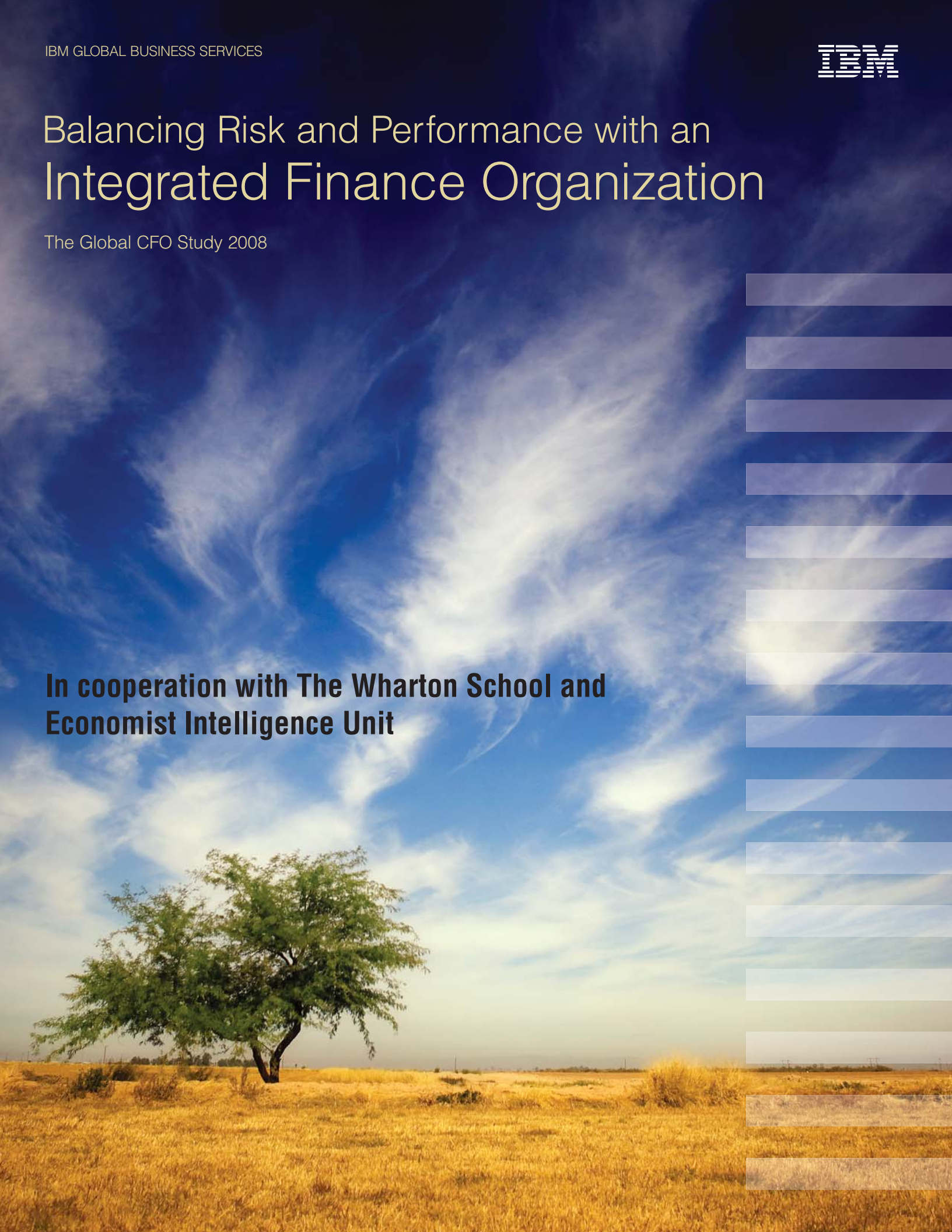


Balancing Risk and Performance with an Integrated Finance Organization

The Global CFO Study 2008

In cooperation with The Wharton School and Economist Intelligence Unit



THE GLOBAL CFO STUDY 2008

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Economist Intelligence Unit

The
Economist

Cover image: The mesquite tree is quite hardy and survives well in an area with very low average annual rainfall.



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PREFACE

By Mark Loughridge, Senior Vice President and Chief Financial Officer, IBM Corporation

The interdependent global marketplace brings the promise of new opportunities. We certainly see that at IBM.

Last year, our Chairman laid out his vision for the 21st century successor to the multinational corporation, the globally integrated enterprise. This corporate evolution will spur new innovative business models focused on operations and functions anywhere in the world based on the right cost, the right skills and the right business environment. But what does it mean for the Finance discipline? Do we have the flexibility to not only accommodate, but also enable this innovation?

