



The New Value *Integrator*

*Insights from the
Global Chief Financial
Officer Study*

IBM

This study is based on conversations with more than 1,900 Chief Financial Officers worldwide.



Mark Loughridge
Senior Vice President
and Chief Financial Officer
IBM Corporation

A note to fellow CFOs

In the two years since our last study of Chief Financial Officers (CFOs) worldwide, a new economic environment has emerged, challenging enterprises in ways both familiar and new. Pressures have intensified for CFOs, but new possibilities have arisen as well – notably, to reshape the mission of the Finance organization.

At IBM, our view is that times of upheaval are always opportunities for positive and transformational change, which is why I am heartened by these findings that show leading enterprises well on their way to charting a new course. Their Finance organizations have both a high level of efficiency and an expanded capacity to provide meaningful business insights that meet the new challenges – and opportunities – being raised across the enterprise.

We call these Finance organizations Value Integrators.

Value Integrators are skilled at navigating uncertainty; and on every measure we examined – revenue growth, EBITDA and return on invested capital – their enterprises outperformed their peers. They do so in large part because they excel at integrating information company wide, analyzing it and converting it to a competitive asset – new intelligence. Their more forward-looking insights are applied across the enterprise from strategic planning to operational optimization and are used to manage risk, reduce costs and spot new opportunities.

In short, Value Integrators have stepped up to a new role – to help the business make all manner of enterprise-wide decisions better, faster and with more certainty of intended outcomes. This is the potential unleashed by a smarter planet, taking information in a complex and volatile environment and providing predictive insights that give the company a competitive edge. Yet our study also shows that too many Finance organizations have yet to seize this opportunity – or meet their own expectations.

For almost a decade, CFOs have declared their ambition to shift their organizations' time spent on transactional activities to areas of greater influence involving analysis and decision support. Yet since 2003, on average, that mix has remained largely unchanged, and Finance continues to spend half its time on transaction processing.

Our findings show a growing divide – with some Finance organizations excelling at efficiency and insight and performing well as a result, while far more face a widening gap between their basic ambitions and their ability to act on them.

For these Finance organizations, as well as for those at the forefront carving out new roles as Value Integrators, I am confident that the experiences and insights generated by the more than 1,900 CFOs and senior Finance leaders who participated in this study will be of benefit in the years to come.

I would like to take this opportunity to thank everyone who participated in the study for their generous support.

A handwritten signature in black ink, appearing to read "Mark". The signature is stylized with a large, sweeping 'M' and a 'k' that extends to the right.

Mark Loughridge
Senior Vice President and Chief Financial Officer
IBM Corporation

	Executive summary	6
Chapter One	<i>Expectations Versus Execution: The Growing Gap</i>	11
Chapter Two	<i>The Multiplier Effect: Efficiency and Insight</i>	19
Chapter Three	<i>Insight Drives Value</i>	25
Chapter Four	<i>Efficiency as Foundation</i>	39
Chapter Five	<i>Becoming a Value Integrator</i>	49
	How our research was conducted	58
	Acknowledgments	60
	The right partner for a changing world	61
	Notes and sources	62
	For further information	63

Executive summary

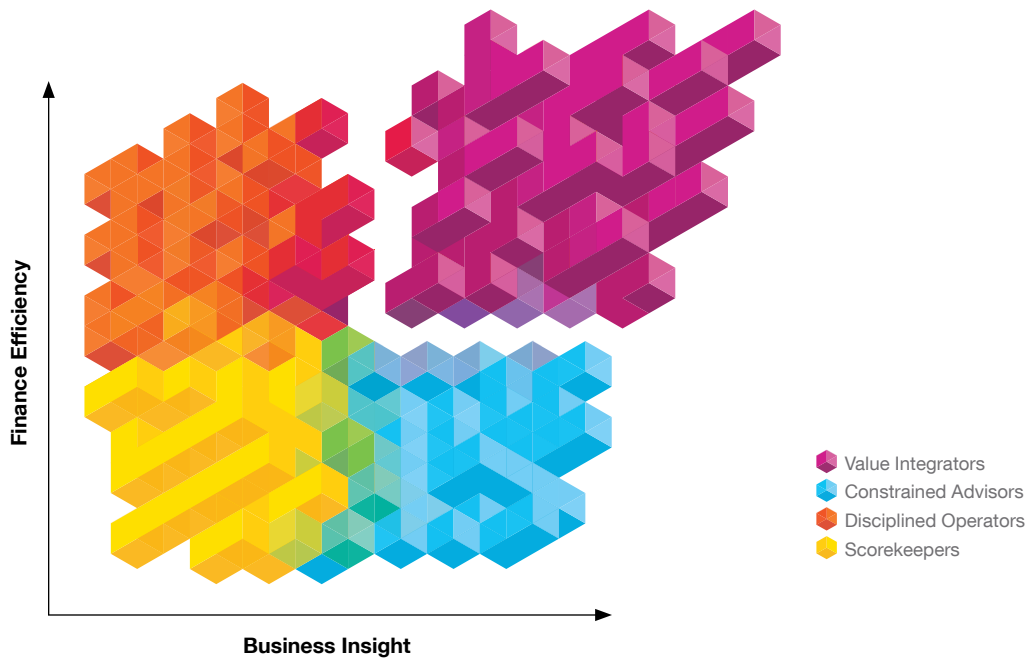
For Chief Financial Officers, the recent global economic downturn has been a pivotal event – but perhaps not in expected ways. Under a glaring spotlight, CFOs and their Finance organizations had to address urgent capital acquisition, cash flow and revenue challenges. But volatility and uncertainty also drew them into more frequent boardroom conversations about forecasts, profitability, risk management and strategic decisions related to supply chains, pricing and production. As a result, CFOs are emerging with far more influence at the enterprise level.

Our 2010 Global CFO Study – based on input from more than 1,900 CFOs and senior Finance leaders worldwide – attests to this shift.¹ While the importance of core Finance responsibilities has not diminished in any way, CFOs' focus on company-wide concerns has increased sharply. Simply stated, CEOs and Boards are counting on their CFOs to be fact-based voices of reason and insight.

Unfortunately, our findings indicate that Finance's effectiveness lags – particularly in these broader areas of responsibility and impact, where company success often hinges on the CFO's advice. More than 45 percent of CFOs indicate that their Finance organizations are not effective in the areas of strategy, information integration, and risk and opportunity management – all recurring themes from our 2005 and 2008 studies. With expectations rising faster than effectiveness, Finance faces a widening execution gap.

Value Integrators are closing the gap

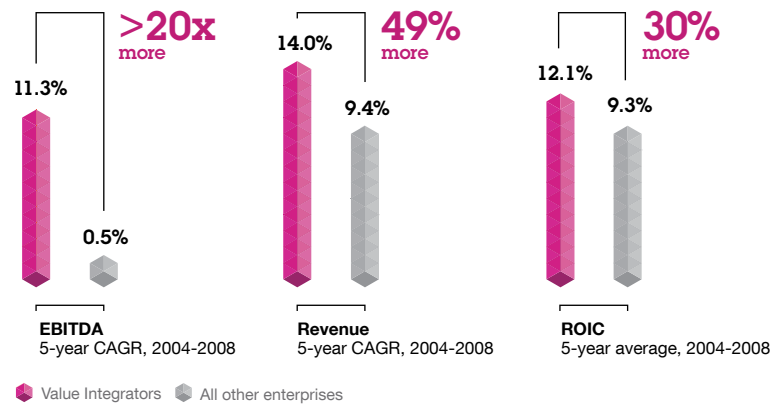
Our research, however, also points to a bright spot – one group of Finance organizations with a particular combination of capabilities stands out from its peers. These organizations – which we call Value Integrators – are more effective in every area assessed, with significant advantages in managing enterprise risk, measuring and monitoring business performance and driving insight from information integrated across their companies and governments.



But even more impressive, Value Integrators have figured out how to drive sustained business outcomes even during periods of market instability. Across every financial metric we examined – top and bottom lines, balance sheet, cash flow and operational efficiency measures – their enterprises outperform (see Figure 1).

So, what distinguishes this remarkable group?

Figure 1 Value Integrators consistently outperform. Their enterprises have experienced higher compound annual growth rates (CAGRs) in earnings before interest, taxes, depreciation and amortization (EBITDA) and revenue, as well as a higher average return on invested capital (ROIC).



The combination, not the individual capabilities

Value Integrators excel in two key areas: Finance efficiency and business insight. To reduce the complexity of their financial operations, they have implemented common processes across Finance, such as source-to-report, and standardized data and metric definitions, such as the components of gross margin. Finance efficiency makes them scalable, agile and fast.

They also have strong business insight capabilities. Their insights help them drive operational efficiency, spot market opportunities, react faster and ultimately predict changes in the business environment. To enable these capabilities, they have far greater levels of information integration across the enterprise, analytical talent that can effectively partner with the business, and more mature analytical capabilities, such as integrated planning and forecasting, scenario planning and predictive modeling.

Individually, each of these capabilities offers performance advantages – but together they offer far more. By doing both – executing their core Finance activities efficiently and providing the critical insights their businesses so desperately need – Value Integrators are helping their companies make much better decisions. The proof is in their performance.

