The New Value *Integrator*

Insights from the Global Chief Financial Officer Study

Exploring alternative delivery models for stronger financial performance

IBM

Executive summary

The recent economic crisis wrought changes for Chief Financial Officers that are destined to impact the CFO role well beyond resolution of current economic trends. During the downturn, CFOs and their Finance organizations were forced to address urgent challenges in a volatile environment. As part of this, they were drawn into higher-level boardroom discussions and strategic decisions and, as a result, gained far more influence at the enterprise level.

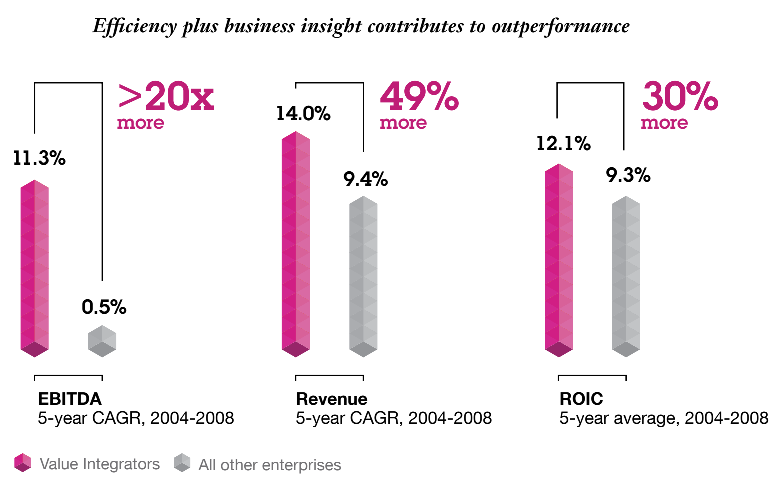
As their responsibilities mount and they look toward the future, how can CFOs help ensure they are ready – and equipped with the right skills and knowledge – to be the fact-based voice of reason and provide strategic insight for their organizations? How can they successfully manage and effectively execute a broader agenda while helping the entire enterprise become more agile, flexible and responsive to market fluctuations?

These issues are key focus areas of IBM's 2010 CFO study – its most comprehensive yet. Based on input from more than 1,900 CFOs and senior Finance leaders worldwide, the 2010 Global CFO Study reveals emerging trends in the evolving role of Finance. While the importance of core Finance responsibilities has not diminished in any way, the CFO's influence on company-wide decisions has increased sharply. However, our findings suggest that Finance's effectiveness lags. We found 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.

Our study found a common theme among leading Finance organizations: The participants in this group have implemented an operating model that is not only flexible – accelerating speed to benefit – but also utilizes an integrated set of capabilities combining finance process and data standards with the ability to provide sophisticated business insights. We call these Finance organizations operating with both a high level of efficiency and an expanded capacity to provide meaningful business insights *Value Integrators*.

Value Integrators excel in two key areas: Finance efficiency and business insight. Individually, each of these capabilities offers performance advantages – but together they deliver far more impact. By doing both – executing core Finance activities efficiently and providing the critical insights their businesses need to stay competitive – Value Integrators are empowering their companies with better decision-making abilities, which is reflected in better financial performance. In fact, against each financial measure we examined – spanning balance sheet, profit and loss, and cash flow – Value Integrators consistently outperform their peers (see Figure 1).

Figure 1 **Value Integrators consistently outperform peers.**



By comparing responses to survey questions against objective financial performance of our participants, we identified seven factors – or enablers – that most highly correlate to growth in earnings before interest, taxes, depreciation and amortization (EBITDA). Among the most compelling findings of our study, these enablers include factors associated with both strong Finance efficiency and business insight:

Key Finance efficiency enablers
- Standard/common Finance processes
- Common Finance data definitions and data governance
- Standard financial chart of accounts
- Globally mandated and enforced standards.

