last two years.

One primary reason for this slowdown is the significant focus on processes and technology to manage increased compliance requirements and risk programs. Additionally, as highlighted previously, Finance organizations are still struggling to standardize and improve processes and data structures and to implement supporting technology for enhanced decision support.

> "A high level of resources is consumed by compliance programs."
>
> *– CFO, Large Asia Pacific Bank*

Figure 4. Shift from a transaction focus to decision support activities.



Responses = 248 (based on face-to-face interviews).
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Another factor that contributes to the slowed progress is the difficulty Finance has finding the right people with the right skills. Nearly two-thirds of the study participants indicated that finding and developing people with the appropriate finance and business skills is a challenge. Moreover, it is a consistent challenge globally as executives in virtually every geographic region in the study stress the need to retain the best people and develop new skills within their organizations.

> "A top challenge is hiring and retaining enough good people."
>
> *– Regional CFO, Global Automobile Manufacturer*

Drivers of business insight

Finance organizations face many challenges when it comes to delivering insight effectively. However, our findings indicate that strategies are emerging to enable and enhance business insight (see Figure 5). Highly effective Finance organizations set the stage by first addressing inhibitors: structural complexity and poor information integration. They also partner with their enterprises to enhance profitable growth, optimize decision support to improve performance, and move beyond compliance to predictively assess risks and their impacts.

Figure 5. Steps to enabling and enhancing insight.

Enabling insight	Enhancing insight
• Mitigate enterprisewide structural complexity by simplifying, standardizing and optimizing • Enable fact-based decisions by integrating information enterprisewide	• Partner with the enterprise to enhance growth insight • Optimize decision support to enhance performance insight • Drive beyond compliance to enhance risk insight

Source: IBM Business Consulting Services.

Enabling insight

Finance organizations that want to deliver insight effectively begin by building a foundation to enable it. Highly effective organizations have taken the following steps to enable insight:

- Mitigate structural complexity by standardizing, simplifying and optimizing.
- Integrate information enterprisewide to enable fact-based decisions.

Mitigate structural complexity by standardizing and simplifying processes and technologies and optimizing delivery models

Finance's gaps in delivering insights are aggravated by the drivers of structural complexity inherent within most organizations. As mentioned previously, the implementation of process and technology improvements has been fragmented. Given the low adoption rate of enterprisewide improvements, many Finance organizations are managing multiple processes and systems. As enterprises grow organically or through acquisition and move into new markets, geographies and customer segments, they typically build or inherit additional processes and systems. Therefore, the issue of complexity is ongoing.

Without a strategy to mitigate structural complexity and a strictly enforced adherence policy, Finance will struggle constantly to provide insights, primarily relying on time-consuming manual consolidation of static spreadsheets. A common result is time wasted discussing the veracity of the data instead of focusing on the information provided and analyzing it to provide predictive insights.

> "We need to ensure data integrity between different systems."
>
> *– CFO, North American Retailer*

Standardize and simplify processes and rationalize technology enterprisewide

Our study findings show that highly effective Finance organizations implement standard policies, common processes, process simplification and functional best practices enterprisewide at a higher rate than organizations that are less effective at driving insights across the enterprise. The adoption rate of process simplification among highly effective Finance organizations is twice as high (22 percent), and their adoption rate for functional best practices (21 percent) is almost three times as high as that for less effective organizations (11 percent and 8 percent, respectively).

> "We would be able to benefit right now from a technology platform that would allow commonality between units, improved quality of management and business information, and give us better ability to manage performance and forecast future results."
>
> *– CFO, Large North American Bank*

Increasing the use of common processes and pursuing simplification has a positive effect on compliance programs, the support of enterprise risk management, performance management and continuous process improvement (see Figure 6).

Not surprisingly, process simplification also helps drive integration. With less to consolidate and information captured at the source, it becomes easier to integrate the information and processes to provide key insights.

Highly effective Finance organizations take a similar enterprisewide approach to rationalizing technology. Notably, our study shows that highly effective Finance organizations are nearly twice as likely to have reduced their instances of ERP systems (37 percent) and to have rationalized their data warehouses (27 percent) as less effective organizations (19 percent and 14 percent, respectively).

Taking steps to reduce the number of ERP systems and rationalize financial budgeting and forecasting tools benefits virtually all areas of insight and the integration of information. Not surprisingly, this leads to a single version of the truth as it reduces the number of reconciliations needed and the time spent gathering data and information. As a result, Finance can spend more time doing the actual analysis of data and information to provide predictive insights and drive decisions.

Optimize the delivery model

In general, optimized delivery models help Finance organizations rationalize and simplify their processes, which, in turn, enables and enhances insight. The definition of optimal varies from enterprise to enterprise. Finance organizations may optimize their delivery model through the use of local/regional shared services, global shared services, outsourcing or internally decentralized activities. In addition,

Figure 6. Benefits of simplifying and standardizing processes and rationalizing technology enterprisewide.

Impact of improvement on Finance's effectiveness

Fully adopted enterprisewide process and technology improvement	**Risk insight**			**Performance insight**	**Growth insight**		**Information integration**
	Meeting fiduciary and statutory requirements	Leading finance-related compliance programs	Supporting / managing enterprise risk	Measuring / monitoring business performance	Continuous process improvement	Partnering to identify and execute growth strategies	Driving integration of information
Reduced the number of ERP instances	✔	✔	✔	✔	✔	✔	✔
Rationalized finance budgeting / forecasting tools	✔	✔	✔	✔	✔	✔	✔
Pursued process simplification		✔	✔	✔	✔		✔
Increased extent of common processes		✔	✔	✔	✔		

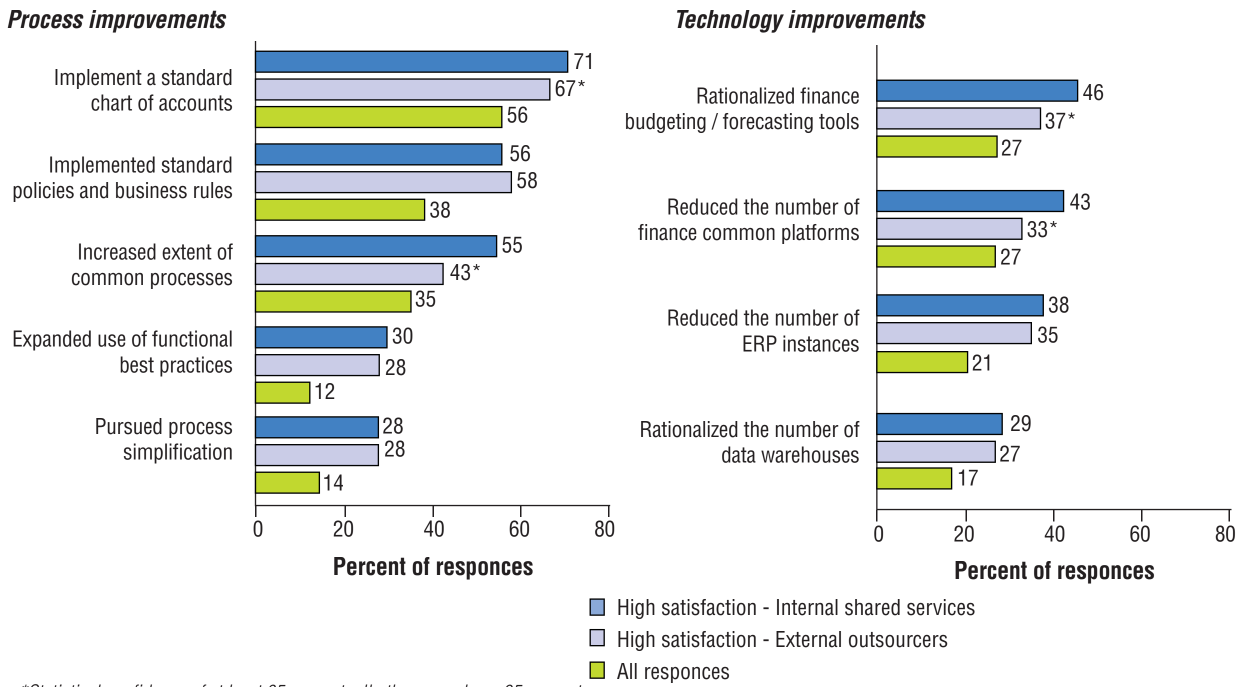
✔ Positive impact*

Based on statistical significance testing of organizations that have fully adopted the process and technology improvement enterprisewide against all other organizations.
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

these vehicles can work in combination such as an outsourced shared services model that is either global or regional.

However, the benefits of optimizing the shared services delivery model (either internal or external) are clear (see Figure 7). Organizations in our study that indicated high satisfaction with their internal shared services or their external outsourcers are more likely to have standard policies and common/simplified processes and adopt functional best practices. They also rationalize tools, common finance platforms, ERP instances and data warehouses at a higher rate than organizations that indicate lower satisfaction levels. What is less clear is the sequence of events. Did these the organizations standardize and rationalize before moving to an optimized delivery model or did the optimized model bring about standardization and rationalization? While this has been a long standing debate within Finance, it is clear that effective optimization yields benefits.

Figure 7. Optimized delivery models help organizations simplify and rationalize.



**Statistical confidence of at least 85 percent; all others are above 95 percent.*
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

When mitigating structural complexity, CFOs should ask these questions:

- What impact has structural complexity had on your enterprise?
- Are your Finance organization’s common processes more local or global?
- Have you set enterprisewide standards for data strategy, chart of accounts, process design, etc.?
- Does your organization have the resources internally to drive the transformation needed to improve your ability to produce greater business insight?
- Does the inherent structural complexity of finance processes and technology consume significant resources and inhibit the shift to decision support activities?

Integrate information enterprisewide to enable fact-based decisions

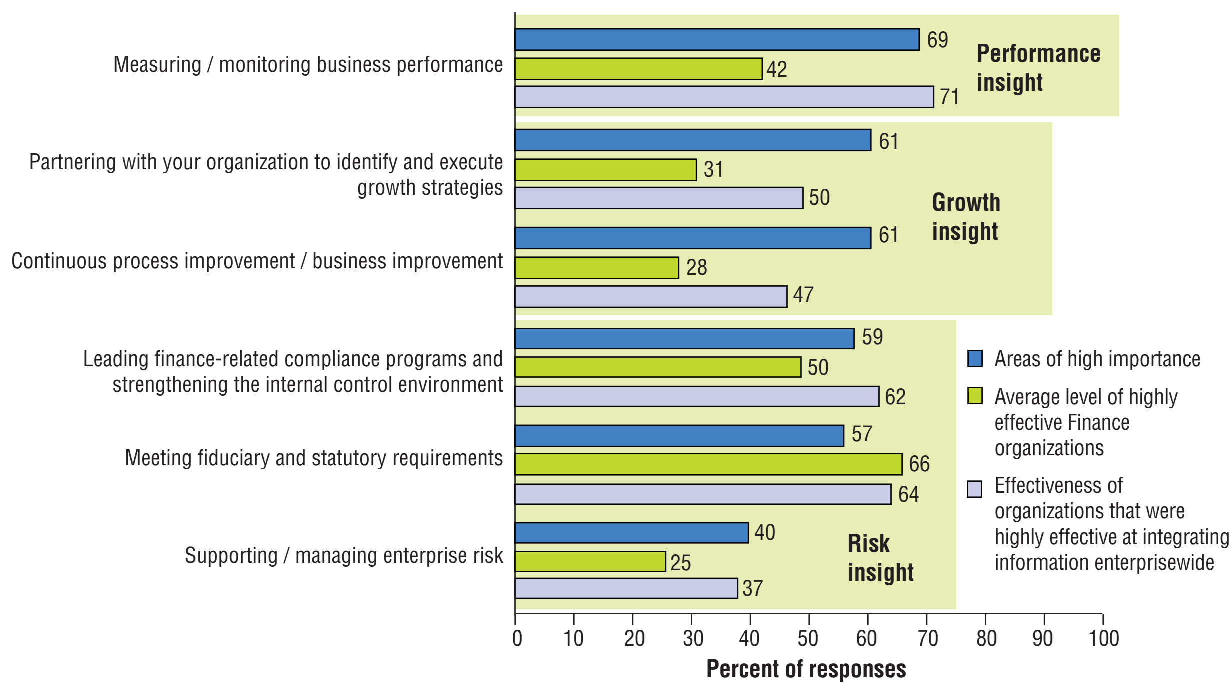
The IBM 2005 Global CFO Study findings indicate that effective information integration across the enterprise helps close the gaps significantly between areas of importance and perceived effectiveness (see Figure 8). Organizations that were highly effective at integrating information enterprisewide were found to be consistently more effective than average in addressing each of the top areas of importance.

