The New Value *Integrator*

Insights from the Global Chief Financial Officer Study Government Perspective

IBM

Executive summary

In the aftermath of the recent economic downturn, Government CFOs worldwide are facing severe pressure from politicians and citizens to tackle a looming crisis in public finances, with growing deficits as well as increasing demand for more and better public services. At the same time, they feel pressured to respond to public demands for greater transparency and accountability.

IBM performs regular studies of CFOs, and its 2010 study, which highlights how Finance is evolving in new ways, is the most comprehensive yet. This companion report analyzes in detail government CFOs' responses to gauge how ready they are to tackle the particular challenges they face and to assess their progress in developing the necessary capabilities, using the progress of private sector CFOs as a benchmark.

Looking across 32 industries, the 2010 CFO study reveals emerging trends in the evolving role of Finance. Leading Finance functions are developing a new set of capabilities, which combine traditional core activities of financial efficiency with the ability to provide sophisticated business insights. Finance teams are increasingly taking lead roles in activities spanning the organization, such as cost reduction, performance and risk management, and information integration. We call those Finance organizations with both a high level of efficiency and an expanded capacity to provide meaningful business insights Value Integrators. Government CFOs will need to excel in these areas as well to tackle the challenges they face; yet, our analysis shows they fall behind both their private sector counterparts and their own expectations.

The study data point to specific recommendations to help government CFOs tackle their immediate challenges, as well as build long-term capabilities. Government CFOs need to:

- **Accelerate progress toward becoming a Value Integrator by developing specific Finance competencies.** They need to identify critical gaps in the capabilities of their Finance function, ensuring there is a foundation of sound data on which business insight can be built. They can then build capabilities in the areas of greatest importance to the challenges ahead – organization-wide performance management and cost reduction.
- **Elevate the strategic role and profile of the CFO.** They need to act as provider of insight and a decision maker, rather than scorekeeper and informer. To achieve this, they will need the support of senior executive colleagues and other stakeholders.
- **Tackle their immediate challenges.** Government CFOs should implement specific, targeted actions to cut costs. They should also seek organization-wide innovative solutions, including new business and operating models that have been successfully applied in both public and private sectors to deliver more with less and provide increased transparency.

Background

> *"We expect an increased mandate and budget cuts – we will be expected to do more for less."*
>
> **U.K. government CFO**

IBM has been conducting CFO studies since 2003. The 2010 study is our most comprehensive to date, with over 1,900 CFOs and senior Finance leaders interviewed globally across 32 industries.[1] The study focuses on CFOs' responses to the uncertainties surrounding the new economic environment. Here we take an in-depth look at the government CFO based on the responses of the 166 government CFOs who participated in the study. Of those 166, who were spread evenly across geographies, most were from developed economies (88 percent). Eighty four percent of the government CFOs surveyed were from national or federal organizations, while the remainder represented regional (state) or local (municipal) organizations.

Finance's readiness for a rapidly expanding role

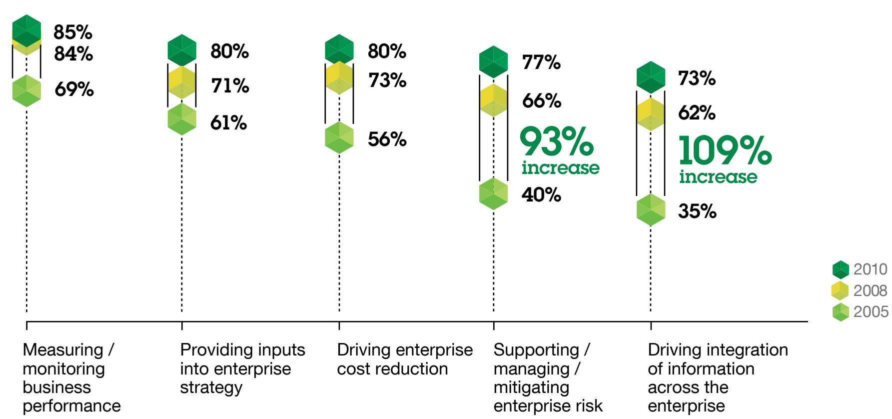
When asked about their immediate challenges, government CFOs gave a variety of answers. Many already feel the need to respond to smaller budgets, while others are beneficiaries of stimulus programs or increased mandates (for example, U.S. homeland security, "green" initiatives or military operations in Afghanistan). However, when looking further into the future, the picture becomes clearer. Looking at external challenges in three years' time, 79 percent indicate that the pressure to reduce the cost base would increase, and 73 percent highlight growing demand for services (compared with just 59 percent in the private sector). It is this combination of delivering more services with smaller budgets that presents such a challenge to the government CFO.