Key business insight enablers
- Analytical capability (operational planning and forecasting)
- People/talent (effectiveness of developing people in Finance)
- Technology (deployment of a common planning platform).

In this companion report to the main study, we take a look at how organizations can work toward becoming Value Integrators and how the seven enablers can contribute to driving better financial performance across the enterprise. We examine how utilizing an alternative delivery model – specifically the use of enterprise-wide shared services or outsourcing of transactional activities – can accelerate this progression and help drive shareholder value.

Finance organizations that find ways to accelerate their journey toward becoming Value Integrators are better positioned to help their organizations anticipate and respond to external forces. In this report, we explore the evidence from our study that indicates outsourcing could provide a faster path to sustainable performance than an internal shared services model. Although every organization must determine the optimal Finance delivery model configuration for its unique situation, many companies are now embracing outsourcing not only to achieve their desired return on investment more quickly, but also to accelerate adoptions of standards, allow Finance to shift focus away from transactional activities, more effectively execute the enterprise agenda and improve financial performance.

The expanding CFO agenda

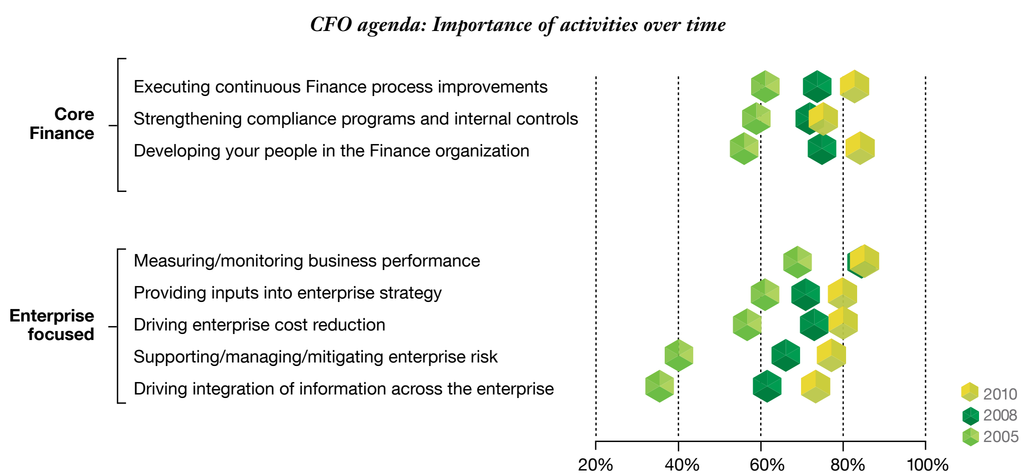
During robust economic periods, many companies can continue to survive – and even grow – without particularly strong business insight or an ability to diagnose and anticipate key business drivers. They simply ride the wave of economic growth. However, tough times separate peak performers from the competition.

The 2010 Global CFO Study was conducted during one of the worst global economic crises in recent history, providing a unique perspective. Those organizations able to anticipate and react quickly to changing economic forces fared better during the downturn, distinguishing themselves as clear market leaders.

As CFOs prepare for a new economic environment ripe with uncertainty, how can they help ensure their organizations are among the future leaders? How do they prepare for and manage their higher-profile enterprise role?

To help answer these questions, it's helpful to look at how CFO responses in terms of their agenda have changed over time. In each of our past three studies, we asked CFOs to rank the importance of the many items on their agenda. To do so, we listed ten key Finance activities, dividing them between those relating to the effectiveness of Finance efficiency (core Finance) and those that have a wider impact across the organization (enterprise focused). Over the past five years, we have seen a significant increase in the percentage of CFOs that rank these activities as high importance (see Figure 2).

