IBM Business Consulting Services

CFO Survey: Current state and future direction

An IBM Institute for Business Value executive brief

The IBM Institute for Business Value develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study created by the IBM Institute for Business Value. This research is a part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

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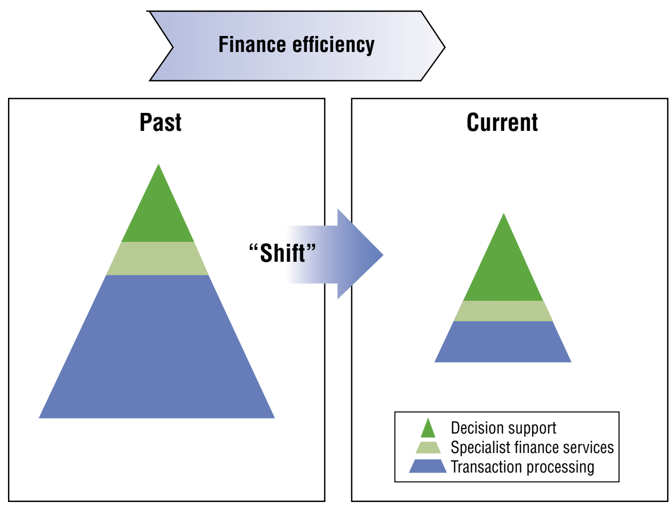
Introduction

In September 2003, IBM Business Consulting Services completed interviews with 450 CFOs from 35 countries. These CFOs represented global enterprises with average annual revenues of US$8.4 billion. Over 77 percent of the interviewees were enterprise-level CFOs, while the balance represented business unit, regional and country perspectives. This major research project was undertaken to gain perspective on where finance is today and the direction in which CFOs say they are headed in the next three years. This report places the research findings into an overall context and provides perspective on the continuing transformation of finance.

The recent past: The right direction but more to be accomplished

Finance organizations across the world have made significant progress in redefining the function over the last five to seven years. The vast majority of organizations included in this study have made a "shift" from the past to a new, more efficient and effective model (see Figure 1).

Figure 1. Finance's evolution to date.



Source: IBM Business Consulting Services analysis, 2003.

Key "shifts" that finance organizations have made include:

- Transformation of role from "policeman" to strategic business partner
- Transformation of cost base from approximately 3 percent to 1 percent of revenue
- Transformation of activity focus from transaction processing to decision support and control.

"Today's CFO faces increasing demands from both internal and external sources (e.g., regulatory compliance) while being under continued pressure to reduce budget. Finance must focus on corporate governance and provide 'on demand' support for business partners, however, the capacity for value-added service is often diminished by the time required for the traditional role of transaction processor/reporter. To cope with these pressures, the CFO must transform finance by leveraging enterprise applications (including performance management, collaboration) and alternative delivery models such as shared services and outsourcing."
– John Van Decker,
Vice President, META Group

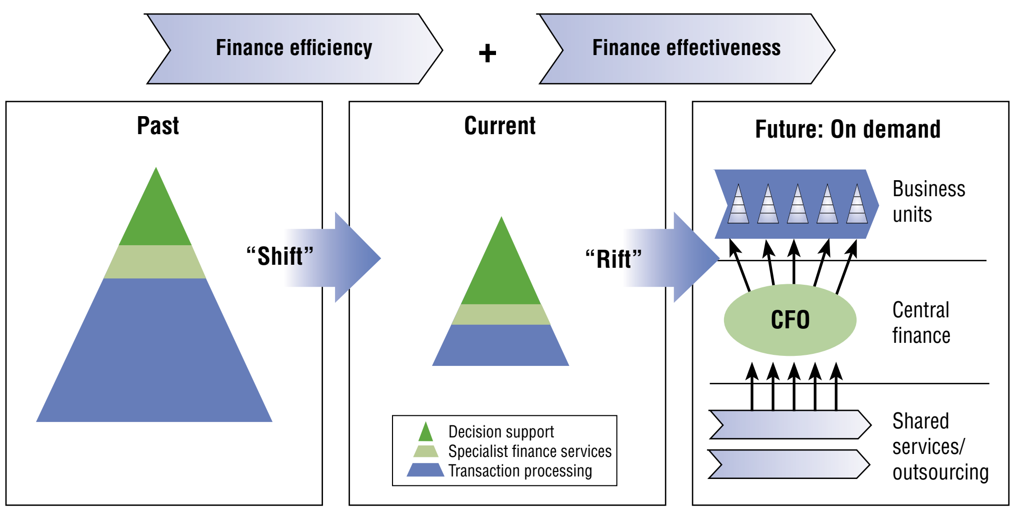
While the progress finance organizations have made is positive, the complexity of the overall business environment has increased substantially, rendering the advances that have been made as competitive necessities versus competitive advantages. In addition, the pace of change and the degree of complexity seems to be accelerating without limit. Issues such as increased globalization, operating in a networked business model and heightened concerns with regard to corporate governance have placed additional pressures on CFOs.

The good news is that much of what has been put into place (e.g., automated processes, shared services, etc.) can be leveraged going forward. The tougher news is that the next level of transformation needs to be even more dramatic than that which has preceded it.

The model of the future: Finance in an on demand world

In order to deal with continuing and increasing complexity enterprises must develop on demand business models. Built on the attributes of focus, responsiveness, variability and resiliency, an on demand business "senses and responds" to continuously changing and unpredictable market dynamics – enabled through the integration of process, technology and people. Finance must follow suit and move aggressively to an on demand model (see Figure 2) that allows it to operate at a new level of sophistication and competence.

Figure 2. Finance's evolution to an on demand future.



Source: IBM Business Consulting Services analysis, 2003.

The transformation to on demand is not simply a shift, but rather a “rift” that impacts finance as follows:

- Decision support and controls are fully embedded in the business, enabling better decisions
- Central finance activities such as capital structure management are lean and consolidated into a small, focused central finance team
- Transaction processing and specialty services, such as tax and internal audit are handled using the most efficient and effective provider allowing for a substantially lower and more variable cost structure.