The Integrated Finance Organization journey mapped out in our Global CFO Study 2008 findings resonates with me. Over a decade ago, IBM Finance set out to create a more effective and efficient organization. At the time, many on Wall Street were calling for the break up of our business into its component parts, and we needed the facts to prove them wrong. However, the facts were hard to come by. Inconsistent measurements across various operating units made an aggregate picture of the potential synergies difficult, if not impossible. Along our journey,

we established a common Chart of Accounts, data consistency, greater flexibility, a faster month-end financial close and a focus on analytic and business issues while reducing the overall cost of Finance. As proposed in the study, we have shifted our stance from providing taillights to headlights for our firm. Today, our financial management system guides the operations of the company by providing relevant information and insights. In the spirit of continuous improvement, we continue the journey.

In the global market, our Financial Management consulting practice and Managed Business Process Services can leverage our internal experience, as well as our deep domain expertise to help clients optimize their performance. We have over 10,000 financial management specialists who can help you in your efforts to identify, create and deliver lasting business value to your organization.

We would like to take this opportunity to thank each of the participating CFOs and financial executives for their time and their insights that are stimulating new thinking inside IBM about how we can better help our clients innovate and grow. My colleagues and I look forward to continuing this conversation – and this journey – with you.

A handwritten signature in black ink on a light yellow background. The signature is stylized and appears to read "Mark".

EXECUTIVE SUMMARY

In the globally interdependent marketplace, CFOs need their organizations to perform well and want to outperform their peers with consistently strong growth and big profits. They want to be superbly agile with change, tenacious with unexpected opportunities and resilient to risk. Most try to do so by letting their business units and geographies conduct Finance activities according to specialized standards and provincial preferences. But, according to a new IBM study of more than 1,200 CFOs and senior Finance professionals, this is usually the wrong approach.

Rethinking business models, operations and the impact of risk

The notion of being “global” is evolving beyond a multinational structure or mere presence in different countries toward establishing an interdependent network of worldwide assets with the ability to optimize resources horizontally and vertically. Current enterprise management structures (for example, holding companies, decentralized operating companies and integrated operating companies) show little differentiation in revenue and stock price growth.

Therefore, enterprises will transform their business models to take advantage of this new way of defining a global presence. To make a strategic transformation, enterprises must also transform their operations. The key question is do current financial management models have the necessary flexibility, not only to accommodate, but to enable this transformation?

What’s more, the world is undeniably risky. Two out of three (62 percent) enterprises with revenues over US\$5 billion have encountered material risk events in the last three years. Of those, nearly half (42 percent) were not well prepared for it. Moreover, risk comes in many flavors besides financial. Eighty-seven percent of risk events were strategic, geopolitical, environmental, operational or legal. Despite the prevalent exposure to

risks, only about half (52 percent) of our survey participants acknowledge having any sort of formalized risk management program.

What is important to the CFO? Everything. Globalization and the prevalence of risk place an additional burden on the already full Finance agenda. When asked what areas topped their agenda, CFOs had a difficult time prioritizing – nearly every Finance activity in our survey was categorized as *very important*. Curiously, the study finds that two agenda items ranking lowest in importance, *supporting / managing / mitigating enterprise risk* (66 percent) and *driving integration of information across the enterprise* (62 percent), are key differentiators for outperformers in revenue and stock price growth.

So what are the drivers of *information integration across the enterprise*? Our interviews and statistical analysis point to enterprisewide common data definitions, a standard Chart of Accounts, common standard processes and globally mandated standards. Fewer than one in seven enterprises govern and manage the integration of their Finance organizations by the combination of these four criteria. These are the components of good governance and what we are calling the *Integrated Finance Organization (IFO)*. *IFOs* help their enterprises perform better than *non-IFOs*. In fact, enterprises with *IFOs* in our study had revenue growth rates nearly double that of their industry peers. *IFOs* can be more *prepared* for risk because they are more *aware* of risk.

Successful CFOs are providing the truth and taking a lead in risk management

Providing “the truth.” At their core, outperformance and risk management are about getting to the truth. By “the truth,” we are referring to a single set of facts about the business that reflects the reality of the enterprise’s performance generated by hard data. Process and data

commonality enable the truth to be told. Enterprise standardization opens up new dimensions (for example, customers, channels and suppliers) and new ways to view volumes, revenues and profits. Data standards allow the organization to define critical items consistently across the enterprise, such as *the components of gross margin*.

Enabling such consistency shifts the conversation from “Are these numbers right?” to “How do we use these numbers to better our business?” It is the shift from the transactional to the analytical. With data turned into information then turned into insight, Finance moves beyond “taillights” – historical reporting – to a keener sense of “headlights” with which to illuminate the future direction of the enterprise.

As truth owner, the CFO can help shape operational decisions and strategic direction. CFOs with *Integrated Finance Organizations* understand this relationship with the truth. IFOs can build new flexibility and agility by being more disciplined, and improve speed by being organized and connected. Two actions are essential to providing the truth: *establishing global standards through process ownership* and *simplifying the enabling systems and organizational structures*.