To explain how we arrived at these conclusions, the chapters that follow will explore:

Expectations versus execution

Finance's readiness for a rapidly expanding role

The multiplier effect

The performance boost created by combining efficiency and insight

Insight drives value

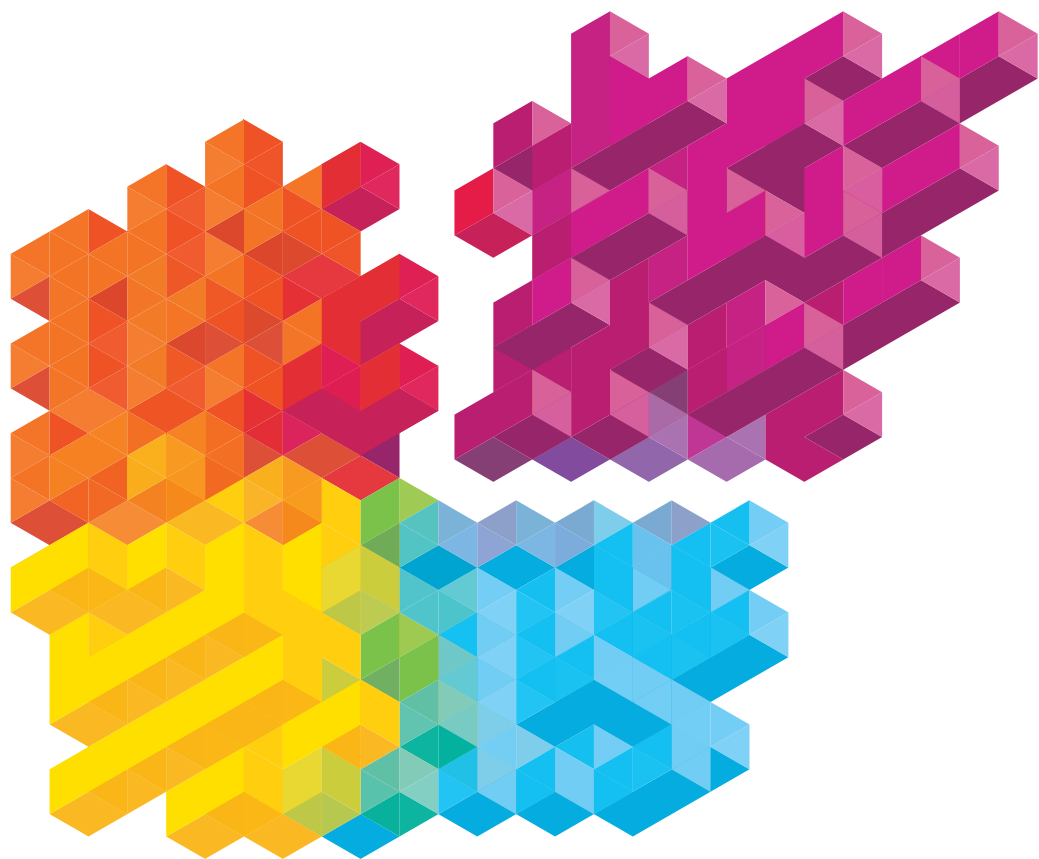
The struggle for business insight and how organizations are strengthening analytical capabilities

Efficiency as foundation

Why Finance efficiency matters more than ever and how to get there faster

Becoming a Value Integrator

How Finance organizations can advance their enterprises' abilities to make smarter business decisions



Expectations versus execution:

The Growing Gap

The “great global recession” has magnified the CFO’s role in the enterprise. But are CFOs and their Finance organizations ready to seize this opportunity?

“The world the CFO now lives in is different – technical accounting skills are not as important. Finance must get closer to the business and partner with them to achieve objectives. Finance must also be confident enough to challenge the decision-making process.”

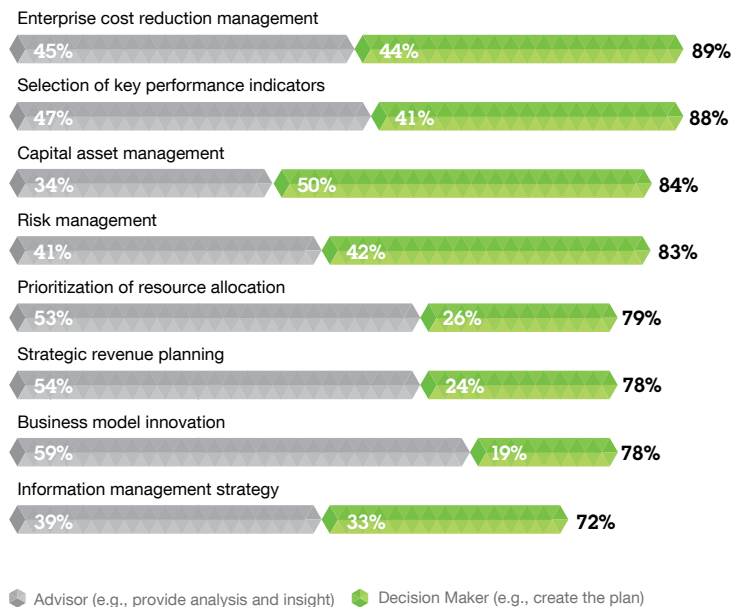
Paul Whelan, CFO, Telefonica O2 Ireland

The global economic crisis left indelible marks on businesses and governments worldwide. And CFOs expect volatility and uncertainty to continue. As one U.S. CFO shared, “My most significant fear regarding the current economic environment is its unknown duration.” In fact, more than two-thirds of our respondents believe the already intense pressure to reduce the enterprise cost base, make faster decisions and provide more transparency to external stakeholders will increase over the next three years.

This economic turmoil and continued uncertainty have pushed CFOs – whether their Finance organizations are ready or not – into the spotlight. They are the key company leaders CEOs and Boards are turning to for answers. A CFO from Canada summarized it well, “These are times when the CFO role is the most important in the company.”

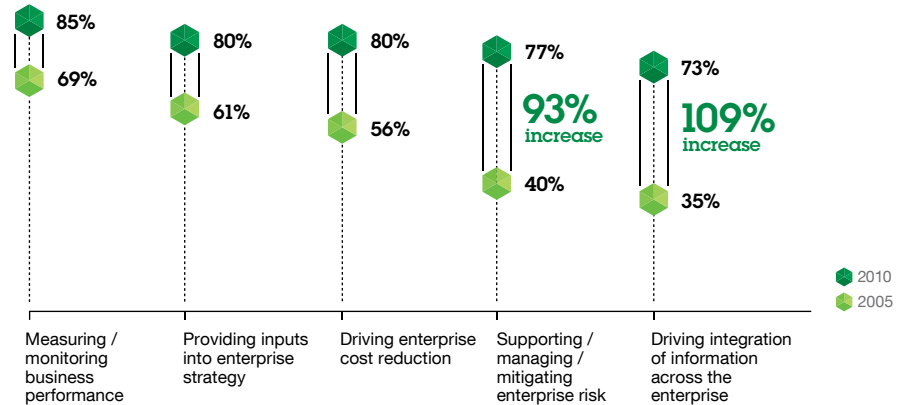
The impacts of this shift are quite evident in our study findings. More than 70 percent of CFOs are advising or playing a critical decision-making role in areas such as enterprise risk mitigation, business model innovation and the selection of the key metrics linking performance to strategy execution (see Figure 2).

Figure 2 CFOs are heavily involved in enterprise-wide decisions.
 Their influence extends far beyond traditional financial control and supervision.



Finance’s expanding scope is also reflected in CFOs’ priorities. When asked to rank the importance of various activities, CFOs cited providing inputs into enterprise strategy as number one. Over the past five years, the importance of every enterprise-focused activity has increased – some dramatically (see Figure 3). As one leader from India pointed out, “The recession has really highlighted the need for Finance to have a broader business understanding.”

Figure 3 Among CFOs, enterprise focus has increased significantly in just five years. More than 70 percent of CFOs now report these company-wide activities as very or critically important.



Across the Finance agenda, two activities – information integration and risk management – have become remarkably more prominent. Since 2005, the importance of integrating information has more than doubled, mirroring the exponential rise in information volume and velocity within businesses today. As one CFO from China asserted, “If I had complete freedom, integration of information would be my number one priority. Unfortunately, there are too many IT and business unit barriers at present.”

Integrated information matters because it is the source of greater business insight. To develop the deeper, broader understanding of the business that its expanding mandate requires, Finance must have integrated information – both financial and operational. Through their priorities, CFOs are not only acknowledging the serious and growing challenge of information management, but also their responsibility to help address it.

CFOs' focus is not only on integrating the information but, ultimately, understanding which metrics or indicators signal which outcomes and, to a further degree, what information needs to be available weekly, daily, hourly and in realtime. Essentially, this is about proactive data governance – formally managing important information and establishing accountability for its accuracy.

Among CFOs, managing enterprise risk also garners almost twice the attention it did in 2005. This is not a recent reaction. Back in our 2008 study, CFOs acknowledged serious shortcomings with risk management.² Two out of three companies with revenues over US\$5 billion had encountered material risk events within the prior three years. Of those, 42 percent admitted they were not well prepared.