Yet, government CFOs rate the demand for external transparency as their highest external challenge (84 percent expect this demand to increase, compared with 67 percent in the private sector). Altogether these challenges are relatively new, as many government CFOs have – in recent times – concentrated on building the effectiveness of the Finance team, rather than taking responsibility for delivering cost reductions and service improvements or encouraging transparency across the organization. To meet these challenges, Finance leaders will need to cultivate new capabilities. As a Canadian government CFO stated, "The Finance organization needs to adjust to a budget-cutting culture versus a culture of 10 to 15 years of growth."

The changing role of Finance comes across clearly when looking at how CFO responses (for our cross-industry sample) changed over time. We listed ten key Finance activities and divided them between those that are concerned with the efficiency and effectiveness of the Finance department (core Finance) and those that have a wider impact across the organization (enterprise focused). Over the past five years, the importance of every enterprise-focused activity has increased – some dramatically (see Figure 1).

Two activities – driving integration of information across the enterprise and supporting/managing/mitigating enterprise risk – 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 organizations today. 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.

Figure 1 **Importance of enterprise-focused activities over time.**



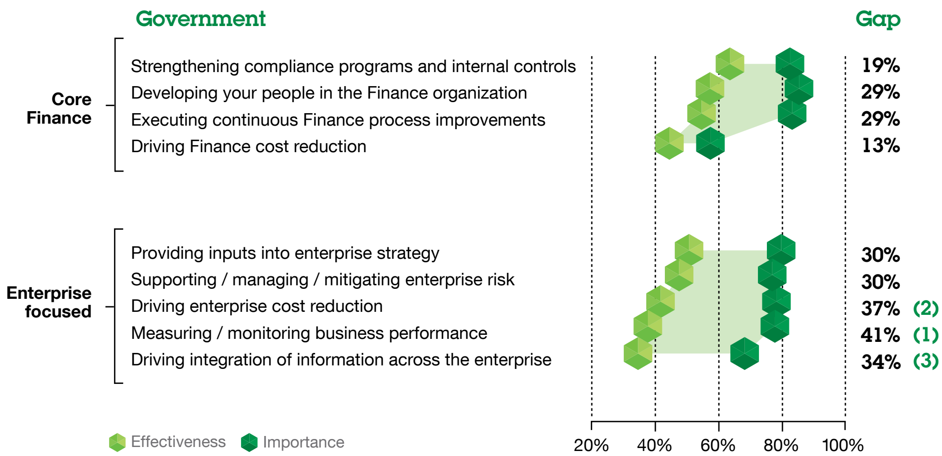
CFOs focus not only on integrating information but, ultimately, understanding which metrics or indicators signal which outcomes and, to a further degree, what information needs to be available weekly, daily, hourly and in realtime. Essentially, this is about proactive data governance – formally managing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

Among CFOs, managing enterprise risk also garners almost twice the attention it did in 2005. A Dutch CFO shared, “Our risk management is mainly audit driven. I would like to see risk management take a different form and be more based on ‘out of the box’ thinking.” This concern is not a recent development. In our 2008 study, CFOs acknowledged serious shortcomings with regard to risk management.[2]

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 organizational risk in its many forms – whether strategic, operational, geopolitical, legal or environmental. All forms of risk ultimately have financial consequences, which is why it is essential for CFOs to be engaged in risk management.

