Redefining Performance

Insights from the Global C-suite Study – The CFO perspective

IBM Institute for Business Value

This report draws on input from the 5,247 C-suite executives (CxOs) who participated in our latest C-suite Study – the eighteenth in the ongoing series of CxO studies conducted by the IBM Institute for Business Value. We now have data from more than 28,000 interviews stretching back to 2003.

Here, we focus on the perspectives of Chief Financial Officers (CFOs).

Total number of CFOs interviewed	**643**
North America	**199**
Central and South America	**78**
Western Europe	**110**
Central and Eastern Europe	**47**
Middle East and Africa	**34**
Asia Pacific	**108**
Japan	**67**

Tempestuous times

Technological advances are disrupting the status quo and creating huge turbulence. Industries are converging, and new competitors emerging, at breakneck speed. The pressure to innovate has never been greater, nor managing the risks more difficult. So how are CFOs carving a path through the chaos and helping their enterprises pursue profitable growth?

In the first part of our latest C-suite Study, we surveyed 5,247 top executives to find out what they think the future holds and how they're preparing their organizations for the "age of disruption."[1] We'll now focus on the views of the 643 CFOs who contributed to our research – and what the financial sages of the most successful enterprises do differently.

We identified a small group of CFOs with finance teams that are particularly efficient and adept at producing business insights. Value Integrators, as we call these teams, have a robust infrastructure with common standards, data definitions, finance processes and planning platforms. They account for 19 percent of the enterprises covered here.

However, there's an elite subset of Value Integrators with an even more impressive track record than the rest of the cohort. Performance Accelerators, as we've dubbed them, combine all the strengths of Value Integrators with superior analytical powers.[2] They account for 4 percent of the finance divisions represented by the CFOs in our sample (see Figure 1). The effort required to create these topnotch finance teams has paid off handsomely. Enterprises with Performance Accelerators are 55 percent more likely than other finance teams to enjoy outstanding revenue growth and 57 percent more likely to be highly profitable.

"The most unpredictable external force impacting our business right now is disruptive innovation: it totally changes the rules of the game."

CFO, Consumer Products, China

Value Integrators

are both particularly efficient and skilled at producing business insights

* Performance Accelerators

also possess superior analytical powers and excel at pursuing profitable growth

Figure 1

Cream of the crop: *Performance Accelerators stand out for their analytical excellence*

Comparing the responses of the CFOs who head Performance Accelerators with those of the 81 percent whose finance teams represent the norm reveals marked variations in the way they behave. Performance Accelerators play a much larger role in strategy development. They're also more actively engaged in assessing the commercial and operational implications of new trends and technologies, more skilled at integrating and analyzing data and better at fostering financial talent. In short, Performance Accelerators are in a far stronger position to help guide their organizations through the current turmoil.

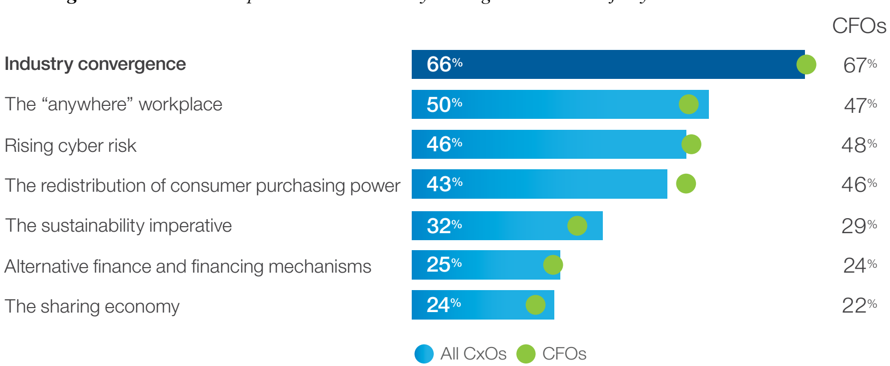
Convergence, competition, commotion

CFOs everywhere realize the barriers between previously distinct industries are collapsing, as companies in one sector apply their expertise to others – producing new hybrids and erasing traditional industry classifications in the process. This, they told us, is the single biggest trend transforming the business arena (see Figure 2). And it's a very mixed blessing.

