

Integrating the Finance organization for global business: important implications for CIOs



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Introduction

In the rapidly changing global marketplace, where companies have the freedom to choose how and where business gets done, CFOs are under increasing pressure to help achieve profitable growth. To succeed, the Finance organization has to be extremely agile, adapting to ever-changing corporate priorities—and aggressively capturing and transforming data into unique insights—while delivering earnings reliability and precision forecasting.

The Global CFO Study 2008, conducted by IBM in cooperation with The Wharton School at the University of Pennsylvania and the Economist Intelligence Unit, examined CFOs' current priorities and the obstacles they face in helping the business succeed as a global enterprise. The study found a majority of CFOs looking to help their companies take advantage of the enormous opportunities made possible by the global economy but feeling unable to do so. Their Finance organizations simply lack the flexibility and enterprisewide integration necessary to mobilize information and resources quickly enough.

The Global CFO Study found that companies whose Finance organizations can act quickly are seeing notably better financial performance than their industry peers. These Finance organizations have taken steps to mandate global standards to drive process and data commonality, which, in turn, has unified geographically dispersed Finance units and enabled new insights and better decision-making through integrated views of information. They have consolidated and simplified their systems, and many have taken advantage of delivery models to help maintain standards, lower their costs and redirect their resources to analytical activities that drive value for the business. Such actions are rendering these companies more effective financially and operationally, especially with regard to risk management.

Highlights

CIOs can help Finance break down information silos and gain the enterprisewide visibility vital for global business leadership.

Globalization has forced companies to rethink longstanding business models in order to stay competitive.

Few of these transformative changes would be possible without information technology (IT). As resident technology chief, the CIO can partner with the Finance organization to break down individually maintained silos of information and help Finance gain the enterprisewide visibility, analytical acuity and near real-time reporting and performance metrics that are essential for global business leadership. Such collaboration makes the Integrated Finance Organization (IFO) possible.

This paper looks at the growing alignment between the financial and technical disciplines. It examines the results of the Global CFO Study 2008 in the context of IT, identifying the critical implications for CIOs, and the need for a strategic partnership with CFOs and more ongoing collaboration between Finance and IT.

Globalization and the impact on CFOs

Globalization has had a profound impact on business. By enabling companies to tap into a worldwide network of talent and resources, it has allowed them to drive efficiency across business activities, focus on what they do best and seize new, lucrative business opportunities. Globalization has forced positive change on even the most sacrosanct business models, compelling companies to rethink existing supply chains, for example, and replace them with more efficient global models. But while globalization has created new markets and increased operational efficiency, it has also increased exposure to a wider range of competitive threats and risks.

Certainly, CFOs have felt much of the brunt of globalization. With companies locating their operations and leveraging skills virtually anywhere in the world, it has become substantially more difficult to gather financial information and provide an enterprise-level view of the company's performance without a lot of reconciliation and data leakage. As business functions are outsourced and resources shifted to new, global locations, capital is shifted accordingly. The economics of the global enterprise are inherently more complex, and greater complexity brings increased risk and more intense scrutiny from regulators.

Highlights

Globalization has impacted CFOs' ability to gather information and increased pressure to identify new sources of revenue.

Globalization has also impacted the CFO's role in the organization. While keeping the organization's finances in order is of prime importance, CFOs are under constant pressure to find innovative ways to raise capital, meet corporate earnings targets and show sufficient gains in the world's financial markets. Company executives, investors and shareholders are placing greater emphasis on delivering business value. In a globalized market, helping to unlock unique business insights that can enable the enterprise to identify new revenue sources is a major opportunity for CFOs.

Financial flexibility is essential in such a market. Moving swiftly into new sectors and leveraging new, global partners and resources requires that a company's financial management systems and processes be agile enough to adapt quickly. Finance must be able to absorb these business model changes with ease in order for the company to achieve and sustain competitive advantage.

The Global CFO Study 2008 on the current state of financial flexibility

According to IBM's Global CFO Study 2008, a majority of CFOs are not satisfied with their organizations' current level of flexibility or their ability to respond to changing business conditions¹. The study surveyed more than 1,200 CFOs and senior Finance executives from 79 countries to learn how financial leaders are coping with business change and risk. Asked to rate their organizations' performance in numerous areas, the majority of CFOs indicated that their organizations were not effective at integrating information across the enterprise and supporting risk management. They also recognized the need for improvement in these areas.