Clearly, the demands on Finance and the scope of its role are rapidly expanding. But according to government CFOs’ own assessments, their effectiveness falls short in these enterprise-focused areas (see Figure 2). Core Finance activities remain important, yet it is in the organization-wide activities where the biggest gaps exist between importance and effectiveness. For all these activities, the gap is greater than 30 percent, with the greatest gaps in performance measurement (41 percent), cost reduction programs (37 percent) and managing the integration of information across the organization (34 percent) – which are all key capabilities. When the responses of government CFOs are compared with those from the private sector, there are striking differences. Only 38 percent of government CFOs consider their Finance organizations effective at performance management and 42 percent at cost reduction, compared with scores of 68 percent and 60 percent for private sector CFOs. In fact, government CFOs score their Finance organizations lower than private sector CFOs on effectiveness for all organization-wide activities.

Figure 2 **CFO agenda: Importance versus effectiveness.**



These results can be interpreted in many ways. It is certainly true that government Finance organizations face particular complexities in the areas of performance management and cost reduction, which may make it more difficult to achieve success than in the private sector. Public sector outcomes are less easy to quantify than those in the private sector, where metrics such as product volumes, revenue and profit are common. Government CFOs are also subject to a number of constraints on their freedom to act, such as the need to respond to political priorities and timetables, for example. Finance as a function in government may not have the same elevated status as the sole provider of business advice that has been hard won in the private sector.

However, regardless of the reasons behind them, the study results are stark. To deliver improved services with fewer resources while meeting demands for transparency, government CFOs will need new capabilities. They must increase their understanding of the drivers and behaviors of cost, provide insights into opportunities for more efficient operations and manage organization-wide cost reduction programs. Yet, these are the very capabilities that government CFOs feel are their organizations' weakest. It is worth further investigation to see if government CFOs can learn from best practices, wherever they may be deployed.

Value Integrators are closing the gap

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 Finance
- **Business insight** – The maturity level of Finance talent, technology and analytical capabilities dedicated to providing optimization, planning and forward-looking insights.

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 organization performance.[3]

However, one of the most compelling aspects of this year's research emerged from looking at the interplay between these two capabilities. By segmenting 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 (see Figure 3). In comparing the profiles, the most striking contrast emerged

Figure 3 **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

in our analysis of effectiveness against the activities listed in Figure 2. Against each Finance activity, Value Integrators' organizations outperform their peers.

So, what distinguishes this remarkable group?

Value Integrators excel in both of the 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. Finance efficiency makes them scalable, agile and fast – and able to do more with less administrative cost.

Value Integrators also have strong business insight capabilities. For government agencies, this includes balanced scorecards and performance reports that link resources to public outcomes and the organizational mission. These insights are used to set performance targets throughout the organization; drive faster, more effective decision making; and demonstrate improvements in service delivery and productivity to stakeholders, including the public. To enable these capabilities, Value Integrators have far greater levels of information integration across the enterprise; analytical talent that can effectively partner with operations; and more mature analytical capabilities, such as integrated planning and forecasting, scenario planning and predictive modelling.

Individually, each capability offers performance advantages, but together they offer far more. By doing both – executing their core Finance activities efficiently and providing critical insights their businesses so desperately need – Value Integrators are helping their overall organizations make much better decisions. That is one reason "Integrator" figures so 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 to drive better outcomes, a recurring theme linked to outperforming organizations across our last three Global CFO Studies.