On the upside, industry convergence is creating completely new opportunities for growth by shifting the focus from standalone products and services to cross-sector customer experiences. On the downside, it's exacerbating competition because rival enterprises can seize an organization's core business as they expand into adjacent spaces. Digital invaders with disruptive new business models are compounding the challenge, as they bypass established providers and even reshape entire industries.

Figure 2

Blurring boundaries: *CFOs expect much more industry convergence in the next few years*



"The boundaries of competition are becoming ambiguous."

Yong Eum Ban, CFO, JoongAng Media Network, South Korea

“We have to see whether new rivals from different industries will enter our sector and take counter measures.”

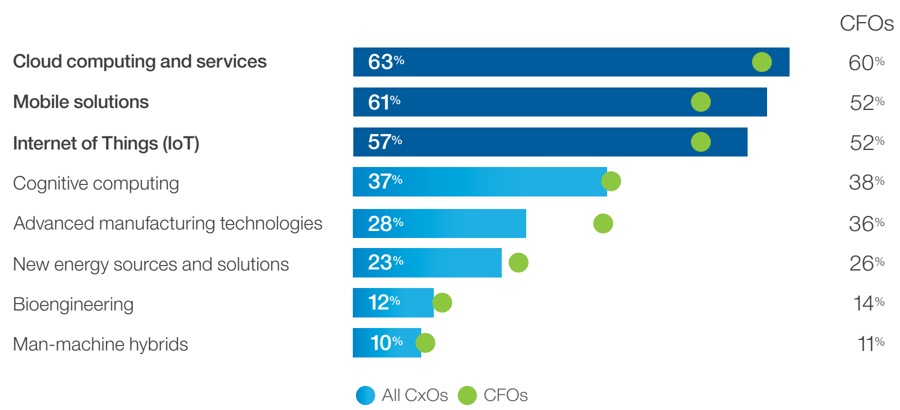
Koichi Takahashi, Member of the Board, Senior Executive Officer, General Manager, Finance and Accounting Division, Daikin Industries, Japan

CFOs are increasingly aware of the danger: 47 percent are bracing themselves for an influx of new entrants from other sectors, up from 37 percent in 2013. A major new player could “arrive on the scene with a solution that ‘explodes’ the market,” the CFO of a French financial institution remarked. He’s not alone in voicing such fears.

CFOs, like other CxOs, attribute much of this change in the competitive landscape to a potent mix of market pressures and technological progress. They say cloud computing, mobile solutions and the Internet of Things will have a particularly big impact on their organizations over the next three to five years. But they’re not ignoring the disruptive potential of cognitive computing or other emerging technologies (see Figure 3).

Figure 3

Tech transformers: *CFOs expect three technologies to have a major impact on their firms*



Eighty percent of CFOs also expect digital forms of interaction with customers to predominate, as face-to-face contact continues to dwindle. “Technology has challenged the notion that retail banking services are fulfilled only within the walls of our branches,” the CFO of a Philippine bank pointed out. And 52 percent of CFOs envisage collaborating more extensively with other organizations to access external innovation. “One of my priorities is making alliances with companies that have greater technological know-how than we do,” the CFO of a Mexican consumer products company commented.

However, acquiring the right technological know-how is only one of the issues CFOs know they’ll have to contend with – and many are preoccupied with more immediate challenges, such as whether their own finance teams are ready to weather the storm. Three-quarters of respondents said it’s vital to integrate information and resources across their enterprises, for example. Yet less than half told us their people are up to the job. There are almost equally large gaps between the importance CFOs attribute to various other priorities and the proficiency with which they said their employees perform these tasks (see Figure 4).

“It’s very hard to evaluate the impact of new technologies. We worry that we might miss a disruptive game-changer.”

Dr. Stefan Mäder, CFO, SIX, Switzerland

"I want to ensure our finance and budget systems are smoothly integrated and organize the data in a way that makes it easy to analyze, so that we can create financial models."

