
Meeting Business Challenges through Integrated Performance Management

CFO Guidance for Making Strategic Performance Management Technology Investments

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Perspective

Finance executives must meet a growing number of complex demands and economic challenges to enable their company's growth, profit and risk objectives. This is especially evident in uncertain times, as CFOs take on a more strategic and creative role to support performance goals and deliver insight from information. The ability to understand where the company is performing well and where it is exposed to risk remains elusive as companies wade through information. Responses become tactical and reactionary, as opposed to proactively targeting opportunities for growth and long term change. While companies can't move completely away from tactical maneuvers such as cost reductions, they must take advantage early in the economic upturn and make strategic investments.

One of the most strategic investments that an organization can make is providing the ability to understand the right information. Traditional sources of information – financial reports, operational metrics and transactional ERP systems, may not provide the insight required to understand profitability trends and ongoing changes in the market which should drive growth initiatives. It is almost impossible to pull information together in a meaningful way to perform scenario planning of growth strategy alternatives.

Leveraging information may require technology investments to enhance the information generated from transactional ERP systems. Performance management capabilities such as financial modeling, profitability reporting, planning, budgeting & forecasting, and delivery of key performance information across the enterprise to a broader audience is more important than ever before.

CFO focus: Strategic management and financial discipline

CFO's are taking the lead role in managing performance, which requires detailed insight into company results of operations, and delivering the right information to employees that are in a



position to take action. This is no small task given the complexity of today's business and the heterogeneous information technologies that support the business.

Strategic finance departments have increased their influence and ability to partner with the business by putting information to work in their organizations. This information agenda includes the deployment of new technologies to drive competitive advantage for the business. The right insight supports the ability to maximize growth opportunities while optimally allocating resources and mitigating business risk. Technology serves as the backbone of performance management. Timely access to consistent, accurate and reliable information can support broader, deeper analytics. Making this available to an expanded base of stakeholders can help the organization respond to threats and opportunities more quickly.

The Foundation: Integrated Enterprise Performance Management

The term Enterprise Performance Management, or EPM, has existed for some time, representing a set of technologies designed to support the process of monitoring corporate

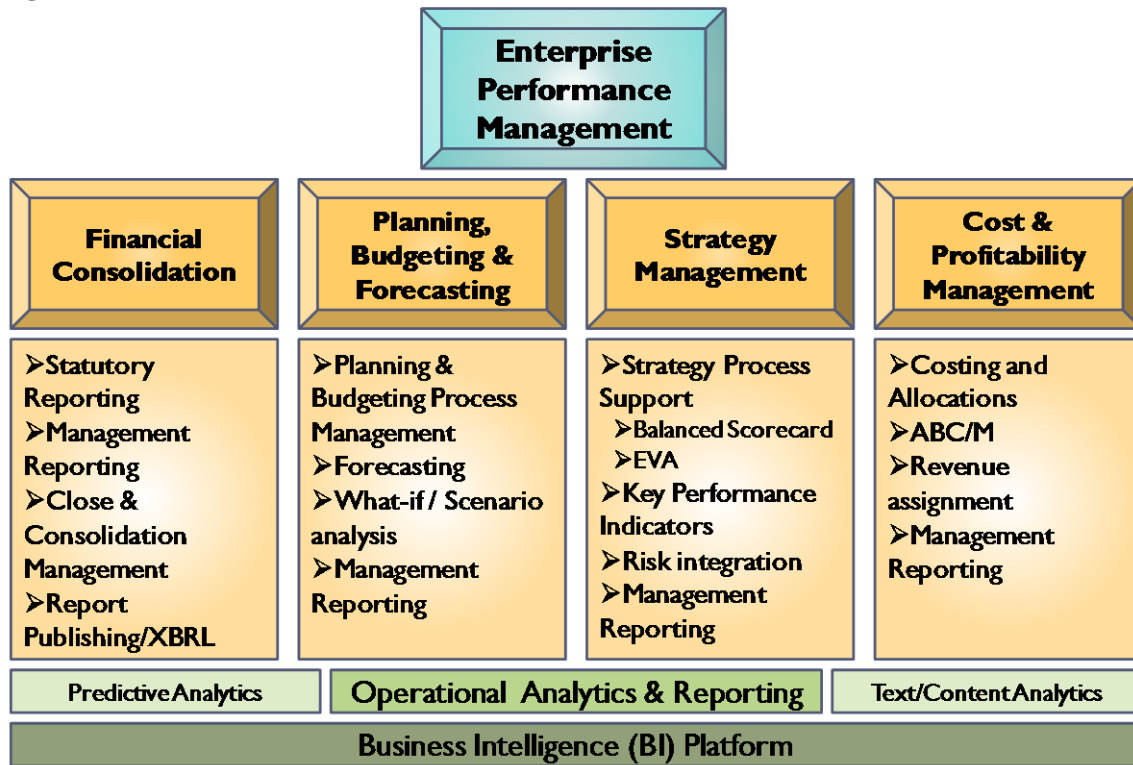
It is the EPM platform that enables organizations to improve the dynamic use of information and analysis of performance.

