Building World-Class Finance and Performance Management Capabilities

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The ability to consistently drive insight about improving business performance is one of the most important leadership responsibilities for finance executives. It is also one of the most difficult responsibilities to achieve on an operational basis.

Success in creating both business analytics and performance management capabilities requires finance executives to move beyond the boundaries of their organizations to influence the systems, decisions, and actions across the enterprise. To make the job even more challenging, the range of tools and techniques to collect, organize, understand, and communicate information regarding industry, competitive position, enterprise performance, and specific initiatives presents a continually changing landscape.

Many finance executives start to tackle the challenge by establishing transaction processing, control, and reporting systems capable of rapidly generating basic information about the enterprise. With these essential capabilities in place, leading finance organizations are implementing more sophisticated business analytic and performance management tools.

As driving insight from disparate information increasingly becomes the competitive edge differentiating winning companies across industries, the impact of well-designed and deployed capabilities will become more apparent – and the focus on these capabilities will increase.

There are several trends that should affect the speed of implementation and level of sophistication of new business analytic and performance management capabilities. The strategies and solutions adopted in a specific enterprise will vary as these markets continue to mature, but common themes are emerging among leading-edge competitors. The substantial business value to be gained provides a compelling reason to start creating new capabilities now.

Trends Impacting Business Analytics and Performance Reporting

Investors are upset. Regulators are active. All is not well with financial transparency and investor relations. The CEO and entire management team are now under significantly increased pressure to respond to new financial transparency requirements introduced through the Sarbanes-Oxley Act in the United States and planned revisions to International Accounting Standards. Many finance organizations are placing renewed attention to their abilities to forecast and report financial performance through changes in the economic cycle, to communicate effectively with investors, and to work across the business to manage performance.

Investors don't want managed earnings, but they don't want surprises, either. The days of smoothly managed quarterly results are over as companies struggle with an uncertain economic environment, increasing levels of sophistication in competitors, and changes in accounting standards. While investors are pleased to have more transparent financial results, they are demanding that management teams demonstrate a higher level of expertise in forecasting how changes in the industry or economic environment are likely to impact future earnings, future cash flows, and future capital investment requirements.

Executive compensation systems designed to align management teams with shareholder value measures are under pressure in multiple geographies and industries as gaps between investor results and executive compensation have widened. Management teams are rethinking which high-level measures to target and how to implement appropriate performance reporting systems to manage the company.

Government organizations are also under increased pressure to implement performance management solutions and demonstrate higher service levels with lower cost structures. Clear definitions of government entity scorecards and performance levels are increasingly important in the process of justifying spending levels and requesting new funds.

The basis of competition is shifting from individual companies to entire supply chains within industry sectors. Supply chains are being formed, modified, and restructured as industry boundaries blur and competitive environments become more sophisticated. Understanding performance inside the walls of an enterprise is no longer sufficient – it is expected that the performance of a supply chain made up of multiple companies will be understood and compared to competing supply chains within an industry.

The increasing use of global operating models, including the widespread use of manufacturing facilities in low-cost countries, requires performance management solutions capable of easily integrating information from multiple information platforms, data structures, and sources.

Furthermore, the pace of business has accelerated. Companies are seeking the ability to sense and respond to changes in the environment more rapidly than competitors. Performance reporting processes must be adapted to keep up. From the moment a business event occurs until it is reported in the consolidated financial statements, a number of stakeholders are interested in real-time reporting related to the transaction. Finance organizations are expected to have common financial languages capable of reporting at speed across geographies, languages, and currencies.

Demands on Finance

Business leaders are insisting that the finance organization be a source of impartial financial and management information, have the insight to analyze and understand that information, and bring a point of view based on a clear understanding of industry and company value chains. They expect finance to understand customer, product, and channel profitability. Further, they want CFOs to put the processes and metrics in place to ensure that employees across the company can measure and report results as they make decisions and take actions aligned with corporate strategies.

Companies are being pushed into positions of competitive disadvantage when other organizations, outside of their control, may have the ability to collect information, assess performance, and take action on shorter cycle times than they can. In these cases, the company can find itself losing ground as members of its supply chain or direct competitors have insight into weaknesses before it is prepared to respond or make internal adjustments.

