IBM Software Group
White Paper

Finance Meets the Challenge of the "New Normal" —Insights from the 2010 IBM Global CFO Study

The "New Normal"

Will our economy ever get back to normal? The last few years have seen the near collapse of the global financial system, a suffocating credit crunch, and subsequent declines in consumer demand, GDP, corporate profits and employment—all of which sent seismic shocks through the global economy. It's enough to cause nightmares for any CFO.

Now, a recovery is under way. Yet there is little talk of the economy returning to "normal." Instead, there is a widespread belief that the global economy has undergone a fundamental change. Companies must learn to succeed in a world where growth will be slower and volatility, uncertainty and risk will remain high, due to the complex interdependence of customers, suppliers, regulators and markets. Events formerly viewed as extraordinary are now part of the normal course of business. Corporate leaders and economists have taken to calling this new environment the "reset economy" or the "new normal."

Introducing the 2010 IBM Global CFO study

In the midst of this turmoil, IBM conducted the 2010 Global CFO Study, the fourth in a biennial series that records trends and documents the concerns and priorities of Finance organizations around the world.[1]

This year's study surveyed more than 1,900 CFO's and senior Finance executives from all geographies, industries and company sizes, asking about their activities and priorities, about their satisfaction with current processes and practices, and about their levels of success in meeting their goals. More than 57% of the participants represented their enterprises as a whole, rather than a business unit, region or country. This senior-level, enterprise-wide perspective provided valuable insights into the key challenges, opportunities and practices that most industries face around the world.

This white paper will outline some of the major findings of the CFO Study and describe some of the practices and technologies that can help Finance organizations anticipate and shape business outcomes more effectively in the "new normal."

The Growing Role of Finance

Finance organizations, like their line-of-business counterparts, are always looking for ways to improve their performance, and for new tools and processes that will make that improved performance possible. But in a time of heightened uncertainty, every expense gets extra scrutiny. So when a CFO asks the organization to spend money on new finance-related technology, that CFO's line-of-business peers might well ask, "what's in it for us?"

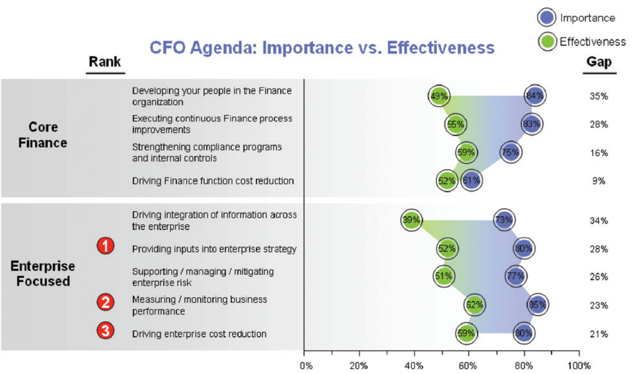
Good question. And the answer can be found in the demands that these same line-of-business executives are now placing on Finance.

It turns out that CFOs and their Finance organizations are now being asked to do a lot more than perform the traditional duties of processing accounting transactions, filing quarterly statements and reporting to management. CFOs today are frequently called into boardrooms and executive level discussions about the entire enterprise agenda. Finance is being asked to provide guidance in all manner of decision-making across all segments of the organization—in operations, sales, human resources, supply chain and more.

The Global CFO Study found that CFOs now play a much larger role in all of these areas than in the past, with over 70% having decision-making authority or at least an advisory role. In fact, when asked to rank the importance of all their activities, CFOs cited "providing inputs into enterprise strategy" as number one.

The Importance vs. Effectiveness Gap

Given this expanded role, you might expect to find that Finance organizations are performing better than in the past. However, the study reveals just the opposite. Most finance organizations suffer from a significant gap between the importance they assign to various activities and their effectiveness in performing them. This is true across the entire Finance agenda—not just in broad enterprise areas, but also in core Finance tasks.