CFO, Education and Research, United States

Figure 4

Shortfall: *CFOs worry that their teams aren't ready to weather the disruption*

What to do: Take the long view

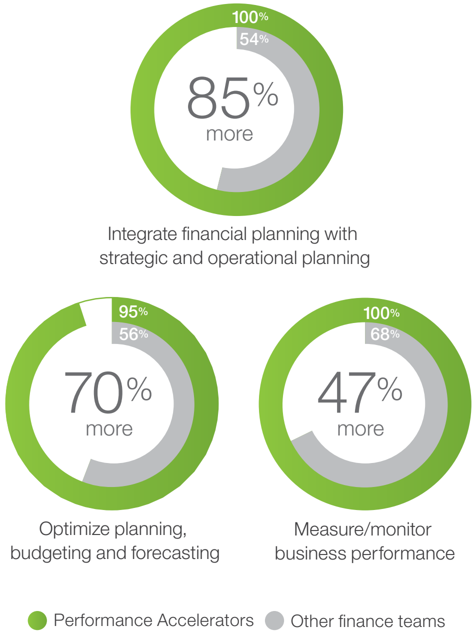
So how are CFOs rising to the challenge? Those who head Performance Accelerators are taking the long view. All are deeply involved in shaping their organization's strategy and wield a considerable degree of influence. By contrast, only 62 percent of CFOs who head other finance teams play a significant role in strategy development; the rest are just focusing on the numbers.

This should be a serious concern. As our previous C-suite Study shows, Chief Executive Officers rely more heavily on the CFO than on other CxOs for strategic advice – with good reason.[3] The partnership between the two is the crux of the process by which an organization turns high-level planning into revenue growth and profit. And in a period of great tumult, speedy access to deep financial insights and accurate forecasts is more important than ever.

Furthermore, Performance Accelerators have a much firmer grip on the facts. They have all, without exception, integrated their financial planning with their organizations' strategic and operational planning. They're also better than other finance teams at budgeting, forecasting, and measuring and monitoring business performance (see Figure 5).

Figure 5

Fine gauge: *Performance Accelerators have superior planning and monitoring skills*



"The world we know is [our company]. Now we need to know the rest of the world."

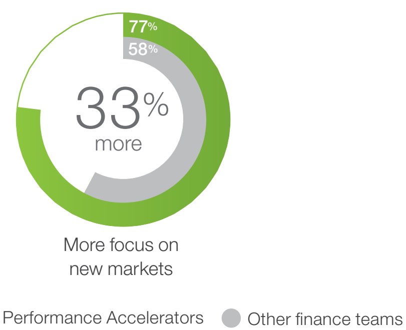
Bob Roberts, CFO, Baptist Health, United States

That's not all. Performance Accelerators cover a far wider range of activities than those traditionally executed by the finance function. They place more emphasis on new markets, for example, and look further afield for new opportunities to expand (see Figure 6). Performance Accelerators are also more than twice as likely to be involved in assessing market conditions. They study industry trends and forecasts, analyze rival organizations' strengths, weaknesses, opportunities and threats, and bring these insights to bear on boardroom discussions.

In essence, Performance Accelerators are much more forward-looking. They participate in key strategic decisions. They're also ahead of the crowd when it comes to prospecting for leads and tracking how their organizations follow up on these opportunities. Performance Accelerators aren't burying their heads in spreadsheets; they're focusing on the big picture.

Figure 6

Competitive edge: *Performance Accelerators seek new markets*



Note: This finding is statistically reliable but should be regarded as directional only, due to small n-counts.

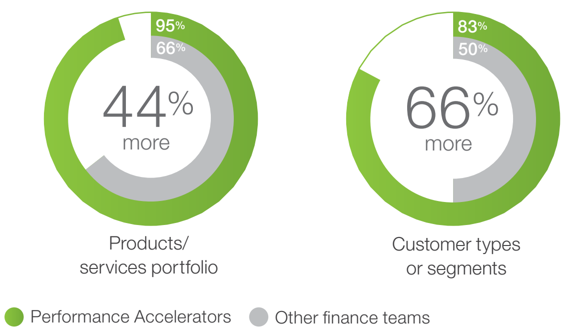
How to do it: Prepare for the “next wave”

Both the strategy an enterprise pursues and the environment in which it operates help to shape its business model, including the products and services it offers, how it provides them and the customers it targets. CFOs recognize as much. Most plan to review various aspects of their organizations, in light of the technological advances they expect.