- *Establishing global standards through process ownership* – Global process ownership (as opposed to *process enforcement* or *process participation*) is a key enabler to getting past organizational and cultural boundaries and barriers. IFOs are 3.5 times more likely to employ global process ownership enterprisewide. Organizations with strict adherence to global process ownership are much more likely to have adopted process and data improvements enterprisewide. Global process ownership establishes responsibility and accountability for the consistent design and deployment of processes.

- *Simplifying* – Enterprisewide process and data standards provide greater opportunity to simplify enabling systems and organizational structures. IFOs remove structural roadblocks in an effort to increase the speed of deployment and execution of Finance activities. Moreover, enabling technologies and delivery models help to maintain global standards while providing Finance with greater flexibility to adjust to changing business models. Again, global process ownership is an enabler.

Managing risk. Findings suggest that enterprises are looking to the CFO for leadership in risk management. Risk management is about orchestration from the Board level to middle management. Currently, enterprises are struggling to understand their holistic enterprise risk profile. Moreover, the simple risk / reward equation means that all performance is intrinsically linked to risk. Two actions are key to managing risk: the CFO's *orchestration of risk management* and the *convergence with performance management*.

- *Orchestrating risk management* – CFOs are uniquely positioned to determine and guide the overall enterprise risk profile. CFOs executing *effective risk management* are more likely to have risk management reporting directly to them.¹ *Effective* organizations are also more likely to provide greater top-down direction about the enterprise's official position on risk appetite and tolerance from the Board level to middle management.
- *Converging performance and risk management* – *Effective* organizations proactively manage risks to close performance gaps. Across the board, it is clear that they engage in more formal risk management activities than *less effective* organizations, including the use of monitoring, reporting, historical comparisons, evaluation tools, predictive analytics, risk-adjusted forecasts and process controls.

METHODOLOGY AND DEMOGRAPHICS

For this report, the IBM Global CFO Study 2008, we conducted extensive primary research to discover how CFOs and senior Finance professionals are affected by and deal with performance, risks, operational levers and governance. The primary thrust of the research focused on hypotheses about the CFOs' choice to use differing financial management governance models, and their role and effectiveness in risk management.

This research is part of a series on executive issues, which includes the IBM 2003 Global CFO Survey, the IBM 2004 Global CEO Study, the IBM 2005 Human Capital Management Study, the IBM Global 2005 CFO Study, the IBM Global CEO Study 2006 and the IBM Global Human Capital Management Study 2008.

Interviews of more than 1,200 CFOs and senior Finance professionals

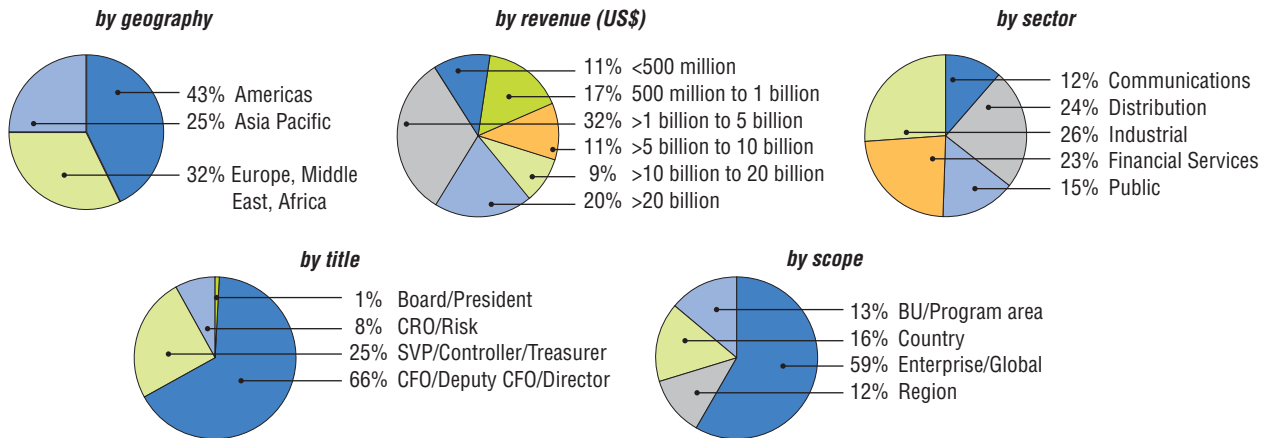
The primary survey instrument was developed through extensive workshops with Finance professionals, the Economist Intelligence Unit, Wharton School professors and other subject matter specialists. Thirty-four questions were developed and delivered to more than 1,200 CFOs and senior-level Finance professionals in five major sectors and 79 countries across the spectrum of enterprise revenue size.