Substantial gaps exist between the importance of activities on the CFO agenda and the Finance organization's effectiveness in performing them.

The root cause of these gaps can be seen in the factors that inhibit smooth Finance operations and efficiency on the one hand, and strong business insight on the other. Manual production of financial metrics, the lack of a common reporting platform, and a lack of common data definitions and processes all inhibit Finance efficiency. Finance continues to spend nearly 50% of its time on essential but low-value-added transactional processes such as paying bills, collecting receivables, processing expense reimbursements, manually booking journal entries, and closing the books.

There are also a number of important inhibitors to strong business insight. According to the study, 50% of Finance organizations lack a common planning platform. Instead, they rely on manual processes that are often fragmented and labor-intensive, and performed on disconnected, error-prone spreadsheets. In many cases, the data coming from these fragmented processes leads to fragmented analytical information – lessening Finance's ability to provide strong governance, leadership and direction. (Similarly, over 50% produce their operational metrics manually.)

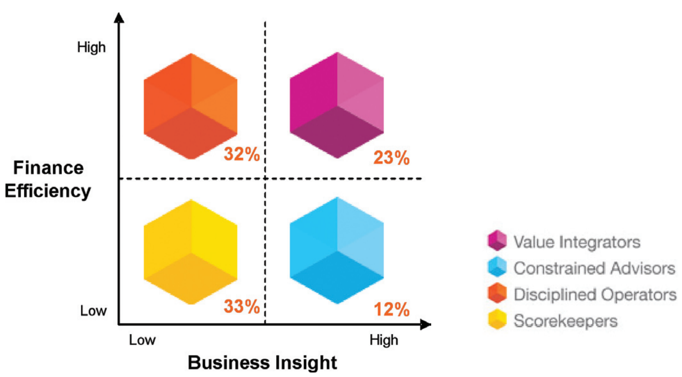
As a consequence, 55% of participants were not satisfied with their operational planning and forecasting. And 44% rated themselves as poor to average in their ability to anticipate external events. So although CFOs ranked providing inputs into enterprise strategy as their number one priority, only half considered their Finance organizations effective in this area. In fact, many CFOs felt that their organizations were more comfortable providing "taillights" than "headlights."

But let's take a closer look at the study, and see if some Finance organizations might be doing better than others.

Four Profiles in Finance

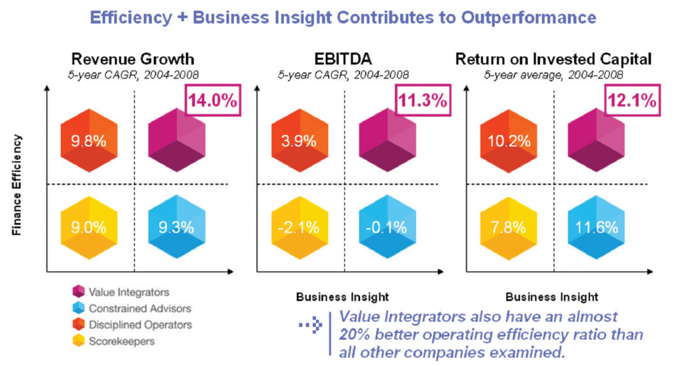
In hundreds of face-to-face interviews conducted for the study, CFOs and other Finance executives were asked about their opinions, their priorities, and the roles they play within their organizations. When the results were tabulated, the participants were ranked as to their capabilities in Finance Efficiency and Business Insight.

- **Finance Efficiency:** The degree of process and data commonality across Finance
- **Business Insight:** The maturity level of Finance talent, technology and analytical capabilities dedicated to providing optimization, planning and forward-looking insights



Of the 1,900 participants in the CFO Study, 23% are Value Integrators, 12% are Constrained Advisors, 32% are Disciplined Operators and 33% are Scorekeepers.