> "Consistency of data between Finance and business is a top priority."
>
> *– CFO, Large Asia Pacific Bank*

The integration of information reaches far beyond technology to include the approach to data governance, ownership of processes, management of information and sharing of insights.

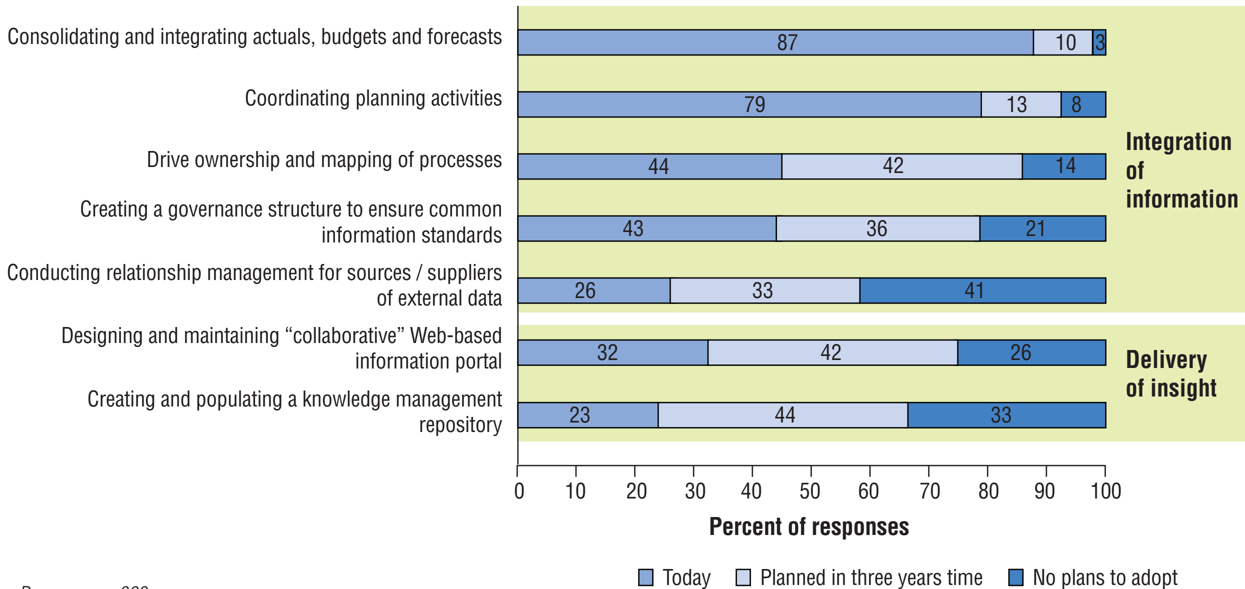
> "Our number one challenge is to improve the integration and sharing of critical business information between businesses, operations and technical divisions."
>
> *– Finance Operations Executive, Large North American Bank*

Figure 8. Integrating information helps to close the gaps between areas of importance and effectiveness.



Responses = 870
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Figure 9. Steps taken by Finance to integrate information and deliver insight.



Responses = 869
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Our study shows that Finance organizations have established the basics required to integrate information and deliver business insights (see Figure 9). Most Finance organizations have coordinated planning activities and consolidated actuals, budgets and forecasts. However, data and information often remain in silos within business units and/or geographies, contributing to the sense that information, while plentiful, is often not focused, relevant or suitable for driving action. Without data standards in place, aggregation of data across business units is challenging and time consuming.

> "We need to break down barriers to sharing key data across and between the other major departments."
>
> *– CFO, Large North American Governmental Agency*

As enterprises become more global and complex, many in Finance are recognizing the importance of establishing a governance structure to help ensure common information standards. To drive common standards and simplify processes, our study shows that Finance organizations plan to redouble efforts involving process ownership and mapping of processes. This emphasis on process ownership reflects a shift from viewing virtually all data and information as the property and responsibility of individual business units to viewing them as corporate assets that can be leveraged throughout the enterprise. While responsibility for accuracy of the data remains at the source, accountability for overall integrated data integrity shifts to Finance. Once data accuracy is proven, study participants indicated that they plan to improve the relevance of and access to the information by creating collaborative tools such as Web-based information portals and knowledge management repositories.

> "The CFO is now the trustee of information and assets of the corporation."
>
> – *COO, North American Bank*

To increase the predictability of information in the next three years, study participants indicate that Finance organizations plan to more than double the use of fully integrated systems for budgeting, planning, reporting and general ledger (from 42 percent to 90 percent). In addition, a planned increase in utilizing rolling forecasts (from 57 percent today to 88 percent in three years) is supported by the use of integrated short-term and long-term forecasts. This trend in increased use of rolling forecasts will also be supported by the predicted doubling of planning processes embedded in everyday operations and the continued compression of cycle times.

Not surprisingly, process ownership and common information standards have a positive enabling effect on the delivery of risk, performance and growth insights (see Figure 10). Additionally, combining internal information with robust data from external sources enables better insights into risk and growth. Collectively, these actions help close the gaps between Finance's aspirations and the overall delivery of insight.

Figure 10. Enterprisewide integrated information enables fact-based decisions.

	Impact of improvement integration drivers on insight areas		
Recommended actions to drive information integration*	**Risk insight**	**Performance insight**	**Growth insight**
Drive ownership and mapping of processes	✔	✔	✔
Create governance structure to ensure common information standards	✔	✔	✔
Manage external data sources / suppliers	✔		✔
Consolidate and integrate actuals, budgets and forecasts		✔	

✔ Positive impact**

**Based on logistic regression analysis of "Driving Integration of Information Across the Enterprise."*
***Based on statistical significance testing of information integration driver and impact on each insight area.*
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

When integrating information, CFOs should ask these questions:

- Is there enterprisewide process ownership?
- Are common information standards in place? Is data treated as an enterprisewide asset?
- Is information shared throughout your Finance organization? Throughout the enterprise?
- How well does your enterprise integrate external data into financial and nonfinancial analyses?
- Is your enterprise heavily reliant on consolidating spreadsheets?

Enhancing insight

With a foundation set by mitigating structural complexity and integrating information, highly effective organizations have focused on enhancing business insight by taking the following actions:

- Partner with the enterprise to enhance growth insight.
- Optimize decision support to enhance performance insight.
- Drive beyond compliance to enhance risk insight.

Partner with the enterprise to enhance growth insight

In the IBM 2004 Global CEO Study, four out of five CEOs identified revenue growth as the key focus area for strengthening financial performance over the next three years.[5] The CFOs and Finance professionals we surveyed in 2005 affirmed their support for the focus on growth.

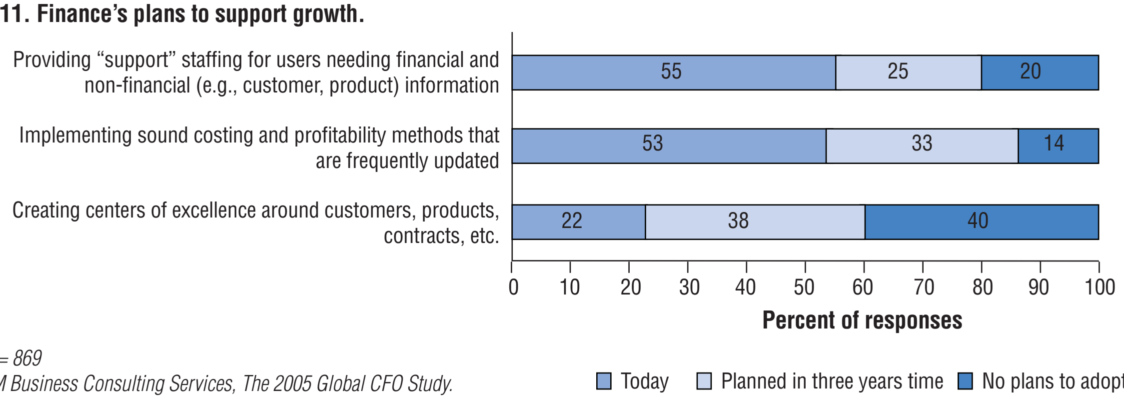
It is interesting to note, though, that less than 50 percent of the CFOs and Finance professionals viewed their growth activities as strengths, and over half of the participants indicated that they struggle to deliver analytics to plan, forecast and measure business opportunities. Only 42 percent indicated that providing information to identify areas for profitable revenue growth and cost containment is important, and only 40 percent saw planning growth strategy as a strength.

> "Becoming aware of some of the opportunities in other parts of the organization in a timely manner in order to assist or partner with them is a challenge."
>
> – *VP Accounting, Worldwide Oil Exploration and Production*

Additionally, only one-third deemed identifying and assessing business opportunities and synergies to be a strength.

However, participants indicate that they will be increasing their capabilities in supporting growth by frequently updating costing and profitability methods and providing insight related to such factors as customers and products (see Figure 11). Regarding the latter, participants plan to provide "support" staffing and create centers of excellence for governing and analyzing this information.

Figure 11. Finance's plans to support growth.

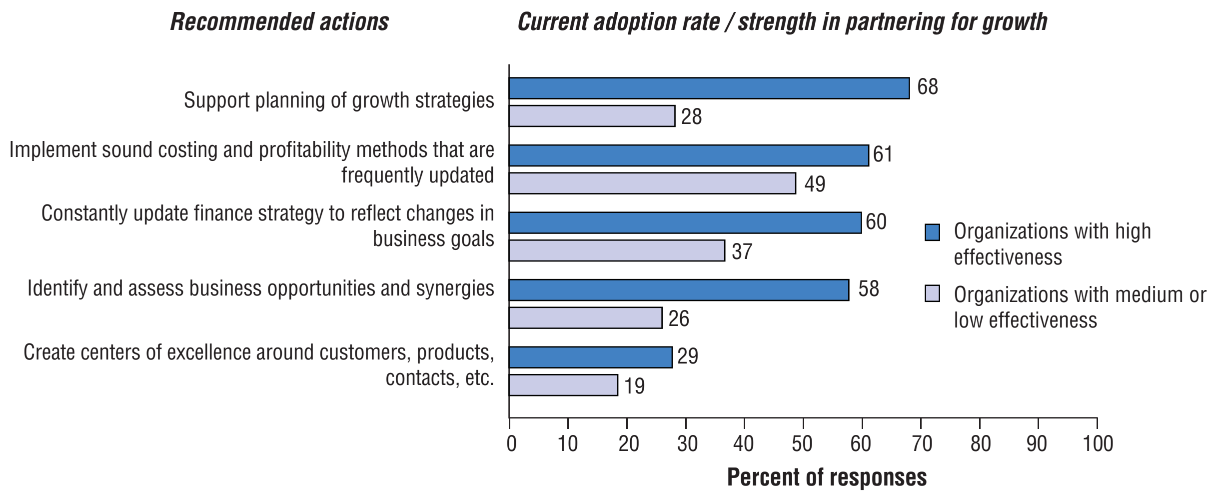


Responses = 869
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

In addition to the most common activities planned to support growth, highly effective Finance organizations also place a strong emphasis on identifying and assessing business opportunities and synergies while supporting the planning of growth strategies (see Figure 12). This highlights a shift from focusing on reporting historical financials to providing predictive insight.

As highly effective Finance organizations partner in the future of the enterprise, it is important that they continually update their Finance strategies to reflect changes in business goals. Without business understanding and acumen, Finance professionals not only risk being disconnected from other executives, they also, more importantly, may encourage decisions that are not aligned with the enterprise's strategic goals, which can potentially erode enterprise value.

Figure 12. Partnering for growth.