Figure 2 **The CFO agenda continues to broaden.**



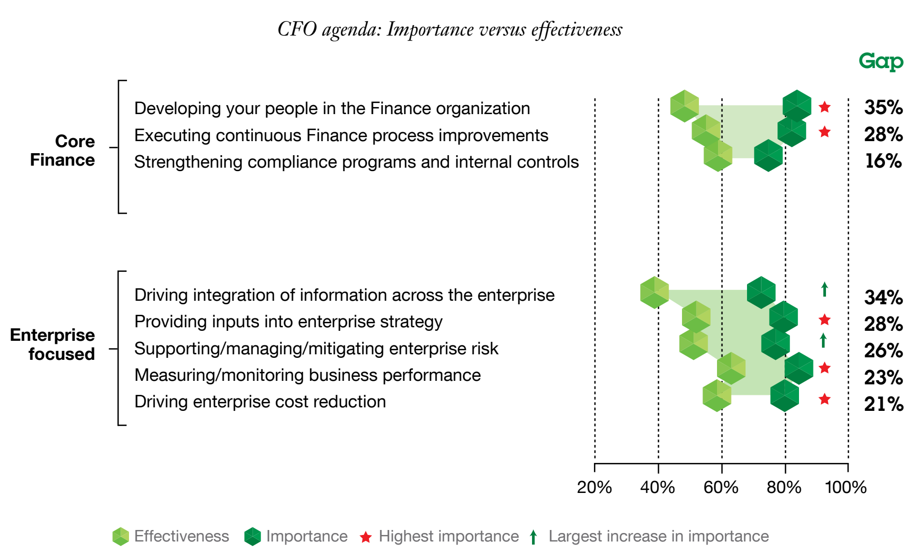
A shift to the right shows alignment among CFOs that everything is important and increasing in importance. However, two activities – driving integration of information across the enterprise and supporting/managing/mitigating enterprise risk – have become significantly more prominent.

Since 2005, the importance of integrating information has more than doubled, while supporting/managing/mitigating risk has almost doubled. To develop the deeper, broader understanding of the business that its expanding mandate requires, Finance must have integrated information relating to finance, operations and risk.

In addition, as recent economic volatility underscores, CFOs must be prepared to anticipate and successfully manage risk. We believe the sharp rise in the importance of risk management is further evidence of the CFO's 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.

Unfortunately, our study shows CFOs perceive a gap in effectiveness not only in these areas but across all their top focus areas – including both core finance and the broader enterprise areas (see Figure 3).

Figure 3 **CFOs perceive a gap in effectiveness across top focus areas.**



Balancing a burgeoning agenda is increasingly complex for CFOs as Finance takes on more responsibilities. CFOs need to do more – and do it all well. How can they close the gap between expectations and execution?

Closing the gap

By analyzing CFO responses and objective enterprise financial measures, we identified two primary capabilities that are strongly associated with outperformance:

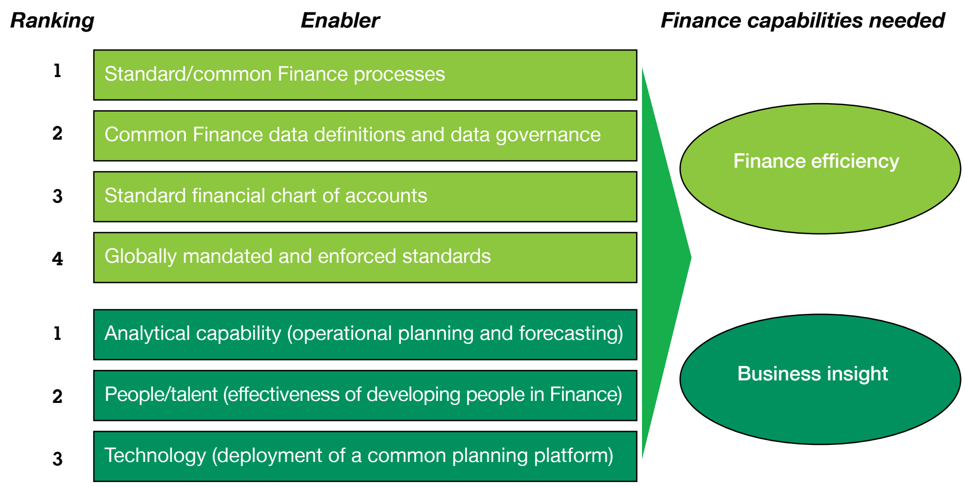
- **Finance efficiency** – The degree of process and data commonality across Finance[1]
- **Business insight** – The maturity level of Finance talent, technology and analytical capabilities dedicated to providing optimization, planning and forward-looking insights.[2]