Strength in either of these two areas individually can offer significant performance advantages. But together, they offer far more. By doing both – executing their core Finance activities more efficiently and providing the critical insights that their business colleagues so desperately need, some Finance organizations are helping their companies make much better decisions. And the proof is in their performance.



Value Integrators outperform on critical financial measures

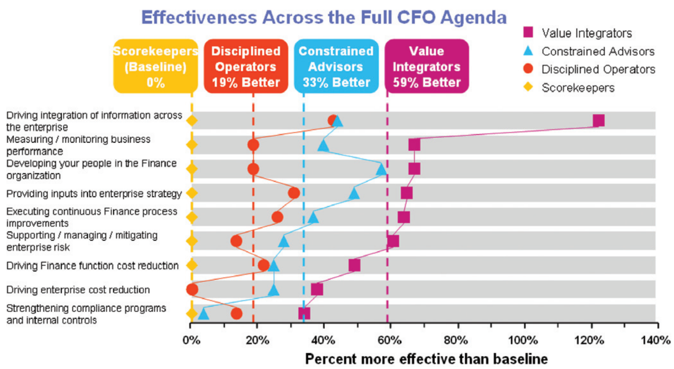
The study calculated the financial performance of the participants over a five-year period, based on objective, publicly available financial information. Three broad measures were used: 1) compound annual growth rate (CAGR) in earnings before interest, taxes, depreciation and amortization (EBITDA), 2) revenue, and 3) return on invested capital (ROIC). These three financial measures were identified by the participants themselves as the most reliable indicators of business performance. And across every financial metric one group outperformed the rest.

The Finance organizations of leading enterprises had both a high level of efficiency and an expanded capacity to provide meaningful business insights. The study called these organizations "Value Integrators."

Finance Efficiency and Business Insight define four profiles of Finance organizations:

- ***Value Integrators*** have efficient, well-run finance operations coupled with strong business insight. "Integrator" conveys the importance these organizations place on integrating information and processes across the business (also a recurring theme among outperforming organizations in the last three IBM Global CFO Studies).
- ***Constrained Advisors*** are those who have deployed advanced planning and analytical capabilities, but are constrained in their execution. They have difficulty with process data standards and commonality, and are challenged in both the accuracy of their analysis and their ability to produce results quickly.
- ***Disciplined Operators*** have built a strong foundation of financial controls, standard processes and data, but have yet to deploy more mature analytical capabilities and partner effectively with the business.
- ***Scorekeepers*** are the most traditional Finance organizations, primarily focused on accounting operations, controls, closing the books, and managing compliance. These organizations have either no mandate or no capability to do much more than that.

On average, companies whose Finance organizations are Value Integrators outperform the other three groups — Constrained Advisors, Disciplined Operators and Scorekeepers – across the entire CFO agenda. Value Integrators also ranked highly in risk management and information integration, two areas that have increased in importance more than any others over the past five years.



Value Integrators outperform across the entire CFO agenda

Value Integrators can anticipate performance gaps with enough lead time to assess alternatives intelligently, and respond effectively. In light of the volatility of the past two years, these capabilities translate into a significant business advantage.

How Value Integrators Achieve Better Performance

To achieve these results, Value Integrators have adopted business practices and technologies that function as "accelerators" of efficiency and insight.

Finance Efficiency Accelerators

1. **Process Ownership**
   Establishing common processes and assigning a process owner who has the authority to enforce data standards leads to improved efficiency and streamlined financial processes. The adoption of process ownership is 145% greater for companies that rank high in finance efficiency. Process ownership also makes a dramatic impact on standardizing processes enterprise wide, which in turn influences data commonality and data definitions across the organization. Companies can capture and distribute financial and operational key performance indicators (KPIs) to finance and business managers to help them monitor performance with a complete, consistent view of the business.
2. **Common Technology Platform**
   The implementation of a common ledger and common accounting transaction applications encourages the adoption of data standards enterprise-wide. Companies with high finance efficiency have adopted common platforms 47% more often than their peers. Coupled with process ownership, a common technology platform helps enforce and sustain the process and data standards that lead to higher finance efficiency.
3. **Alternative Delivery Models**
   The third accelerator of finance efficiency is the use of alternative models for the delivery of transactional services. A shared services center or an outsourced service provider can drive economies of scale, reduce costs and improve overall efficiency. Moving to such an alternative delivery model institutionalizes and enforces common processes and data, and hence improves the adoption of standards enterprise-wide.

