Balancing risk and performance with an integrated finance organization:
The 2008 CFO Study
Moderator: Steve Rogers
February 26, 2008

Steve Rogers: Hello, my name is Steve Rogers and I'm the Financial Management Lead at the IBM Institute for Business Value. Recently, IBM reached out to over 1,200 CFOs and senior finance professionals around the world to find out what was on their mind.

Today's discussion, we'd like to explore what they had to say. With me is Bill Fuessler. Bill is the IBM Global Leader of Financial Management Consulting Services and an expert on the finance domain.

With 25 years of consulting experience, Bill has helped CFOs in a variety of multi-national, multi-billion dollar companies to set their finance vision and strategy, improve their operations, redesign processes and manage change. Bill, intuitively, we all recognize that the world is a complex and risky place.

The barriers to financial capital, physical capital, human capital and intellectual capital have all been lower than they ever have been in the past. And when we touched base with CEOs in our last study at IBM, they told us that they needed bone-jarring change to address the changes in the global marketplace. That means global is probably not optional and there is a need and a willingness as well as the wherewithal to manage risk. Given the recent IBM study, how would you characterize the environment and challenges CFOs are facing?

Bill Fuessler: Yes, thanks, Steve. I think the CFO is dealing with opportunities on multiple fronts. First, they're looking for ways to help the business units and lines of business identify growth areas, and as you mentioned, Steve, as part of this CEO study that we did, that was a major theme from the CEO studies looking for growth areas.

So the CFO in the role as partner over the business units is looking for ways for growth. Secondly, they're looking to provide insight into the business by having accurate and accessible information, which was a key finding of the CFO study that we just undertook.

And lastly, the challenges, they're looking to find ways to address the challenges around risk. And as we know with all the recent events that have happened over the last six months around risk, we know how important that is.

And it's really taken it beyond compliance to encompass operational and business risk, so it's looking beyond what they've focused on with Sarbanes-Oxley over the last number of years and they're now looking to take it to the next level.
Steve Rogers: Thanks, Bill. I think you've laid out the challenges pretty well for us. How do you think they are addressing these challenges as they move forward?

Bill Fuessler: The key thing they're trying to do is they're really looking to providing the truth and what we mean by that is really having a single set of facts about the business that reflects the reality of having enterprises performing. And it's generated by hard data, so it means information that everyone agrees is correct.

Too often we find in the finance area that people come to the table and each has their separate set of facts, so it's really having one set of facts that everyone agrees to. And to do this, the CFOs need to work on developing what our survey calls the Integrated Finance Organization, which was one of the key findings of our survey.

Steve Rogers: Integration seems to be a key theme here, and I know one of the key findings was that financially successful firms were characterized and differentiated by information integration across the enterprise. So why do you think more CFOs haven't managed to integrate their organization more fully?

Bill Fuessler: Yes, Steve, that's a great question. But you know, the key thing here is it's really complex. If you think about organizations, they have multiple business lines and locations, including a lot of them have global operations, which usually means multiple processes and systems. So by doing that, it obviously adds complexity.

By having these non-integrated process systems means more time spent on validating the data versus analyzing the data. So it's just a complexity around the organizations and as companies acquire other companies, open new business units and lines, it just adds complexity.

So what happens is the CFO finds him or herself behind the eight ball trying to address these challenges and you think about other things.

Once you have these multiple locations and business units, it also gets into cultural change that has to happen and organizational changes that have to happen, process changes, data changes, all these things just add to the complexity that's required in order to make these changes.

Steve Rogers: So Bill, how can CFOs drive greater integration?

Bill Fuessler: Yes, Steve, it's through process and data commonality. To become an Integrated Finance Organization, CFOs need to work on four key things and again, this comes out of our CFO survey. First, they need to establish global standards for all business units, so things around accounting treatments need to be standardized globally.

Secondly, is the use of standardized common processes and ownership, ownership being a key word here, someone needs to own the processes on a global basis, so making sure that's for instance closing processes being adhered to globally. Thirdly, strict adherence to common data definition.
This is one that we always hear about, how difficult it is to get a common set of data standards and data definitions, so you know, a very key thing. And the fourth thing, Steve, is implementing a standard chart of accounts and reducing instances of ERP.