To support a broader enterprise-focused role, we believe Finance must boost capabilities in both these areas. The typical Finance organization is uniquely positioned as a hub, where the convergence of financial, operational and risk information come together. Finance should capitalize on this unique position by not only collecting and analyzing data, but using it to make or influence strategic enterprise-related decisions. The outperforming Finance organizations in our study – those that have both high Finance efficiency and strong business insight – do just this.

In an effort to find out how, we compared responses to over 30 survey questions against financial performance and identified seven factors that most highly correlate to growth in EBITDA. (EBITDA growth was used because it was cited most frequently by respondents as one of their top two financial metrics.) These factors – or enablers – ranked in order of correlation to EBITDA growth, can be divided into two groups: those associated with Finance efficiency and those with business insight (see Figure 4).

Figure 4 **Seven enablers that correlate to EBITDA growth.**

Finance efficiency and business insight enablers



Finance profiles

One interesting aspect of this year's research emerged from looking at the interplay between these two capabilities – Finance efficiency and business insight. By segmenting our respondents along these two dimensions based on their responses to the top seven enablers, 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 5).

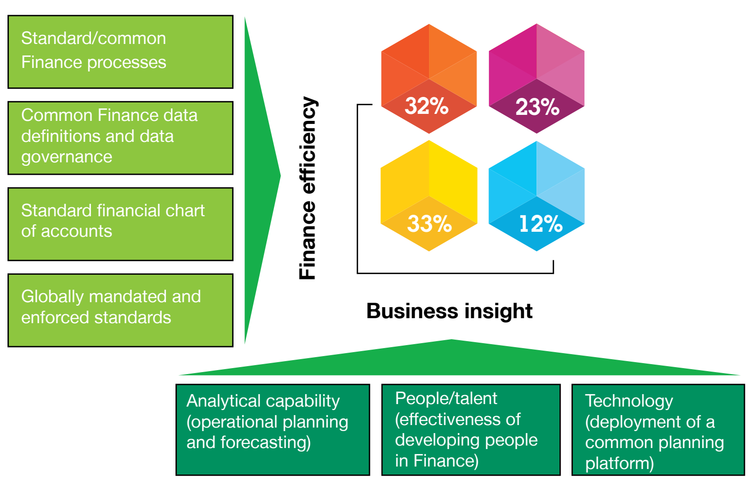
Figure 5 **Four Finance profiles.**

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

Disciplined Operators
- Finance operations focused
- Information provision
- Performance interpretation

Constrained Advisors
- Analytics focused
- Sub-optimal execution
- Fragmented data

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



In comparing the profiles, the most striking contrast emerged in our financial analysis, with Value Integrators outperforming other profiles in each financial measure we examined. We calculated five-year compounded annual growth rates (CAGR) in EBITDA and revenue growth, as well as five-year averages for return on invested capital (ROIC). Value Integrators experienced 20 times greater growth in EBITDA, 49 percent higher revenue growth and 30 percent better ROIC over the period 2004 to 2008.

By analyzing what Value Integrators did to outperform their peers, we identified two crucial themes:

Delivering Finance efficiency through standards matters more than ever. Good internal Finance operations governed by process and data standards correlate with better practices and financial performance.

Providing business insight drives performance improvement beyond finance. Deploying better analytical capabilities can reward Finance with stronger business insight.