Note: This figure includes only those actions where the difference between highly effective and less effective organizations is statistically significant.
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

When driving growth insight, CFOs should ask these questions:

- How does your Finance organization align its strategy to the overall enterprise strategy?
- How does Finance help to document, test, communicate and refine assumptions on which growth strategies are made?
- How often does your Finance organization update its strategy to reflect changes in business goals? What triggers these updates?
- How does Finance maintain a sound understanding of cost and profitability – by customer, by product, by channel, by contract?
- How often are costing and profitability methods updated to reflect changes in business goals (e.g., new channels, new products/ services, etc.) and external events (e.g., commodity hedging, new competitors, etc.)?

Optimize decision support to enhance performance insight

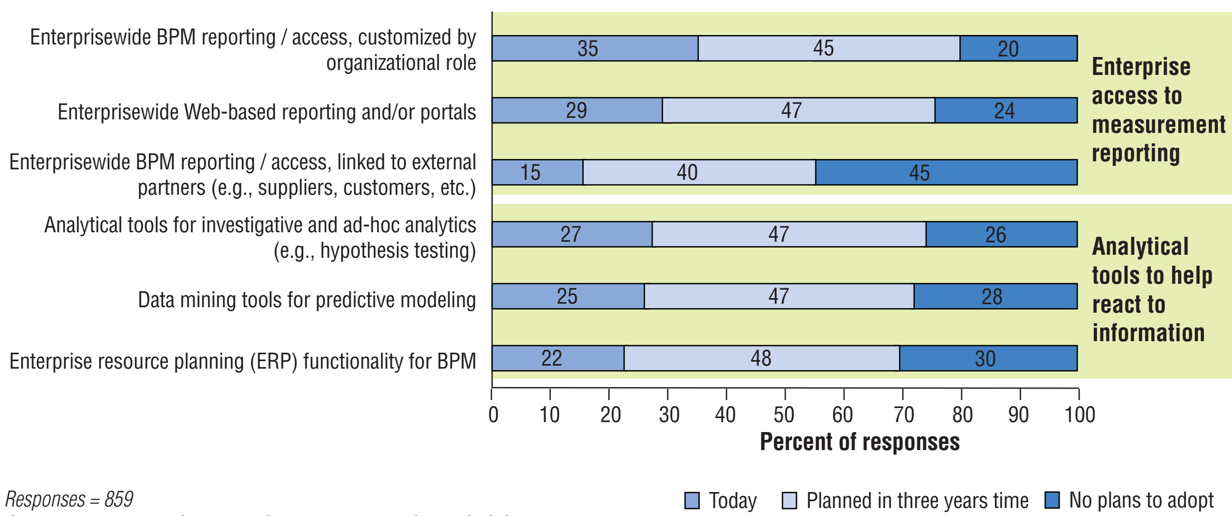
For the past several years, Finance has been incorporating business performance management (BPM) into its everyday work. Foundational investments have resulted in an increase in the amount of realtime, nonfinancial data that is now being managed by Finance and provided to business users. At the same time, the use of externally supplied data relating to the business environment also has increased. These developments mean that Finance can more readily deliver useful nonfinancial information and insight to decision makers to enable them to make adjustments to their operations and plans.

> "We would like fully digitized performance reporting on the desktop, in realtime, for every executive and manager."
>
> – *CFO, Large Asia Pacific Bank*

More than half of the Finance organizations in our study have already adopted standard planning, budgeting and forecasting processes, and 73 percent of organizations are integrating actuals, forecasts, budgets and variance reporting. Study participants predict that this will increase to 96 percent in just three years. Adoption of processes for operational monitoring such as exceptions-based reporting and analytics is less prevalent at 38 percent but is expected to more than double to 82 percent within three years.

Meanwhile, the adoption of business performance management *tools* (see Figure 13) significantly lags *process* adoption. However, Finance organizations

Figure 13. Adoption of business performance management tools.

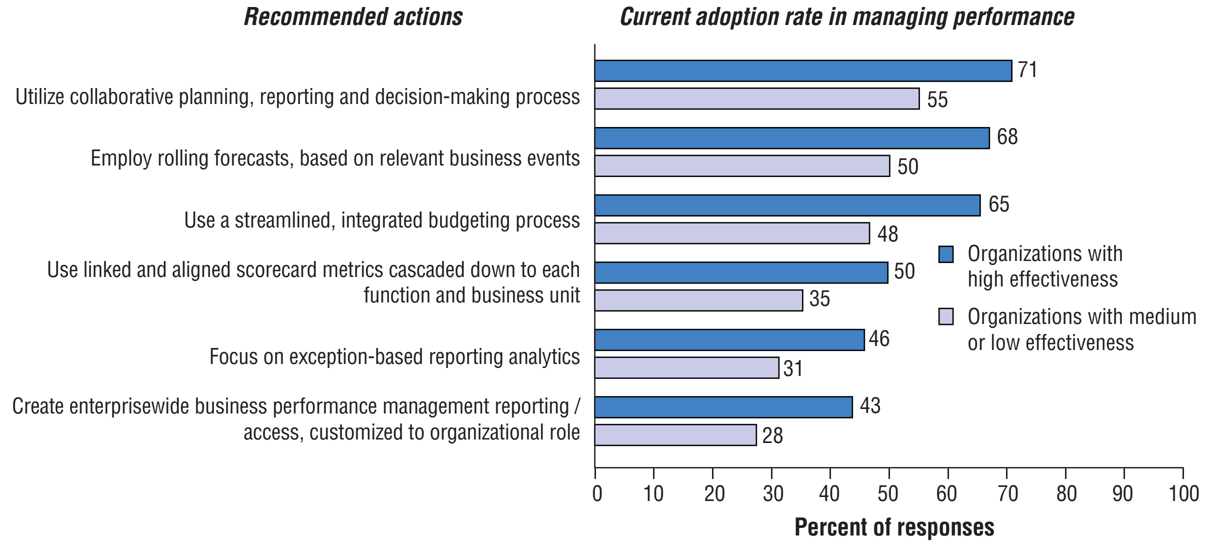


Responses = 859
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

recognize a significant opportunity to adopt these tools to drive greater value from current processes. Participants expect dramatic increases in their use of ERP functionality and analytical tools for investigative analysis, ad-hoc analysis and predictive modeling. They are also planning to improve enterprisewide access to reporting information to create greater collaboration within the enterprise as well as with their value network (e.g., suppliers, customers, etc.). Importantly, this access will be customized to organizational roles to increase relevance to the end user.

While Finance is aggressively pursuing performance management frameworks, the cascading of metrics down to functions and business units appears to lag executive level scorecards. To be truly effective, these efforts need to be linked and aligned. Moreover, metrics appear to be better aligned to groups and teams than to strategy and roles. Highly effective Finance organizations seek to integrate transparent role-based metrics and exception reporting and fully cascade the metrics consistently throughout the enterprise (see Figure 14).

Figure 14. Optimizing decision support.



Note: This figure includes only those actions where the difference between highly effective and less effective organizations is statistically significant.
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

When driving performance insight, CFOs should ask these questions:

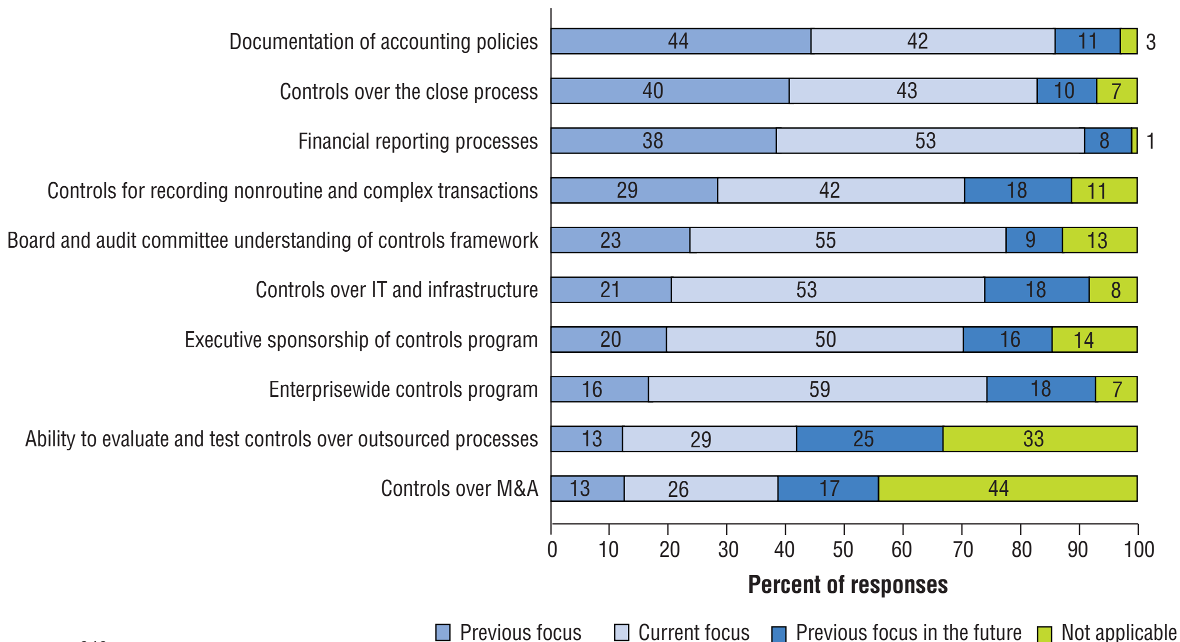
- How integrated and streamlined are the planning, budgeting, forecasting and decision-making processes?
- How extensively is external data used in forecasting/reporting processes?
- How do you ascertain that performance management metrics are fully cascaded throughout the business? Are metrics role-specific? Are they aligned to business strategy and key business drivers?
- To what degree does your organization utilize exception-based reporting and analytics?
- Does your organization have an effective understanding of the quantifiable relationships between business drivers and performance outcomes? Can it predict the impact changes in these drivers will have on performance outcomes? Is there a process for testing, refining and communicating this understanding?

Drive beyond compliance to enhance risk insight

Today, Finance is fairly effective in control and compliance areas. While reporting processes, documentation of accounting policies and controls over the close process have been (and continue to be) areas of focus, study participants indicated they are expanding their concentration to include enterprisewide controls and providing controls over IT and infrastructure (see Figure 15). Finance also recognizes the need for executive sponsorship of control programs and Board understanding of the controls framework.

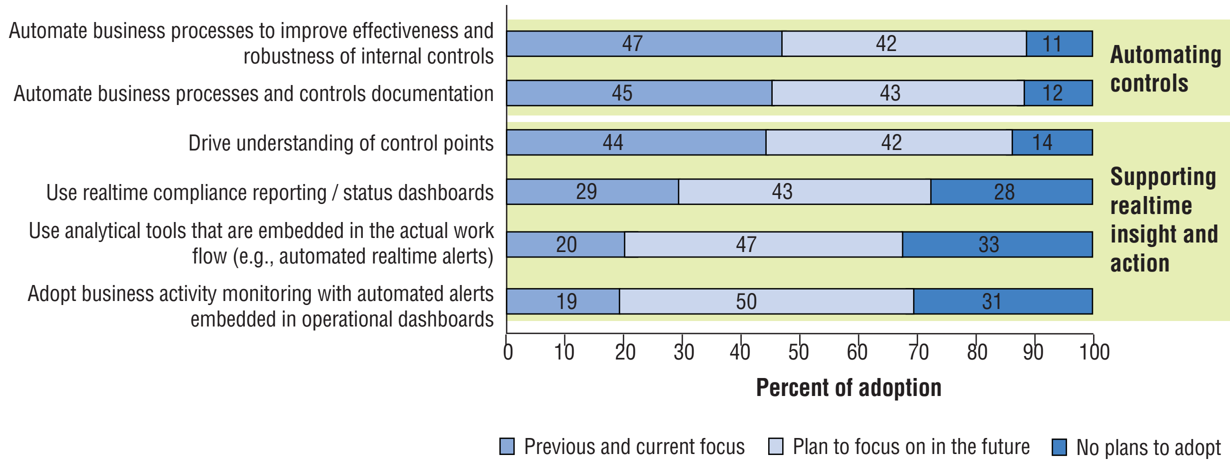
Meanwhile, study results show that Finance appears to be further along with automating controls than with supporting the realtime actions that might produce greater insight (see Figure 16). The regulatory environment has driven this difference. However, Finance indicates a future focus on embedding automated alerts and analytical tools in dashboards and work flow monitoring and management tools, underscoring the recognition that risk insight must be broadened and incorporated into the everyday routine of running the business.