Experienced IBM financial management practitioners conducted 619 surveys via in-person interviews and 611 were administered by the Economist Intelligence Unit via an online survey tool. Analysis of the data was completed by IBM Institute for Business Value analysts. Final findings and implications were analyzed and vetted by Finance professionals from IBM Global Business Services, IBM operational leadership in Finance, two Wharton School professors and other external experts. The primary research was conducted throughout the spring and summer of 2007, and final analysis was completed in the third quarter of 2007. Figure 1 shows a breakdown of the study demographics.

In this report, the term *outperformers* refers to the study participants that scored at least one-half standard deviation above the mean for the selected financial metric.² Therefore, the term *outperformers* refers to the study participants that are in the top 50 percent based on this competitive comparison, whereas *underperformers* are those that fall in the bottom 50 percent.

In addition to analyzing the survey responses, we wanted to ascertain the difference between choices and approaches made by financial *outperformers* and *underperformers* in our study. To perform this additional analysis, we looked at a subset of our sample where publicly reported financial information was available. By taking a five-year view, we were able

Figure 1. Breakdown of Global CFO Study 2008 participants.



Source: IBM Global Business Services, *The Global CFO Study 2008*.

to identify which companies outperformed and underperformed the average compound annual growth rate (CAGR) for revenue and stock price appreciation across our sample. For this subset, we normalized stock price growth rates by analyzing difference between the company stock price and the relevant industry index.

Compare your enterprise to this global data set through our online assessment tool located at ibm.com/gbs/2008cfostudy.

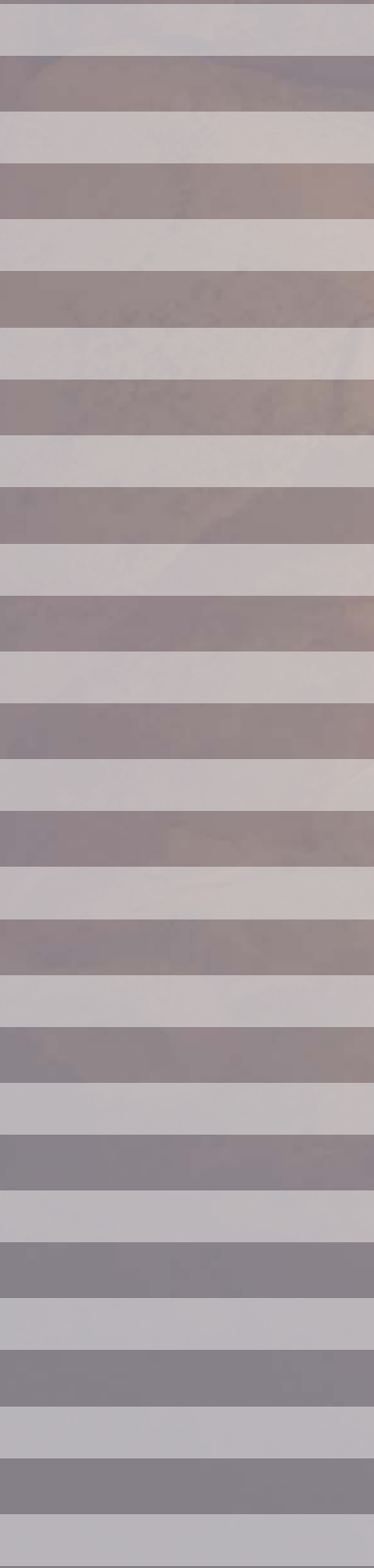
ACKNOWLEDGMENTS

The Global CFO Study 2008 is the result of several months of collaborative effort. IBM Global Business Services would like to thank all those who contributed:

- The CFOs and senior Finance professionals across all sectors and geographies who contributed their time and valuable insights
- The IBM Global Business Services Partners and IBM client account teams who conducted the interviews
- The IBM Financial Management practice and leaders who managed the effort in each geographical region or country
- The Wharton School, University of Pennsylvania, for contribution to the design of several survey questions and their points of view contained within this document
- The Economist Intelligence Unit for valuable methodological guidance, contribution to the design of the survey questions, and collecting survey responses
- The IBM Institute for Business Value for methodological guidance and subject matter expertise.



SECTION ONE



Are CFOs Ready for a Riskier and More Integrated World?

“The scale and pace (of the current wave of global economic integration) is unprecedented ... the greater part of the earth’s population is now engaged.”³

– Ben Bernanke, Chairman, U.S. Federal Reserve

“When everything is connected...work flows to the places where it can be done best.”⁴