Here, too, Performance Accelerators stand out from their peers. They’re working closely with the rest of the business to explore and understand the ramifications of the “next wave” – such as the potential for new offerings and the opportunities to serve different customer segments (see Figure 7). Moreover, because they’re armed with a clearer grasp of industry trends and the nature of the competition, they’re in a better position to analyze the implications and allocate capital to the most promising opportunities.

Figure 7

Eyes ahead: *Performance Accelerators are actively exploring the impact of the next wave*

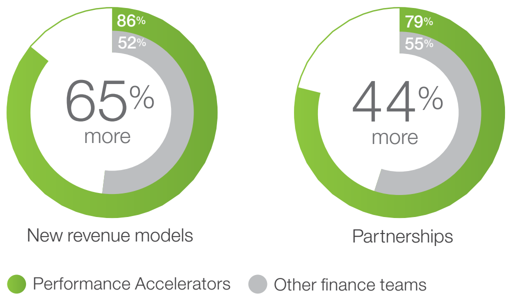


“The most important thing we must do is respond to our customers’ needs individually, rather than treating them as a mass market.’”

Kazuyuki Shimada, CFO, FANCL Corporation, Japan

Figure 8

Deep dive: *Performance Accelerators are considering new revenue models and partnerships*



An example? The CFOs who head Performance Accelerators are acutely aware of the need to provide more compelling customer experiences in the future, as the digital revolution raises people's expectations. A full 79 percent expect to see more individualized contact with customers in the next three to five years, compared with just 59 percent of other finance teams.

Why should that matter to the finance function, when the customer relationship is primarily the Chief Marketing Officer's concern? It matters because of the impact on operating costs and revenues. Interacting digitally with customers through mobile and social, even on a one-on-one basis, is cheaper than engaging with them in person or via call centers. But digital customers are also much less "sticky" than face-to-face customers, so revenue flows are far less predictable.

Performance Accelerators dig beneath the surface to explore such issues. They also get more deeply involved in assessing the impact of new trends and technologies on their organizations' revenue models and partnerships (see Figure 8). And they're much better at evaluating new opportunities in the context of the risks and rewards. All excel at identifying and tracking new opportunities for revenue growth and managing risk. By contrast, only 31 percent of other finance teams are particularly effective at pinpointing new leads, and only 61 percent are particularly effective at managing risk.

That's not to say Performance Accelerators try to avoid every danger. "We have to think about value rather than cost, and creating value entails taking some risks," the CFO of a Canadian bank noted. Nevertheless, Performance Accelerators are more confident of their ability to assess the pros and cons with clear eyes.

What you need to do it: Integrate, analyze and adapt

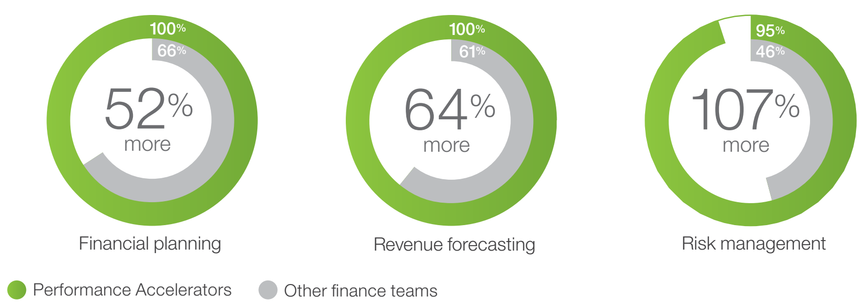
So what's the key to gauging accurately how an enterprise is faring? It's powerful analytics, applied to data that has been integrated from multiple sources. Combining financial, operational and external information, and subjecting it to rigorous analysis, enables the CFO and business-unit leaders to answer complex questions, such as the revenue growth potential of specific customers, and optimize their capital spending.

Yet again, Performance Accelerators lead the way: 77 percent have already made progress in integrating information and resources across their enterprises, versus just 42 percent of other finance teams. They're now reaping the rewards in terms of efficiency and insight. "Integrating our resources will allow us to explore new areas of work, better identify customer needs and respond more rapidly," the CFO of a Portuguese industrial products company observed.