We believe this sharp rise in the importance of risk management is further evidence of CFOs' expanding purview. Finance leaders are no longer focused solely on financial risk but are becoming more involved in mitigating corporate risk in all its many forms – whether strategic, operational, geopolitical, legal or environmental. All forms of risk ultimately have a financial consequence, which is why it is essential for CFOs to be engaged in risk management.

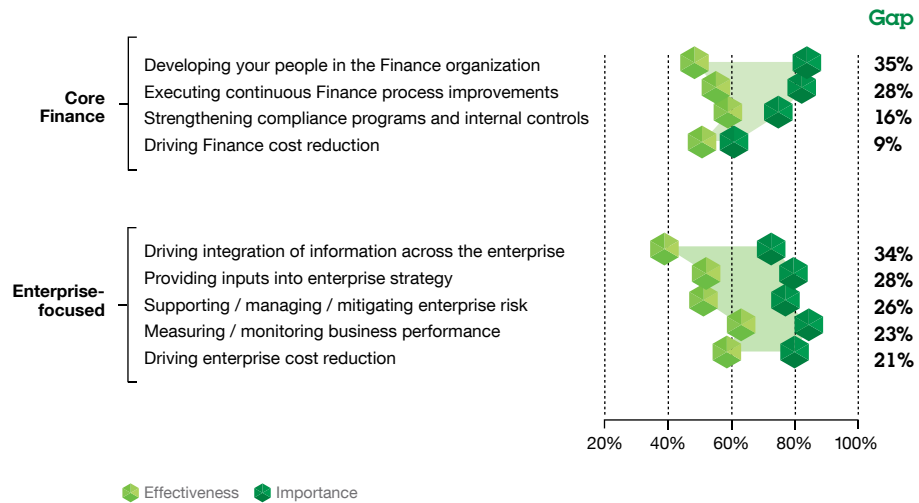
“Finance is most successful when it understands what is really going on in the organization, is able to communicate these insights effectively and is in a position to exert influence where needed.”

Giulio Terzariol, CFO,
Allianz Life Insurance Company
of North America

Clearly, the demands on Finance are expanding rapidly. But according to CFOs' own assessments of their Finance organizations, effectiveness falls short in these enterprise-focused areas (see Figure 4). As demands continue to rise, the key question becomes: How can Finance close the growing gap between expectations and execution?

Figure 4 Effectiveness falls short of importance.

Finance faces substantial gaps across the board – but especially in critical cross-enterprise activities.



Reflecting back to move forward

By Dr. John Percival, Adjunct Professor of Finance

The Wharton School, University of Pennsylvania

It is clear that CFOs are being pulled in two different directions today. On the one hand, they are being asked to look forward, but on the other hand, they are being asked to refocus on providing high-quality information about the past. Companies are facing difficult issues regarding growth and the future. There is an important role for CFOs to play in sitting at a table with other senior managers of the corporation or business unit and providing much needed financial input and perspective on the future strategic direction of the business. At the same time, in a post Sarbanes-Oxley world, it is crucial to strengthen the focus on providing high-quality, transparent financial information to measure what happened in the past.

In looking forward, companies feel that they are being asked to decide whether they want growth or margins. It is critical for Finance to communicate that it is important to get both growth and margins despite the commoditization of the business. As companies engage in processes such as scenario planning to try to identify future business opportunities, CFOs should help senior management better understand which of those opportunities make the most financial sense for the company. Other companies will see and pursue the same opportunities. CFOs should help isolate those opportunities where there is a believable story about a competitive advantage that will allow the company to earn more than the cost of capital.



The multiplier effect:

Efficiency and insight

Individually, Finance efficiency and business insight offer enterprises distinct advantages. But what happens when they are combined?

“Our job is to focus the enterprise on making timely, risk-based decisions by providing access to the right business-relevant information and insight-driven analytics.”

Mark Buthman, CFO,
Kimberly Clark Corporation

Analyzing CFO responses and objective enterprise financial measures led us to two primary capabilities that are strongly associated with outperformance:

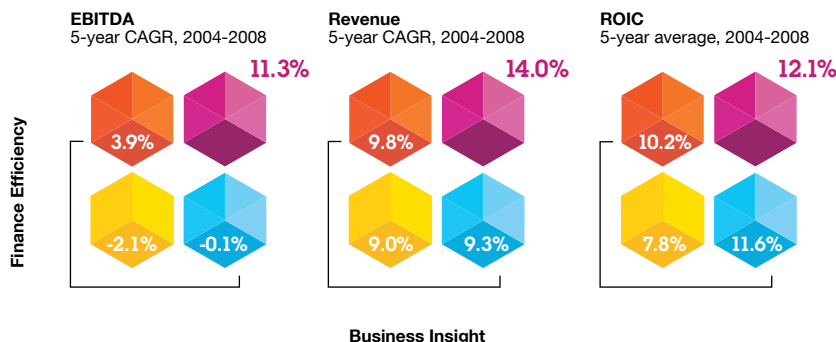
- **Finance efficiency** – The degree of process and data commonality across Finance³
- **Business insight** – The maturity level of Finance talent, technology and analytical capabilities dedicated to providing optimization, planning and forward-looking insights.⁴

These findings further reinforce our prior research. The 2005 and 2008 Global CFO Studies demonstrated that higher adoption of standards and stronger business insight help improve Finance effectiveness and overall enterprise performance.

However, one of the most compelling aspects of this year’s research emerged from looking at the interplay between these two capabilities. By segmenting our respondents along these two dimensions, we were able to examine the effects of excelling in either or both areas.

This segmentation resulted in four Finance profiles: Scorekeepers, Disciplined Operators, Constrained Advisors and Value Integrators. In comparing the profiles, the most striking contrast emerged in our financial analysis (see Figure 5). Against each financial measure we examined – spanning balance sheet, profit and loss, and cash flow – Value Integrators’ enterprises outperform. The differences in sustained EBITDA growth are particularly large. However, more important than the performance differential on any single measure is the fact that Value Integrators outperform on all of them.

Figure 5 Value Integrators' enterprises excel on every financial measure assessed. They have particularly strong growth in EBITDA, which was cited most frequently by respondents as one of their top two financial metrics.



Since many factors can affect financial results, we would not presume a causal link between Finance practices and overall business performance. However, our findings do suggest that Finance efficiency and business insight make a difference.

Since Value Integrators enjoy proportional representation across various dimensions of our data sample, we believe their performance signals a better practice and is not just a consequence of industry, geography or company size. Their Finance operations reflect a pervasive corporate philosophy that encourages integration across functions to make smarter decisions that lead to better overall performance.

Value Integrators excel at navigating uncertainty

In addition to contributing to superior financial performance, Value Integrators are also helping their companies better navigate uncertainty. Seventy-five percent of Value Integrators say their firms anticipate and respond well to external factors; only 62 percent of Constrained Advisors

Four Finance Profiles

Scorekeepers

- Data recording
- Controllership
- Multiple versions of the "truth"

Disciplined Operators

- Finance operations focused
- Information provision
- Performance interpretation

Constrained Advisors

- Analytics focused
- Sub-optimal execution
- Fragmented data

Value Integrators

- Performance optimization
 - Predictive insights
 - Enterprise risk management
 - Business decision making
-

“We can anticipate and respond effectively because we have the foundation in place. Finance is embedded in the business and is a broad-scope function, which enables end-to-end process improvement and strong process integrity and controls.”

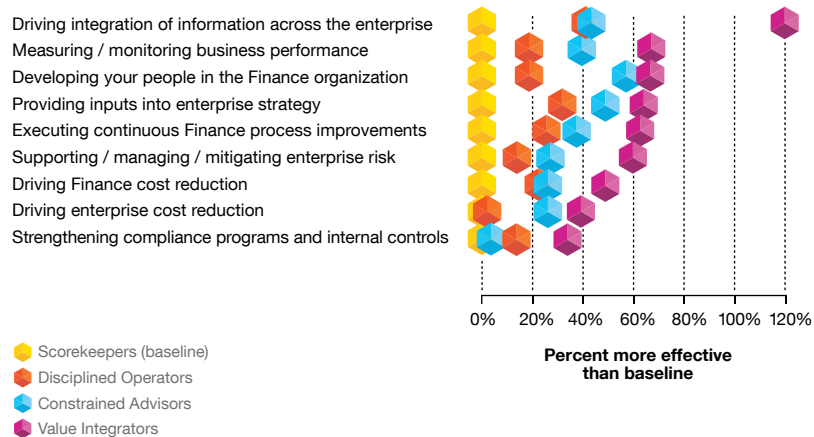
Iain Macdonald, Group Deputy CFO, BP

and 56 percent of Disciplined Operators are as confident. In fact, Value Integrators are more effective across all nine dimensions of the Finance agenda, in core Finance areas but especially in strategic, company-wide activities (see Figure 6).

Driving integration of information is a major outlier – and likely one of the main reasons Value Integrators are so effective in other areas. To meet rising demands for enterprise-level risk management, end-to-end business optimization and more, they are integrating information and using their analytical capabilities to draw insights from it.

Value Integrators are also significantly ahead in the area of risk management. Eight out of ten Value Integrators say they have a high or very high focus on risks when helping their businesses make decisions.

Figure 6 Value Integrators outperform across the entire Finance agenda.
They report substantial leads in information integration and risk management.