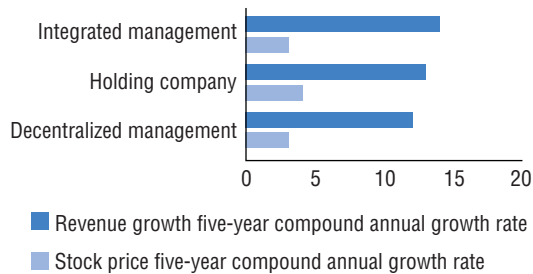
– Sam Palmisano, CEO, IBM Corporation

Integration matters

As recently as a decade ago, the specter of globalization seemed more like a theoretical threat than an actual business issue, and enterprises were “global” in that they maintained a collection of multinational, autonomous entities carrying, perhaps, the same name and brand. Today’s version of globalization is much more tangible and urgent. Externally, capital of all varieties (financial, physical, human, social and intellectual) is shifting in profound ways, changing the mix of its sources and uses, and creating new markets and new threats. As the CFO of a Latin American consumer products company shared, “the CEO is distressed because all countries do things in a different way.” Being “global” is evolving beyond owning satellite organizations or facilities in different countries toward a globally interdependent network of worldwide assets with the ability to optimize resources horizontally and vertically. Current enterprise management structures show little differentiation in revenue growth and stock price growth, providing an opportunity for innovation and better execution (see Figure 2).⁵

Figure 2. Enterprise management structures versus five-year revenue growth rates and normalized stock price growth.

(Percent)



Source: IBM Global Business Services, *The Global CFO Study 2008*.

Forward-thinking enterprises locate operations and functions anywhere in the world based on the right cost, the right skills and the right business environment. The IBM Global CEO study 2006 found that among analyzed firms, “business model innovation had a much stronger correlation with operating margin growth than the other two types of innovation” which are operations and products / services / markets.⁶ Innovation must be fundamental and pervasive, affect the business model and core operations. Therefore, innovation is about how services are delivered, how business processes are integrated, how enterprises are managed and how knowledge is transferred. Open standards allow businesses to become a network of components seeking to achieve seamless integration. As a result enterprises will transform their business models to take advantage of this new environment.

To make a strategic transformation, enterprises also have to make an operational transformation. Do current financial management models have the necessary flexibility, not only to accommodate, but to enable this transformation? One CFO of a European materials technology company admits “Finance acts currently more like a multinational while the enterprise behaves in a more integrated fashion.” He is not alone. Only one in seven enterprises with over US\$1 billion in revenue surveyed has adjusted its financial management to reflect this new reality.

The whole versus the sum of its parts, or we versus them

By John Percival, Adjunct Professor of Finance, The Wharton School, University of Pennsylvania

At their core, CFOs with vision and a strategic mind-set focus on generating new and incremental enterprise value. Some pursue acquisitions. Some focus on efficiency. Some do both. Acquisitive CFOs will tell you that they are buying more than mere “revenue.” They hunt the often elusive promise of synergy; that is, “the whole should be greater than the sum of its parts.” The argument goes that by having business unit A work in collaboration with business units B and C, the enterprise can serve customers better, spot new opportunities faster and conduct business more efficiently.

Much has been written about the conglomerate discount, which suggests that many in top management are not finding their intended synergy. By failing to provide the “parts” with a cohesive strategy and governance structure, the corporate “strategy” becomes a loose collection of business unit strategies by default. Top management may be abdicating a good portion of their value creation responsibility.

This mind-set is often displayed in the very culture of the enterprise. Business unit or geographical leaders often refer to “we” when talking about the division and “them” when referring to the greater enterprise. This language is shaped by one’s own set of the facts. For example, “By my measure, I am doing better year over year,” even though it does not square with my counterpart’s measurement of profit margins or creates negative transfer pricing situations for my colleague. Indeed, within the Finance organization, reporting relationships themselves may contribute to obscuring a more accurate picture.

The enterprise cannot sing if the harmonies are not produced. The result is discordance. Every enterprise will have its standout performers. As a key member of top management, the CFO must help orchestrate the performance of the whole. Greater integration represents the sheet music.

So why do so few smart top management teams drive greater integration? Admittedly, integration is hard. But, the Finance organization has a key role to play. It brings a discipline that can bring about new insights and value.

The world is a risky place

According to our study, two out of three (62 percent) enterprises with revenues over US\$5 billion have encountered material risk events in the last three years. Of those, nearly half (42 percent) by their own admission were not well prepared for it. The situation at smaller enterprises was better, but not much. Of enterprises with revenues under US\$5 billion, 46 percent experienced a major risk event and 39 percent were not well prepared.

Risk comes in many flavors besides financial (see Figure 3). A Corporate Executive Board study found that 85 percent of risk types that led to a company's market capitalization decline of 30 percent or greater relative to its peer group were non-financial in nature.⁷ We found roughly the same magnitude of non-financial risk (87 percent). Of six types of risk events, the risks mentioned most (by 32 percent of respondents) were strategic risks, which involve decisions about markets, customers, products, M&A activity and other top-line business topics. Geopolitical and environmental / health risks were also more prevalent than financial risks, each scoring 17 percent, compared to 13 percent for financial risks.