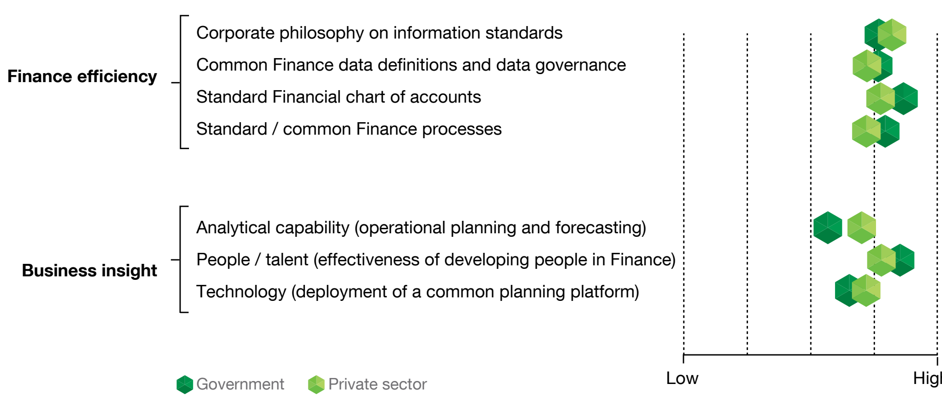
Outstanding effectiveness across the entire agenda gives Value Integrators tremendous credibility within their organizations. Their advice carries more weight, and their contributions are more strategic. They are positioned to make an impact. It is that combination that drives the difference.

Many government CFOs are building the capabilities of the Value Integrator in their Finance organizations, but they have further to go. Compared with their private sector counterparts, they appear to be making good progress in improving Finance efficiency, but they fall behind in providing business insight. To understand where government CFOs need to focus their attention, we need to look closer at what the study reveals about the areas of greatest weakness.

We analyzed the overall study data to identify key competencies associated with Finance efficiency and business insight. We then looked at how government CFOs assessed their Finance organizations' performance against these competencies and compared these scores with the private sector.

In terms of Finance efficiency competencies, the study results suggest that government Finance organizations spend too much of their time (46 percent) on transactional activities, with many government Finance departments producing financial metrics manually (42 percent) and lacking a common reporting platform (40 percent). However, when comparing the progress of government CFOs with the private sector (see Figure 4), it appears that many government Finance organizations have made good progress in implementing standard accounting applications, a standard chart of accounts and standard processes. The area that appears to be most difficult is in defining and enforcing common information standards across the organization.

Figure 4 **Finance efficiency and business insight competencies.**



It is one thing to define information standards across an organization and yet another to ensure that these standards are maintained. As a U.S. government CFO noted, “We have standards that are mandated; they may not be met.” Another remarked on the complexity of the undertaking, “We are driving toward enterprise-wide standards but don’t expect to be there in three years. It’s a journey.”

“Our financial analytics process is mainly brainpower.”

Canadian government CFO

Government CFOs have much higher levels of dissatisfaction with their business insight competencies. Only 41 percent of government CFOs are satisfied with their operational planning and forecasting capability. A large percentage (38 percent) complains of unreliable operational data, and 54 percent lack a common planning platform. However, the greatest differences compared with the private sector are in analytical capabilities. For government CFOs, 33 percent are dissatisfied with their financial analytical capabilities – a core discipline – and 41 percent are dissatisfied with their predictive analytics. In the private sector, dissatisfaction levels are just 10 percent and 27 percent. As a Canadian government CFO noted, “We tend to react well but anticipate poorly.”

How must government CFOs respond?

We have highlighted the scale of challenges facing government CFOs and identified a number of key competencies that best practice Finance functions are developing. Government CFOs will need to develop strategies that tackle their unique challenges, taking into account the strengths and weaknesses of their Finance capabilities and the preparedness of their organizations to accept change. CFO study results suggest that their strategies will require actions focused in three key areas:

- Accelerate progress toward becoming a Value Integrator by targeting specific Finance competencies that need developing
- Elevate the strategic role and profile of the government CFO
- Tackle the immediate challenges faced by governments.

"There is so much change swirling about...How do we adjust our existing inefficient organizations to address and harness that change?"

U.S. government CFO

Accelerate progress toward becoming a Value Integrator

The path government CFOs take for their Finance organizations to become Value Integrators will depend on their current capabilities and whether they need to focus on building up their financial efficiency, their business insight or both.

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.

Feedback from government respondents suggests one area that will require particular attention concerns the definition and maintenance of data standards. Additional actions to improve Finance efficiency may include standardizing accounting policies and using common accounting and transaction processing systems. Moving to common systems often provides a window of opportunity to unify processes and data standards across the Finance organization. Once processes are standardized and the responsibility of process owners defined, efficiency and effectiveness can be improved by measuring performance against external benchmarks.