The path to finance on demand

The survey and ongoing discussions with CFOs have reinforced IBM views on the continuing transformation of finance. As the nexus of business strategy, process and information, CFOs and finance organizations are uniquely positioned to integrate key components of the on demand business model. We suggest five key directions for finance. CFOs will:

- Emerge as Chief Focus Officers. Proactively driving decisions regarding overall business model design and portfolio configuration will be paramount to success.
- Drive responsive business performance management architectures. Development of a holistic, integrated framework is required for success in an on demand world.
- Implement resilient governance structures. Transition to dynamic controls and risk management processes will be rewarded by the market.
- Recognize that cost variability will be required to achieve step function changes in the cost of finance. Designing a competitive cost structure across the entire finance network is a base-level requirement.
- Be key integrators of process, technology and people across the business as they realize this fusion is essential for the required transformation.

What follows is a discussion of each of these key directions in terms of future vision, survey findings and actions we believe the CFO should drive.

Chief Focus Officer

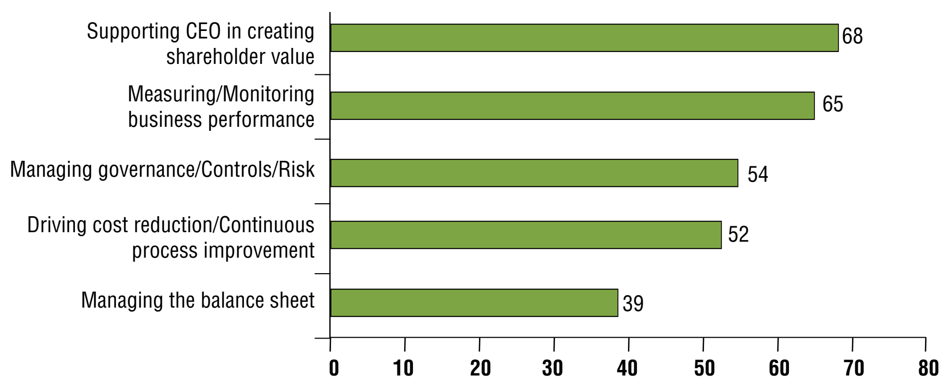
Vision: As mentioned earlier, CFOs in most organizations have evolved from being "policemen" to serving as valued strategic business partners. The "rift" that should occur is that the CFO should evolve to become the Chief Focus Officer. Focus in an on demand world is all about developing core competencies and building unique strengths. The concept of focus applies to the internal workings of finance (e.g., focus on decision support versus transaction processing), but, more importantly, it applies to the role of the CFO in helping to drive the focus of the organization. CFOs must instill the processes and disciplines that guide the focus on the enterprise, i.e., what to measure, what to globally source, what to outsource, what markets to pursue and how to optimize the business portfolio.

Over two thirds of [CFOs] interviewed cited "Supporting shareholder value creation" as their highest priority.

Survey findings: Over 60 percent of CFOs believe they are perceived as adding great value and service and suggest their CEOs view them in a similar fashion. IBM interviews suggest that the CFOs have truly evolved as strategic business partners and are at the center of key enterprise issues overall. However, IBM findings indicate that while CFOs perceive that they have done a good job of advancing their agenda within the chief executive suite, they have more work to do to secure their perceived "value" of finance throughout the enterprise.

In response to the question, "What are your top 5 areas of focus?", CFOs demonstrated a clear shift from back-office to front-office activities versus previous surveys, in line with their shift in role. Over two thirds of those interviewed cited "Supporting shareholder value creation" as their highest priority, followed closely by "Measuring/monitoring business performance" (see Figure 3), clear indications that CFOs are positioned for the role of driving enterprise focus.

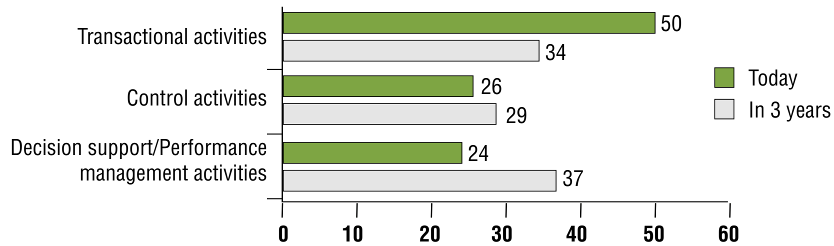
Figure 3. Top areas of focus, in percent.



Source: IBM Business Consulting Services analysis, 2003.

In addition, finance has continued its shift to more value added activities in the areas of decision support and controls, and CFOs believe they will continue to make progress over the next three years (see Figure 4). This demonstrates that CFOs are forcing focus within the function itself.

Figure 4. Finance workload distribution, by percent.



Source: IBM Business Consulting Services analysis, 2003.

Top three recommended actions for CFOs:

- Develop a vision and plan for the role of Chief Focus Officer, in support of the on demand business model
- Continue to allocate capacity to enhance decision support/control activities
- Expand recognition and acceptance of finances' enhanced role beyond the chief executive suite.

Responsive business performance management architecture
Vision: In simplistic terms, leading organizations should be able to make better decisions faster. This ranges from setting corporate strategy to individuals being able to make informed decisions specific to their role. While many components of a robust information architecture have been put into place, most organizations are far from having a predictive and responsive information architecture that will satisfy their stakeholders' demand for information – when, where and how they choose. Movement to a truly holistic approach to business performance management is required.