Only six out of ten Constrained Advisors and Disciplined Operators emphasize risk to this extent. Not coincidentally, Value Integrators have a higher reliance on external information – such as economic indicators and competitive intelligence – in their decision-making processes. They understand that insular views of risk are no longer sufficient in an increasingly interconnected world.

Another area in which Value Integrators have a sizable lead is in continuous process improvement. Value Integrators drive standardization throughout processes such as order-to-cash. Insight-driven facts guide them to optimize process outcomes, which in the prior process example would be improved cash management and forecasting.

The only agenda item where another group comes close to Value Integrators is in the area of talent development. Like Value Integrators, Constrained Advisors have invested in building the skills necessary for providing business insight.

Outstanding effectiveness across the entire agenda gives Value Integrators tremendous credibility within their enterprises. Their advice carries more weight. Their contributions are more strategic. They are positioned to make an impact.

The combination drives the difference

Certainly, Finance can gain efficiency by enforcing the same financial processes and data interpretations across every business unit and region and moving the entire company onto a common financial platform. However, if Finance only provides financial information and not business insight, it shortchanges its influence.

Likewise, with sophisticated business analytics capabilities and the talent to interpret and use cross-functional information, Finance can help assess and improve business performance. But if the underlying data is suspect – because of inconsistent methods of capturing or defining it – the insight will not be trusted. And time wasted on investigating and reconciling means less time analyzing and acting on the results.

“Finance must enhance its advisory role and add greater value. Control and accuracy are absolutely important, but we need less data crunching and more analysis and insight.”

Phil Coffey, CFO,
Westpac Banking Corporation



Insight Drives Value

The need for business insight has risen much faster than Finance's ability to produce it. What will it take to elevate Finance from supplying financial information to providing business advice?

“Business analytics is one of our most critical Finance initiatives. We need to have the right people and tools and stay very close to the business.”

Mike Newman, CFO, Office Depot

If leaders had any lingering doubts about the need for business insight – and the integrated financial and operational data necessary to produce it – the “new normal” has eliminated them. Businesses and governments need more advanced data analyses, scenario planning and even predictive capabilities to contend with rising complexity, uncertainty and volatility and, in certain regions, sustained lower growth.

The pressure is evident across the entire C-Suite. Eight out of ten CEOs believe their organizations are being bombarded with externally driven change, with many struggling to keep up.⁵ Chief Supply Chain Officers cite end-to-end supply chain visibility and risk management as their top two business challenges.⁶ More than 80 percent of CIOs rank business intelligence and analytics as their top initiative to enhance company competitiveness.⁷ From every angle, the business is demanding greater breadth, depth and speed of insight – and, now more than ever, these weighty demands are falling on Finance (see Figure 7).

At the same time, more data is available than ever before. It is flowing from more sources, including vast networks of partners, increasing numbers of intelligent devices across the value chain, and expanding process automation.

A significant portion of this data has financial implications and will end up – whether in consolidated or detailed form – in Finance. This presents the Finance function with a tremendous opportunity. With the appropriate analytical capabilities spanning process, technology and talent, Finance can turn this wealth of financial and operational information into business insights. Sophisticated analytics can help Finance uncover correlations

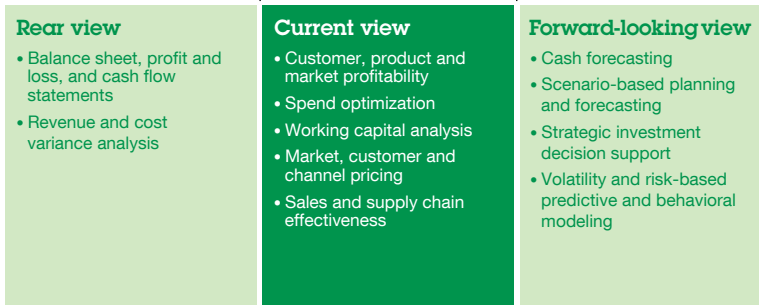
among seemingly unrelated pieces of information and find patterns nearly impossible to detect manually. Adequately equipped, Finance can contribute to significant enterprise value creation.

In many ways, Finance’s persuasiveness as strategic advisor hinges on having superior business insight capabilities. As one CFO from the Philippines pointed out, “It is not just about cranking numbers but framing them in a broader context that makes them more relevant to the decision at hand.”

Figure 7 Finance must provide insights that look back and forward.
As these examples show, business insights should help leaders optimize based on past performance and make informed decisions about the future.

Key business questions

- | | | |
|--|---|--|
| <ul style="list-style-type: none"> • What happened? • How many, how often? | <ul style="list-style-type: none"> • Where exactly is the problem? • Why is this happening? • What actions are needed? | <ul style="list-style-type: none"> • What will happen next? • What if these trends continue? • What are the risks or opportunities? |
|--|---|--|



“For multinational companies, regulatory and political changes can happen arbitrarily at any time, significantly impacting the execution of strategy. As a result, planning must be much more scenario-based with the ability to rapidly adapt.”

Markus Kistler, CFO - North Asia and China, ABB

Gaps in business insight capabilities

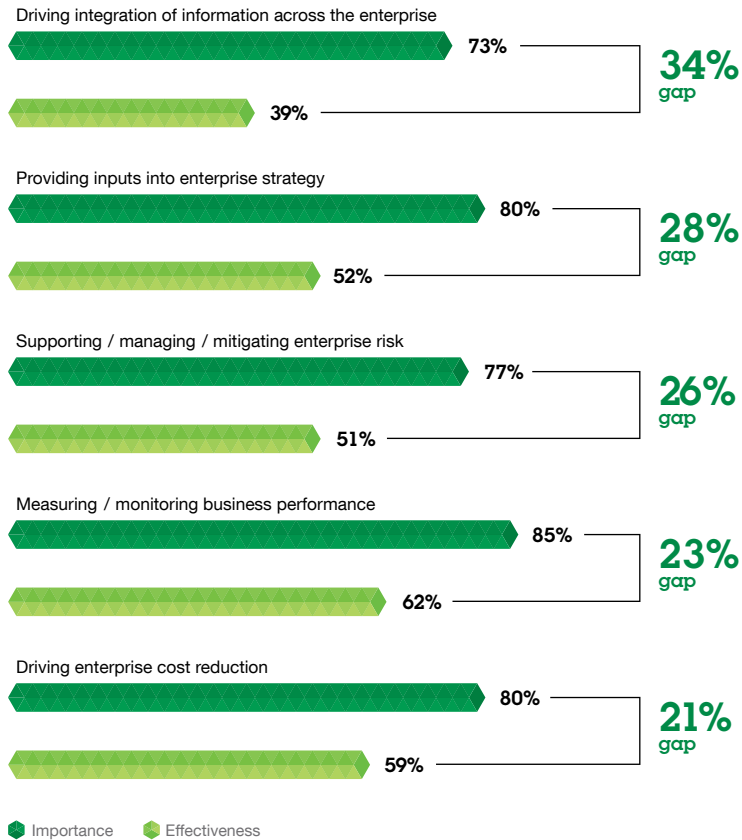
Despite the overwhelming importance of playing a broader role in the business, Finance’s effectiveness still lags (see Figure 8). “We’ve done what we needed to do to stay half a step ahead of the business,” said one U.S. CFO. “But with the current rate of change, half a step is not enough.”

In terms of monitoring business performance, CFOs believe their organizations do a good job of providing high-level metrics but lack the ability to drill deeper. They also talked about the need for business performance management to be more proactive. “We need to provide early warning systems that increase the level of business control,” a CFO from Sweden explained.

Although CFOs ranked providing inputs into enterprise strategy number one when asked what was most important, only half consider their Finance organizations effective in this area. Many CFOs feel their organizations are more comfortable providing “taillights” than “headlights.”

As one CFO from Japan admitted, “Our Finance organization lives in actuals. It’s not accustomed to forecasting.” Another Finance leader from the logistics industry stated the challenge this way: “Finance needs to shift the question from ‘what can we do operationally’ to ‘what should we do’... It’s a vastly different question. For example, we are great at driving operational excellence but not so skilled at understanding elasticity of demand and our clients’ willingness to pay.” This suggests that Finance needs to better understand the interaction of cross-functional operational metrics from supply chain, sales and marketing, and other areas, and incorporate sales and operational plans into financial forecasts.

Figure 8 Effectiveness falls short in areas that demand broad-based insight.
Across the board, Finance rates the importance of enterprise-level activities substantially higher than its effectiveness in these areas.



Although three-quarters of CFOs rate risk management as very or critically important, only half think their organizations are addressing it effectively. As one U.S. CFO described, “We need to get better at understanding and managing operational risks. Our Board is asking questions about our risk management processes, and rating agencies are looking at this now as well.”

Among Finance’s effectiveness gaps, the largest is in the area of driving integration of information. As an enabler for practically every area of business insight, integrated information is indisputably important. But, at the same time, CFOs’ responses show just how difficult it is to accomplish.



Building business insight capabilities faster

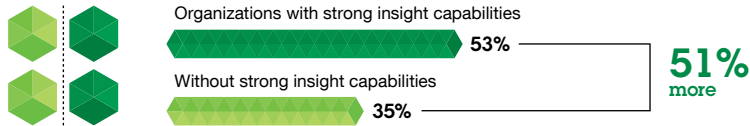
In examining the practices of Finance organizations, three primary factors demonstrated the greatest impact on enabling business insight: nonfinancial data standards, automated production of key metrics and business analysis skills.