To provide better business insight, government CFOs will need to apply the same discipline and rigor they use in their core Finance operations. Survey responses suggest a prime area on which to concentrate is the definition of outcome- and output-based performance metrics as part of an organization-wide approach to planning and performance management. Improvements can be made by creating standardized, integrated processes and implementing common planning and reporting applications, which may include scenario planning, balanced scorecards and management dashboards. Analytics capabilities are likely to be in particular need of improvement – building analytical skills and more sophisticated systems, such as predictive analytics, on a foundation of reliable financial and operational data.

To improve both Finance efficiency and business insight simultaneously is particularly demanding on an organization's capacity for change. Such an ambitious program would need to be broken down into stages and implemented over an extended period. Some public sector organizations have overcome this problem by contracting out transaction processing, and even some decision support processes, to external providers. By doing so, government Finance organizations can transfer the risks associated with transforming Finance to a company that has best practice experience and that is not subject to the same constraints as many public sector organizations. In addition, continuous efficiency gains can be delivered by specifying performance targets in service level agreements.

"We need to get the Finance organization to change – to become more persuasive to drive change across the organization."

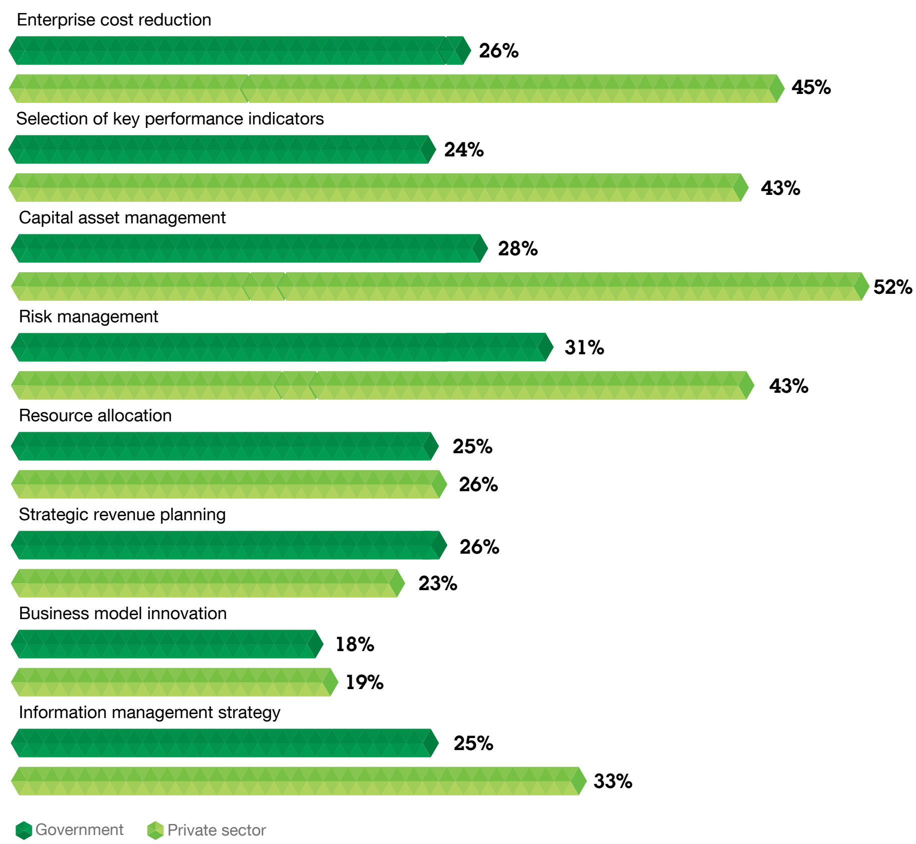
U.S. government CFO

Elevating the strategic role and profile of the government CFO

For government CFOs to have a strong impact on organization-wide issues, they need the authority to take responsibility for leading these issues and to be accepted in this role by their management colleagues. However, the CFO study indicates that this currently may not be the case and that more needs to be done to boost the authority of government CFOs so they are able to create the same impact as their private sector counterparts.