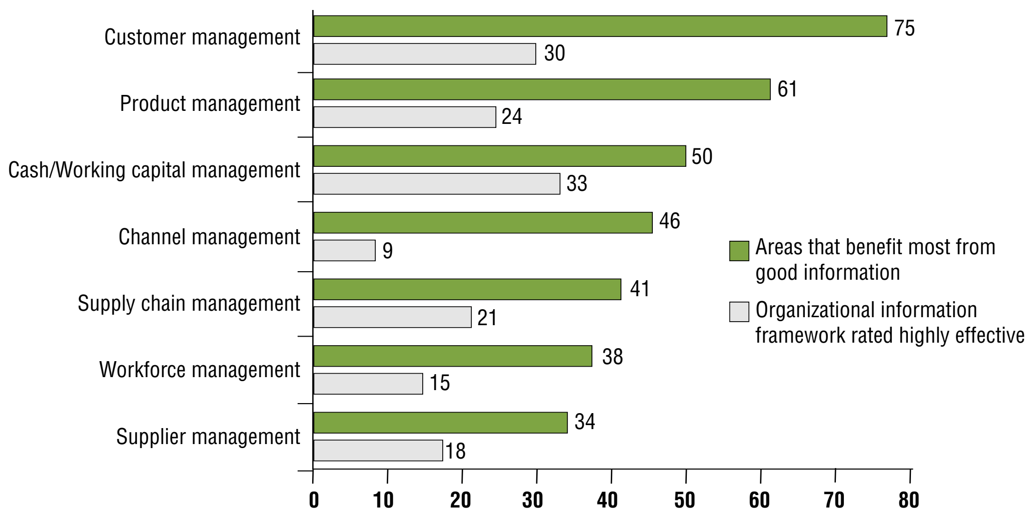
Survey findings: CFOs recognize the strategic priority of this area as they rated, by a wide margin, "Supporting shareholder value" and "Measuring/monitoring business performance" as the primary areas of focus. In addition, CFOs recognize that management of information is critical to success, with 70 percent of CFOs indicating that information is a major asset requiring significant investment. Interestingly, the same number view it as an asset that needs to be managed better. However, in general, organizations appear to be relying on more traditional techniques and are not moving fast enough to adopt practices that will allow them to operate in an on demand world.

Seventy percent of CFOs indicated that information is a major asset that needs to be managed better.

Surprisingly, despite all the work in the area of performance management, financial measurements continue to dominate the formal process. Financial measures were cited as the predominate focus by 75 percent of the CFOs, with less than half citing a balanced set of measures. While few successes have been achieved, the approaches taken to date have not resulted in systematic change.

Further illustrating the lack of broad based measures, are the significant gaps CFOs highlight in terms of what information they need versus what they are getting (see Figure 5). Areas such as customer and product management are obviously critical to managing a dynamic business, yet the quality of such information is severely lacking and will require significant attention.

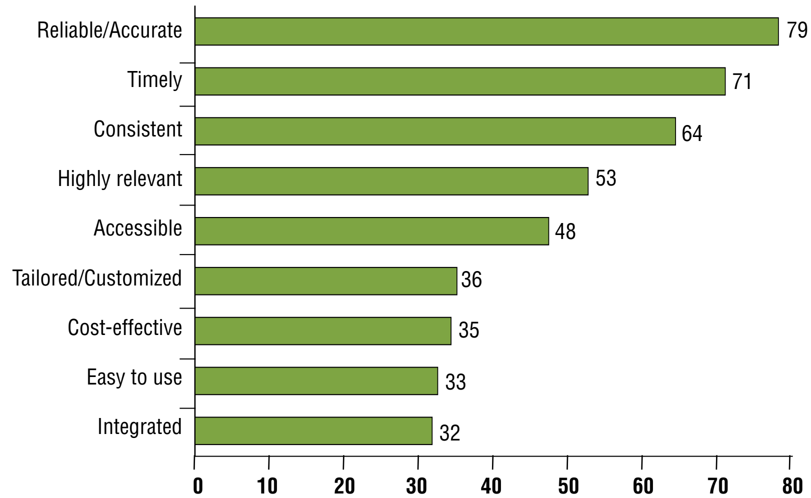
Figure 5. Information needs and effectiveness, by percent.



Source: IBM Business Consulting Services analysis, 2003.

While CFOs believe that the information they receive is timely, reliable and consistent, only a third or less believe the information is easy to use, tailored, cost-effective or integrated (see Figure 6). With the goal of being able to make better decisions faster, these areas must be addressed aggressively.

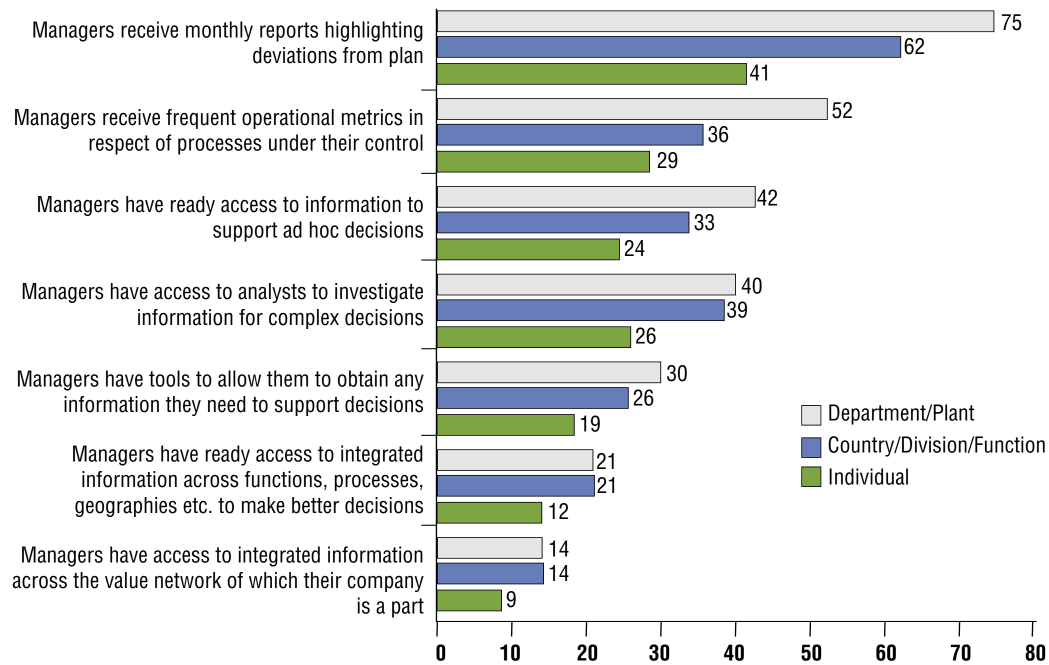
Figure 6. Percent organization's view of information adequacy.



Source: IBM Business Consulting Services analysis, 2003.

A key to world-class performance management architectures is the dissemination of information. At present, CFOs indicate that three-fourths of managers receive department-level information highlighting deviations from plan. However, less than half of the managers receive role-specific information to support individual decision-making, have ready access to departmental information to support ad hoc decisions, or have analysts to investigate information for complex decisions (see Figure 7). Even fewer managers receive frequent operational metrics with respect to processes under their control. And very few managers are perceived to have access to self-service tools to obtain integrated information across functions, processes, geographies and the value network to make better decisions.