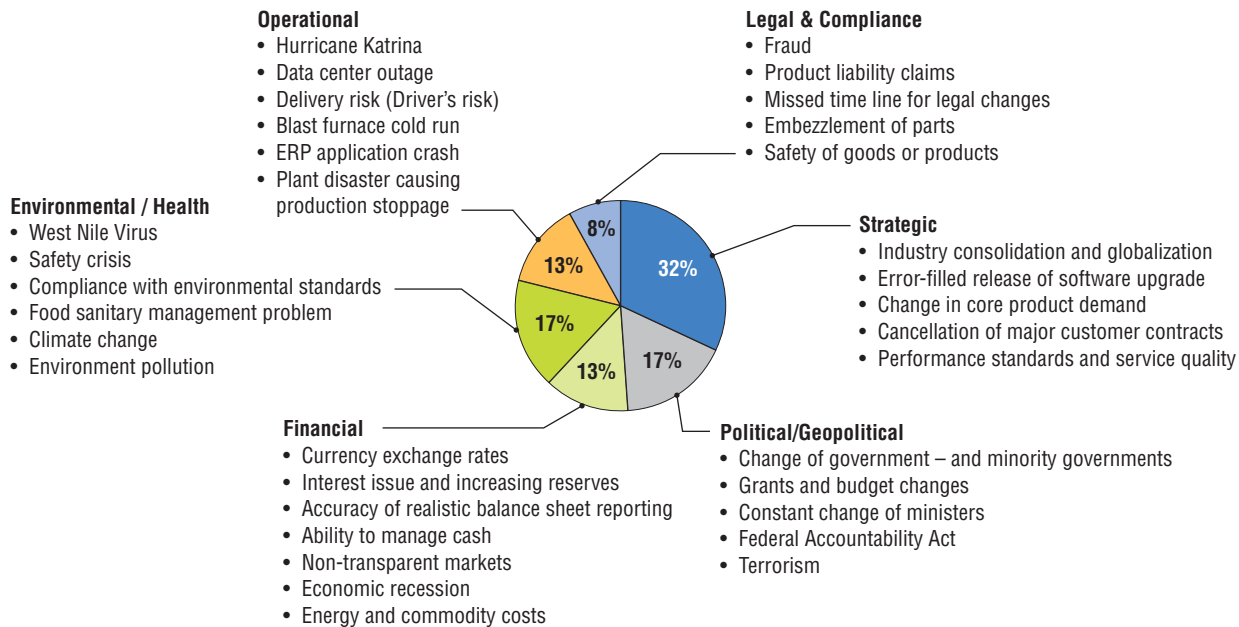
Despite the prevalent exposure to risks, only about half (52 percent) of all surveyed acknowledge having any sort of formalized risk management program. This poses an interesting question: Will enterprises that felt the impact of risk recently interpret it as a need to change and build up their risk management programs, or shrug it off and hope it doesn't happen again?

The world is moving toward a very new definition of globalization, but the majority of enterprises are still maintaining an old worldview. This inconsistency between the external reality of globalization and an internal ability to address it should be a moment of concern for many CFOs, if not outright panic for some.

What's important to the CFO? Everything.

The emerging definition of globalization and the prevalence of risk place an additional burden on the already full Finance agendas. When asked what areas topped their agenda, CFOs had a difficult time prioritizing – nearly every Finance activity in our survey was categorized as very important. There were gaps as wide as 38 percent, however, regarding how effective they were at tackling those activities (see Figure 4).

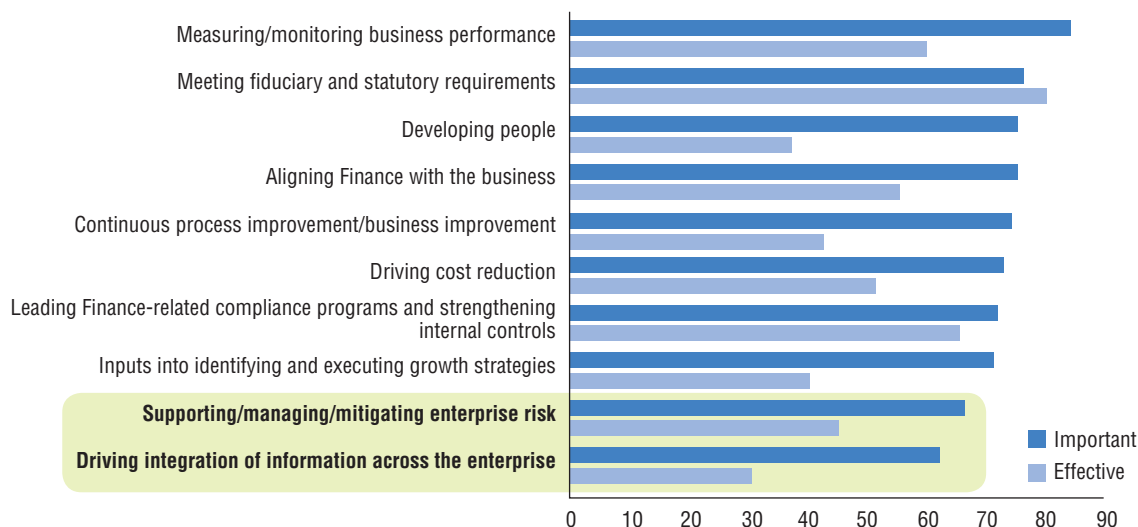
Figure 3. Material risk events encountered in the past three years (for enterprises over US\$5 billion in revenue).