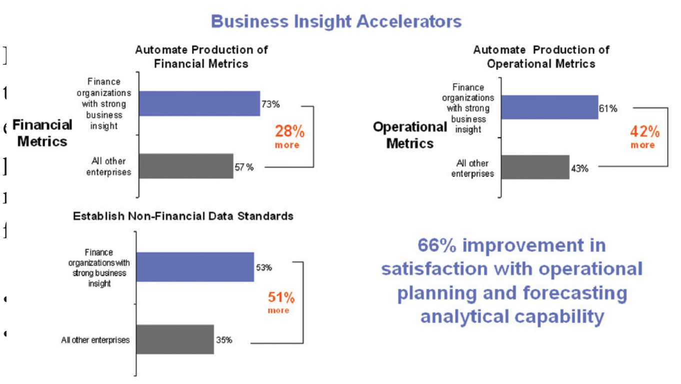
Recall that, on average, finance organizations still spend nearly 50% of their time on low-value-added transactional activities. Increasing finance efficiency by reducing the transaction processing workload can free up resources for analysis and other higher-value activities.

Business Insight Accelerators

1. **Automated Financial Metrics**
   The dominant factor influencing business insight is the data layer itself. The more sophisticated the analytical requirements and the wider the variety of data, the more difficult it becomes to collect information and perform analysis manually. Conversely, if the sourcing and production of financial metrics is automated, and there are common processes for aggregation and loading of data into pre-defined frameworks, information can be produced and distributed faster, more accurately and more consistently.
2. **Automated Operational Metrics**
   Finance and business managers need to see timely, reliable operational metrics alongside their financial metrics to drive better performance because operational metrics are often

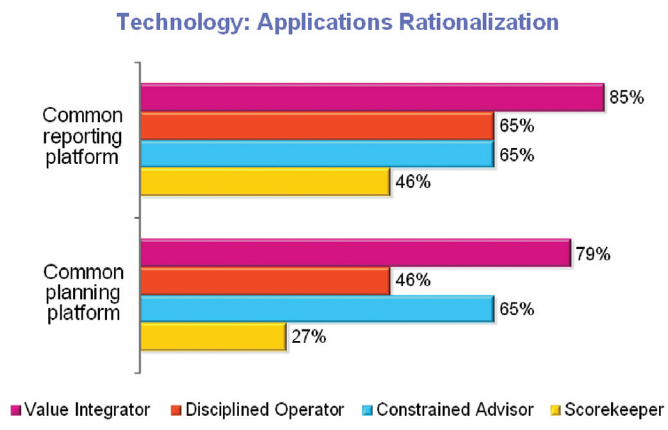
leading indicators of financial performance. For example, marketing campaign response rates are leading indicators of sales pipeline and revenue. Customer satisfaction ratings are leading indicators of repeat purchases. By providing timely, reliable operational metrics, finance and business managers can anticipate performance gaps with enough lead time to respond.

3. **Establishment of Non-financial Data Standards**
   Data governance begins with the ownership and definition of data and with establishing consistent data standards. Organizations with stronger business insight have done much more than their peers to establish non-financial data standards. And they have 42% higher satisfaction with their analytics capabilities than those who have not.



