Opportunities for Leadership and Growth in the Controller's Office

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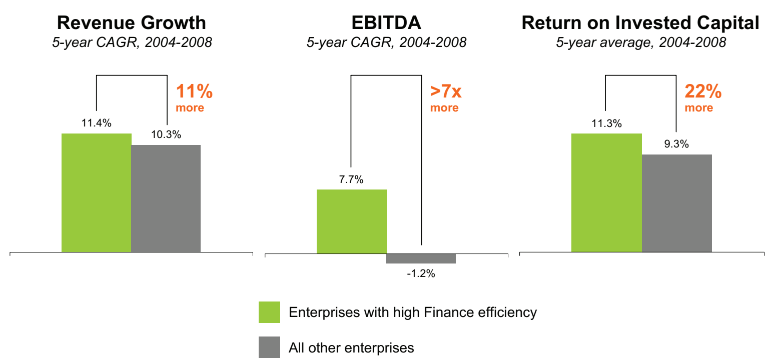
This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.

Leading finance organizations have been investing in process efficiency in order to free themselves for a shift from the traditional role of historical reporting and scorekeeping to that of supporting the enterprise with valuable business insight.

Q How can Controllers and finance directors build a winning business case for finance efficiency? What are the best ways to create and drive standards, and how can finance teams provide fact-based advice on strategic decisions confronting the business?

Outperformance is a compelling premise for building a winning business case for finance efficiency. The IBM 2010 Global CFO Study concluded that companies with better finance efficiency are rewarded across a spectrum of financial metrics, including revenue growth and earnings.[1]

Finance Efficiency Contributes to Financial Outperformance



CAGR: Compounded Annual Growth Rates
EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization

Source: IBM Institute for Business Value, The Global CFO Study 2010

But it's not all about financial rewards. There are also non-financial benefits that come with finance efficiency. These include enabling the enterprise to react to external forces with speed and agility and executing continuous finance process improvements with greater effectiveness.

Finance efficiency is achieved when everyday tasks such as paying bills, closing the books and producing financial reports are operating smoothly and there is strong adherence to process and data standards, good governance, and robust controls. The Global CFO Study identified three practices that CFOs are using to accelerate finance efficiency:

- **Process Ownership:** Assigning company-wide responsibility for specific processes – such as procure-to-pay, order-to-cash, treasury, tax and general accounting – is more than twice as common among efficient Finance organizations as among their lesser-performing peers. Among respondents, eight out of ten organizations with process owners have implemented standard processes enterprise-wide. Process ownership enables global integration and consistency, which in turn leads to standardized activities, less duplication and fewer errors.

Successful implementation calls for process owners who are capable of finding solutions that allow end-to-end, cross-functional integration while preserving business units' autonomy for decision making and managing their operations. Equally important, these process owners need enough organizational authority or "teeth" to command changes when necessary.

- **Common platforms:** Operationalizing a common ledger and standard accounting transaction systems is the most frequently used finance efficiency accelerator. This typically results in a standard chart of accounts. But more importantly, common systems enable the amalgamation of processes and data standards across the global Finance organization. Study findings indicate that Finance organizations with common systems establish standard processes, data definitions and charts of accounts two to four times more often than their peers.
- **Alternative Delivery Models:** Alternative delivery models – such as shared services centers or outsourcing – enable companies to drive standards adoption and process consistency. An outsourcing provider can provide a proven framework for standardization, thereby accelerating adoption across multiple business lines. A company can start by outsourcing a single process such as Accounts Payable, where standardization can be achieved as a "quick hit", followed by the gradual phasing in of additional finance processes. When adopted for transactional activities, alternative delivery models free up resources so that they can focus on analytics and higher value added activities.

But why stop at finance efficiency? While finance efficiency on its own provides distinct advantages, Finance organizations that excel in both efficiency and business insight contribute to even better financial performance at the enterprise level.

To successfully provide business insight, such as fact-based advice on the most strategic decisions confronting the enterprise, Finance needs to have a deep understanding of the business, including key value drivers, risks and causal relations between metrics. It also has to be able to turn large amounts of often disparate data into relevant information that supports key business decisions. Business insight should help leaders use past and present information to make informed decisions about the future.

Business Insight

	Rear View	Current View	Forward-Looking View
Key Business Questions	• What happened? • How many, how often?	• Where exactly is the problem? • Why is this happening? • What actions are needed?	• What will happen next? • What if these trends continue? • What are the risks or opportunities?
Examples of Business Insight	• Balance sheet, profit and loss, and cash flow statements • Revenue and cost variance analysis	• Customer, product and market profitability • Spend optimization • Working capital analysis • Market, customer and channel pricing • Sales and supply chain effectiveness	• Cash forecasting • Scenario-based planning and forecasting • Strategic investment decision support • Volatility and risk-based predictive and behavioral modeling

Source: IBM Institute for Business Value, The Global CFO Study 2010

The Global CFO Study found that three primary factors, non-financial data standards, automation of key metrics and business analysis skills, have the greatest impact in enabling business insight.

It is virtually impossible for Finance to provide timely and trustworthy company-wide analysis without consensus on non-financial or operational data definitions. Using a common language across the entire business, such as standard definitions of customer, product and channels, leads to consistent data interpretation and improved cross-functional decisions.

The automated production of critical financial and operational measures further bolsters business insight capabilities. For example, instead of manually consolidating customer demand information from several business lines, forecasts can be generated automatically using data in supply chain systems. Automation provides information to decision makers more quickly, giving them additional time to analyze, probe and act. It also enables a single version of the "truth" through the systematic application of business rules to data and calculations. When there is no debate or doubt about the credibility of information, key business decisions can be made faster and with greater confidence.

Lastly, effective business insight requires a skills mix that goes beyond the traditional finance competencies. Finance staff needs to have business and analytical acumen to interpret findings and produce relevant advice. They also need advanced interpersonal skills to persuasively communicate recommendations and influence business decisions.

Ultimately, the winning business case for the Finance organization is one that paves the way for greater finance efficiency and business insight to drive sustained business outcomes and improve the company's competitive advantage. With magnified expectations of CFOs in these uncertain economic times, developing the winning business case for Finance improvement has never been more important.

About Shelley Senova

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[1] IBM Institute for Business Value, *The New Value Integrator: Insights from the Global Chief Financial Officer Study,* March 2010 (To learn more about the IBM 2010 Global CFO Study, visit ibm.com/cfostudy.)

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