Figure 15. Plans for internal control areas.



Responses = 846
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Figure 16. Automated processes and tools enable risk insight.



Internal Control Actions (Responses = 619); BPM Tools (Responses = 859)
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

"We would like to spend less energy in data collection and reporting, more in planning and control."

– Finance Director, Leading European Provider of Custom Third-Party Warehouse Logistics

Additionally, Finance has begun to leverage future-oriented risk management activities to provide insight into emerging opportunities. Eighty percent or more of those surveyed indicate that they are actively participating in the identification, analysis and assessment of risks associated with opportunities.

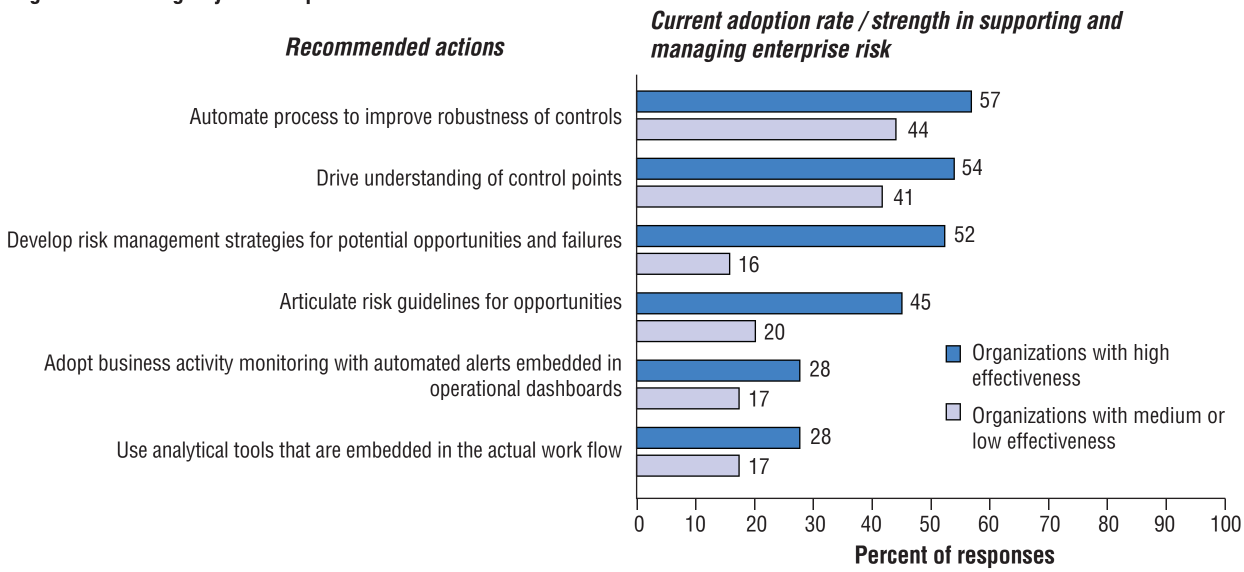
"With margins shrinking, we are looking to move culture from risk-averse to risk-managed."

– CFO, Large Asia Pacific Bank

One-third of highly effective Finance organizations are driving beyond compliance by taking a broader view of their roles in enterprise risk management. While managing the traditional areas of risk (e.g., compliance, liquidity and credit) as others do, these organizations are twice as likely to address nontraditional areas such as operational, market, strategic and/or event risk.

These organizations employ performance dashboards and analytical tools focused on risk/reward planning and decisions (see Figure 17). Because a major failure can spell disaster for the entire enterprise, highly effective organizations are proactively developing risk management strategies for potential opportunities and missteps (e.g., exit strategies, etc.). They articulate proactive risk guidelines for new opportunities, thereby increasing full awareness of both downside and upside risk. Dashboards and analytical tools further enhance the ability of end users to incorporate risk into their decision making and help create a culture that is in control but not operating in an overly risk-averse environment.

Figure 17. Driving beyond compliance.



Note: This figure includes only those actions where the difference between highly effective and less effective organizations is statistically significant.
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

When driving risk insight, CFOs should ask these questions:

- How often is your Finance organization providing the appropriate risk mitigation strategies? Is your organization formally supporting the development of these strategies or reacting to events as they occur?
- How does your Finance organization currently incorporate risk consideration and guidelines when analyzing potential opportunities and failures?
- Within your organization, how prevalent are risk-based metrics and dashboards with embedded automated alerts and analytical/modeling tools?
- To what extent has your organization automated processes and control points?

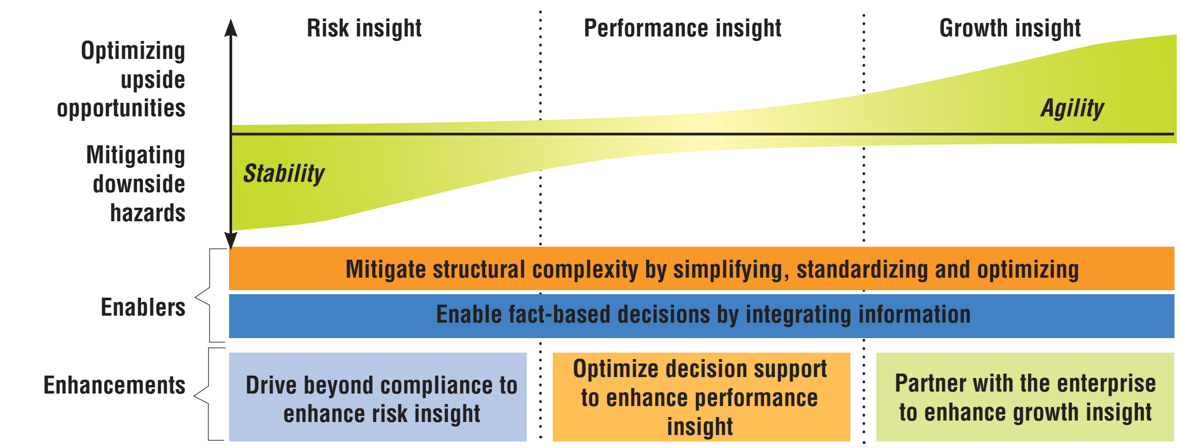
The roadmap forward

Today's highly effective CFOs are focused on building insight capabilities across their organizations to give their enterprises the flexibility necessary to rapidly respond to changing business conditions. Establishing an agile Finance organization that simultaneously delivers business insight related to growth, performance and risk helps create more value for the enterprise and is an emerging priority for study participants.

This more ambitious role for Finance requires a new model (see Figure 18).

Based on responses of highly effective Finance organizations, we have identified several key attributes CFOs will want to consider when planning the design of future financial processes, organization models, technologies and skill mixes (see Figure 19).

Figure 18. A model for the agile Finance organization.



Source: IBM Business Consulting Services.

Figure 19. Key attributes of an agile Finance organization.

Growth insight	• Business model and overall strategy are aligned • Business acumen within Finance • Continually targeting / refining data, report and insight requirements • Data requirements mapped to business and strategy • Delivery of role-specific insight based on requirements • Best-in-class external information (e.g., from suppliers, customers, etc.) leveraged
Performance insight	• Cross-functional / cross-silo frameworks • Cause-and-effect relationships across business defined • Business drivers widely understood • Accurate data • Skills to enhance business partnering
Risk insight	• Controls reflect business drivers • Embedded investigative analytics to detect risk • Role-specific risk automatically flagged • Use of enterprise risk management tools (e.g., risk assessment, risk tolerance/what ifs)

Source: IBM Business Consulting Services.

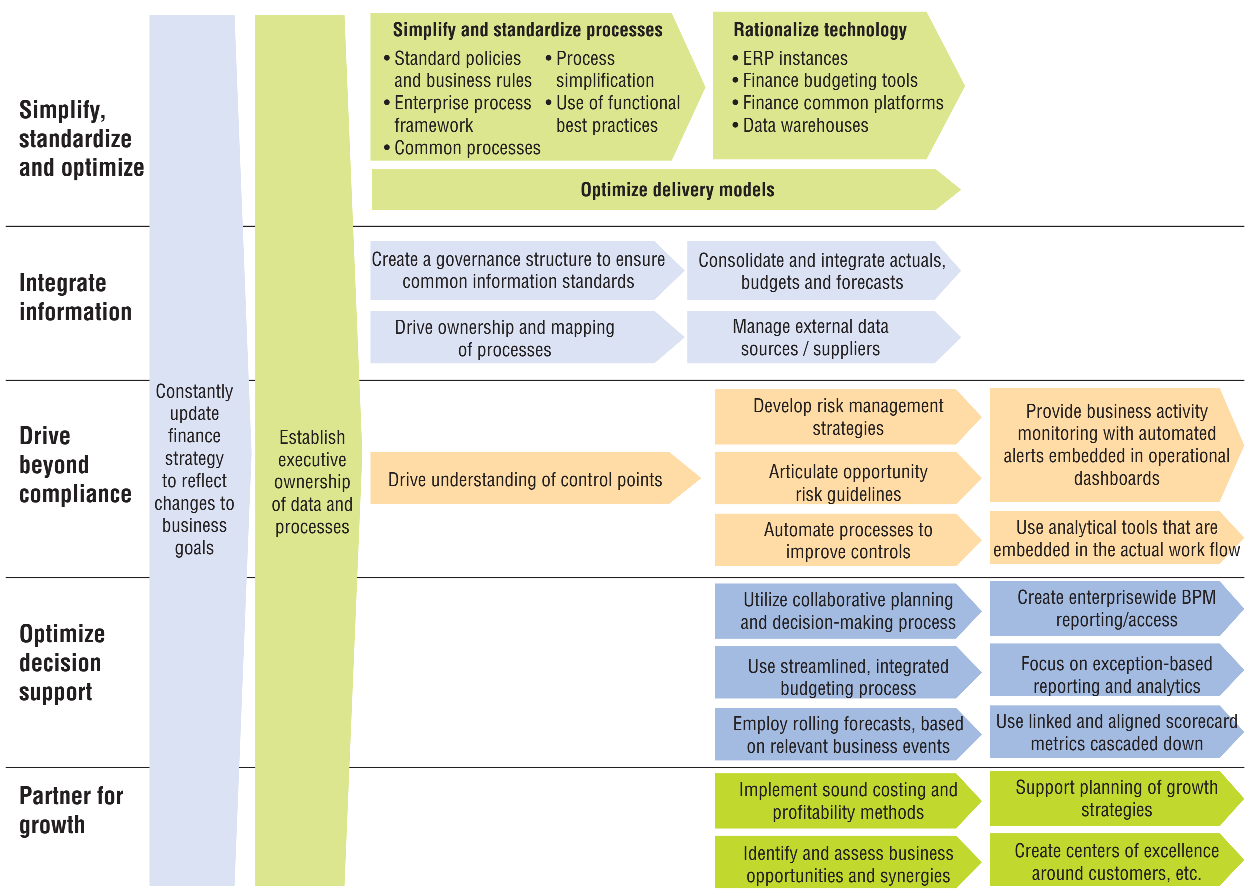
Finance organizations appear to be taking a two-step approach to developing an agile organization, as depicted in Figure 20. While Finance organizations can pursue the steps in parallel, organizations that first build a streamlined foundation position themselves to deliver financial and operational information with greater speed and integrity. They can then focus on enhancing existing strategies and initiatives related to performance management and risk to deliver business insight to support growth.

The foundational enablers of this approach include increased commonality and standardization of processes and data structures. This streamlining facilitates more efficient integration of information and technology and helps reduce structural complexity across the organization.

Regardless of the sequence of actions taken, Finance organizations should establish executive accountability and ownership of enterprisewide data and processes as well as alignment with business goals.

To facilitate this transformation, CFOs should design an enterprisewide process framework as a prerequisite to controlled, structured process change and the definition of associated costs. To facilitate process optimization, CFOs should define the drivers of enterprisewide processes, determine how to achieve world-class performance standards for end-to-end processes, utilize process best practices

Figure 20. Roadmap of recommended actions by enabler/enhancement.



Source: IBM Business Consulting Services.

and implement technology enablers. By identifying the distinct components of their organization and examining whether each is core to the business and a source of differentiation, CFOs can begin to segregate which processes and activities can best benefit from shared services or outsourcing.