When asked about the role of Finance in driving decisions across the organization, government CFOs see their role more as an advisor than the decision maker. In comparison, private sector CFOs are more willing to describe themselves as the decision maker on almost all of the organization-wide issues on the Finance agenda and, in particular, capital asset management, enterprise cost reduction, selection of key performance indicators and risk management (see Figure 5).

Figure 5 **Finance as decision maker.**



There are likely a number of explanations for the differences in behavior patterns of government and private sector CFOs. It varies by country, and there may be statutory or cultural reasons why government CFOs' roles evolved in different ways than their private sector counterparts. One way Finance can raise its profile and authority is to develop the capabilities of the Value Integrator so that Finance leaders become established as the source of business insight. However, sustained improvement in the government CFO's profile is likely also to need the support of others, such as the senior agency or ministry leader, other members of the executive team and even those working outside the organization (e.g., treasury officials and government ministers), who can exert pressure on the organization to provide increased scope for the CFO to grow the role and lead those issues that are in dire need of attention and action.

We see a natural affinity developing with the CIO, who shares many of the CFO's objectives in improving the quality and usage of data and using automation to deliver efficiencies across the organization. IBM's 2009 study of government CIOs asked respondents to identify their priority areas for developing solutions. The highest-rated answers were Virtualization, Business Analytics and Optimization, and Risk Management and Compliance. In fact nearly all of the initiatives listed would help the CFO in meeting his or her objectives.[4]

Tackle the immediate challenges faced by governments

Building the capabilities of the Value Integrator and raising the profile of the government CFO will help a great deal in tackling the unique challenges faced by government Finance organizations. But there are also specific initiatives that the government CFO will need to implement to help deliver more and better services for less cost and with increased transparency.

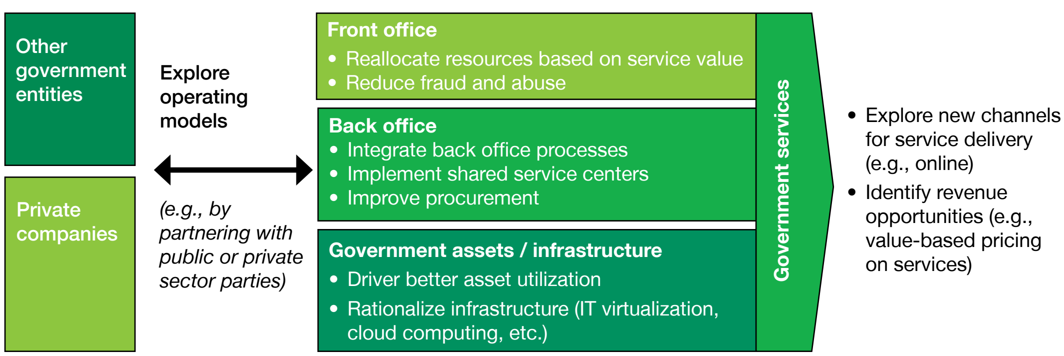
Actions to reduce costs include rigorous approaches, such as implementing programs that embrace "lean six sigma" and sophisticated cost reduction methodologies. New analytical tools, supported by better data management, are helping identify behavior patterns so that fraud and abuse in tax and benefit receipts and payments can be targeted. To increase transparency, work must first be done to define and agree on appropriate measures of transparency. High quality information will then need to be regularly delivered using current or new communication channels.

> *"We need to focus on using technology to deliver services and drive costs down."*
>
> **Australian government CFO**

Government CFOs should also utilize their expanded role to seek ways to help their organizations work smarter. The greatest gains in productivity and efficiency are unlikely to be delivered with traditional cost cutting across siloed departments. Government CFOs should look equally at the balance sheet to identify opportunities to make greater use of assets (including land and buildings). Procurement often provides opportunities for cost savings through consolidation within and across government departments. Government CFOs should also look at radical new ways of delivering services and redesign of the organizations' operating models, both front and back office (see Figure 6). Some questions for them to consider include:

- Are the organization's resources allocated to the services that citizens truly value?
- Could services be more effectively delivered via lower cost channels (including the Internet)?
- Could operating efficiencies be achieved through delivering shared services with a partner department or commercial organization?