strategy, effective planning, budgeting and forecasting, and delivering integrated statutory and management reporting. The good news is that today's solutions have reached a new level of maturity, supporting more cohesive performance management processes coupled with the ability to standardize and integrate information across disparate systems more efficiently than ever before, and with a higher level of quality. An

EPM technology platform integrates processes such as planning and profitability analysis, helping Finance to overcome the challenges of inconsistent systems and information, a lack of transparency, and delayed performance results.

Figure 1 depicts the landscape of a best in class EPM solution which combines performance management analytic applications with a business intelligence platform to integrate and standardize information. This landscape outlines not just the capabilities that are enabled by the EPM platform, but the importance of the platform itself to support integration across reporting, budgeting and managing strategic performance. It is the *platform* that enables organizations to improve the dynamic use of information and analysis of performance.

Figure 1



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The business intelligence (BI) layer of the EPM platform is a key capability for achieving long term value from a dynamic performance management system. The key capabilities may seem technical but provide significant business benefits. These include:

- Data Integration – combining heterogeneous sources of information increases insight and enables companies to expand their knowledge network in new ways, opening up previously unexplored information relationships between financial and operational information. The ability for Finance to provide correlated information such as marketing campaign spend and lead generation takes the organization to the next level of insight, and ultimately action.

- Data Quality – is an area that is cited as a key weakness in many performance management systems. Most CFOs report the frustration of several different versions of numbers. Data quality is a set of capabilities within the BI platform that synchronizes information, ensures proper information context, and continually validates and governs changes to data. Investing in a solution that addresses data quality up front avoids the inevitable need to clean up information later – which can destroy the trust in EPM investments.
- Information Accessibility - BI solutions enable the extension of information in a self service environment that focuses on individual needs. Reporting and analysis capabilities that are broadly accessible enhance business collaboration based upon a common view of information that is not achievable in transactional ERP systems.

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When evaluating an EPM solution, there are options provided by ERP vendors as well as independent vendors. A robust BI platform will enable integration to ERP as well as other systems, and perceived integration benefits of the EPM solutions of ERP vendors may not actually meet business needs. Consider the importance of integration to transactional systems, across planning, budgeting and forecasting capabilities, and the integration of advanced analytic capabilities.

BUSINESS VALUE OF INTEGRATED EPM

World-class companies make investments in robust and flexible systems that can scale as they grow and change. While initial EPM investments may be driven by a pressing initiative – financial consolidation, planning and budgeting, or reporting – the platform for EPM should support integrated capabilities across processes such as consolidation, planning & budgeting, and the BI platform, which is key to realizing the longer term value of the investment. A suite of solutions does not necessarily mean they are integrated with each other, and a lack of integration may adversely impact the success of the EPM initiative as it expands to meet additional needs in the long term.

There are a number of situations reported by companies time and time again that support the value proposition of evaluating and investing in an integrated EPM platform. Below are just a few examples:

A multi-dimensional reporting platform

Organizations may embark on the journey to improve reporting in a number of ways. The most popular are 1) a financial reporting approach spearheaded by implementing financial consolidation, or 2) a management reporting approach driven by investing in business intelligence capabilities, including data-warehousing and easy to use report building and analysis tools. Both of these initiatives have merit, but evolve into information silos that can result in information integrity and data quality issues, reported as one of the highest concerns of CFOs. An EPM platform can meet both of those needs, as financial consolidation solutions support both statutory and management reporting structures. This includes standardizing multiple charts of accounts and setting up multiple views of the organizational structure. Planning & budgeting as well as cost & profitability solutions can then leverage consistent information for extended insight, such as the profitability of customers and products. The integrated BI capabilities support the integration of information and the assurance of data quality. Even if one initiative, such as budgeting, initially takes precedence, the platform enables a seamless extension to broader capabilities in the future.