Performance Accelerators also use predictive analytics far more extensively to plan for the future, forecast revenues and manage risk (see Figure 9). This is especially helpful in an era of heightened volatility: 43 percent of finance professionals report that their organizations are now exposed to greater earnings uncertainty than they were three years ago.[4]

Figure 9

Crunch time: *Performance Accelerators rely on predictive analytics to plan and manage risk*



"We are positioning our revenue growth relative to the shifting growth in emerging economies and disposable income."

CFO, Pharma and Life Sciences, United Kingdom

"I want to equip our company to leverage data to become more predictive and less reactive in managing our business."

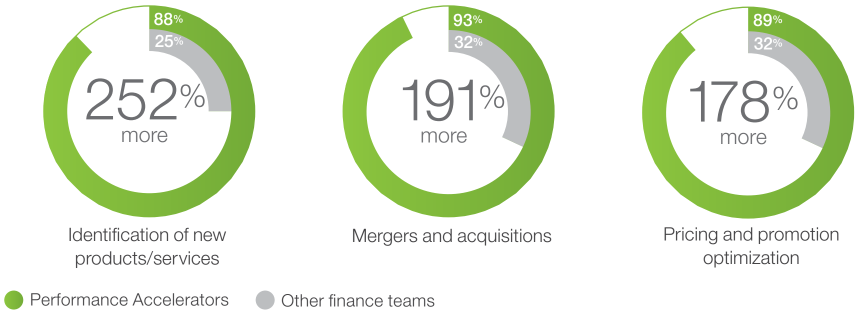
Randy Harwood, CFO, Graybar, United States

Cognitive computing can play a major role here, as some CFOs appreciate. In fact, 38 percent of the CFOs in our study single it out as one of the technologies most likely to transform their enterprises within the next few years (as Figure 3 shows). Cognitive systems can be used, for example, to identify which customers are likely to spend most and be "stickiest," and to predict which deals have the best chance of being closed. That, in turn, allows an enterprise to direct its marketing more precisely, produce reliable cash flow projections and adjust its expenditures as required.

Performance Accelerators, likewise, apply predictive analytics to evaluate opportunities for stimulating organic and acquisitive growth (see Figure 10). One obvious area is the identification of new products and services with promising revenue streams. But the vast majority of Performance Accelerators also use analytics to assess mergers and acquisitions and refine their firms' pricing and promotional strategies.

Figure 10

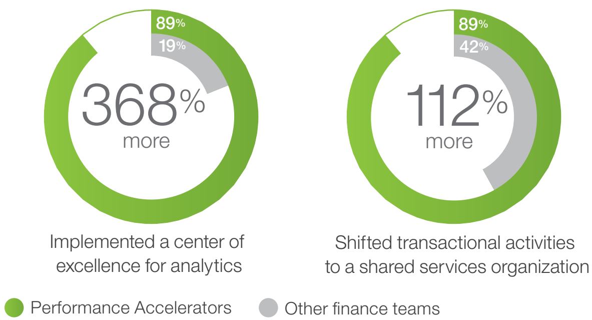
Model design: *Performance Accelerators use predictive analytics more extensively to stimulate growth*



Wielding sophisticated analytical tools takes considerable skill, though – and Performance Accelerators do better in this respect as well. All treat talent development as a top priority, whereas only 54 percent of other finance teams accord it such importance. Most Performance Accelerators have also established centers of analytics excellence to capture and concentrate internal expertise, and transferred transactional activities to a shared services organization, thereby realizing economies of scale (see Figure 11).

Figure 11

Core policy: *Performance Accelerators adopt a more centralized approach*



"We are focused on developing a talent core that will allow the business to remain nimble to threats and change."

Khong Shoong Chia, CFO, Frasers Centrepoint, Singapore

Seize the initiative

CFOs know they need to prepare for a future in which disruption is pervasive: a future in which technological advances are blurring the distinctions between different industries and new competitors are emerging "from left field." So how can they help guide their organizations through the tumult as safely and profitably as possible? The Performance Accelerators in our study provide lessons from which CFOs everywhere can benefit.