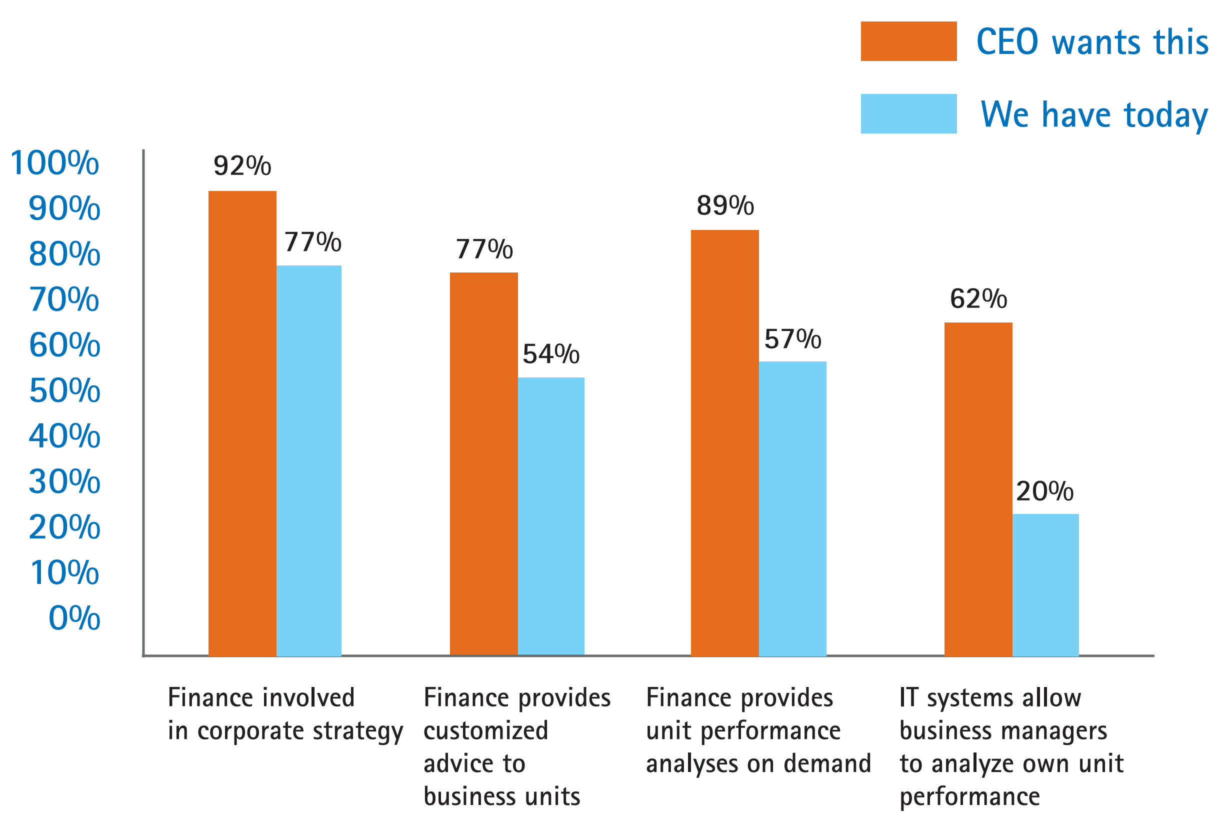
Many companies are shifting attention from driving revenue to optimizing growth in shareholder value. They need improved business analytics to support the revised growth agenda with both increases in revenues and improvements in profitability. Industry analytics and value chain analytics can help make optimal decisions on where to invest resources to capture segments with high growth potential. Customer analytics can help identify, acquire, retain, and sell to customers to drive new revenues and protect existing revenue streams. Related credit analytics can increase the number of customers targeted while holding credit risk and related bad debt to optimal levels. Finally, product and pricing analytics can help improve the offers made to customers and improve the average price received in specific customer segments.

Working capital effectiveness and operating cost leadership goals have recently created an urgent need for improved business analytics. Analytics focused on operating cost reductions can optimize synchronization along supply chains to dramatically lower inventory levels and associated working capital. Demand pattern analytics can identify changes in customer buying cycles and minimize the lead times required to produce for expected demand levels. Sophisticated demand and price elasticity analytics can apply real options theory to determine the optimal mix of products to be produced from available production capacity.

Corporate and financial risk management have moved up the list of priorities as companies face continued pressure to understand and manage enterprise risk. An emerging set of analytics is being constructed to address enterprise-level risks and optimize the allocation of resources to manage those risks.

These trends impacting both business analytics and performance management will place pressure on many management teams to make substantial improvements to existing capabilities in the near future (see Figure 1).

A gap exists between CEO expectations and finance's delivery.
Source: What CFOs Want from Performance Management CFO Research Services



CFO Strategies

Finance organizations have not been idle in the face of these challenges. As they continue to try to lower costs and raise service levels they are looking once again to technology, utilizing the Web to connect more directly with vendors, customers, and employees. Many are turning to outsourcing as a strategy to achieve increased efficiencies more quickly and to obtain more control over back-office costs.