When taking an enterprisewide approach to process management, organizational and service delivery models for Finance need to be evaluated and potentially modified. A single model, whether centralized or decentralized, will most likely be insufficient, as organizations will be required to leverage centers of excellence, optimize limited skills, rationalize redundancies and align with overall process redesign. Our study findings suggest that shared services and outsourcing models will become more common as Finance organizations realign their operating models.

Finally, the technology environment will need to be more flexible and responsive to the rapid need for business insight. Process-based and service-oriented technology models are emerging as companies integrate and exploit their ERP platforms and business intelligence applications to enhance flexibility.

Conclusion

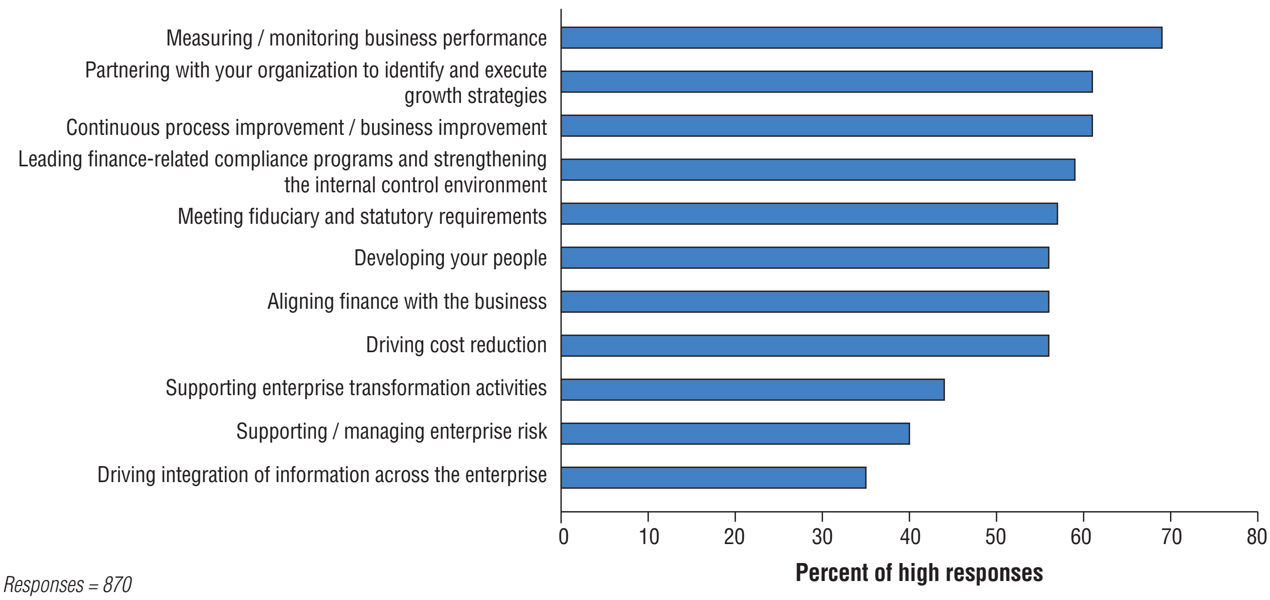
The demands placed on Finance organizations continue to evolve as they transition from reporting historical financials and assuring compliance to providing predictive insights and actively partnering with the business in decision making. Highly effective Finance organizations mitigate risk and help ensure stability of the business while, at the same time, remaining agile enough to provide insights across the top three importance areas of risk, growth and performance.

The first steps to enabling insights are mitigating structural complexity and integrating information across the enterprise. Once the stage is set, Finance organizations then can simultaneously drive beyond compliance activities to enhance risk insight, optimize decision support to enhance performance insight and partner with the enterprise to enhance growth insight. By refocusing their efforts and aligning their strategy with that of the business, Finance organizations will be able to emerge as a strategic business partner and help create value across the enterprise.

The Global CFO Study 2005 participant responses

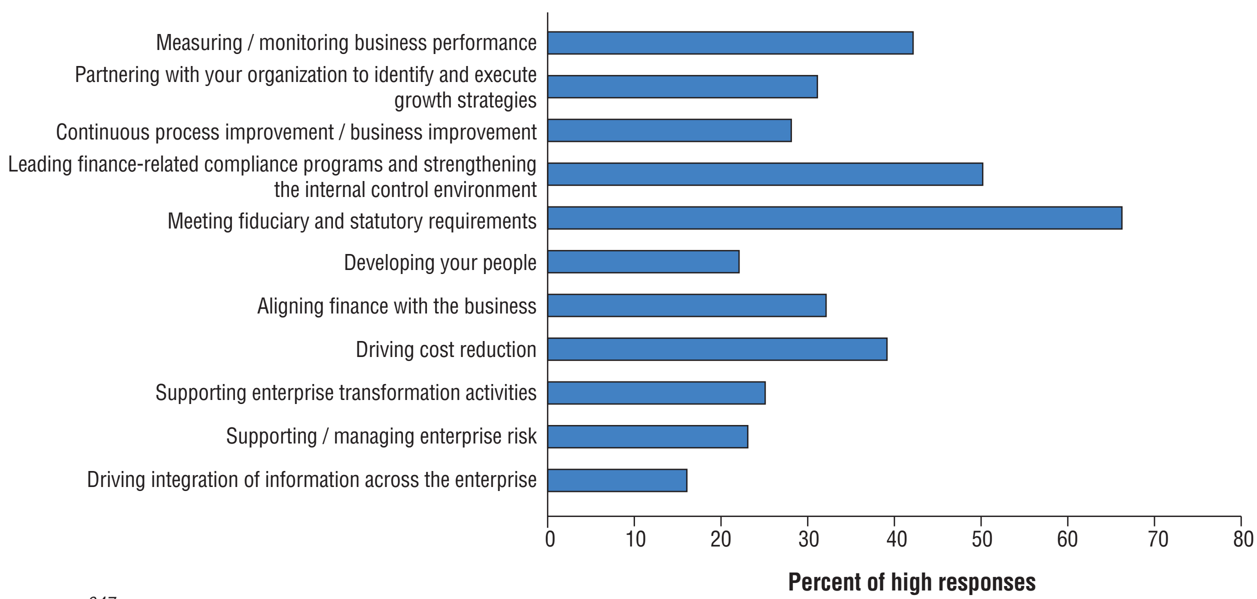
This section contains more detailed response data from the IBM 2005 Global CFO Study.

Which of the following are the most important areas of focus in your role as a Finance professional?



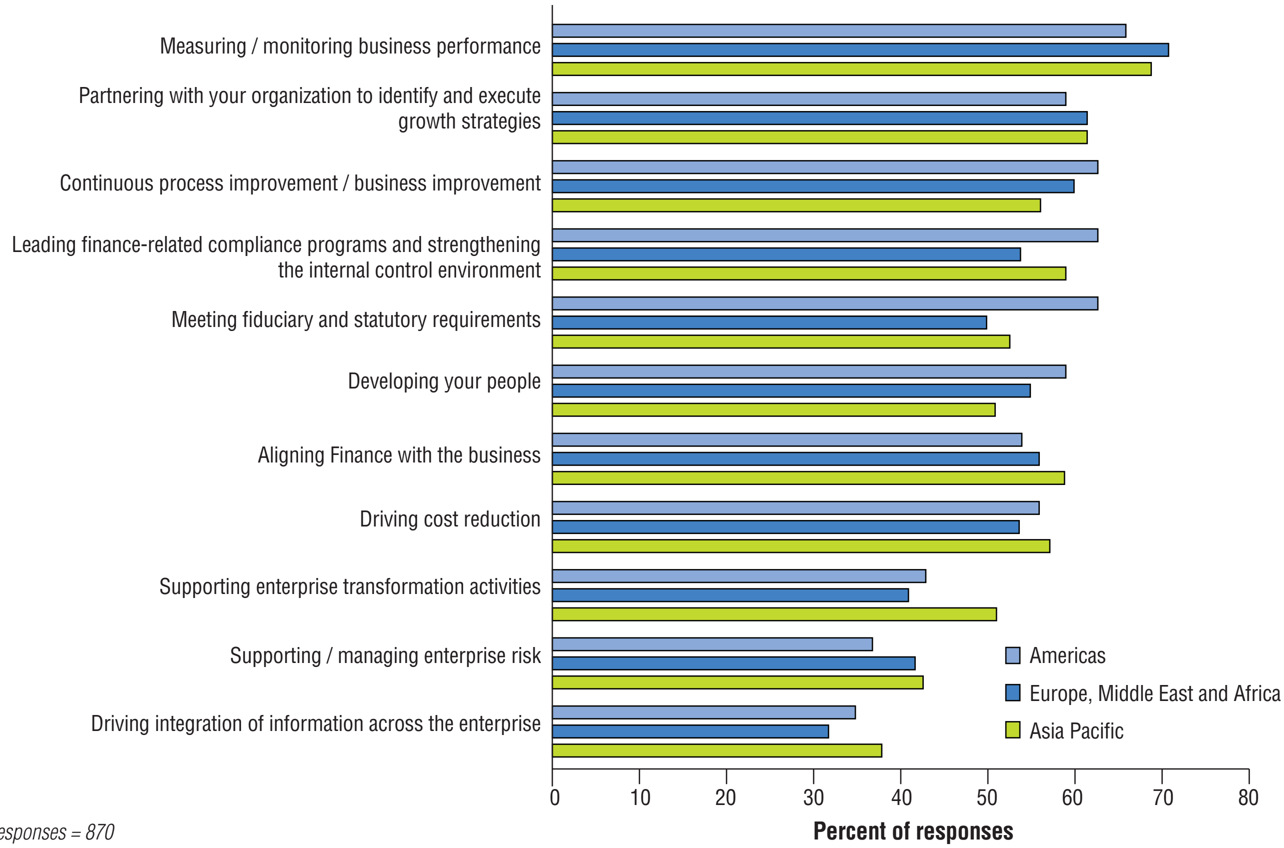
Responses = 870
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

How would you rate the effectiveness of your Finance organization in each of the following areas?



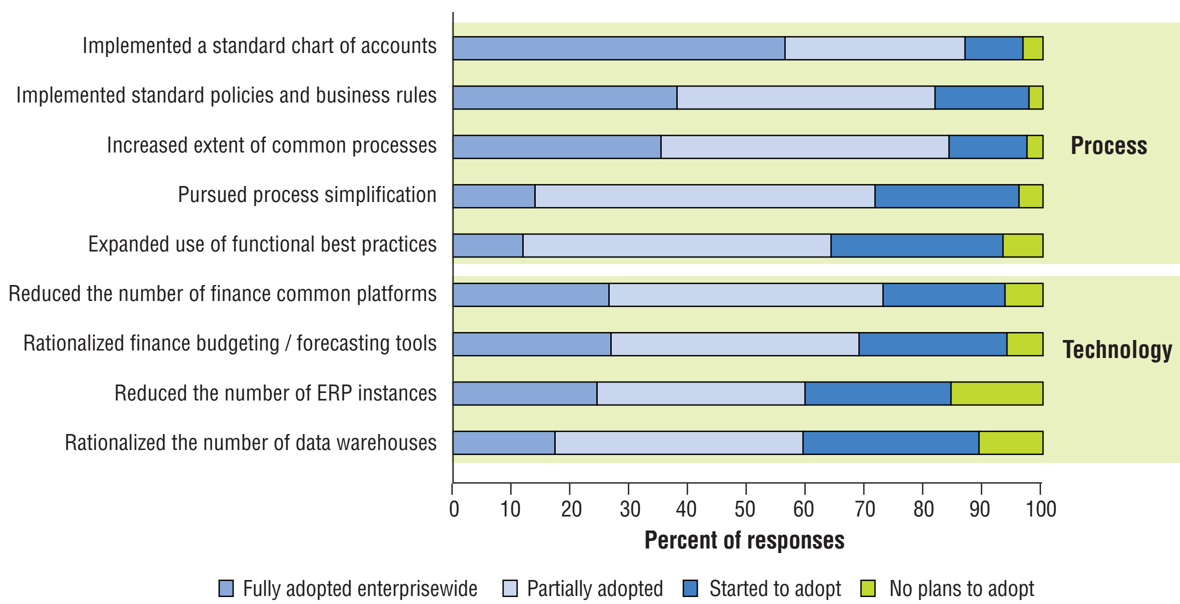
Responses = 847
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Which of the following are the most important areas of focus in your role as a Finance professional? (Responses by geography).