Nonfinancial data standards

Finance organizations with stronger business insight capabilities realize that better cross-functional decisions depend on using the same language across the entire business (see Figure 9). For example, business units must agree on the definitions of customer, product and channel segments.

Figure 9 Business insight depends on common operational data definitions.

A higher percentage of insightful Finance organizations define nonfinancial data consistently across the business.



A Finance leader from Canada shared the consequences of not having such standards: “We just don’t do very well managing our customer opportunity pipeline. We don’t have standard processes, and sales people have different interpretations of data.”

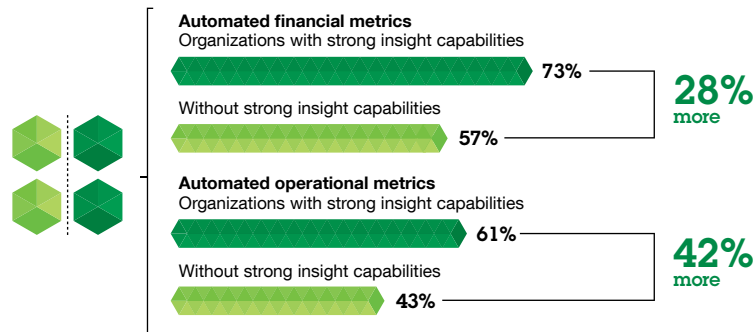
To build reliable insights, source data – both financial and nonfinancial – needs to be defined and captured consistently across business units. In the words of one CFO from the healthcare industry, “If you can’t believe the data, how can you believe the analytics?”

Automated production of key metrics

Finance organizations with stronger business insight capabilities more frequently produce their key financial and operational metrics – the critical measures that drive business performance – in an automated fashion (see Figure 10). For example, instead of manually consolidating customer demand information from across the business, forecasts are built automatically from data from supply chain systems. This kind of automation provides key information to decision makers faster, allowing more time for them to analyze, investigate and act. In addition, it enforces standards and consistency through systematic application of business rules to data and calculations, enabling a single version of the “truth.”

Figure 10 Automation accelerates business insight.

A higher percentage of insightful Finance organizations produce their key financial and operational metrics in a largely automated fashion.



However, automation cannot compensate for faulty processes. “We have planning software,” explained one CFO from Sweden. “But we don’t use it well. We have no common planning process yet.” To capitalize on greater automation and more sophisticated analytics, Finance organizations also need to agree on standards for decision support processes, such as sources of information, data definitions, process flow, dashboard alerts, and ad hoc versus predefined reporting and analysis.

Similarly, automation cannot offset a poor understanding of the business. Finance must define the origins and drivers of value and risk across the enterprise and work with the functional and business units to define the causal relationships behind core metrics. Based on these definitions, stakeholders across the enterprise can then determine what information needs to be in whose hands at what time. Finance should not only assess internal metrics, but also adequately understand external market and regulatory measures at both a micro and macro level, evaluating their impact on core operational and financial metrics.

Business analysis skills

Focusing on business insight often involves a considerable shift in Finance’s skill mix. As a CFO from Belgium acknowledged, “The skills of our employees are not in line anymore with the new work to be done, which includes more analysis, risk management and control activities.” Finance needs employees with business and analytical knowledge to interpret findings and develop relevant advice but also with strong interpersonal skills to convincingly communicate recommendations and effectively influence business decisions.

In addition, these hard-to-find skills typically cost more. Among our respondents, 54 percent more Finance organizations with strong business insight capabilities indicate that balancing the need for high-value skills against their cost is a critical factor in building their teams.

Building relationships across the business

By Dr. John Percival, Adjunct Professor of Finance

The Wharton School, University of Pennsylvania

Today's CFO needs to be strategic but not a generalist. In strategy discussions, the highest value added by the CFO is the financial perspective. The CFO needs to be a key player in the process of *formulating* strategy but, even more importantly, a trusted advisor in the process of *executing* strategy. When discussing the implications of the formulation and execution of strategy, CFOs should do financial analysis in a way that is understandable to nonfinancial colleagues and present the results in a manner that makes a positive contribution to the discussions regarding the multiple factors that impact desired financial results.

Financial analysis should produce constructive discussion related to key success and risk factors. The CFO should have a point of view about whether the proposed strategy makes financial sense and communicate that opinion collegially and helpfully. It is not the job of the CFO to say no.

There is a critical need for the CFO and business unit leader to develop a bond that allows the CFO to constructively question whether the leader's strategy and vision make sense financially. For this to happen, the business unit leader has to regard the CFO as a trusted advisor with valuable financial perspectives. This bond is more likely to develop when the CFO does the analysis in a way that is not obtuse, confusing and threatening, but rather, enlightening and constructive. The analysis should be as simple as possible and focus on the key factors to which the success or failure of the strategy are most sensitive.

Insight drives value

Case study

Malt-O-Meal:

Better performance through strategically aligned metrics

Founded in 1919, Minneapolis-based Malt-O-Meal Company is one of the fastest growing cereal companies in America. In its quest for continuous improvement, Malt-O-Meal decided in 2007 to drive behavioral change by concentrating employees' focus on a common set of core objectives through a comprehensive business performance management (BPM) approach.

It started at the top with strong support from the CEO and his team who designed a scorecard aligned with the company's strategy. Malt-O-Meal cascaded its top pinpointed BPM measures down through the organization into specific scorecards for each team. To align cross-functionally, the company established several "shared scorecards" that span teams and focus on mutually beneficial results.

These metrics are calculated using operational data sourced from functions across the organization. Today, Malt-O-Meal produces automated scorecards for more than 100 teams and individuals through a central system; it has established what it calls a "one-stop shop" for BPM information.

Fully aligned from boardroom to plant floor, Malt-O-Meal manages its performance with much greater precision and speed. Its employees know what is expected. Managers now have timely, reliable information to make better decisions. For example, manufacturing plants have yield and equipment efficiency metrics and alerts and can take corrective action when needed. The company leverages this data in planning, forecasting and budgeting so that resources are allocated to initiatives that support corporate objectives.

For Malt-O-Meal, next steps include accelerating the feedback loop, pushing scorecards down to the employee level and creating greater integration between systems. The company is also embarking on building joint scorecards with its top customers and suppliers.



Case study

Bradesco:

Using integrated financial management to drive business insight

Banco Bradesco is one of Brazil's largest private banks with total assets of US\$253.5 billion. The company provides a wide range of banking and financial products and services to all segments, both in Brazil and abroad. Due to new challenges associated with business consolidation and tightening financial spreads, Bradesco recognized the importance of more effective financial management, including a risk-adjusted view of corporate performance.

Launched in 2003, Bradesco's Finance transformation program started with a successful SAP implementation involving accounts payables and asset accounting. In 2005, a new operating model brought Finance efficiency through an optimized organization structure, standardized accounting processes and a streamlined chart of accounts with 80 percent fewer accounts. With the implementation of five other SAP modules, including general ledger, Bradesco now has integrated management of 90 percent of all its expenses.

In the second phase, which started in 2007, Bradesco addressed business insight capabilities, including cost accounting, planning, budgeting, forecasting, funds transfer pricing, risk measures and controls. The company designed and implemented an integrated corporate performance model that incorporated multidimensional profitability views, risk-adjusted performance reporting, integrated budgeting, and driver-based forecasting and planning capabilities. As a result, Bradesco has experienced greater accuracy with profitability analysis of credit operations, has been more effective partnering across Bradesco's businesses and has a much shorter planning cycle.

This model also included a governance framework that focused on an integrated management approach across the enterprise, reporting across businesses to evaluate enterprise-level performance. This required defining or redefining roles across 12 corporate structures, complete with clearly articulated responsibilities among all departments.



Tough questions to consider

How accurate are your crucial forecasts such as customer demand and unit costs? How much time is spent debating the validity of the analysis as opposed to discussing its implications and taking action?

With more than 41 percent of CFOs saying they lack sufficient operational and financial data standards and 45 percent producing these metrics manually, generating timely, reliable business insight is challenging.

How confident are you that your firm is focused on the right business metrics – the ones that truly drive business performance?

Eighty-eight percent of CFOs say their companies are counting on Finance's advice in selecting these key performance indicators.

Does your organization have sufficient analytical skills? Where should this talent come from? Which decision support processes should be centralized, and which should be placed within business units?

Currently, less than one-third of our respondents have enterprise-wide decision support Centers of Excellence. As Finance works to determine the optimal delivery model for decision support, it should consider what is common across the company and what is unique to a particular geography or business unit. Within a planning process, for example, repetitive, rules-based processes could be standardized and consolidated. Locally distinct nuances should stay within the business units.



Efficiency as Foundation

Intuitively, Finance leaders agree that standards can increase efficiency. But few have implemented them throughout the enterprise. How can Finance achieve efficiency faster?

“Finance has undertaken a number of initiatives to underpin growth, in particular the establishment of a shared service center. This has enabled us to respond much more quickly, close in days not weeks, undertake rapid process change and reduce costs.”

