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

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.
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 enterprise-wide, 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 enterprise-wide 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.
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.

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,
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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.

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.

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
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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).

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 enterprise-wide, 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.
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.
CIOs can help by removing the roadblocks that impede Finance’s ability to simplify its process, data and technology environments. By consolidating duplicate infrastructure elements and providing a platform for data standardization, IT can help turn countless collections of structured and unstructured data into usable information, and usable information into meaningful insights. The fact is that technology enables data and process standardization, and IT, working side by side with Finance and business leaders, can establish the global oversight needed to ensure that standardization initiatives will be successful. CIOs, in particular, can help CFOs develop the cost case, data definitions and policies for data ownership, creation and management. IT can also help Finance automate existing manual processes, which can enable Finance to realize even greater operational efficiencies and strategic effectiveness from standardization.

Another way to help Finance simplify is by deploying delivery models, such as shared service centers and data warehouses for financial information and selective outsourcing for specific accounting functions. By partnering with Finance to deploy these information and application delivery alternatives, IT can help Finance pare down and rationalize current systems and eliminate redundant processes. By creating virtual centers of excellence, IT can facilitate knowledge sharing and streamline decision support and performance analysis. Delivery alternatives like these can lessen the time financial personnel spend manually reconciling data and compiling monthly reports and increase the time spent on high-value analytical activities that build business, performance and risk insight. Multiple interpretations of data, and data leakage resulting from repeated manual adjustments, can be systematically eliminated, allowing for a single version of the truth and more well-balanced, democratized decision-making.

Rapid expansion leads to complexity, redundancy—and integration

After its founding in 1988, ABB Ltd., a global leader in power and automation technologies for industry, embarked on an aggressive expansion program targeting Europe, Asia and America. Following a series of strategic investments, joint ventures and acquisitions—which included some 40 companies in its first year alone ABB wound up with multiple Finance reporting units and CFOs in each of the 140 countries in which it did business.

Bogged down by process and IT duplication and complexity, company leaders knew that finance and accounting functions were impeding profitable growth and needed to be standardized across the enterprise. In 2005, ABB began a massive Finance consolidation and integration program. “One Simple ABB” was essential for Sarbanes-Oxley compliance but also for reducing the company’s escalating transaction costs and operational inefficiencies.

ABB believes that integration will enable Finance to be more agile and provide better, more strategic service. By 2010, CFO Michel Demaré expects that Finance will be able to spend as much time helping the business strategize as it previously spent on all other financial tasks combined.
In addition, delivery models like those suggested can help Finance maintain data and process commonality. After all, they reduce the opportunities for siloed information and help centralize policy decisions. However, current adoption rates for these delivery models are low, even for IFOs (Figure 3). This suggests a potential opportunity for CIOs. Not only can CIOs help steer financial leaders toward these delivery model alternatives, CIOs have the IT governance framework to ensure that Finance’s delivery model and technology decisions will be consistent with corporate values, vision and strategy.

![Figure 3. Adoption of delivery model improvements.](image)

**Working in partnership with Finance**

Today’s financial and technology chiefs have considerable synergies. Both the Finance and IT organizations are spread horizontally across the enterprise, with pocket operations in multiple regions and business units. CFOs and CIOs alike recognize the cultural and organizational challenges associated with integrating these individual operating units. Moreover, while both CFOs and CIOs are responsible for overseeing their organizations’ tactical operations, there is a growing emphasis on being a strategic catalyst—and lightning rod—for the enterprise. With change and risk on the rise, both the CFO and the CIO are being given a more strategic role and a greater span of influence to shape the direction of the company.
In the Global CFO Study, more than 90 percent of CFOs reported at least a “moderate” level of involvement in identifying and executing their companies’ growth strategies. The 2007 CIO Leadership Survey, conducted by the Center for CIO Leadership in collaboration with the MIT Sloan Center for Information Systems Research and the Harvard Business School, reported similar results for CIOs. Nearly 70 percent of CIOs surveyed reported a “satisfactory” level of involvement in their companies’ strategic decisions.

Understandably, with their roles central and significant to the business, collaborating with the business—and each other—should be a high priority for CFOs and CIOs. However, most CIOs interviewed in the CIO Leadership Survey were not content with their current level of business/IT collaboration. While 53 percent rated collaboration with the business as “extremely important,” only 15 percent believe that they are “very effective” at it. As CIOs look to close this gap, they are likely to draw closer to CFOs, who can lend a financial perspective and a bridge to the business.

CFOs are being drawn into collaborative relationships with CIOs out of necessity. The pressure to deliver more information more quickly to regulators, investors and the business, combined with tighter reporting scrutiny and regulatory mandates, such as Sarbanes-Oxley and Basel II, has led CFOs to work more closely with IT. CFOs are looking to unlock current information assets and turn those assets into valuable insights without creating undue risk and exposure. They know that the CIO has the technical knowledge and business acumen to make it happen.
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

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