Figure 7. Percentage information use in decision support.



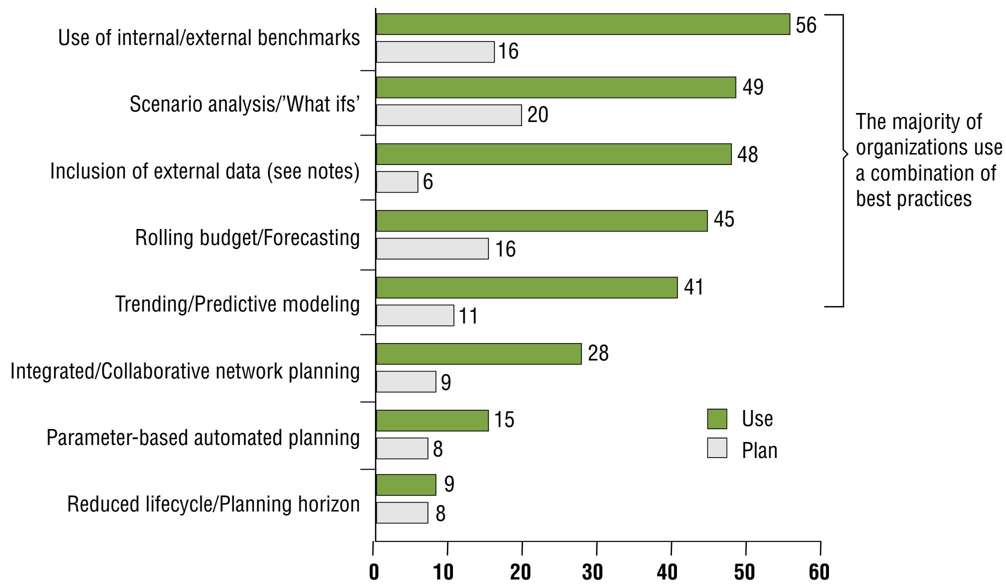
Source: IBM Business Consulting Services analysis, 2003.

Today, spreadsheets dominate planning processes in over 80 percent of organizations.

The ability to "sense and respond" based on integration of the right information at the right time within the planning process is crucial. The survey results suggest that planning processes are evolving slowly, with most organizations continuing to use traditional processes and systems. Today, spreadsheets dominate planning processes in over 80 percent of organizations. However, significant change is planned as over half of all CFOs indicate they expect to make some form of technology investment to enhance planning data and processes.

The study shows that some best practice planning components aimed principally at process efficiencies, reduction in cycle time and reduction in cost are in place. However, responses indicate that adoption of best practices that will lead to a dynamic planning process are low, suggesting that this is an area that needs to be revitalized (see Figure 8).

Figure 8. Best practices used in planning processes, in percent.



Source: IBM Business Consulting Services analysis, 2003.

Top three recommended actions for CFOs:

- Develop a cohesive integrated solution blueprint for business performance management
- Apply a balanced set of Key Performance Indicators (KPIs), central to managing the business and address the issues of organization and compensation that may impede use
- Improve information accessibility and ease of use, and tailor information based on role.

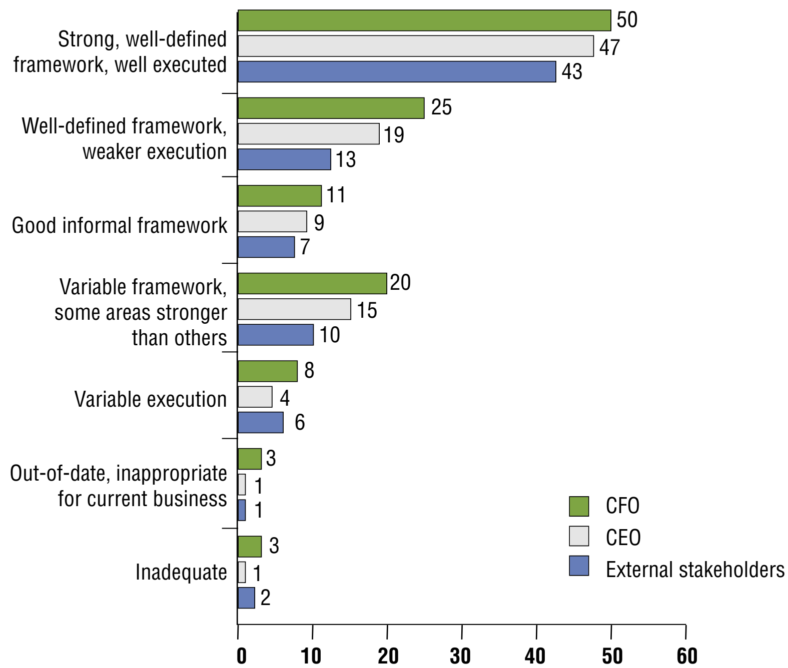
Resilient governance structures

Vision: Finance organizations should strive to provide essential, reliable, 24 by 7 controls and dynamic risk management by leveraging consistent, integrated sources for data, rules-driven processing and reporting, and unimpeachable integrity in financial and performance metrics. CFOs should manage the quality and risks inherent in enterprise resource allocation and value creation – essentially managing the volatility or "beta" of the firm's value network.

"CFOs are seeking ways to meet new accounting and controls requirements, but the best CFOs will take advantage of this opportunity to transform finance from a department to a discipline."
– Forrester Research

Survey findings: Half of the CFOs surveyed believe they have strong, well-defined and well-executed governance frameworks in place (see Figure 9). Nearly an equal amount perceive their CEO to have the same confidence. An additional quarter of the respondents felt that their frameworks were well-defined but execution was weak. Very few CFOs felt that their efforts were inadequate. However, over half of the CFOs interviewed also indicated that managing governance, controls and risk was a top priority (see Figure 3). For many CFOs the basics are in place, but processes must be taken to the next level to accommodate the new environment and generate competitive advantage.