Integration equals competitive advantage

Despite a very healthy 29.7 percent annual sales growth for three years running, Korean-based shipper STX Pan Ocean was looking to expand beyond its regional roots. The company was determined to become a global powerhouse, but CFO Yong Hee Byun knew that Finance didn't have the agility needed to help the company compete effectively in the world market.

STX Pan Ocean's financial systems were fragmented, financial reports were inconsistent, and its existing closing process couldn't support the company's strategic decision-making needs. Finance was also unable to produce forecasting and performance evaluations in a timely and efficient manner.

The company began a sweeping transformation aimed at integrating its existing systems and processes. Completed in 2007, these changes have enabled the company to produce a single version of the truth, reduced the time it takes to produce financial reports by 35 percent and reduced the time it takes to produce monthly closings by 30 percent. STX Pan Ocean's Finance organization now has the decision support infrastructure and integrated information resources to compete on the global stage.

CFOs understand that data integration is vital to accurate and timely financial reporting, analysis and forecasting, and that these capabilities, in turn, provide the critical insight needed to steer strategic decisions and effectively manage risk. The CFOs studied also realize that financial data cannot be successfully integrated across a company's systems, business units and regional operations without an enterprisewide governance model that establishes the standards for doing so.

The CFOs cited a lack of global data standards, poor data quality and lack of enabling technologies as obstacles to integrating the data needed for risk management. In addition, nearly 70 percent of Finance executives felt that greater integration would be difficult to achieve, even though they believed it to be imperative for the future success of the enterprise.

These results have strong implications for CIOs and other IT leaders. IT can certainly provide the technologies, know-how and tactical solutions needed to alleviate many of the operational weaknesses identified by CFOs in the study. But IT can also make a difference strategically. IT must deliver the reporting, analysis and performance management capabilities that CFOs can use to turn ordinary information into breakthrough business insights and intelligence.

Partnering with Finance and the business is critical to the success of these efforts. In order to deploy the right technologies and software, IT needs to determine the kind of information that is relevant and useful to Finance for reporting and interpretive analytics. IT also needs to understand what drives the business in order to help accelerate growth and drive innovation.

Highlights

Data integration is crucial for financial reporting but even more so for the management reporting that drives the business.

Integration is the answer

Every merger, acquisition and new business alliance increases the integration conundrum for Finance. Time and time again, disparate data sources must be normalized and assimilated into a common business language for financial and performance reporting and analysis. To assess the true state of the business, regulators and investors demand that financial information be reported in a consolidated, consistent manner. The faster Finance can close its books, the faster results can be delivered. But data integration is even more critical for the management and performance reporting that drives the business.

Business leaders need to understand how well their business plans are progressing and then correct for any variances. They need to be able to continually realign their business operations with their evolving business strategies, and management reporting enables them by providing the insight to do this. It is also the foundation for strategic and operational decision-making and investments. Toward that end, reporting responsiveness can determine a company's profitability and competitive leadership.

The Global CFO Study found that Finance organizations that adopt and enforce standard data definitions, along with common processes and a Standard Chart of Accounts enterprisewide, can provide their companies with more precise, multidimensional snapshots of performance. And they can do it quickly. The ability to integrate systems and data stores enterprisewide allows these organizations to roll up and summarize information locally and regionally, across systems, business units and the enterprise as a whole. Business leaders needn't sift through conflicting revenue numbers and different versions of a company's financial performance. Instead, they are presented with a single, consolidated version of the truth. With an accurate picture of the company's financial health in hand, it is easier to make sound capital allocation and expansion decisions, and to respond more quickly to new market challenges and opportunities.

What is a Standard Chart of Accounts?

A common accounting term referring to the standard names a company establishes for the different categories of assets, liabilities, income and expenses included in its general ledger and financial reports.

Highlights

Finance organizations that establish global ownership for data and process standards are better able to deploy these standards.

The study found that Finance organizations that had successfully deployed enterprisewide data and process standards were enabled by a corporate philosophy that mandated and enforced those standards. These Finance organizations had shifted process ownership responsibility from individual business units and regional operations to a single global entity. Global process ownership not only allowed them to more easily enforce established process standards, it enabled stricter control over the design and execution of financial processes. It allowed for localization through well-argued exceptions but did not allow exceptions to become the rule. Global ownership also made it easier for companies to implement consistent process and data improvements enterprisewide, so they were better prepared for acquisitions and other growth initiatives.