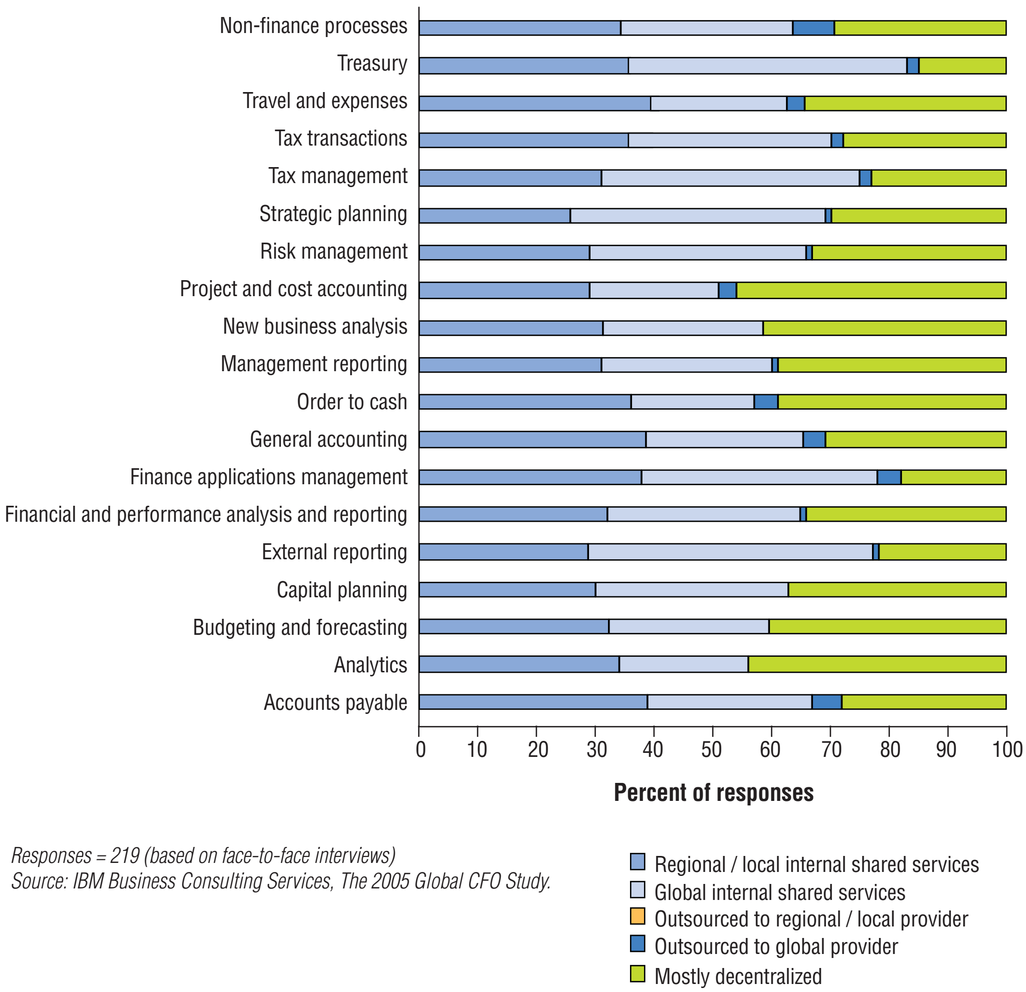
Responses = 870
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

How far along is your Finance organization in implementing the following process and technology improvements to address structural complexity?



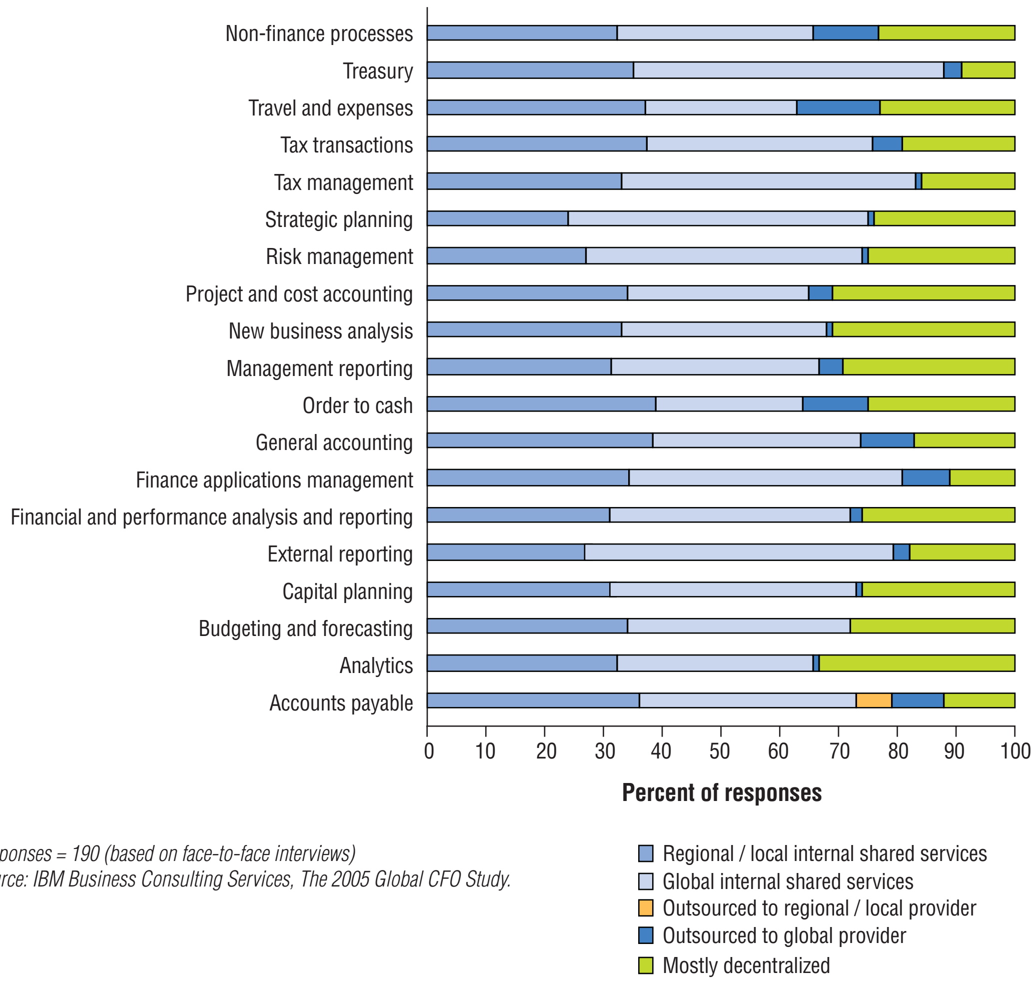
Responses = 844
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Which of the following service delivery models does your enterprise currently employ for each of the following processes?



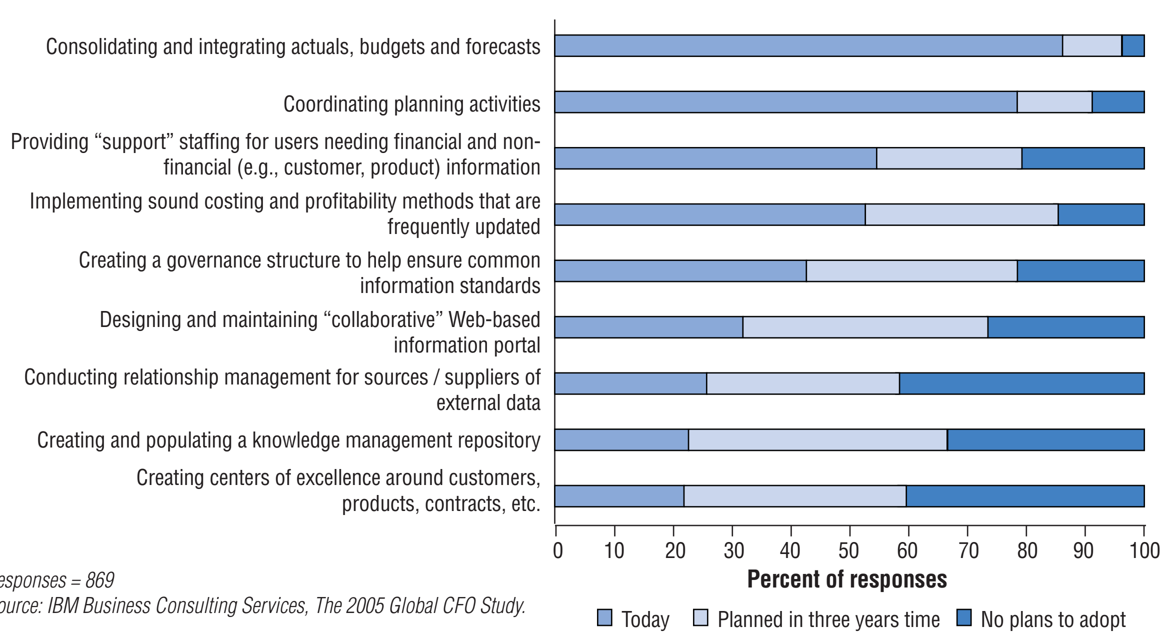
Responses = 219 (based on face-to-face interviews)
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Which of the following service delivery models will your enterprise employ within three years for each of the following processes?



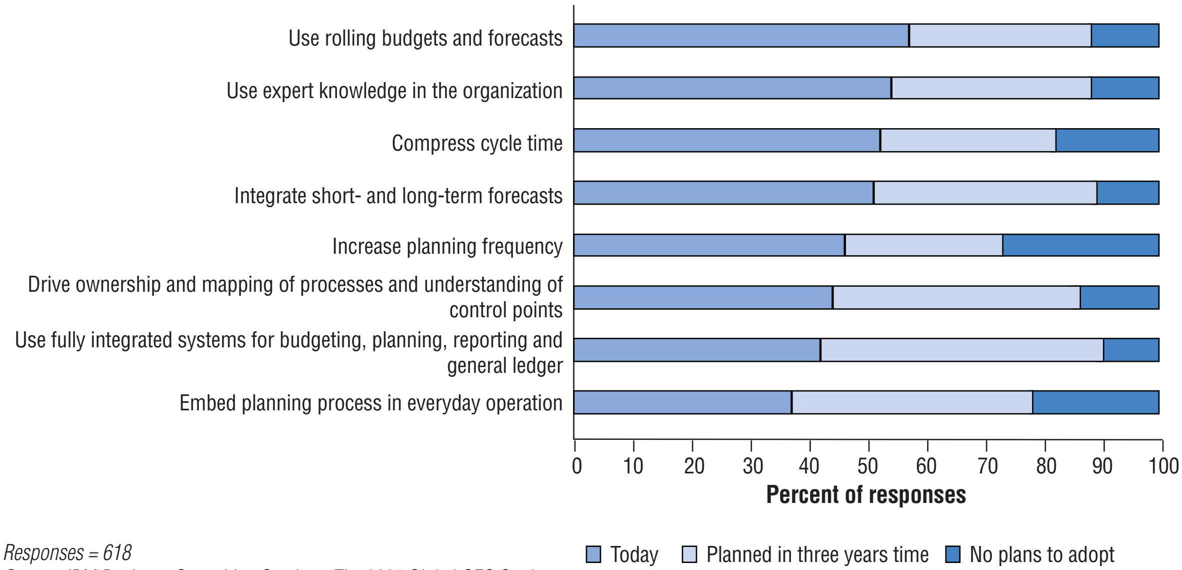
Responses = 190 (based on face-to-face interviews)
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Does your Finance organization currently undertake these activities to integrate information and delivery insight, or does it plan to do so?