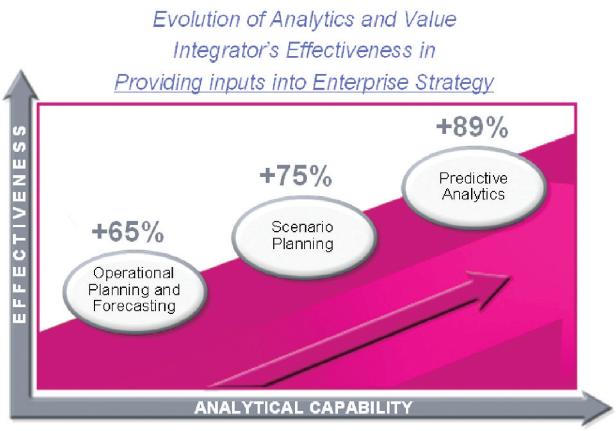
Accelerators of strong business insight

Furthermore, Value integrators address structural complexity head-on by adopting common reporting and planning platforms to a greater extent than the rest. This allows them to capture financial and operational KPIs and distribute them to affected finance and business managers so they can monitor performance with a consistent and complete view of the business. Enterprise-wide planning and forecasting can then be linked to operational and financial performance so that managers can allocate resources to the most promising opportunities.



Value Integrators adopt common reporting and planning platforms more than the rest.

Finally, when value integrators increase their analytical capabilities, they improve their effectiveness in the number one priority on the CFO agenda– providing inputs into enterprise strategy.



Advancing analytical capabilities improves the Value Integrator's effectiveness in the #1 CFO priority

On average, Value Integrators are 65% more effective at providing inputs into enterprise strategy than Scorekeepers, thanks to a foundation of strong operational planning and forecasting. When they invest in improving their scenario planning capability they are 75% more effective than Scorekeepers in providing inputs into enterprise strategy. And if they do the same with predictive analytics – the use of statistical analysis and data mining techniques – they are 89% more effective. Think of these as proxies for a culture of analytics that enables these finance organizations to deliver greater value to their companies. For instance, strength in scenario planning could help them model various possible discontinuities – a dramatic rise in oil prices, or interest rates for example. Similarly, strength in predictive analytics helps create more reliable forecasts based on past trends.

Finance Transformation Through Business Insight

So, how can Finance organizations that are not yet Value Integrators operate more efficiently and gain the insight they need to achieve the level of business success that distinguishes the Value Integrators?

There are five practical steps that can set an organization on the path to Finance transformation.

1) Automate Performance Monitoring

Effective monitoring and measuring ensures that "what gets measured gets managed." An effective monitoring solution should:

- Automate the production of financial and operational metrics.
- Help anticipate performance gaps by connecting leading and predictive indicators (e.g., operational) and financial indicators.
- Connect KPIs to corporate strategy.
- Measure on the appropriate time scale for the particular business parameter – daily, weekly, monthly, or quarterly.

2) Deliver fast and reliable reporting

Virtually every organization does reporting. Unfortunately, the quality, timeliness and usefulness of reports varies dramatically. Desirable reports are those that:

- Provide the right level of detail across financial and operational data.
- Provide timeliness – both in when the reports are received and for the periods covered.
- Connect to all performance views – historical, latest forecast, projected plan, current goals.
- Coordinate at all levels, from summary to detail.
- Adapt to changing organizational goals and business conditions.