Figure 6 **Examples of actions to tackle government challenges.**



Conclusion

Politicians and citizens will – and have indeed started to – place increased demands on public sector organizations to deliver services more efficiently, as well as more transparently. As this occurs, attention will focus on the government CFO to take action. The 2010 CFO study indicates that government CFOs currently are not confident they have the capabilities needed to respond.

By identifying habits of leading Finance functions and comparing the responses of government CFOs with those from the private sector, a clear set of complementary recommendations emerge. Government CFOs need to build the capabilities of the Value Integrator, concentrating on those areas where their Finance organizations' capabilities are weakest, such as providing business insight. They also need to build their authority across their organizations and work collaboratively with executive colleagues so they can take a more proactive role in addressing issues such as performance management, cost reduction, risk management and the integration of information. Finally, they need to apply their elevated capabilities and authority to deliver specific programs that will increase productivity and transparency.

The demands on the government CFO are certainly tough, but the insights from this study suggest they can be met. 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. As a New Zealand government CFO said, "It is a really exciting time to be a CFO."

Let's continue the conversation at: **ibm.com**/cfostudy

The right partner for a changing world

At IBM, we collaborate with our clients, bringing together business insight, advanced research and technology to give them a distinct advantage in today's rapidly changing environment. Through our integrated approach to business design and execution, we help turn strategies into action. And with expertise in 17 industries and global capabilities that span 170 countries, we can help clients anticipate change and profit from new opportunities.

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. Additional studies from the IBM Institute for Business Value can be found at **ibm.com**/iibv

For further information

For more information about this study, please send an e-mail to the IBM Institute for Business Value at iibv@us.ibm.com or contact one of the IBM government leaders below:

Global	**Sietze Dijkstra**	sietze.dijkstra@nl.ibm.com
	Gerry Mooney	mooneyg@us.ibm.com
Americas	**Curtis Clark**	cclark1@us.ibm.com
Northern Europe	**Paul Crook**	pcrook@uk.ibm.com
Southern Europe	**Frank Wittkampf**	wittkampf@nl.ibm.com
Asia Pacific	**Michael Dixon**	mdixon@au1.ibm.com
	Jeffrey Rhoda	rhodaj@cn.ibm.com
IBM Institute for Business Value	**John Reiners**	john.reiners@uk.ibm.com
	Carl Nordman	carl.nordman@us.ibm.com

IBM Global Business Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
May 2010

References

1 For ease of reading, we have used the term CFOs throughout the document to refer to study respondents. For more detail on the 2010 CFO study, including study methodology, please see "The New Value Integrator: Insights from the Global Chief Financial Officer Study." IBM Institute for Business Value. March 2010. http://www-935.ibm.com/cfostudy

2 "Balancing risk and performance with an Integrated Finance Organization: The Global CFO study 2008." IBM Institute for Business Value. October 2008. http://www-935.ibm.com/services/us/gbs/bus/html/2008cfostudy.html

3 "Balancing risk and performance with an Integrated Finance Organization: The Global CFO study 2008." IBM Institute for Business Value. October 2008. http://www-935.ibm.com/services/us/gbs/bus/html/2008cfostudy.html; "The agile CFO: Acting on Business Insight." IBM Institute for Business Value. 2005. http://www-935.ibm.com/services/us/imc/pdf/ge510-6239-agile-cfo-full.pdf

4 "The New Voice of the CIO: Insights from the Global Chief Information Officer Study – Global Government Executive Summary." IBM Institute for Business Value. September 2009. ftp://public.dhe.ibm.com/common/ssi/pm/xb/n/cie03049usen/CIE03049USEN.PDF

GBE03311-USEN-00