Finance organizations that were able to achieve enterprisewide integration and control led their companies to better performance financially and operationally. Not surprisingly, they were better at risk management too. The Global CFO Study found that these “Integrated Finance Organizations,” or IFOs, experienced:

- *Revenue growth rates nearly double that of non-IFOs over the five-year period studied*
- *Higher stock price growth than industry peers in high-growth markets*
- *Greater effectiveness in executing Finance activities, especially measuring and monitoring business performance, developing people, implementing continuous process improvements, identifying and executing growth strategies, mitigating enterprise risks and driving down costs.*

Integrated Finance Organizations experienced better financial and operational performance than non-IFOs.

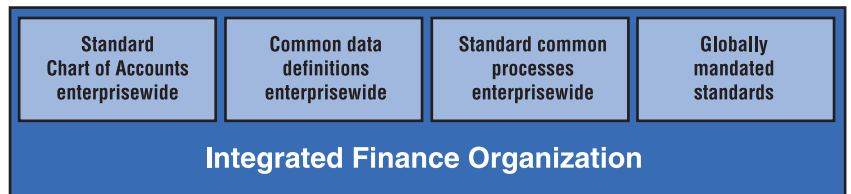
IFOs’ ability to provide a horizontal view of performance across the enterprise enabled greater strategic insights and reporting. Not only were they able to view revenues, margins and profits in new ways, they were better able to analyze financial information along atypical, but highly valuable, dimensions,

Global process ownership—the essence of good governance

There is little doubt that global process ownership is essential to breaking down the information silos, overcoming the autonomous mindsets and integrating the individual fiefdoms that can disable the enterprise as a whole. It is the essence of good governance. However, for global process ownership to be truly effective, IT and Finance must be on the same page. CFOs and CIOs must both be strong advocates and facilitators in overcoming organizational and cultural barriers and in helping the business accept and adhere to established standards.

including customer, channel and supplier dimensions. They were also able to take greater advantage of performance management tools that transform enterprise information into business intelligence.

Despite the better overall performance demonstrated by the study’s IFOs, fewer than one in seven companies participating in the study were found to meet the criteria for an IFO (Figure 1). Those that did had successfully established the global process ownership needed to implement data and process standards and drive information integration enterprisewide.



Source: The Global CFO Study 2008

Figure 1. Attributes of an Integrated Finance Organization.

Managing risk to improve financial performance

Today’s senior executives are encountering an increasing barrage of strategic, geopolitical, financial and legal risks. In the Global CFO Study, nearly two-thirds (62 percent) of enterprises with revenues greater than US\$5 billion reported experiencing major risk events in the last three years. Of those, a sizable 42 percent admitted that they had been inadequately prepared.

According to the study, corporate risk management skills are underdeveloped and haven’t kept pace with the rapidly changing, globalized world. Only 52 percent of the CFOs surveyed acknowledged having a formalized risk management program in place, even though most understood the positive impact that an enterprisewide risk strategy would have on their business. In addition to eliminating surprises and increasing their resiliency

Highlights

Many companies lack the risk management skills to handle the increasing array of threats impacting the globalized world.

Effective risk management depends on the availability of good, high quality information and insights.

and ability to respond effectively to risks, nearly 60 percent of CFOs felt that such a strategy would increase their enterprise-level risk/reward opportunities, improve their forecast accuracy and lead to more accurate business plans (Figure 2).

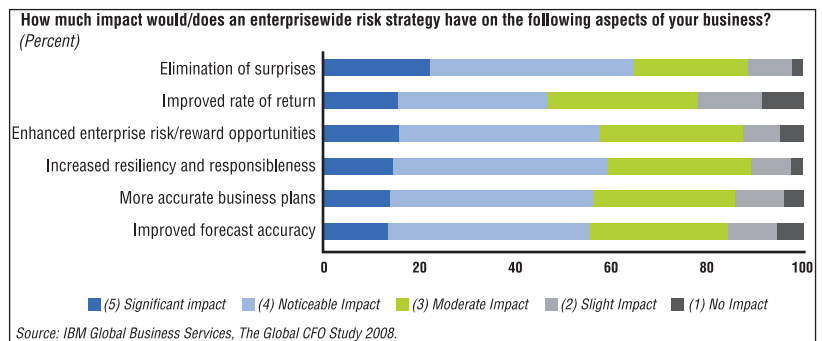


Figure 2. Business impact of an enterprisewide risk strategy.

Good risk management depends on the availability of good, high-quality information. After all, information provides the knowledge that enables companies to adeptly evaluate risk and return tradeoffs and make sound investments. So it's understandable that Integrated Finance Organizations, which can effectively capture, summarize and share information enterprisewide, fare better in their ability to manage risk. In the Global CFO Study, IFOs were 1.4 times more effective at supporting, managing and mitigating risks. They were also twice as likely to be prepared for major risk events. In all likelihood, their readiness resulted from increased awareness. They simply had the information they needed to respond.