What to do: Take the long view

Become a big-picture thinker. Focus on the strategic implications of industry convergence and digital transformation. Analyze industry trends and changes in the competitive landscape regularly and rigorously; bear in mind that digital invaders can be very hard to detect while they're small, so you'll need to scan the entire scene. Look forward – and far afield – for new opportunities to expand. And make sure your organization's financial planning is fully aligned with its strategic and operational planning.

How to do it: Prepare for the "next wave"

Evaluate the impact of emerging technologies on every aspect of your enterprise. Assess the potential for providing more individualized digital customer experiences, and search for partners who can help your organization become more innovative by sharing technological expertise. Draw on input from customers and partners, as well as market research and data from the business units, to optimize your planning and boost your bottom line.

What you need to do it: Integrate, analyze and adapt
Establish enterprise-wide information standards, definitions and finance processes. Invest in technologies that will enable you to integrate data from different sources. Analyze it to produce richer, more predictive insights and allocate capital more efficiently. Emphasize the importance of developing talent – both financial skills and the business acumen required to promote a closer partnership with the operating units. And create scalable delivery models to expedite turnaround times for analyzing information.

You can find "Redefining Boundaries," the first installment of our latest Global C-suite Study at ibm.com/csuitestudy, or via the IBV tablet apps on iOS and Android.

For more information
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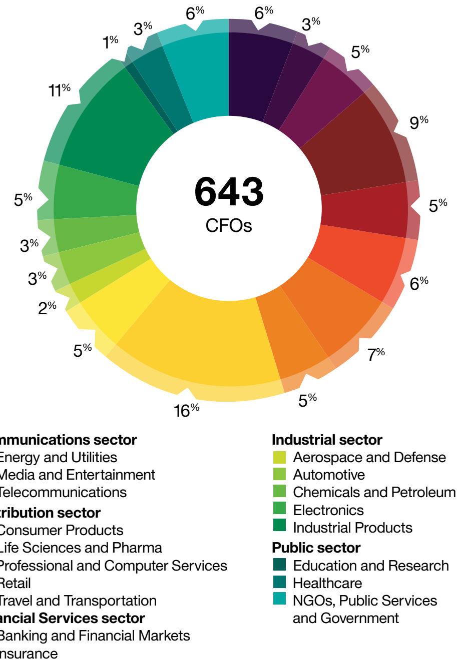
Figure 12

***Sector spread:** We spoke with CFOs from 18 industries*



How we conducted our research

In 2015, we surveyed 5,247 business leaders in more than 70 countries for our latest C-suite Study, the eighteenth IBM study to focus on the C-suite. We used a two-dimensional rake weighting process to correct for oversampling issues arising from differences in the number of respondents in a given role or region. This report focuses on the responses of the 643 CFOs who agreed to be interviewed (see Figure 12).

Our research includes an analysis of CFOs' responses to specific questions about 12 finance operations and capabilities, from which we identified five distinct groups. We also asked each CFO to rank the three-year revenue growth and profitability of his or her organization, relative to that of its peers in the same industry. Correlating these self-reported assessments of financial performance with CFOs' other responses shows that the most capable finance teams also tend to outperform financially.

Notes and sources

1 “Redefining Boundaries: The Global C-suite Study.” IBM Institute for Business Value. November 2015. www.ibm.com/csuitestudy

2 In 2014, when we published our analysis of the responses of CFOs who participated in our previous C-suite Study, we identified a small cohort of interviewees whose finance organizations could be characterized as Performance Accelerators. For the sake of consistency, we have chosen to use the same analytical framework in this report, rather than focusing on the differences between Torchbearers and Market Followers (the approach we took in the overarching report in our current C-suite Study). For further information, see “Pushing the frontiers: CFO insights from the Global C-suite Study.” http://www-935.ibm.com/services/multimedia/Pushing_the_Frontiers_CFO_Insights.pdf

3 “Exploring the inner circle: Insights from the Global C-suite Study.” IBM Institute for Business Value. June 2014. http://www-935.ibm.com/services/us/en/c-suite/csuitestudy2013

4 “2015 AFP Risk Survey.” Association for Financial Professionals. 2015. http://www.afponline.org/risksurvey/

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