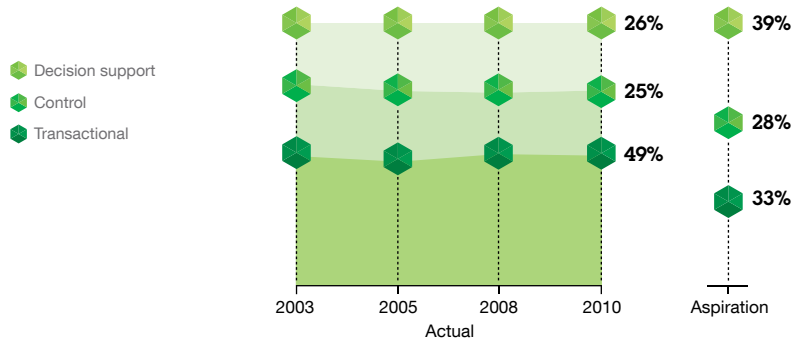
Richard Yu, VP Finance,
Aviva-Cofco Life Insurance Co., Ltd.

In our 2008 Global CFO Study, we coined the term Integrated Finance Organizations (IFOs) to represent those that had adopted common processes and data definitions enterprise wide.⁹ In that study, companies with IFOs demonstrated better financial performance than those without IFOs. Our 2010 study shows similar findings; among IFO-enabled enterprises, the average five-year CAGR for EBITDA is 9.6 percent, more than *ten times* that of non-IFO businesses.

Despite the advantages, most organizations still have not adopted standards across all units and geographies, with only 20 percent being classified as IFOs. Making matters worse, 39 percent of the Finance organizations still produce their top financial metrics manually.

Given these findings, it is hardly surprising that Finance continues to spend half its time on transaction processing (see Figure 11). Since 2003, CFOs have continually stated their aspirations to shift more focus to analysis and decision support. But, so far, they have been largely unable to do so.

Figure 11 Transaction processing still dominates Finance’s workload.
 In our last four consecutive studies, CFOs have stated intentions to change the mix, but it has not happened yet.



Accelerating Finance efficiency

These findings reflect how important – and how difficult – it is to establish and enforce common processes and data definitions. But our study also reveals three practices that organizations are using to accelerate standards adoption: process ownership, a common ledger and standard accounting transaction applications, and alternative delivery models.



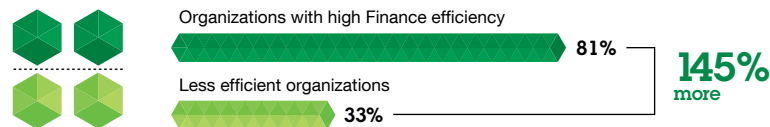
Process owners drive standards adoption

Assigning company-wide responsibility for specific processes – such as procure-to-pay, order-to-cash, treasury, tax and general accounting – is more than twice as common among efficient Finance organizations (see Figure 12). Among our respondents, eight out of ten organizations with process owners have been able to implement standard processes enterprise wide, while only three out of ten did so without process owners. Similarly, seven out of ten with process owners have developed standard data definitions, but only three out of ten that lack process owners have a common Finance language. Bottom line, process ownership drives global integration and consistency, thereby simplifying and standardizing activities, eliminating duplication and reducing errors.

The power of process ownership should not be underestimated. This has been a consistent message across three consecutive Global CFO Studies. In 2008, we saw that IFOs – those with the broadest implementations of standards – established enterprise-wide process owners 3.5 times more often than their peers. Even in 2005, process ownership showed a positive effect on the delivery of risk, performance and growth insights.

Figure 12 Process ownership is more than twice as common among efficient Finance organizations.

This company-wide accountability helps them drive the consistency that builds efficiency.



In terms of implementation, “appointing” process owners may seem straightforward, but enabling them to be effective is far more difficult. Process owners must find solutions that allow end-to-end, cross-functional integration without compromising business units’ abilities to make decisions and manage their operations. Equally important, these process owners need enough organizational clout to mandate changes when necessary.

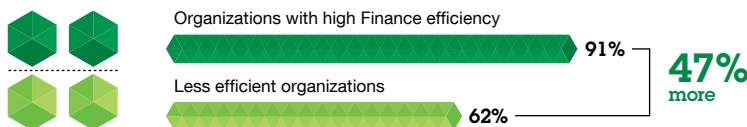
Common accounting applications force business units to fit the mold

With a nine-out-of-ten adoption rate among efficient Finance organizations, the implementation of a common ledger and standard accounting transaction applications is the most frequently used efficiency accelerator (see Figure 13). One of its common by-products is a standard chart of accounts. But more importantly, moving to common systems provides a window of opportunity to unify processes and data standards across the global Finance organization. Our findings indicate that Finance organizations with common systems implement standard processes, data definitions and chart of accounts two to four times more often than their peers.

“In the next three years, change will drive the criticality of decision support. Therefore, we must find better ways to do transaction support and control activities with improved processes and more automation.”

Bob Driessnack, CFO, Intermed Inc.

Figure 13 Efficient Finance organizations favor common platforms.
This helps them achieve greater process and data standardization across the enterprise.



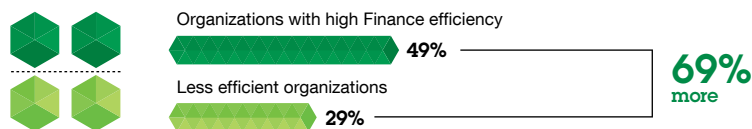
Alternative delivery models push organizations toward standards

The use of alternative delivery models – such as shared services centers or outsourcing – for financial transaction processing is 69 percent more common among efficient Finance organizations than their counterparts (see Figure 14). This, in turn, allows companies to drive standards adoption. Process consistency, for example, is twice as common among those using alternative delivery models.

Each organization must determine the Finance delivery model configuration that will work best in its individual situation. When deciding which functions will be provided internally through Centers of Excellence or externally through outsourcing, companies should consider the level of control and flexibility offered by each alternative as well as the business outcomes each enables, not just its potential to reduce cost.

Some companies have achieved their desired return on investment more quickly by outsourcing a particular Finance function before trying to standardize it. This “ship then fix” approach can sometimes break the internal gridlock that is preventing global optimization and speed the realization of benefits.

Figure 14 Efficient Finance organizations use alternative delivery models more frequently. This significantly increases their ability to drive consistent processes.



Case study

Unilever Europe: The fast track to efficiency

In 2005, Unilever Europe made a strategic decision to streamline the consumer goods company to increase growth and market competitiveness. With 750 Finance employees in 24 countries using 18 enterprise resource planning systems along with hundreds of different finance and accounting processes under three separate leadership teams, the organization faced duplication, high cost and varying quality.⁹

As part of a larger transformation program dubbed One Unilever, the company decided to outsource Finance and Administration (F&A) to a provider with a strong track record of successfully managing complex processes. In doing so, the company hoped to realize cost savings, quality improvements and process harmonization. To achieve these goals, innovative technology-based solutions were deployed across the entire scope of F&A, standardizing processes and systems and unifying the firm's many iterations.

As a result, the company has greater access to information for decision making and continuous improvement, as well as a flexible delivery model that can adapt to changing business needs. These improvements have directly contributed to the €700 million annual savings of the overall One Unilever program.

Through its outsourced F&A function, Unilever Europe manages over 3.5 million transactions per year within its accounts payable, travel and expense reporting, fixed assets, general accounting and bill-to-cash processes.

By outsourcing, Unilever Europe was able to accelerate the path to F&A transformation, accomplishing in less than 4 years what has historically taken other companies as many as 10 to 15. In addition, outsourcing has allowed Unilever Europe's Finance organization to release its energies from transactional processes and focus its expertise on the company's core business.



Case study

LG Electronics: Globally integrating a global leader

LG Electronics, Inc. (LGE) is a US\$45 billion global technology leader in consumer electronics, home appliances and mobile communications. Ten years ago, the company realized it was not acting as a globally integrated enterprise. To better capitalize on its size and scale, LGE began launching major transformation initiatives across the company, including Finance.

The primary goal of its Finance 1.0 initiative was providing a global view of business performance. To accomplish this objective, LGE implemented a global chart of accounts and standardized financial processes company wide. Finance 1.0 also included a common enterprise resource planning system, moving LGE from more than 80 accounting systems to a single global instance. At the same time, LGE established seven centralized shared services centers, aligned to its regional headquarters, to better handle the treasury, tax and closing functions that were previously performed in more than 80 locations.

Now more globally integrated, Finance can consolidate and close the books 66 percent faster. Global profitability analysis – which used to take six weeks to prepare – is done in five days, an 83 percent improvement. System maintenance costs dropped by 36 percent.

As important as these Finance efficiency benefits are, LGE Finance intends to create even more value by improving its business insight capabilities. Just launched, its Finance 2.0 initiative is moving Finance closer to the business to enable more proactive risk management and decision support. Decentralized “Business Finance” units will provide analysis and insight, while a global shared services center will integrate transaction processing to improve accuracy, data integrity and speed.



Tough questions to consider

What can Finance do to break through the transaction processing barrier?

Since our 2003 Global CFO Study, Finance organizations have been stuck, consistently spending half their time on transaction processing. To combat this trend, one CFO from the United States continually asks his transaction team: “How can we do this with nobody?”

How can CFOs build a winning business case for driving Finance efficiency?

Finance’s cost as a percentage of revenue is typically only 1 to 3 percent. The real advantages come from the flexibility, operating speed and reliable insights derived from embedded analytics and a single version of the financial truth.