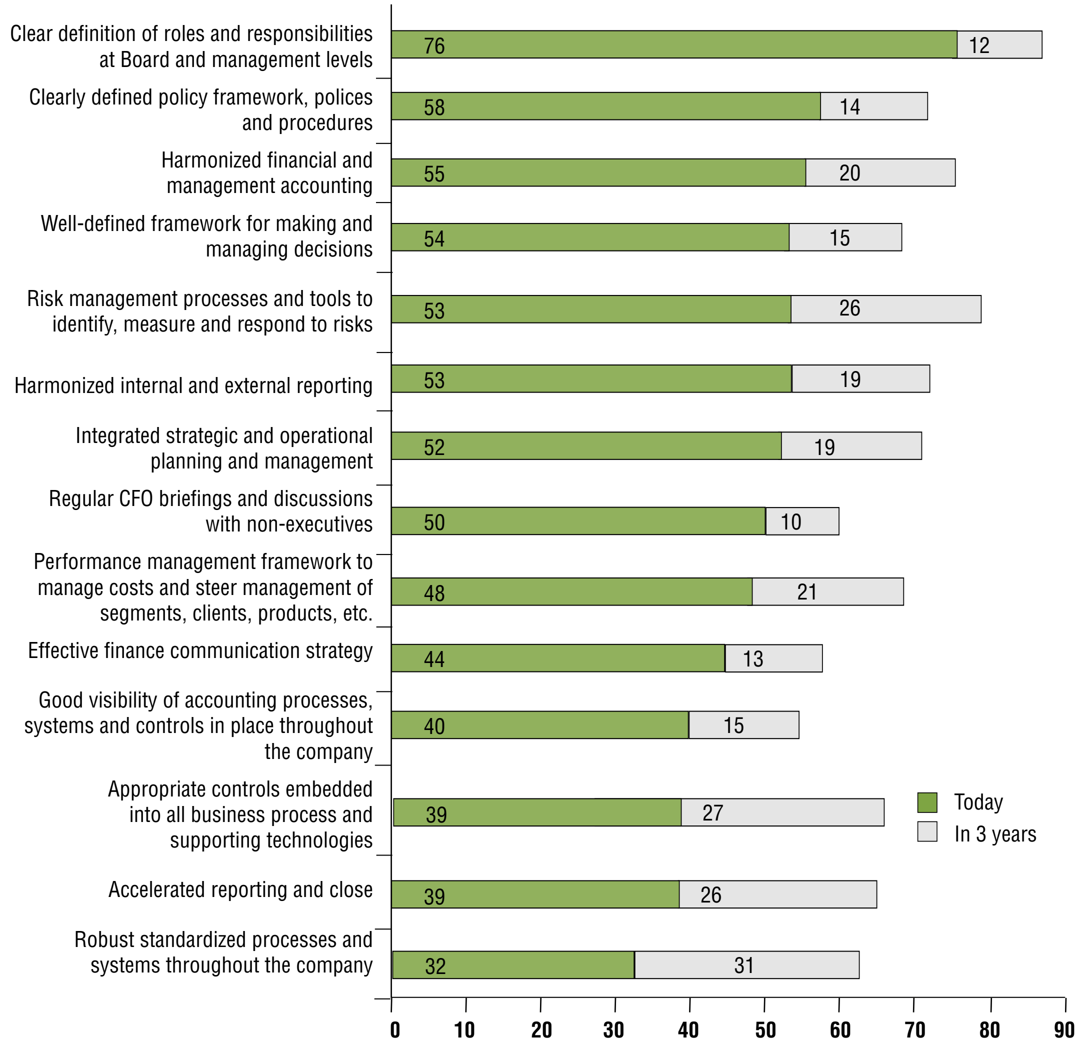
Figure 9. Percent perceived organizational views of governance and control frameworks.



Source: IBM Business Consulting Services analysis, 2003.

A number of governance and control tactics have been implemented (see Figure 10). Clear definition of roles and responsibilities at the Board and management levels was the tactic most frequently cited by CFOs. Looking forward, it is recognized that governance structures must evolve toward robust processes that can provide sense-and-respond feedback.

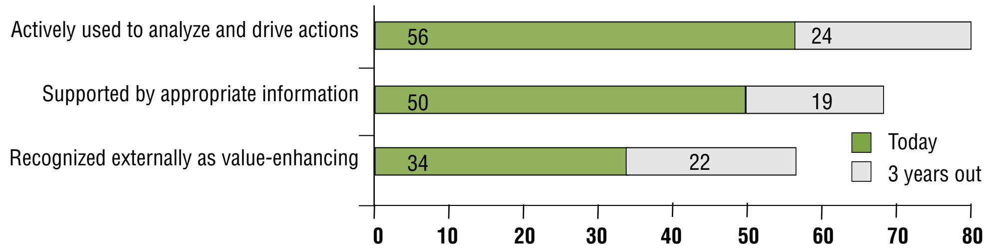
Figure 10. Current and planned adoption of governance and control tactics, by percent.



Source: IBM Institute for Business Value analysis, 2003.

The interviews also suggest that a number of CFOs recognize that a robust governance structure can provide for competitive advantage, at least in the short-term. In line with this understanding and capturing value for shareholders, CFOs acknowledge the need for effective business performance management processes to be recognized externally (see Figure 11).

Figure 11. Percent effectiveness of performance management processes.



Source: IBM Institute for Business Value analysis, 2003.

Top three recommended actions for CFOs:

- Leverage the risk/compliance agenda to implement all the elements of a "best practices" governance and controls framework
- Address data quality and information issues
- Implement processes and technology to enable a fast/transparent close.

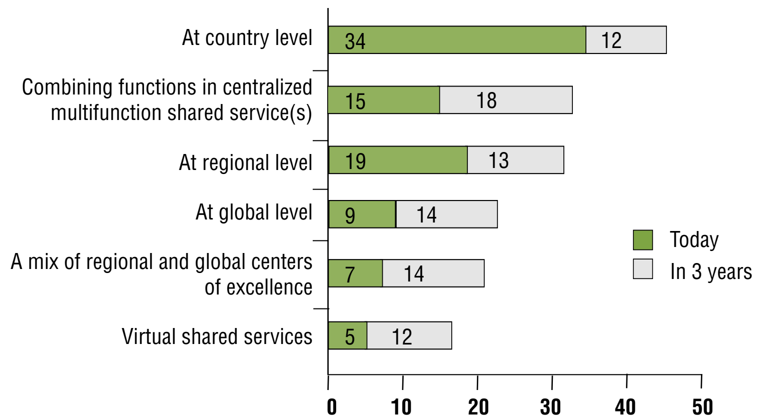
Cost variability

Vision: The challenge facing finance organizations moving forward is how to significantly reduce the current cost base while increasing overall effectiveness. This will require not only improved efficiencies but a move to variabilize the cost structure. To attain this next step function change, organizations must look at optimizing process using continuous improvement techniques such as Six Sigma, proactively sourcing functions globally and embracing business process outsourcing.