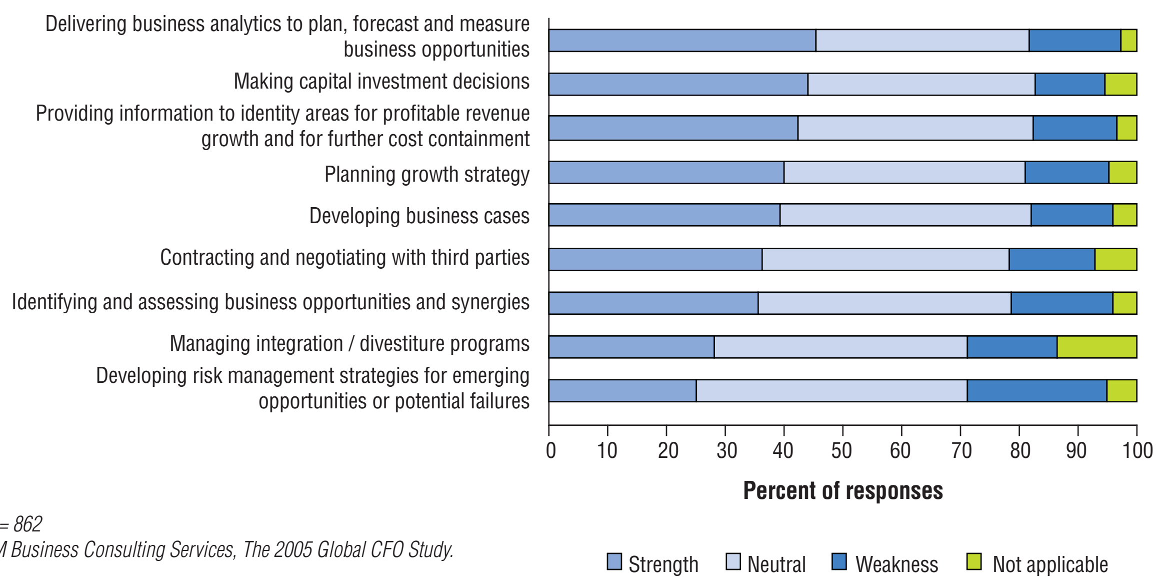
Responses = 869
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Which of the following processes does your Finance organization influence to increase the predictability of information?



Responses = 618
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

How would you rate your Finance organization's performance level in executing growth activities?

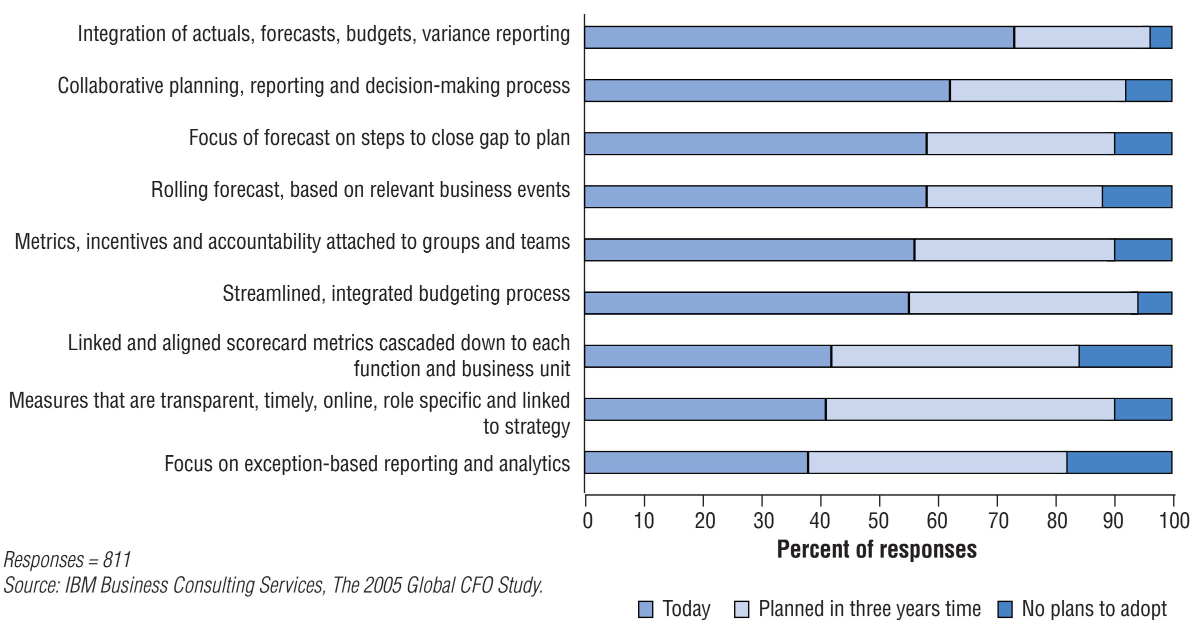


Responses = 862
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

How would you rate your Finance organization's level of support for innovation?

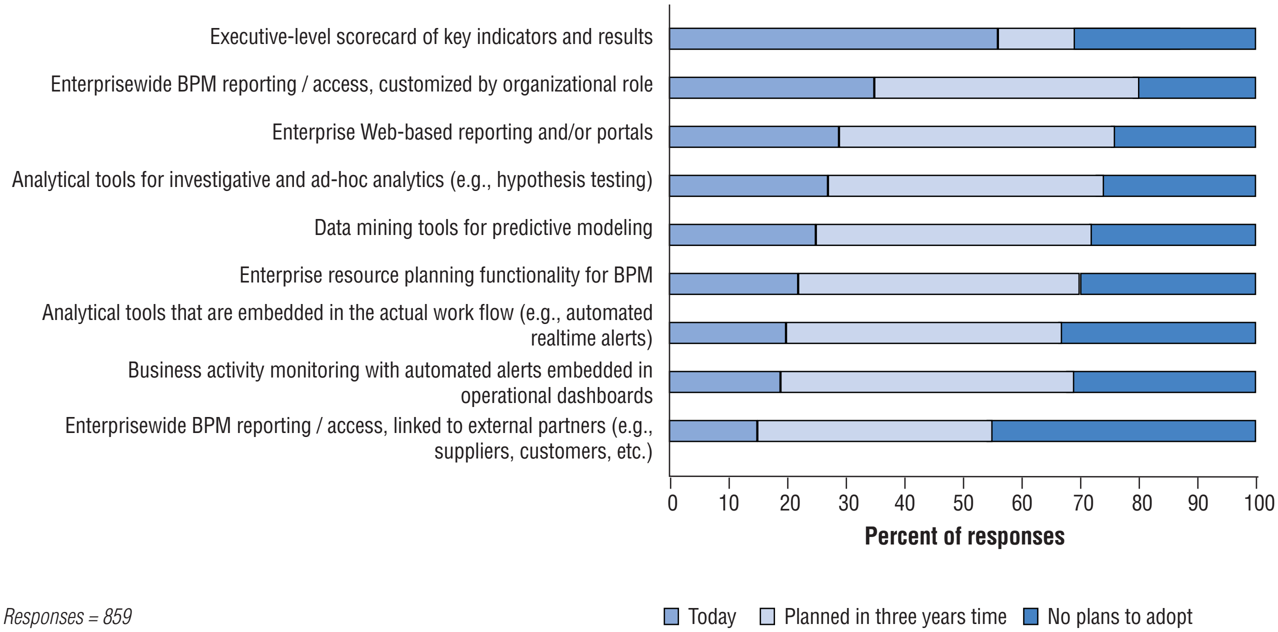
Responses = 817
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Does your enterprise plan to adopt these processes for creating an integrated and continuous information management environment?



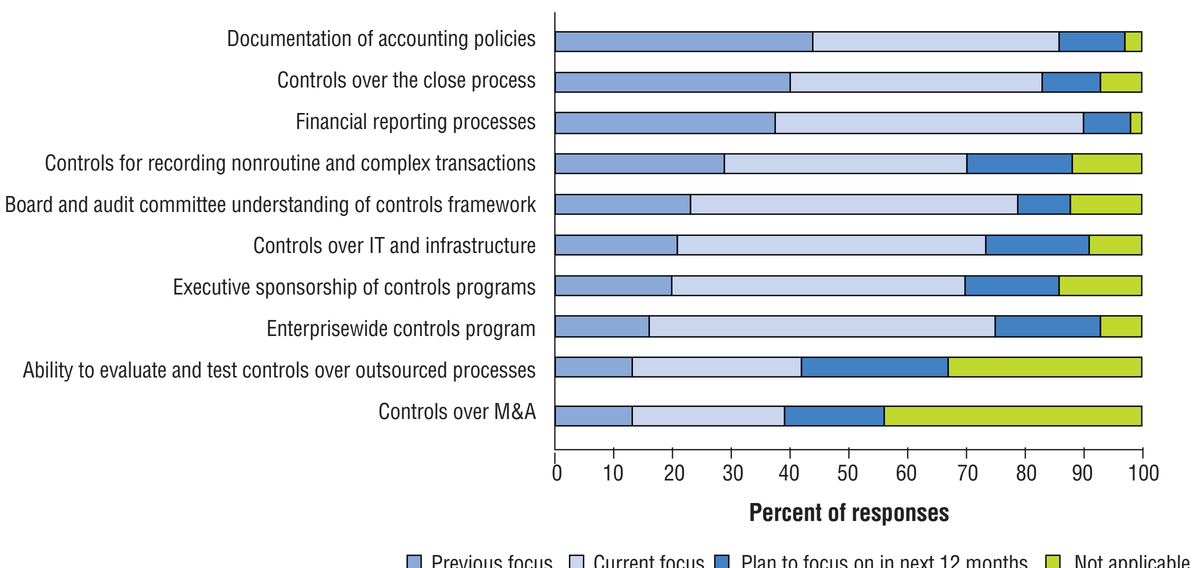
Responses = 811
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Does your enterprise plan to adopt these business performance management tools?



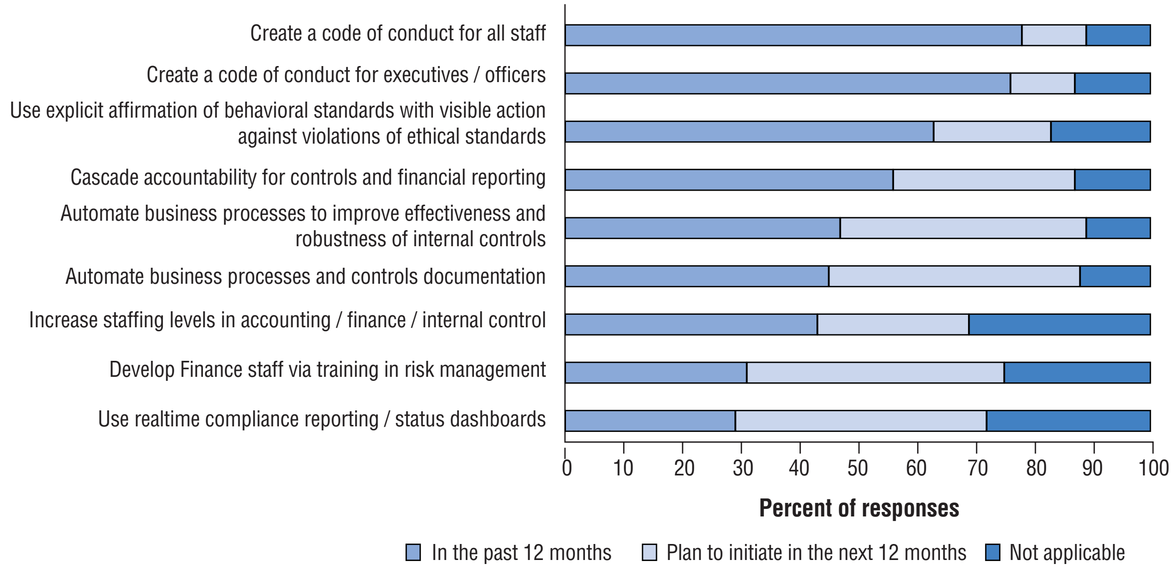
Responses = 859
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Does your Finance organization focus on – or plan to focus on – the following internal control areas?