How can Finance standardize processes and data across an enterprise that has multiple – sometimes very different – businesses?

As one CFO from the consumer products industry pointed out, “We don’t want to destroy what makes us successful – don’t want to destroy the fabric. How do we get the value from standards without giving up entrepreneurial agility?”







Becoming a Value Integrator

Candid assessments from more than 1,900 CFOs – along with the financial results of their enterprises – attest to the “value” of being a Value Integrator. But if you are not, how do you become one? And if you are, what’s next?

“What makes companies stand out from one another is the ability to use analytics across the end-to-end business model. Greater transparency from one end of the business to the other is key.”

Dennis Hickey, VP - Corporate Controller,
Colgate Palmolive

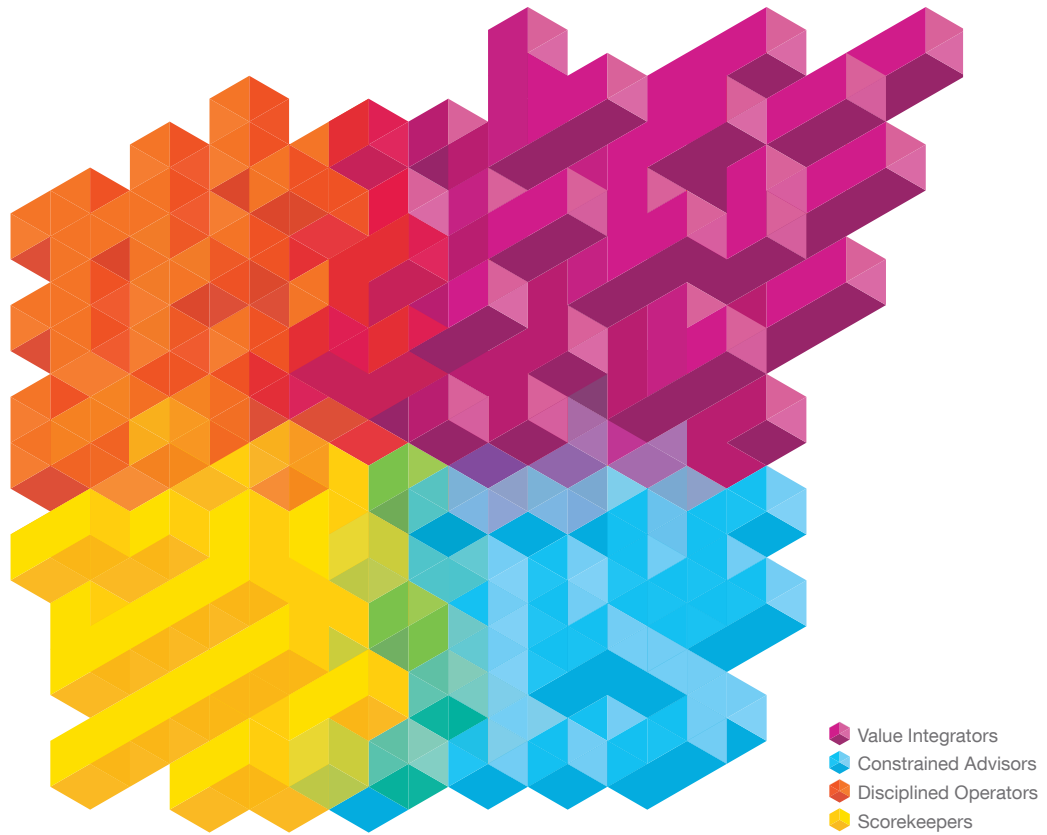
CEOs and Boards are demanding more from Finance. It is no longer “good enough” to excel at core Finance activities; Finance needs to advise on strategic and operational matters as well. To help the business make better decisions faster, Finance must do both extremely well.

That is one reason “Integrator” figures prominently in the name of Value Integrators – at their core, they integrate efficiency and insight. “Integrator” also conveys the importance they place on integrating information and processes across the business, a recurring theme linked to outperforming organizations across our last three Global CFO Studies.

But Value Integrators are more than just information clearinghouses. They are in a position to uncover important enterprise-wide insights that would be nearly impossible to see within functional silos. According to one CFO from Mexico, Finance’s mission should be helping the company “think as an overall business instead of individual areas.”

Value Integrators – more than any other group – are equipped to advise at an enterprise level. They are positioned to evaluate business opportunities and risks in an end-to-end context and recommend difficult trade-offs among units, markets and business functions. A U.K. CFO explained the opportunity this way: “With the data we have and our deep understanding of the business, Finance can become the decision-making hub of the company.”

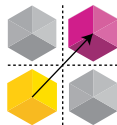
So how can Finance organizations across the public and private sectors move toward – or further into – Value Integrator territory? The self-assessments of our global respondents provide a valuable perspective on future actions CFOs should consider.



Scorekeepers: Where to start?

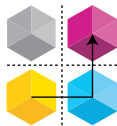
Scorekeepers are primarily focused on reconciling and consolidating financial data, reporting results and ensuring regulatory compliance. However, they struggle with speed and consistency because of insufficient standards and automation. In addition, they lack the necessary ingredients to provide business insight.

To become Value Integrators, Scorekeepers can take three possible paths: work first on Finance efficiency, start by improving business insight capabilities or do both simultaneously.



Transforming the Finance organization all at once might allow them to reach the dual goals faster. However, this amount of radical change carries greater risk and will require significant executive management support and a focused change management program to avoid overwhelming their enterprises.

Addressing insight



Initially pursuing business insight offers some immediate benefits, and it may be easier to justify financially. But this approach has a few downsides as well. Without Finance process and data standards, organizations will lack a single version of the financial truth. As a result, reconciliation may cause business insight to lag, reducing the window of time available for making decisions and taking action.

To offset some of these consequences, organizations that choose this path should apply the same principles to decision support that enable Finance efficiency, namely process and data standards, process ownership and common financial platforms. They will also need to develop analytical skills and put the proper analytics technology, operational data standards and decision support processes in place.

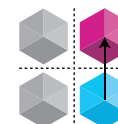
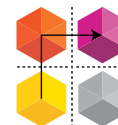
Addressing efficiency

Tackling Finance efficiency is a significant challenge, regardless of when it is done. However, addressing it first may be less painful and wasteful in the long run. One CFO from the telecom industry warned, “Spending too much time analyzing bad data and too much time consolidating data from multiple sources has put us two to three years behind our competitors.” Having a single company-wide view of financial data increases the confidence in business insight and accelerates its production. The lessons learned and methods used to establish efficient core Finance functions can smooth and speed the implementation of these same enablers for decision support.

The path toward efficiency often starts with a common baseline understanding of the scope of activities and services that Finance delivers, as well as the resources and costs that the function consumes. This enables the identification and prioritization of short-term, mid-term and long-term opportunities that delineate a Finance vision and the business case and implementation plan needed to gain the buy-in to proceed with a transformation program.

Constrained Advisors: Build standards based on priorities

Constrained Advisors have started working toward becoming Value Integrators by developing strong analytical capabilities. But their decision support processes are constrained by incomplete and inconsistent information and too much reconciliation and manual intervention. Since Constrained Advisors have the worst operating efficiency ratio of all four profiles, Finance’s weakness in this area appears symptomatic of an overall corporate culture that is not particularly focused on efficiency.¹⁰



“Finance is not merely an information processing factory. We must contribute to the ministry by spending wisely, staying close to policy execution and providing insight for the boardroom to strategically drive the ministry long term.”

Koen de Snoo, Director Financial and Economic Affairs, Netherlands Ministry of Housing, Spatial Planning and the Environment

To improve efficiency, Constrained Advisors need standards. In practice, it is nearly impossible to provide timely, trustworthy enterprise-level analysis without consensus around source data. However, the end goal is not standardized data for its own sake; data standards are only as important as the information they help clarify and the business decisions they support.

To that end, it is critical to first understand the company’s key business drivers and performance management objectives and then evaluate the availability and commonality of the underlying data. Understanding these business requirements lends perspective to trade-offs in speed versus perceived accuracy of reporting and guides how the information is managed. Ensuring that data is properly defined can simplify and accelerate business rule automation, reducing manual processing and delivering results faster.

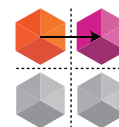
Rather than attempt to establish a comprehensive set of standards at the outset, Constrained Advisors can increase efficiency incrementally as they build business insight capabilities in particular areas. For example, an initiative to improve product line profitability analysis could drive consistency in processes and data definitions and assign owners for relevant processes and data sources. By improving efficiency and insight simultaneously, function by function, process by process, Constrained Advisors progressively gain the full impact of Value Integrators.

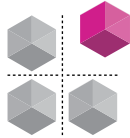
Disciplined Operators: Build analytical muscle

Disciplined Operators perform their financial control and reporting activities in a highly automated, efficient manner. As a result, they are trusted and timely suppliers of financial information and advice. However, they have not yet implemented the necessary capabilities to provide cross-functional analyses and assist with strategic operational decisions.

To provide better business insight, Disciplined Operators should concentrate on strengthening their analytical capabilities – the full complement of skills, decision support processes, source data and analytics technology. While “moving east,” they need to apply the same discipline and rigor they use in their core Finance operations.