Source: IBM Global Business Services, *The Global CFO Study 2008*.

Figure 4. How important are each of the following areas of responsibility to your Finance organization, and how effectively do you think your Finance organization is performing in each of those areas?

(Percent)



Source: IBM Global Business Services, *The Global CFO Study 2008*.

By considering everything to be important, it's not surprising that today's CFO may feel nothing gets completed, but instead everything needs constant attention.

Many items on the CFO's agenda point to a positive drive to make the business better. Items such as measuring/monitoring business performance, continuous process improvement, driving cost reduction, and providing inputs into identifying and executing growth strategies show how the CFO places importance on enabling the business to be more agile, responsive and competitive.

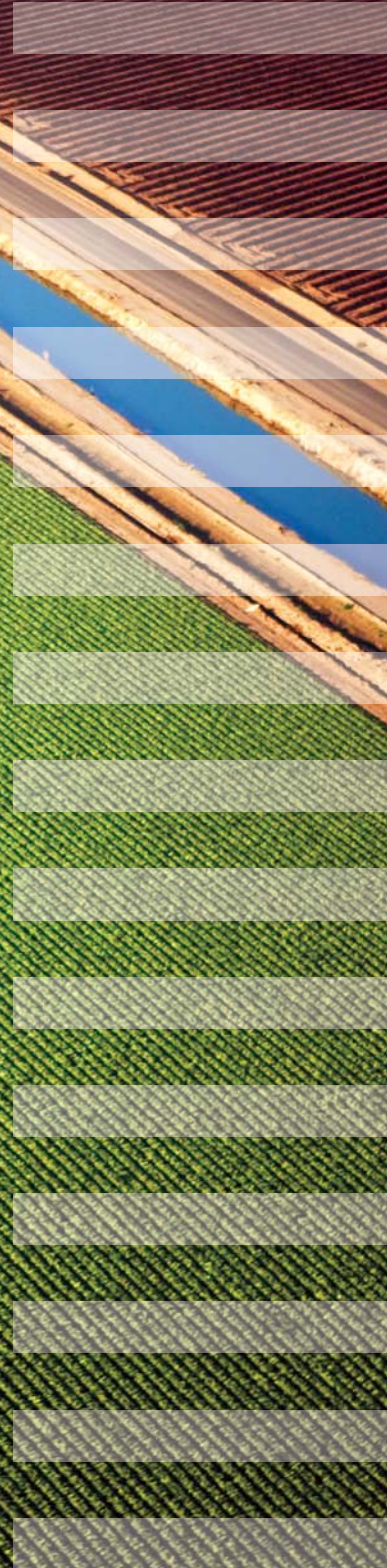
Curiously, the lack of attention on two items foreshadows the major findings of our study:

- Increased effectiveness driving integration of information across the enterprise is a major differentiator for financial outperformers
- Increased effectiveness supporting / managing / mitigating enterprise risk characterizes financial outperformers.

With a network of more than 3,000 miles of canals and drains, the Imperial Irrigation District, in Southern California delivers life-sustaining water to nearly one-half million irrigated acres, making it one of the United States' top ten agricultural regions.



SECTION TWO





The Rise of the Integrated Finance Organization (IFO)

“Information is not readily available at the moment, and there is considerable effort expended in getting it. There are many issues around data accuracy and integrity.”

– CFO, Asian Airline

“It is very important to have enterprisewide integration.”

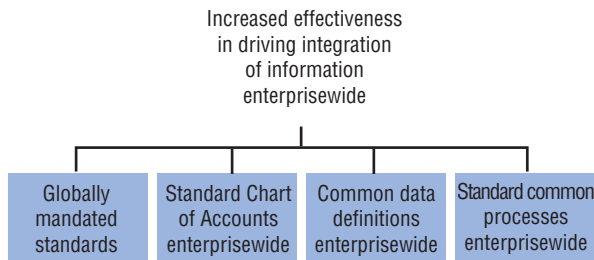
– CFO, North American Fashion Specialty Retailer

If increased effectiveness driving integration of information across the enterprise is a major differentiator for financially outperforming companies, what are its drivers?

Not surprisingly, analysis shows common data definitions and a standard Chart of Accounts enterprisewide are strongly correlated to increased effectiveness driving integration of information (see Figure 5). To achieve these, by definition, enterprises need globally mandated standards. And, interviews point to the importance of enterprisewide common standard processes.