Nearly 90 percent of CFOs surveyed indicated they have implemented some form of shared services.

Survey Findings: To drive the efficacy of finance operations, shared services are the accepted norm. Nearly 90 percent of CFOs surveyed indicated they have implemented some form of shared services. When implementing shared services, organizations predominately do so on a country basis, with only nine percent adopting global models (see Figure 12). CFOs are now looking to achieve scale economies by changing the dimensions of shared services' geographic spread, the processes they offer (both finance and other functions) and the customers they serve. There is also a growing desire to exploit the concept of virtual shared services, which could be attributed to the advances of supporting technology in recent years.

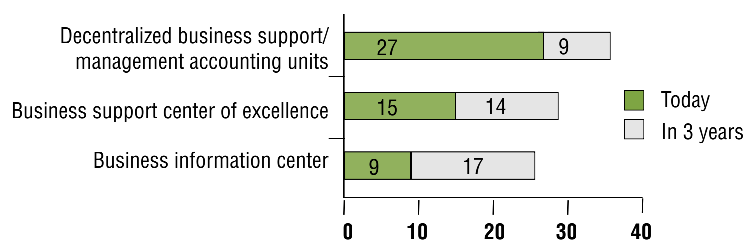
Figure 12. Centralization of accounting processes through internal or outsourced shared services, by percent.



Source: IBM Business Consulting Services analysis, 2003.

In general, the majority of cost reduction to date has been achieved in the area of transaction processing through streamlining processes via Enterprise Resource Planning (ERP) systems and leveraging shared service structures. However, a large opportunity in the area of decision support activities, still exists, where over 50 percent of the time is spent on non-value-added activities such as data collection. CFOs are now considering newer, more flexible models to deliver these services. A growing number of shared models for data management and business information are being introduced to address the growing complexity of effective data management (see Figure 13).

Figure 13. Accounting processes through internal shared services, by percent.



Source: IBM Business Consulting Services analysis, 2003.

As the pace of change escalates, incremental improvement is not sufficient and CFOs seek options to make another quantum leap in cost reduction. However, CFOs have yet to fully embrace outsourcing, due to both priorities and concerns over loss of control. Though 60 percent of CFOs either currently outsource or plan to outsource specific processes or activities, they are reluctant to outsource finance in its totality. One-third of those surveyed outsource specific processes and/or activities, whereas only 11 percent have outsourced the majority of their finance operations. The processes outsourced have centered on underlying IT infrastructure and maintenance of underlying finance applications.

However, nearly half of the CFOs interviewed indicated that they see outsourcing as a way to focus on core business and information management versus operational management (e.g., use outsourcing as a strategic tool to increase the value from their finance operations). Overwhelmingly, outsourcing is seen as a cost management play (70 percent cost reduction, 48 percent cost variabilization). In the future, 27 percent of the CFOs interviewed are planning to use outsourcing for a process/activity as a tactical tool. The activities being considered for outsourcing predominately remain IT infrastructure with accounts payable, T&E and internal audit also emerging as priority areas for consideration. While the majority of CFOs appear reluctant to outsource their entire finance operation, a growing number are considering the possibility since leaders in this area have established dramatically lower cost profiles.

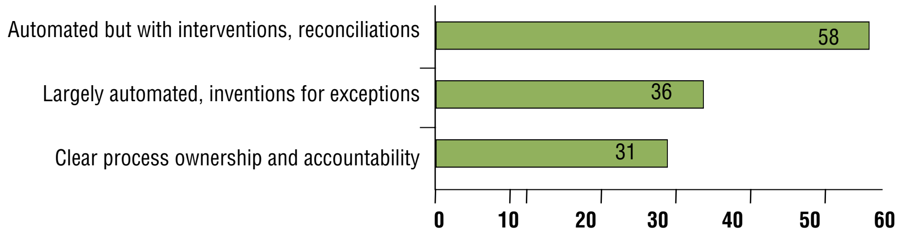
Top three recommended actions for CFOs:

- Implement continuous improvement through techniques such as Six Sigma to take process improvement to the next level
- Utilize global sourcing to lower cost
- Develop an outsourcing strategy to lower/variabilize cost.

Fusion of process, technology and people
Vision: To capitalize on investments to date and operate at the next level of competence, there should be a virtually seamless integration of process, technology and people. In an on demand context, this fusion extends beyond the boundaries of the enterprise to the overall value network. This new environment requires a strong partnership with the CIO to make the most of technology and the injection of "new DNA" – such as skill sets, capabilities and focus – to build effective competencies.

Survey findings: Due to investments made in ERP systems over the past few years and the increased focus on transactional costs, 92 percent of the CFOs surveyed indicated that they have largely automated their processes. However, many organizations still require manual interventions and reconciliation, and only 31 percent cite clear process ownership and accountability a major impediment in the quest for fusion (see Figure 14).

Figure 14. Percentage finance transaction process today.

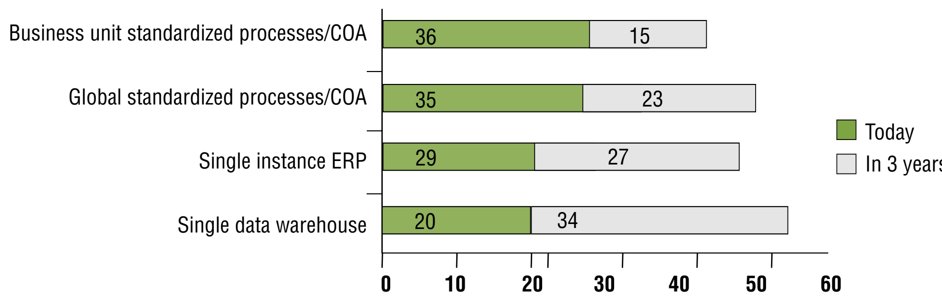


Source: IBM Business Consulting Services analysis, 2003.