It sounds like a real simple thing, but when you get down to it, a chart of accounts is so integral to reporting, so having a standardized chart of accounts would really benefit the CFO and get into an IFO.

**Steve Rogers:** What are some of the key benefits of greater integration, Bill?

**Bill Fueßler:** Yes, integration makes the CFO in their organization more agile and what I mean by that is they can react faster when the market changes. Just look at examples of what happened in the last six months around the credit crisis having information quickly, they can react faster to these market changes.

They also can identify opportunities when they come up, so if they have integrated enterprise with information that’s actionable, they can more quickly come up with opportunities as they see them. And they also – by being integrated, they also can perceive potential issues revolving around risk.

So if there is a risk something out there that they see, and a good example of that, if you’ve followed was what happened with Goldman Sachs.

The reason why they’ve been able to avoid what has happened in the credit crisis is that over a year ago, they got together and they saw that they had a lot of their bets and risks on some of these non-standard mortgages and they decided to diversify.

So again, having the information at hand was they were allowed to make reactions and make some adjustments. But you know, there is another part of this too. So we found as a reward for those companies that are IFOs, IFO’s, the revenue growth for IFOs were almost double that from non-IFOs, so they had compounded annual growth rates of 18 percent versus 10 percent from that of non-IFOs.

They also show that stock appreciation per IFOs were higher than for non-IFOs, so again, the compounded annual growth rate was 10 percent versus 6 percent on stock appreciation. So there are really dual benefits here. There is one that is an operational benefit, Steve, but there is also, just as importantly, is a financial benefit to greater integration.

**Steve Rogers:** Let’s go back to that idea of risk management. We talked about it at the top and you just mentioned it. It’s obviously a team sport, but what is the role of the CFO in risk management and how do you explain how they interact with the rest of the enterprise?

**Bill Fueßler:** Right. The CFO has a key seat at the table around risk. While our survey showed that while several of the C suite executives are indeed involved and deemed as ongoing risk owners, the CFO comes out on top with 60 percent of them saying that the CFO “owns risk”.

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So clearly, they have a key seat at the table. With this responsibility, the role of the CFO around risk is really merging performance and risk management, meaning moving towards risk adjusted performance management.

So merging typically today, the CFO will have performance measurements, but what you don’t see today is do they have performance measurements that have risk baked into it? So to do this, going back to what we said a little bit earlier, Steve, they need good information, right.

They need good information in order to make decisions, but they also then need metrics that incorporate risk, which means including predictive analytics and risk modeling as part of their performance metrics.

**Steve Rogers:** Very curious. Do you have any summarizing thoughts for CFOs?

**Bill Fuessler:** Yes. Our survey shows that moving towards an IFO has many benefits, including financial. We talked about how the financial benefits of them going to as an IFO, but I also mentioned early on to that, but getting there is not an easy journey.

There are going to be cultural, there are going to be data, process and organizational challenges because of the various lines of businesses and the different locations and in some cases, countries. These are all complexity adding drivers that make it much more complex for them.

But when you think about all that is at stake today, it is something that should be done to achieve better performance, both financially as well as efficiency. So by achieving to become an IFO, the organization should be able to transform from essentially transactional to forward-looking.

In essence, going from a tail light view of the data and information to headlights with the ability really to lever risk management into a competitive advantage, which can be done.

You can take the information around risk and leverage it into a competitive advantage, again going back to, Steve, what I had mentioned earlier about Goldman Sachs, they took the opportunity around what was happening with the sub-prime mortgages and they turned that into an opportunity.

It’s one of the few firms out there that actually made money doing this whole sub-prime mortgage, so again, a way of taking risk and turning it into a competitive advantage.

**Steve Rogers:** Thanks, Bill, for your time today and for sharing your insights into the finance domain and the IBM CFO study. That was Bill Fuessler, the IBM Global Leader of Financial Management Consulting Services. To learn more about the CFO study, please visit www.ibm.com/gbs/2008CFOstudy, all one word. Thank you.