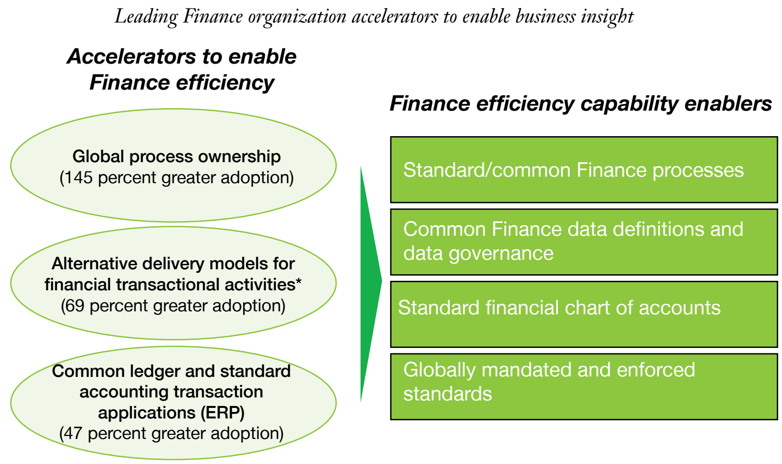
Finance efficiency: Powered by process and data standards

Finance leaders intuitively understand that standards can increase efficiency, but many Finance organizations struggle to implement them throughout their enterprises. So how do those companies with high Finance efficiency manage to accelerate the adoption of process and data standards enterprise wide? What are they doing that other organizations are not?

Finance efficiency accelerators

To find out, we further analyzed companies with high Finance efficiency – those that had adopted the four finance efficiency enablers enterprise wide (standard/common Finance processes, common data definitions and data governance, standard financial chart of accounts, and globally mandated and enforced standards). We identified three practices – or accelerators – that companies with high Finance efficiency tend to employ: global process ownership, enterprise-wide use of alternative delivery models for financial transaction processing, and the use of common ledger and standard accounting transaction applications (see Figure 6).

Figure 6 **Three accelerators can help Finance organizations reduce complexity and enhance standards adoption.**



**Enterprise-wide shared services/centers of excellence or outsourcing adoption*

We further analyzed the impact of the three accelerators on adoption of standards. To do this comparison, we examined the entire study population and segmented three groups:

- Participants with greater than 75 percent enterprise-wide adoption of process ownership
- Participants with greater than 75 percent enterprise-wide adoption of alternative delivery models
- Participants with greater than 75 percent enterprise-wide adoption of a common ledger.

We then compared their adoption rates for the four enablers (standard/common Finance processes, common data definitions and data governance, standard financial chart of accounts, and globally mandated and enforced standards). Process ownership has the highest impact on standards adoption across the board. Establishing a process owner with the authority to enforce standards likely enables adoption and implementation of common processes, which then supports streamlined Finance processes and improved efficiency. Standardized processes also positively influence data commonality, which in turn impacts common data definitions.

The second most impactful accelerator is the implementation of alternative delivery models for transactional activities. A properly designed shared services strategy or mature outsourcing service provider enables consolidation and optimization to deliver end-to-end process improvement. Moving to this kind of alternative delivery model institutionalizes and enforces standards adoption, leading to higher Finance efficiency.

The third most impactful accelerator is use of a common ledger and standard accounting transaction applications. The correlation between process ownership and the use of alternative delivery models creating greater impact on standards adoption than common systems might surprise those who believe a common ledger is the primary driver.

This data strongly supports today's revised transformation path of a "ship then fix" model to accelerate performance benefits and return on investment. Many companies have achieved their desired return on investment more quickly by outsourcing a particular Finance function before trying to "fix it" or standardize with common systems. This "ship then fix" approach can sometimes break the internal gridlock that is preventing global optimization and facilitate the adoption of standards and process ownership. Many companies are utilizing this approach and achieving results that previously could have taken 10 to 15 years in as little as three to five years (see Unilever Europe case study).

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.[3]

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.