From passive to active budget information

Many planning and budgeting processes are performed in a vacuum. The result is a mismatch of budget and actual information, and an inability to incorporate actual information into a dynamic re-forecasting and what-if analysis process. Spreadsheets, which are prone to error and lack financial controls, drive the performance reporting process. This is risky, inefficient and in the long-term not sustainable. For companies that have focused on implementing an EPM planning and budgeting solution, it's not long before there is a requirement for quick and accurate integration of actual information supported by analytic tools, as well as requirements for what-if analysis. An EPM platform can meet short term improvements to planning and budgeting and enable an integrated reporting strategy to meet evolving requirements and the needs of an extended group of users.

What-if analysis

Analytics are helping innovative companies gain competitive advantage. By modeling historical information based on consistent data, and correlating it to market variables, organizations can model scenarios based upon insight such as customer behavior, sourcing options and pricing decisions, all of which can improve profitability. The ability to provide this type of what-if analyses to both finance and business users can

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result in better decisions and competitive advantage. However, this is cited as a key weakness for the majority of vendor solutions.

Predictive analytics

Predictive analytics is a subset of broader analytic capabilities, combining data mining and predictive modeling, as well as other analytical techniques, to help companies make sense of volumes of internal and outside data, and spot trends before they occur. As companies mature in their performance

management processes, and strive to leverage ever increasing amounts of information, traditional budgeting practices and multi-year forecasts can quickly become obsolete. Adding capabilities of predictive analytics to foresee future situations and outcomes can help companies gain deeper insight that has not been previously obtainable. Finance can use these capabilities to support optimal pricing models, or to incorporate more relevant detail in profitability analysis that ultimately can drive future investment decisions and marketing campaigns.

Access to non-financial performance information

As much as 80% of the information housed in an organization is unstructured. Typically the collection of key operating statistics or external information such as benchmarks is a manual process. An EPM platform provides the ability to integrate this type of information in a manner that correlates to financial and operating results. Emerging capabilities such as text analytics which analyzes unstructured information should emerge as another dimension of information available in an EPM platform.

As companies put in place increasingly dynamic performance management processes, it is important to leverage an independent EPM platform that will evolve to meet increasing needs, and can enable more sophisticated analytics across all sources of information in the enterprise.

The independence of the EPM platform from transactional (ERP, CRM, SCM) systems supports:

- Reliance on a single version of information across disparate sources
- Improving data quality and inconsistencies that may exist in transactional systems
- The introduction of advanced analytic techniques that span beyond analysis of ERP data. (i.e. text analytics).
- The ability to serve a broad user base

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- A reduction in manual processes to pull information together, increasing the timeliness of decision making
 - Closed loop performance management processes

THE WAY FORWARD

Disparate technologies, competitive pressures and the requirements for nimble business models are some of the most significant challenges in today's business environment that drive the need to understand and act upon information. Who are the most profitable customers? How should I allocate resources? Staying ahead of the competition requires the ability to quickly aggregate and disseminate key information and metrics across the organization. Companies need to make sense of heterogeneous information across the enterprise, and blend financial and operational information as well as external competitive or benchmark information to achieve greater insight.

Executing and monitoring strategy is a big issue in C-suites. CFOs are taking the lead and are hungry for up-to-date information. Corporate decision makers need every scrap of information they can get to fuel quick business decisions. Demand for broader sources of performance information is skyrocketing, and finance departments are inundated with requests.

World class finance organizations are moving from watchdogs to business partners, and CFO's lead the charge to improve the quality and accessibility of financial and performance management information strategically across the organization.

Priorities for achieving success in these initiatives must include the following:

- A foundation that supports data integration from heterogeneous sources that exist today, with the flexibility to support changes in the future;
- Attacking data quality issues head on, and ensuring that technology investments for EPM provide a rigor for data quality that promotes reliance on information;
- A reduction in silos of information to support performance reporting and near real-time analysis;
- Increasing information access and providing solutions that are easy to use and arm a broader audience with the right information;



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- Ensuring investments to improve processes that guide the organization, such as planning, budgeting and forecasting, are connected to the information architecture of the enterprise.
 - Ensuring that your EPM platform is able to meet the analysis needs of your organization today (i.e. simple slicing and dicing) and is equipped to meet the more advanced analysis needs of your organization tomorrow (i.e. predictive, content analytics).

EPM solutions provide a platform for dynamic capabilities and innovative processes – which are significantly enhanced through an integrated set of capabilities. It is not enough to have a solution based upon a grouping of heterogeneous applications, which exist in the market today, fueled by acquisitions in the EPM market. The foundation of BI that supports not only reporting but data integration and quality can catapult an organization to the next level of insight. Integration across performance management applications will support a cohesive approach that is cost effective in the long run. The journey will be addressed in stages, but investing with the long-term benefits in mind will result in a solution that supports company initiatives to enhance decision support across a broad base of employees, and continuously improve business performance.