With common systems and processes being a transformation objective, approximately one-third of the CFOs interviewed have achieved enterprise-wide standardization in their systems and processes (see Figure 15). CFOs have struggled to implement single instances with common structure due to time pressures and their inability to implement the required extensive change management.

CFOs intend to triple their current exploitation of ERP system functionality and to leverage ERP data more extensively.

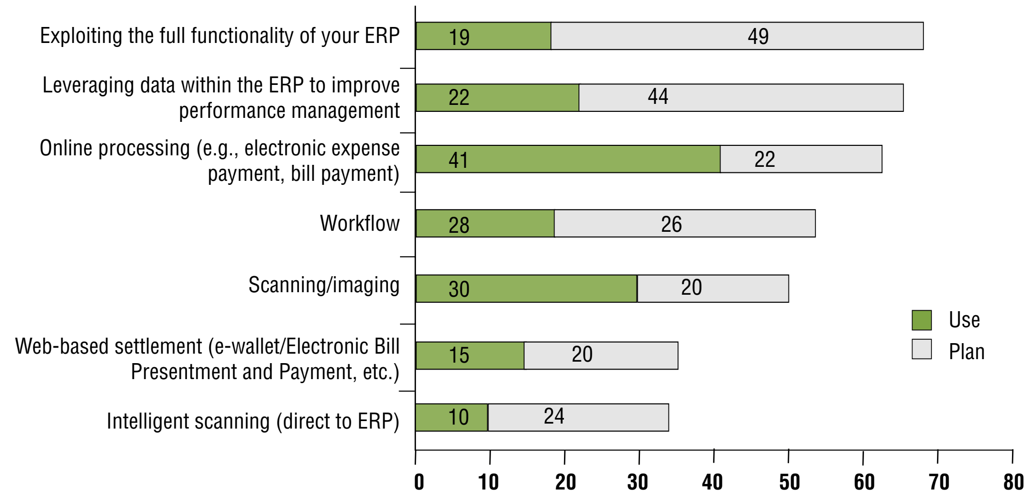
Figure 15. Percent implementation of underlying data/systems.



Source: IBM Business Consulting Services analysis, 2003.

CFOs recognize that the investment in ERP systems has not been fully utilized. As a tactical approach to value creation, CFOs intend to triple their current exploitation of ERP system functionality and to leverage ERP data more extensively (see Figure 16). In three years, CFOs plan to double their use of ERP modules to enhance planning processes. One-quarter of all CFOs plan to pursue greater end-to-end integration, process understanding (e.g., costs, risks, etc.), workflow technology and performance targeting.

Figure 16. Percentage strategic and tactical approaches to value creation.

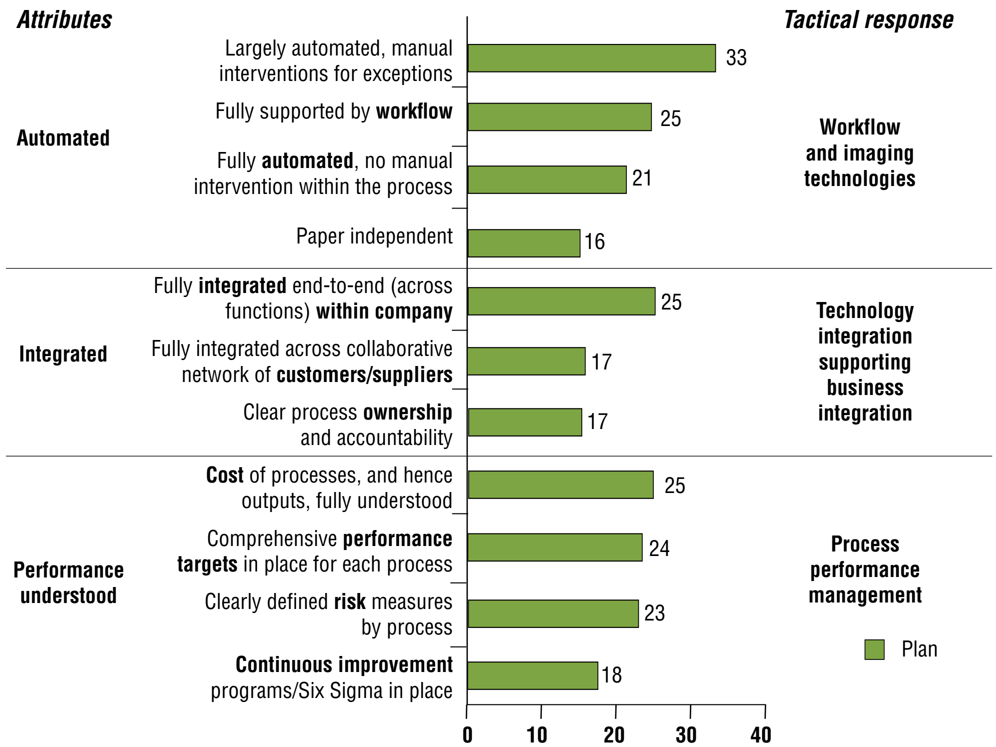


Source: IBM Business Consulting Services analysis, 2003.

Moving forward, CFOs plan to automate, integrate and optimize their transaction processes for performance (see Figure 17). There is a desire to improve efficiency through tools such as workflow and scanning and an overall desire to see technology support a greater integration throughout the business. Currently, CFOs measure their financial process performance to some degree and with varying frequency. The CFOs surveyed feel that process measurement and risk are frequently reviewed and evaluated. Meanwhile, they indicate that process mapping, costing and benchmarking are reviewed less frequently.

Only half of the CFOs interviewed rated their organization as "high quality, business oriented."

Figure 17. Finance transaction process percent, in 3 years.