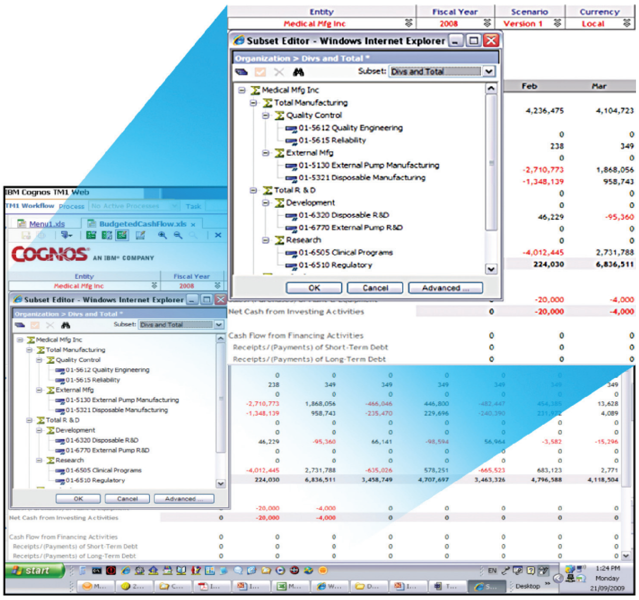
- Can be offered in a variety of formats, including scorecards and dashboards, and in a variety of mediums, from web to electronic publishing to mobile devices.

Deliver fast, reliable reporting

3) Make Planning a Part of Your Culture

Help users align individual or departmental goals with the broader corporate strategy. Best-practice planning can:

- Connect financial and operational drivers.
- Deliver plans at the appropriate frequency–daily, weekly, or monthly.
- Determine optimum outcomes collaboratively.
- Feed back into ongoing measuring and reporting systems.



Connect enterprise plans and forecasts

4) Analyze and Understand the Business

Gain a better understanding of what drivers impact the business, and which customers and products are the most profitable.

- Model the business and define multiple dimensional views, such as product, customer, channel, region, sales rep, or cost center.
- Model financial and operational results – cash flow, customer profitability, product profitability, and revenue performance models to quantitatively measure inputs and outputs.
- Perform what-if scenario planning to examine options when business conditions change.

5) Broaden the Scope of Risk Management
Manage risk across the entire organization, from the operational risk of breakdowns in the supply chain, to financial risks affecting income, balance sheet and cash flow. Understand where risk exists, and establish risk avoidance or mitigation strategies.

- Model risk with analytics and link risk metrics and probabilities to actual plans and forecasts.
- Capture risk factors, and deliver risk metrics into monitoring solutions.
- Deploy open data and systems to expose information and reveal hidden, previously undetected dangers.
- Automate, enhance or extend business controls to monitor and prevent risk.

Anticipate and Shape Outcomes More Effectively in the "New Normal"

The global economic crisis has put CFOs in the spotlight as never before. Even with the worst of the recession's dangers subsiding, the pressure remains on CFOs to be vigilant in their own areas of accounting and compliance, while answering the call of their corporate colleagues to take on a bigger role in guiding the business. As the CFO Study observed, "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."

Fortunately, CFOs and their Finance organizations now have better tools than ever before and a broader repertoire of proven best practices to help them meet the challenge of the "new normal." The expanding portfolio of IBM® Cognos® and IBM SPSS® products includes solutions for:

- Scorecarding and strategy management
- Planning, budgeting, and forecasting
- Financial analytics to understand profit drivers
- Consolidation and corporate reporting
- Analytic applications for analyzing transaction information across financial and operational systems
- Predictive analytics to gain new insights into profit and growth opportunities

With so many sophisticated solutions available, virtually any Finance organization can find a logical starting point for the journey to greater finance efficiency and greater business insight. And in the uncertain world of the "new normal," today's Scorekeepers need to accelerate that journey towards becoming Value Integrators. And at IBM we're ready to help.

About IBM Business Analytics

IBM Business Analytics software delivers complete, consistent and accurate information that decision-makers trust to improve business performance. A comprehensive portfolio of business intelligence, advanced analytics, financial performance and strategy management and analytic applications gives you clear, immediate and actionable insights into current performance and the ability to predict future outcomes.

Combined with rich industry solutions, proven practices and professional services, organizations of every size can drive the highest IT productivity and deliver better results.

For more information

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To request a call or to ask a question, go to **ibm.com**/cognos/contactus. An IBM Cognos representative will respond to your enquiry within two business days.

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Produced in Canada
October 2010

P25266

YTW-03090-CAEN-00