The impact of an alternative delivery model

Various companies are at different stages of their shared services journeys. While some start with internal shared services and migrate to outsourcing models, others use hybrid approaches or go straight to business process outsourcing models. Regardless of where a company is in this journey, our study indicates alternative delivery models (ADMs) can help it more rapidly move toward Finance efficiency.

The study supports the concept that strong business insight capabilities can drive performance improvement beyond Finance.

To gain deeper insight on the impact of ADMs, we further analyzed a subset of the respondents – 597 companies – with enterprise-wide adoption of shared services or outsourcing for transactional activities. We found that 70 percent of the ADM respondents have high efficiency compared to only 55 percent of the total survey population of more than 1,900, indicating companies that adopted ADMs moved up the efficiency curve, setting the stage for better business insight.

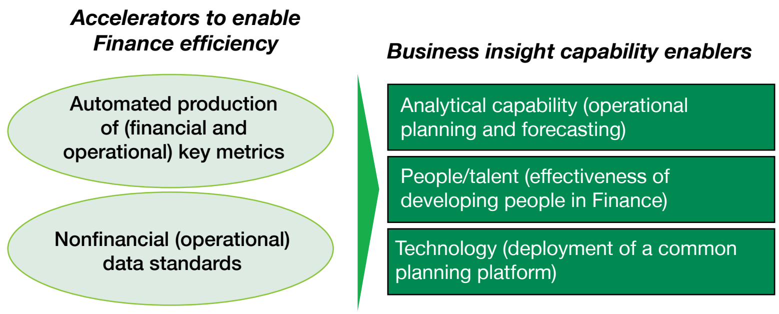
Business insight: Enabled by analytics and a common platform

In addition to achieving Finance efficiency, CFOs must also increase their business insight capabilities to successfully fulfill the role as strategic advisor. They must be able to provide trusted, timely, coherent, compelling information and insights from across the organization to support business decisions.

As previously outlined, we identified three business insight capability enablers: 1) analytical capability (operating planning and forecasting), 2) people/talent (effectiveness of developing people in Finance) and 3) technology (deployment of a common planning platform). As with Finance efficiency, we sought to identify accelerators for these business insight enablers and discovered two primary factors that have the greatest impact on enabling business insight: automated production of (financial and operational) key metrics and nonfinancial (operational) data standards (see Figure 7).

Figure 7 **Two accelerators can help Finance organizations develop analytical capabilities.**

Leading Finance organization accelerators to enable business insight



Strong business insight capabilities can drive performance improvement beyond Finance. For example, automated financial and operational metrics enable deeper analysis, greater consistency and faster decision making. Companies with better business insight have improved their analytical capabilities through greater adoption of common analytical platforms. In addition, they are defining and capturing data – financial and nonfinancial – in a common and consistent way across business units, enabling increased visibility that helps their organizations better anticipate external forces that could impact the business.

Proof points

Using automation and standards to improve collections strategy

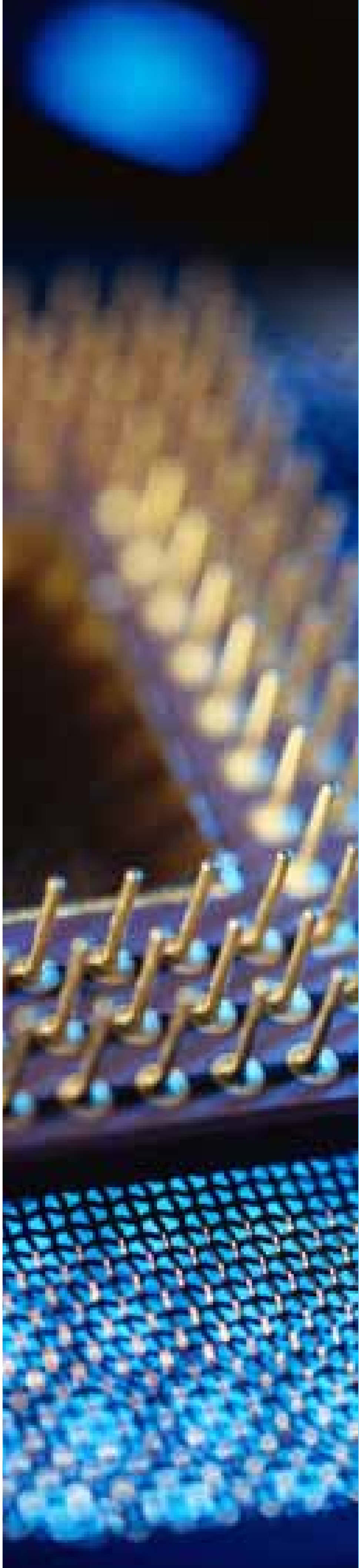
Automation based on standardization can be used to improve effectiveness in finance processes such as collections. Standards and embedded predictive analytics capabilities can be used to segment customers based on past behavior patterns, enabling targeted collections efforts. Such segmentation can help identify those customer companies most in need of attention.