Companies are responding with substantial improvements to planning, budgeting, and forecasting capabilities at the enterprise level and across specific operational business processes. One of the major changes being introduced is the extension of the planning and forecasting process to a broader group of people across the enterprise so that key drivers that determine revenue and cost are updated more frequently and by the people on the line who actually live and breathe them. Coupled with enhanced investor relations capabilities, the improved understanding of current and future results allows companies to set market expectations more accurately and to convey their growth strategies more credibly.

Companies are recognizing that these trends have created expectations of improved capabilities from an expanded set of executives requiring more frequent and more detailed information on both financial and operational metrics related to enterprise performance.

To assist in delivering improved overall business performance, CFOs have reasserted their role as owners of management information and performance management processes. Concepts such as the virtual close and straight-through processing are catching on as companies continue to optimize their ability to get the most critical information to the right people in a timeframe that allows responsive action to be taken.

The finance organization, because of its traditional ownership of the financials, is frequently seen as the primary source of reliable data in the company. Finance leaders are using this position of credibility as a foundation for building richer sources for management information and as a launching point for introducing new financial performance measures. Finance organizations are bringing together industry, customer, channel, competitor, product, macroeconomic, and financial data into a comprehensive management information framework to enable more robust understanding of available business options across the enterprise. Finance organizations have helped in driving the value agenda across the business by explaining value concepts and consistently delivering analysis of management information that is financially fact-based and oriented toward shareholder value creation opportunities. The focus on value targeting discussions and fact-based positions allows the finance organization to apply its unique competencies and focus the business discussions on moving the levers that create value.

The consequence of this increased attention to shareholder value is the trend toward use of value-based measures such as economic profit, EVA, and ROI. Finance organizations are leading efforts to use these value-based measures as the basis not only for business decision-making, but also as the underpinning for approaches to executive compensation, strategic planning, forecasting, budgeting, and measuring ongoing performance.

CFOs are connecting forward-looking planning activities with day-to-day performance measurement. Forward-looking planning enables the CFO to see around the next turn and speak with confidence about where the company is going. Connecting planning to performance measurement increases certainty that execution will align with business direction. Taken together, CFOs are building important capabilities for restoring the fragile confidence of today's investor (see Figure 2).

Creating the Path Forward

Three factors are coming together to create optimal conditions for an increased focus on improvements to business analytics and performance management capabilities.

First, many organizations have been successful in establishing solid transaction processing and control platforms which provide a foundation for capturing, organizing, and moving information across the enterprise. The next logical step of leveraging that information is to drive insight and improve decision-making across the business.

Second, the traditionally fragmented software markets for business analytic and performance management tools are consolidating and introducing a new generation of tools. The major ERP vendors have released new applications that leverage the transaction processing platforms. Meanwhile, best-of-breed boutique firms have banded together to provide broad suites of integrated applications. At the same time, the technology to store, organize, and navigate vast amounts of data has continued to increase in capability at an exponential rate. It is now possible to construct a set of useful tools that leverage ERP platforms without replicating prior investments.

Finally, a combination of internal and external factors has increased the importance of having more sophisticated business analytic and performance management capabilities. Individuals within the enterprise have grown comfortable with technology and started expecting to make decisions with the help of analytic tools. Global operating models have broken many of the historical cultural barriers regarding origination, transmission, and use of information from various geographies as part of an integrated business model. More advanced supply chain partners have started expecting other members of the supply chain to be as sophisticated as they are at optimizing results.

While conditions for progress are good, the level of activity and progress on building many of these capabilities is relatively modest to date. Organizations have been thinking through the issues while deferring investments until the economic cycle recovers or existing cost reduction and customer relationship initiatives are completed. Many of these organizations have also been hoping for a clearer definition of the best practices and winning approaches from early adopters.

Innovation and Execution

Innovation is important during uncertain economic times. Execution is important all the time. Leading companies in many industries are working to bring new innovations in applying business analytics and performance management while improving execution against business plans and new opportunities. These companies are taking advantage of the downturn to make investments that will help them accelerate into the recovery to create a gap between them and their competitors. Research highlighted in *When Good Management Shows* demonstrates companies that really understand value targeting, integrate value management into the company culture, and execute solid performance management techniques consistently gained on the competition during the last global recession in the early 1990s.

Organizations focusing attention on business analytics and performance management capabilities are faced with decisions on how and where to start. Should initiatives focus on technology solutions? Are major changes in the culture required to become effective? Which new capabilities will outlast the predicted and unimaginable changes in the organization and competitive environment? How can existing capabilities be leveraged instead of replaced?

Our recommended framework for thinking through the opportunities and priorities focuses on a few simple concepts: understanding the economic model, having access to appropriate information, and having appropriate incentives to act on opportunities.