As they seek to unlock greater value for their companies, Disciplined Operators must keep in mind the integrated nature of planning and performance management processes. They have the opportunity to implement key measures and balanced scorecards and use them to drive the right behaviors across the enterprise. These measures become the thread that binds the strategic, portfolio and operational planning cycles. Developing the right targets and closing performance gaps with speed and dexterity help ensure that the business as a whole is continually executing against its strategy.





Value Integrators: Keep improving on both fronts

Although Value Integrators have made substantial progress in terms of Finance efficiency and business insight capabilities, they are continuously improving both dimensions. Their responses suggest heightened interest in using technology to further increase data accuracy, streamline information delivery and develop a richer base of information and deeper insights.

Value Integrators are extremely focused on developing analytical talent. They understand that advancing their business insight capabilities also means keeping scarce analytical skills engaged and motivated with fresh challenges and expanding responsibilities.

In addition to sharpening their forecast accuracy, Value Integrators are developing more sophisticated analytics such as complex scenario planning and predictive models. As their ability to anticipate rises, Value Integrators should consider embedding these predictive capabilities into operational systems to improve responsiveness at the frontlines of the business.

How will you respond?

The global economic crisis put CFOs front and center, giving them permission, *if not a mandate*, for a broader role in the business. But will CFOs live up to these lofty expectations? Frankly, can they afford not to?

For CFOs, the imperative could not be stronger. As chief steward of the company's financial resources, the CFO is ultimately responsible for safeguarding investments and producing the highest return on invested capital. These responsibilities call for a Finance organization that provides strong controls, accurate and timely reporting and sound counsel on financial matters.

But these expectations also demand Finance teams that can uncover insights by looking horizontally across the enterprise and externally as well. They must be talented influencers backed by sophisticated analytics and modeling capabilities that allow them to provide fact-based advice on the most strategic decisions confronting the business.

The responses of more than 1,900 CFOs worldwide make one message exceedingly clear: The organizations best positioned to integrate value at the enterprise level excel at both Finance efficiency and business insight. It is the combination that pushes the business toward smarter decisions and fuels better performance.

We look forward to helping you equip your Finance organization for an exhilarating future. In the words of one CFO from New Zealand, "It is a really exciting time to be a CFO."

Let's continue the conversation at:

ibm.com/cfostudy

How our research was conducted

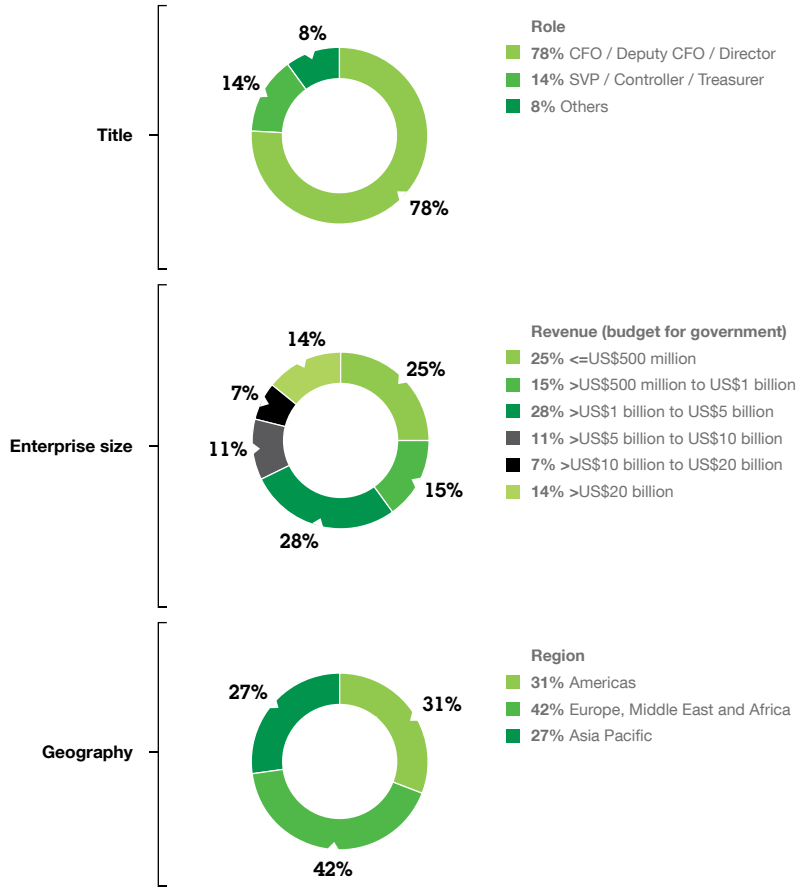
For more than a decade, IBM has conducted primary research to explore topical, strategic issues confronting CFOs and their Finance organizations. Our 2005 Global CFO Study, *The Agile CFO*, focused on the need for business insight, while the 2008 study, *Balancing Risk and Performance with an Integrated Finance Organization*, demonstrated the importance of enterprise-wide process and data standards that enable effective decision making and risk management.

The 2010 Global CFO Study – the largest known of its kind – involved more than 1,900 CFOs and senior-level Finance professionals from 81 countries and 32 industries (see Figure 15). Experienced IBM executives interviewed more than 75 percent of these senior Finance leaders face to face; the Economist Intelligence Unit surveyed the remaining executives.

Our central objective with this year's study was to explore further the topics introduced in our 2005 and 2008 research and discover other characteristics of leading Finance organizations. Specifically, we wanted to understand more about how CFOs and Finance organizations are helping their enterprises make smarter decisions in the new economy. How does Finance assist the enterprise in anticipating and shaping its environment? How does the CFO achieve the optimal mix of capabilities needed to outperform?

As part of our research, we also evaluated financial performance for companies with publicly available financial information. To draw our conclusions, we relied on the three financial metrics most commonly used by our respondents: earnings before interest, taxes, depreciation and amortization; revenue; and return on invested capital.

Figure 15 Organizations of various sizes around the world participated in this study.
 More than 75 percent of our respondents are CFOs or Finance Directors of their divisions or enterprises.



Acknowledgments

We would like to thank the 1,917 CFOs and senior Finance leaders from around the world who generously shared their time and insights with us. Special appreciation goes to those individuals who allowed us to include quotes from their interviews and present their Finance experiences as case studies to highlight key themes throughout this report.

Special thanks goes to Dr. John Percival, Adjunct Professor of Finance, The Wharton School, University of Pennsylvania, whose continued involvement and collaboration in our CFO study research adds valuable insight and perspective.

We would also like to acknowledge the contributions of the IBM team that worked on this Global CFO Study:

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Project Team – Carl Nordman (Study Director), Steven Ballou, Angie Casey, Rachna Handa, Rajeev Jain, Edwina Jon, Spencer Lin, Kathleen Martin, Arghya Mazumder, Ann Randall, Stephen Rogers, Raghuram Sudhakar

And the more than 600 IBM leaders worldwide – including the Global Study champions, executives and practitioners – who coordinated and conducted the CFO interviews, shared their experiences and expertise and helped to develop this report.

The right partner for a changing world

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About the IBM Institute for Business Value

The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This Global Chief Financial Officer Study is part of our ongoing C-Suite Study Series.

Notes and sources

- 1 For readability, we refer to this entire group as “CFOs” throughout the report.
- 2 “Balancing Risk and Performance with an Integrated Finance Organization: The Global CFO Study 2008.” IBM Global Business Services. October 2007.
- 3 The criteria used to define the Finance efficiency axis were determined by statistical correlation of financial performance and survey responses. These include: standard financial chart of accounts, common Finance processes, common Finance data definitions and governance, and corporate philosophy on company-wide information standards. High efficiency was defined as adoption of enterprise-wide standards (for financial chart of accounts, processes and data) across more than 50 percent of the organization as well as recommended or mandated company-wide information standards. Efficient Finance organizations differ slightly from our 2008 definition of Integrated Finance Organizations (IFOs) in the extent to which they have implemented standards: IFOs have achieved a 75 percent enterprise-wide adoption rate, while efficient Finance organizations have reached 50 percent. IFOs also mandate and enforce company-wide information standards, while some efficient Finance organizations allow business unit discretion on implementing recommended standards.
- 4 The criteria used to define the business insight axis were determined by statistical correlation of financial performance and survey responses. These include: confidence in operational planning and forecasting analytical capability, effectiveness of people development within Finance and the degree of commonality in planning platforms. Strong business insight was defined as satisfactory operational planning and forecasting, high effectiveness at developing people in Finance and significant deployment of a common planning platform.
- 5 “The Enterprise of the Future: IBM Global CEO Study.” IBM Global Business Services. May 2008.
- 6 “The Smarter Supply Chain of the Future: Global Chief Supply Chain Officer Study.” IBM Global Business Services. January 2009.
- 7 “The New Voice of the CIO: Insights from the Global Chief Information Officer Study.” IBM Global Business Services. September 2009.
- 8 IFOs are defined by a corporate philosophy of mandating and enforcing standards enterprise wide as well as common processes, standard data definitions and governance, and a single chart of accounts implemented across at least 75 percent of the enterprise.
- 9 “Unified Unilever Europe.” *FAO Today*. July/August 2008.
- 10 For reference, operating efficiency ratio is defined as selling, general and administrative expenses (SG&A) as a percentage of revenue.

For further information

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