Basic segments could range from “pay on time with little or no trouble and require little or no focus” to “heavy focus of resources.” Classifying each customer into a segment leads to a clearer view of which customers need attention. This capability – based on standard operational data and advanced analytics – allows an organization to deliver the most appropriate treatment to individual customers using analytics-driven credit scoring that helps improve operational efficiency and working capital.

Using standards to improve operational performance

Through use of tools that monitor highly granular activities of Finance practitioners and ongoing monitoring of Finance activities, an organization could define minimum standards by activity and design strategies to create ongoing improvements and continuously redefined, higher standards.

Information about what practitioners are doing and when can reveal variability in performance, identify low performers, help improve work allocation and distribution, and provide motivation for improved performance. It also can identify high-level performers, which can help highlight best practices that can be leveraged across the team for process improvements.



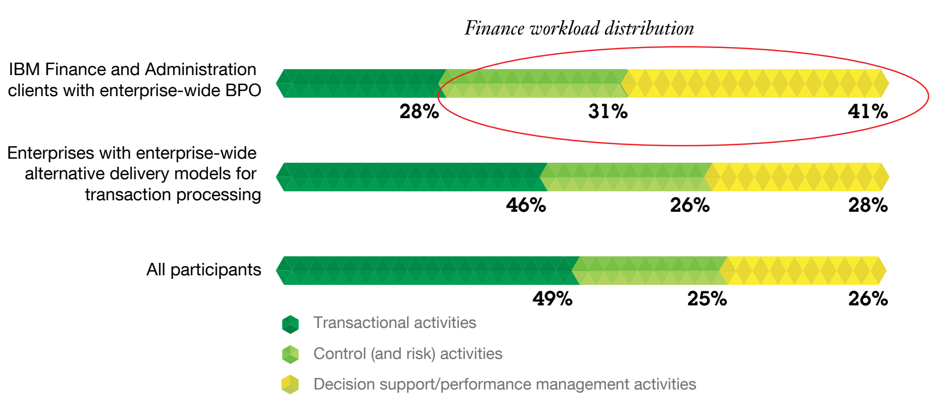
Outsourcing compared to other alternative delivery models

CFOs in our studies have long declared their ambition to shift their organizations' percentage of time spent on transactional activities to areas of greater influence involving analysis and decision support. However, since 2003, the average percentage has not changed, with Finance still spending roughly half its time on transactional processing.

As part of our analysis, we examined the responses of study participants who are IBM Finance and Administration business process outsourcing (BPO) clients, as a proxy for the larger outsourcing population. In doing so, we found a strong correlation between alternative delivery models leveraging enterprise-wide outsourcing and better workload distribution. This better workload distribution allows managers and employees to spend less time on transactional activities and more time on control and risk and decision support activities (see Figure 8).