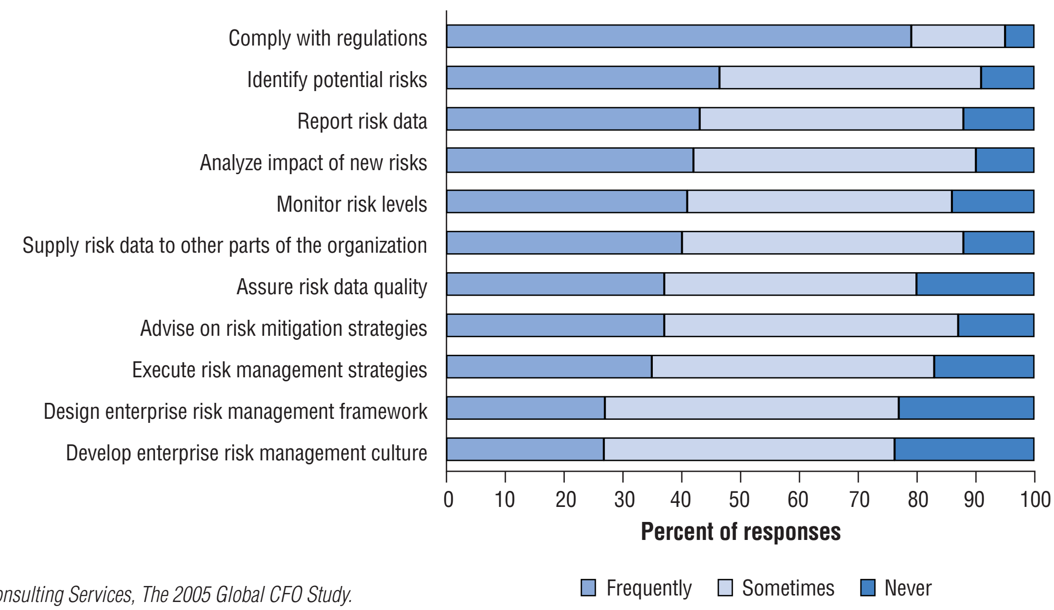
Responses = 846
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Has your Finance organization implemented and mandated the following internal control actions?



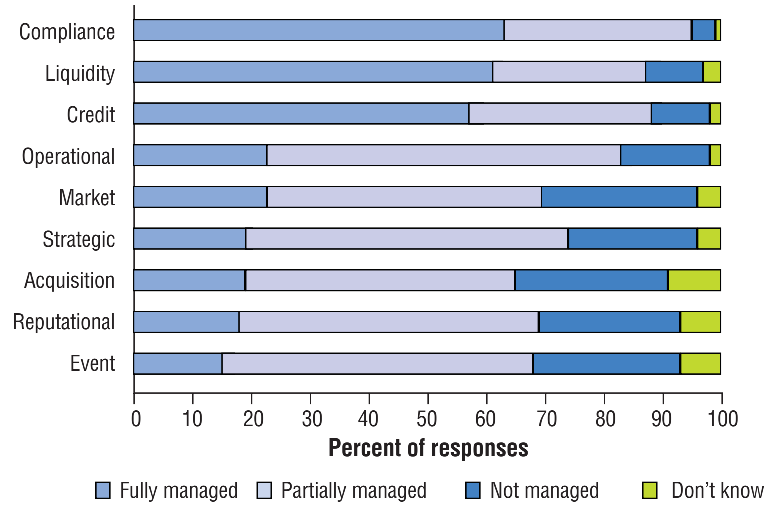
Responses = 619
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

How often does your Finance organization support the following enterprisewide risk management activities?



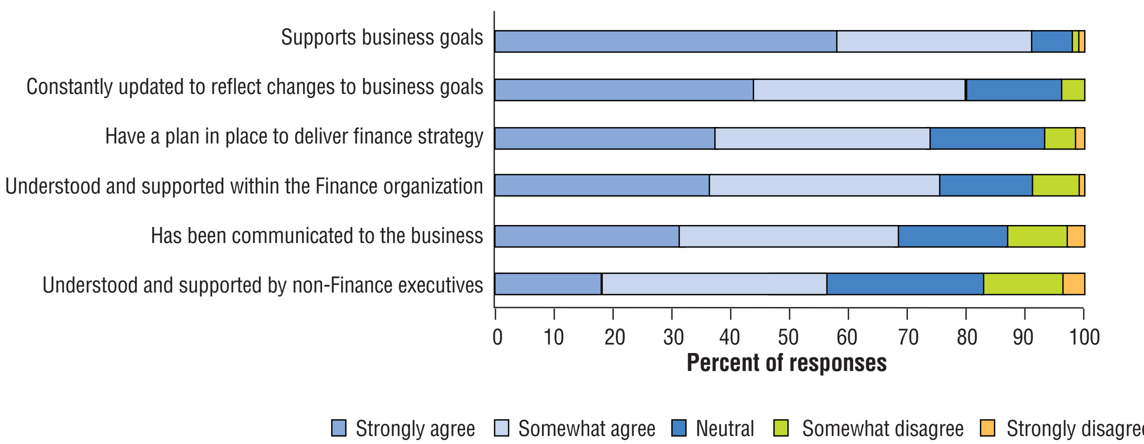
Responses = 807
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

To what extent are the following risks managed by your Finance organization?



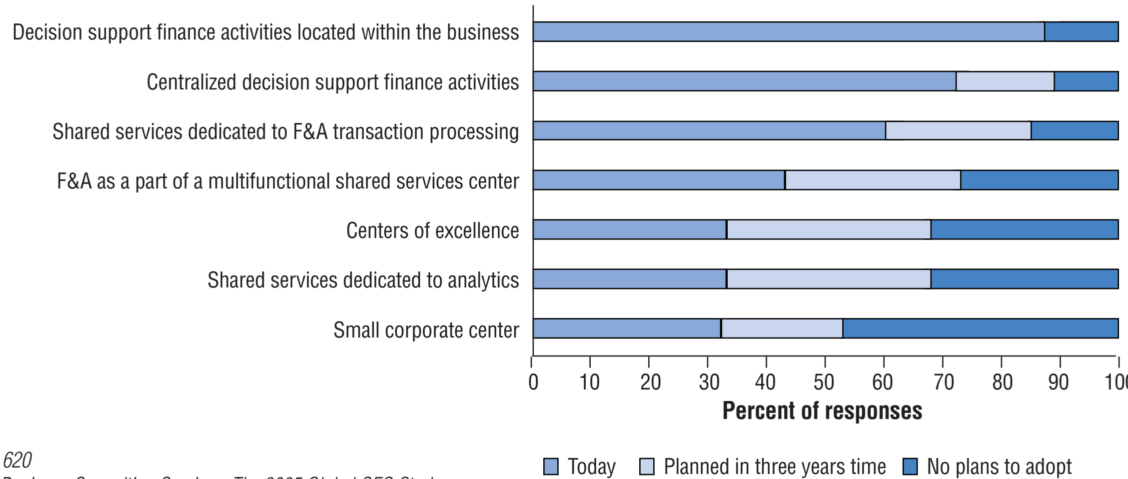
Responses = 808
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

To what extent do you agree with the following statements about your Finance organization's strategy?



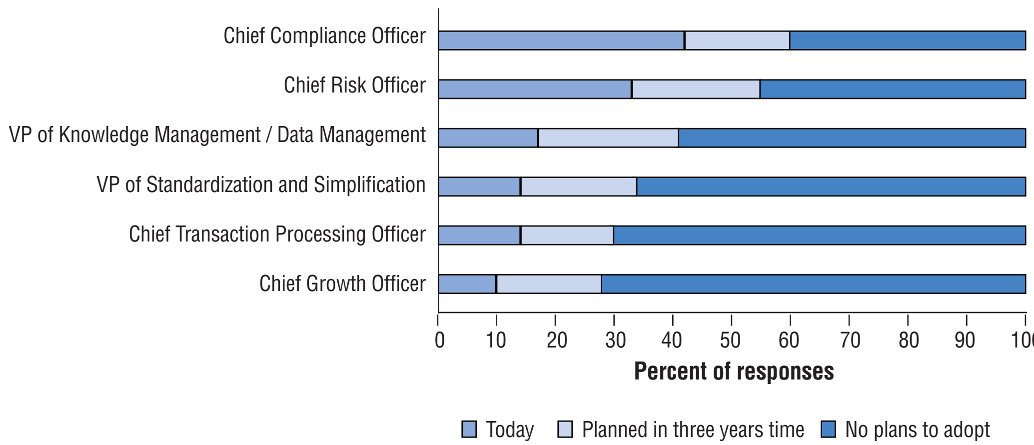
Responses = 847
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Which of the following structures does your Finance organization employ?



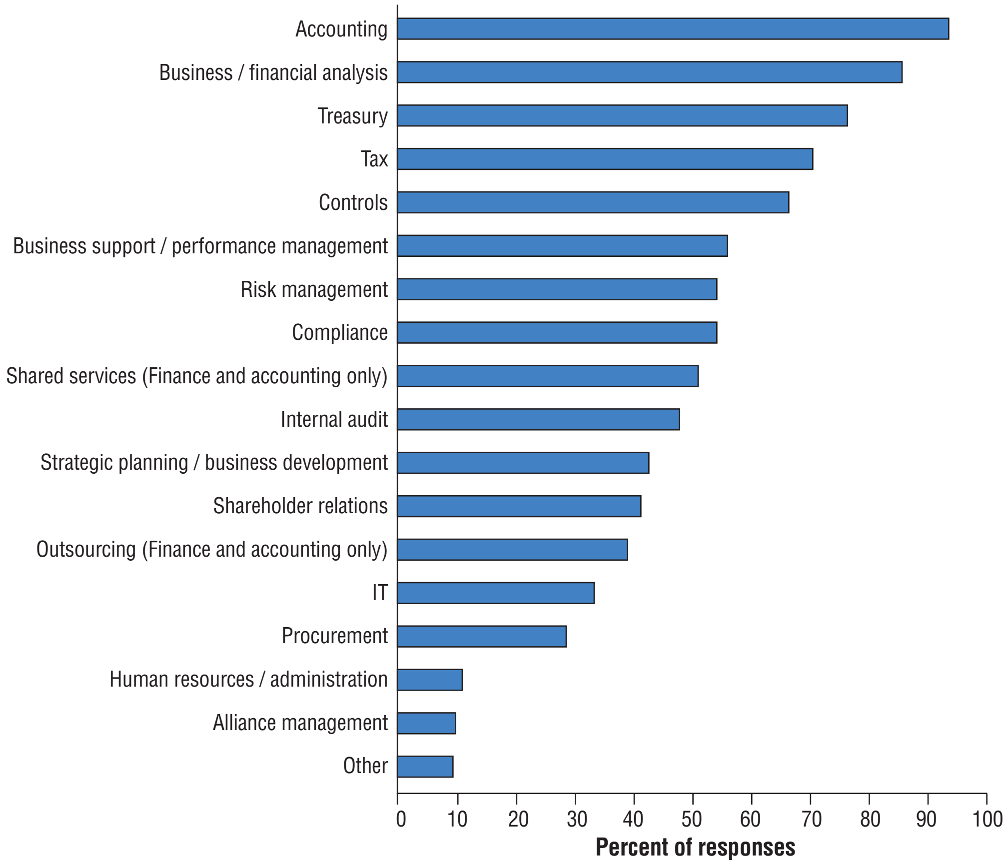
Responses = 620
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Which of the following roles does your Finance organization employ?



Responses = 618
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

Which of the following functions reports into the CFO of your organization?



Responses = 870
Source: IBM Business Consulting Services, The 2005 Global CFO Study.

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References and notes

[1] Organizations are classified as highly effective based on the participants' rating of the following question, "How would you rate the effectiveness of your organization in each of the following areas?"

[2] IBM Business Consulting Services analysis of the quarterly reports of 289 public companies in our survey sample.

[3] Bramante, Jim. "CFO survey: Current state and future direction." IBM Business Consulting Services. November 2003.

[4] Rogers, Steve and Susan D. Stewart. "Finance Shared Services and Outsourcing: Magical, Mythical or Mundane." IBM Business Consulting Services. May 2005. http://www-1.ibm.com/services/us/index.wss/ibvstudy/imc/a1011250?cntxt=a1000074. This paper was based on the IBM 2005 Finance Shared Services and Outsourcing Survey, a global study of 210 CFOs in 45 countries that was conducted to assess progress made in the effective and efficient use of delivery models.

[5] "Your Turn: The Global CEO Study 2004," IBM Business Consulting Services. 2004. http://www-1.ibm.com/services/us/index.wss/ibvstudy/bcs/a1001708?cntxt=a1000074. This global survey of more than 450 CEOs was conducted to understand their planning agendas for the next two to three years.

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