For the CFO, maintaining this awareness is critical. Few would argue that a company's ability to successfully manage threats is inevitably linked to its financial performance. This might explain why CFOs, who are vested with overseeing financial outcomes, are increasingly being assigned primary responsibility for risk management. The study found that companies are more likely to rely on the CFO for managing risk than on any other executive.

Highlights

Risk should be integrated into companies' performance management methods for more accurate financial planning.

CIOs have a major role to play in helping companies overcome the cultural and logistic obstacles associated with becoming an IFO.

The Global CFO Study also suggests that CFOs interested in improving risk management should consider integrating that discipline into their performance management methods. Many Finance organizations are already aggregating performance data into dashboards and scorecards for better decision-making, but risk must be factored in too for more accurate profitability forecasting and financial planning.

Helping Finance integrate

Becoming an Integrated Finance Organization is not easy, culturally or logistically. First, it requires a universal willingness on the part of affected business units and regional offices to break down current information silos, relinquish their reporting autonomy and self-proclaimed "best practices," and operate under new rules. CIOs have a major role to play in helping their financial and business counterparts (HR, Sales and the like) get past these cultural and logistic obstacles. They have an intrinsic understanding of the strategic and productivity benefits of integration, data and process standards, and governance, and they are well-positioned to champion these benefits to others in the enterprise.

Communication is only a preliminary step, however. Existing IT environments supporting the Finance organization must be simplified, and CIOs have the technologies and expertise necessary to direct this effort. Years of acquisitive business growth have left the average company mired in inconsistent data and a diverse and redundant array of systems and technologies. Organic growth often has the same effect. Obviously, companies aim to expand their corporate footprint, but they can exponentially increase their data footprint as well. They can find themselves with multiple general ledgers and dozens of disparate accounting systems and enterprise resource planning (ERP) applications. This can result in the closing cycle taking significantly longer than it needs to, and the resulting costs can be excessive.

Highlights

When IT and Finance work together, Finance can focus on delivering innovative insights that drive the business forward.

In the face of intensifying globalization, change and uncertainty, integration is essential to financial success.

Regular interaction between IT and Finance ensures tighter alignment of priorities and better responsiveness to changing business demands. Financial systems are more likely to be implemented in a way that saves the company money. IT is more likely to influence investment decisions, and deliver technologies and software that increase profit. IT is also better able to spot management and performance reporting delays and information bottlenecks that can delay a company's strategic decisions. When IT is operating and interacting at this level, Finance can focus on what matters most—unveiling innovative insights that drive the business forward.

Conclusion

More and more, IT and Finance organizations are working together to integrate information across the enterprise and mitigate risk. For their part, CIOs have an obligation to provide IT support to the Finance organization. But this role should extend beyond simply lending technological know-how and keeping financial systems up and running.

The Global CFO Study 2008 examined what it takes to succeed as a modern Finance organization. In the face of intensifying globalization, change and uncertainty, the key is integration. Finance organizations that can successfully deploy and enforce enterprisewide standards can transform volumes of fragmented data into valuable business insights and create a fully integrated, enterprise-level view of business performance. Their companies are benefiting from greater financial growth and agility, and better risk management. Nevertheless, while most Finance organizations recognize the

importance of integration, few are able to achieve it on the desired scale. Many lack the technologies to enable it and the governance structure to mandate global deployment. Clearly, there is an opportunity for CIOs to help—and to benefit.

A collaborative partnership with CFOs is essential to improving the quality of information, alleviating technical complexity and developing solutions that mitigate risk. However, the real opportunity will come for those IT and Finance executives who can convert this partnership of necessity into a platform for innovation and financial growth.

For more information

For more information on the Global CFO Study 2008 and the implications for CIOs, please call your IBM representative or IBM Business Partner, or visit:

ibm.com/cio

To download a copy of the Global CFO Study 2008, visit:

ibm.com/gbs/2008cfostudy



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¹ IBM, *Balancing Risk and Performance with an Integrated Finance Organization: The Global CFO Study 2008*, October 2007.
<http://www.ibm.com/gbs/2008cfostudy>

² Center for CIO Leadership, *The CIO profession: driving innovation and competitive advantage*, October 2007. http://www-935.ibm.com/services/us/cio/pdf/2007_cio_leadership_survey_white_paper.pdf