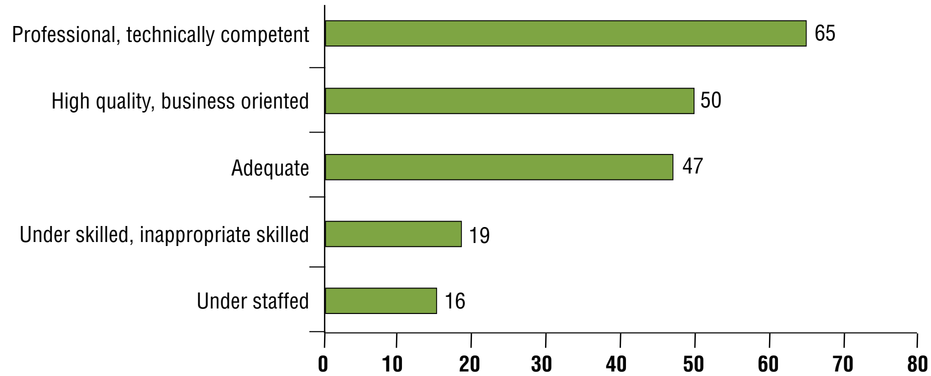
Source: IBM Business Consulting Services analysis, 2003.

A key part of the fusion equation is the people component. CFOs consistently expressed concern regarding the human element of their functions. IBM analysis indicates that CFOs believe finance is viewed by the organization as technically competent but must contribute more widely to the business (see Figure 18). Only half of the CFOs interviewed rated their organization as "high quality, business oriented" while the other half rated their organizations as only "adequate."

Given their challenges and aspirations, CFOs will be refining the skill set of finance professionals to:

- Contribute to the overall business strategy, consulting and analysis
- Strengthen their project and change management skills
- Build process analysis and technology skills to exploit the significant investment in technology and deliver management information.

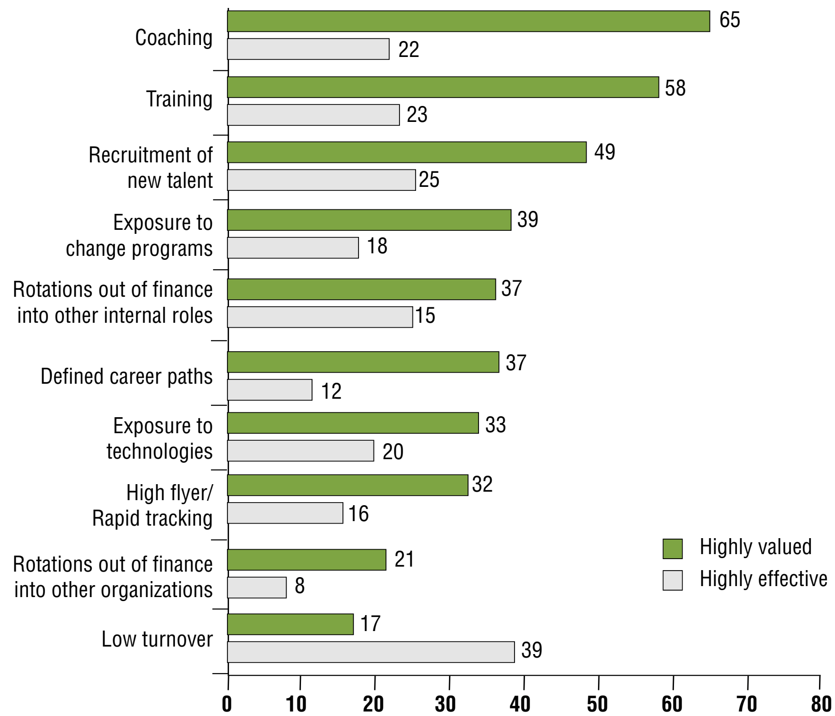
Figure 18. Percent overall organizational view of the quality of the finance organization.



Source: IBM Business Consulting Services analysis, 2003.

To develop the organization and meet CFOs' aspirations, more than two-thirds of the CFOs interviewed feel they must motivate and invest in people to build capability beyond that needed by the organization today (e.g., broad business qualifications, joining external networks, bringing in new talent, etc). Many appear to be struggling to acquire, retain or train the right skill sets (e.g., business, analysis, project management, process, technology, etc.) for the new agenda. Indeed, a significant and consistent gap exists between the value placed on different personnel development methods and how effectively they are used (see Figure 19). For example, only 22 percent of the CFOs interviewed rate themselves highly on coaching/development, even though they consider this the most important enabler of a high quality finance organization. Overall, finance currently appears static and slow to adopt and implement key development processes.

Figure 19. Comparison of value placed on different development methods versus current effectiveness, in percent.



Source: IBM Institute for Business Value analysis.

Top three recommended actions for CFOs:

- Develop a robust understanding of process dynamics and further consolidate and standardize the underlying process, data and systems
- Enhance and leverage ERP functionality working in close partnership with the CIO
- Develop and execute a clear organizational development strategy and the associated methods, working in concert with specialist human resource partners.

Conclusion

The business environment in which we operate is unrelenting. While CFOs and their organizations deserve a round of applause for the major transformation they have driven so far, their work is not done. Now it's time to take a step back, take a deep breath and initiate the "rift." This will require a comprehensive vision and roadmap to navigate the required transformation.

The insights presented in this report provide a framework for CFOs and their finance organizations to use to drive a truly differentiated finance competency within their enterprise. Finance has done it before, and, with the right vision and plan, they can do it again.

About the authors

Jim Bramante is the Financial Management Solutions leader for Global and the Americas, IBM Business Consulting Services. You can e-mail Jim at *james.p.bramante@us.ibm.com.*

Gregor Pillen is the Financial Management Solutions leader for Europe/Middle East/Africa, IBM Business Consulting Services. Gregor can be contacted at *gregor.pillen@de.ibm.com.*

Doug Simpson is the Financial Management Solutions leader for Asia Pacific, IBM Business Consulting Services. You can reach Doug at *doug.simpson@au1.ibm.com.*

Key contributors:

Stephen Rogers, Financial Management Solutions Global Strategy Manager, IBM Business Consulting Services.

Jacky Ross, Business Intelligence lead for Europe/Middle East/Africa, IBM Business Consulting Services.

Nick Dagg, Financial Management Solution Marketing Leader for Europe/Middle East/Africa, IBM Business Consulting Services.

Christopher Kalbhenn, Financial Management Solutions Business Development Manager for Europe/Middle East/Africa, IBM Business Consulting Services.

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