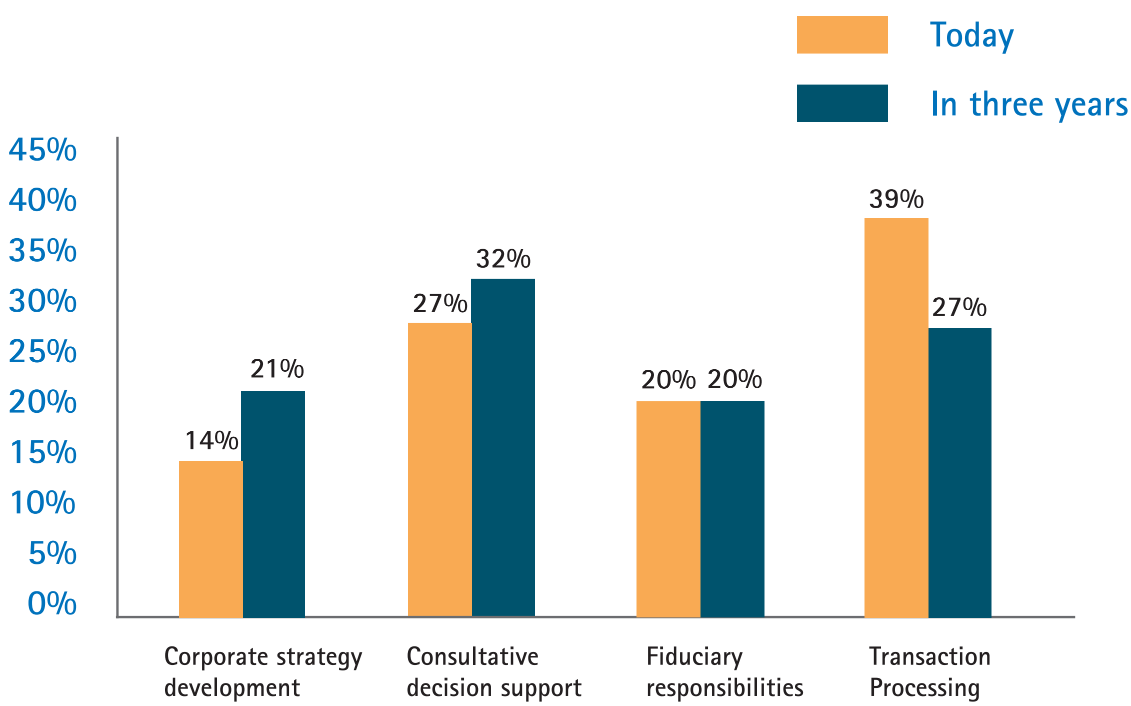
Understanding the economic model requires that executives and employees across the enterprise understand how the company makes money, how it is positioned within the industry, and how the industry value chain is changing over time. It requires that individuals understand which value levers are controllable and which are not at the local, business unit, corporate, or industry levels. It requires that organizations within the enterprise understand how they contribute to delivering strategies to improve performance within the constraints of the economic model. Without a clear understanding of the economics of the business, investments in both business analytics and performance management capabilities are likely to be suboptimized. Accenture has worked with companies in multiple industries to construct performance simulation capabilities that are used to teach subtleties of the economic model to individuals across the enterprise. In many cases, this simple step has achieved outstanding results in changing the decisions and behaviors across the enterprise to be more closely aligned with the business strategies.

Having access to appropriate information requires companies to acquire, consolidate, and move economic, operating, and financial information from external and internal sources to the individuals in the company who can act on it. This can be accomplished for simple data sets to support focused business analytics within a business process or on an enterprise level to support performance management functions. It requires companies to have well-defined and understood data models that allow individuals to speak the same language in discussing results. It does not require a single information technology platform, since integration architectures can leverage existing platforms to create integrated data sets. From simple management reporting solutions to more advanced scorecards and data-visualization solutions, the impact on making decisions and influencing performance can be dramatic.

Creating appropriate incentives to act on opportunities is not about financial rewards. Instead, it about understanding that the enterprise is flexible in taking advantage of opportunities when they arise, knowing how to quickly gain approval for decisions which change prior plans, and working in a culture that values innovation and appropriate risk-taking. Many enterprises have struggled with examples where information existed and insight was gained, but no action was taken. In the most frustrating cases, the incentives in place actually forced employees to take the worst possible actions for the enterprise because those fit more closely with prior budgets, plans, and forecasts.

In this volume of The CFO Project, we will explore a range of capabilities companies are building to achieve competitive advantage. The solutions stretch from new angles on proven strategies to the latest ideas. We hope that you find the articles in this volume to be worthy reading, and we hope that you will look for future volumes as we continue to share leading points of view on finance and performance management issues.

Approximately what percentage of your finance function's time is devoted to these activities?
Source: CFOs Driving Finance Transformation for the 21st Century CFO Research Services



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