This workload change enables the retained Finance team in turn to shift its focus to higher-value activities both within Finance and across the enterprise. Without the day-to-day operational distractions of managing and executing transactional activities, these organizations now have more than 70 percent of their time to expand their focus to include enterprise agenda items, such as supporting/managing/mitigating enterprise risk, measuring and monitoring business performance, and enterprise strategy. In contrast, as shown in Figure 8, companies that leverage other ADMs such as internal shared services see only minimal improvement in time spent on transactional activities when compared to overall study participants.

Figure 8 **Outsourcing can enable a shift in focus to decision support and control and risk.**



We also found that the BPO participants perceive smaller gaps between the importance and their effectiveness in key enterprise focus areas as compared to the general study population. In addition, we compared the impact of other alternative delivery models versus outsourcing on the adoption of processes and standards and found the BPO group has higher adoption of three of the four enablers, which are correlated with better financial performance.

Accelerating transformation

As the business process outsourcing market continues to mature, significant investments in tools, methodologies, skills, integrated analytics and best practice process designs offer CFOs a new alternative transformation path. Our experience indicates that organizations can begin to realize substantial operational savings by moving to alternative delivery models as a first step, then beginning to fix systems – executing a “ship then fix” model. This approach drives consolidation and optimization first – and then enables integration with reduced risk of implementation. Even companies that started their transformation efforts by implementing common systems can accrue substantial benefits from consolidation and optimization activities.

Process-led outsourcing organizations can help drive adoption of process and data standards by aligning with clients’ retained global process owners, one of the enablers identified in the study as having the highest impact on standards adoption. In addition, embedding advanced analytics into process execution can not only help improve finance efficiency, but also offer insights on behavior patterns and predictive capabilities that could further enhance financial performance.

Organizations increasingly look to Finance to help their businesses better anticipate and respond to external forces. As such, CFOs should consider whether partnering with business process outsourcing service providers can help their organizations not only accelerate speed to benefit, but also shift focus away from transactional activities and toward executing the enterprise agenda.

Some questions to help guide CFOs in their journey toward improved Finance efficiency and business insight include:

- How effectively can you drive performance improvement beyond Finance?
- Have you adopted the seven key enablers that have been correlated to better financial performance?
- Does your internal shared services organization consistently deliver expected results with outcome commitments?
- Are you spending more than 30 percent of your time supporting transactional activities?
- Do you know how a consolidation and optimization approach could free resources and speed access to information, enabling shifts in focus to more effectively support the broader CFO agenda?

Conclusion

Value Integrators have determined how to sustain business outcomes even during periods of market instability by excelling in both Finance efficiency and business insight. Finance efficiency enables businesses to be scalable, agile and quick to respond. Business process outsourcing can accelerate adoption of standards and embed integrated analytics to drive optimization. Shifting focus from transactional activities to higher value-added activities offers CFOs the opportunity to more effectively support the broader enterprise agenda and deliver performance improvement beyond finance.

Our comparisons of business process outsourcing clients with other study participants show that the success of BPO organizations significantly challenges the internal shared services model on key Finance metrics. Many mature internal shared service organizations are now looking to BPO providers to help take them to the next level of performance, as the embedded analytics and collaborative relationship models inherent in outsourcing contracts help drive end-to-end performance beyond the Finance organization.

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 in both Finance efficiency and business insight. It is the combination that enables smarter decision making and fuels better and more sustainable performance – giving the business the resiliency it needs to thrive in any economy. Based on our study data, we believe use of alternative delivery models – and outsourcing in particular – can help businesses achieve this vital combination.

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

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 Global Process Services leaders:

North America	**Rick Rosso**	rrosso@us.ibm.com
Europe, Middle East, Africa	**Sandy Khanna**	sandy.khanna@uk.ibm.com
Growth Markets	**Jennifer Maritz**	jmaritz@au1.ibm.com

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

Produced in the United States of America
June 2010

References

1 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.

2 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.

3 “Unified Unilever Europe.” *FAO Today*. July/August 2008.

GBE03352-USEN-00