These are the components of good governance and what we are calling the Integrated Finance Organization (IFO). Fewer than one in seven of the surveyed enterprises over US\$1 billion in revenue govern and manage the integration of their Finance organizations by this combination of IFO criteria.

Figure 5. Components of an Integrated Finance Organization.



Source: IBM Global Business Services, *The Global CFO Study 2008*.

IFOs break with conventional wisdom, without sacrificing nimbleness and responsiveness. When compared with enterprises that do not possess the full combination of the criteria – that is, non-IFOs – enterprises with IFOs in our study perform better in many ways, including:

- Higher revenue growth rates and outperforming industry peers in high-growth markets
- Greater effectiveness in executing Finance activities
- More effective at supporting enterprise risk management, including more responsive to risk and better prepared to address major risk events.

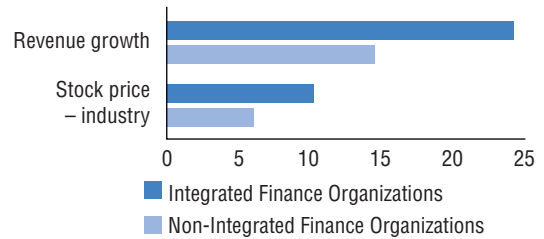
IFOs have higher revenue growth rates and outperform industry peers in high-growth markets

IFOs in our sample have revenue growth rates more than double those of non-IFOs: 18 percent versus 10 percent CAGR over the past five years. Half of these IFOs (50 percent) indicated they were in high-growth markets. When competing in high-growth markets, enterprises with IFOs experienced higher revenue and stock price growth rates (see Figure 6).

Both of these results are impressive and telling. They are the big, simple, top-down signals, and they make the case for being an IFO in a way that rings true well beyond the CFO’s office. These results should garner attention from the CEO, the Board and leaders across the other functions and divisions. Plainly said, IFOs help their enterprises perform better than non-IFOs.

Figure 6. Integrated Finance Organizations in our study outperform.

(Percent)



Note: Executives asked: How would you describe your company’s operating environment? This figure depicts respondents who answered “High Growth Market” or “Moderate to High Growth.”

Source: IBM Global Business Services, *The Global CFO Study 2008*; ThomsonFinancial; 2007 Wall Street Journal “Annual Industry Report.”

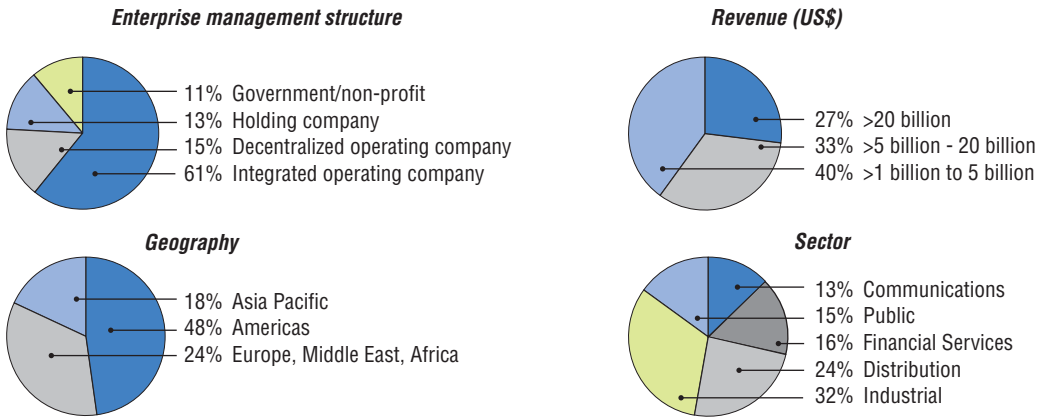
These findings must be taken in context of the entire business. After all, products, services, customer demand, quality, execution models and countless other factors contribute to growth rates. IFOs enjoy proportional representation across our data sample. Therefore, we believe IFOs are a better practice, not just a reflection of an enterprise model structure, sector, revenue size or geography (see Figure 7). They reflect a broader corporate philosophy of governance and collaboration.

In the words of a CFO of a major North American bank, “The key is integration across the business and enterprise, finding that right balance between enterprise support and business agility. Neither Corporate Finance nor the Business can dominate – it needs to be collaborative.”

CFOs with IFOs are more effective at executing their agendas

Without exception, IFOs reported greater effectiveness than non-IFOs in every surveyed area of Finance execution (see Figure 8). Three of the largest gaps between IFOs and non-IFOs provide insight into performance: aligning Finance with the business,

Figure 7. Integrated Finance Organizations demographics.



Source: IBM Global Business Services, The Global CFO Study 2008.

identifying and executing growth strategies and continuous process improvement. Not surprisingly, the largest gap, at 33 percent, was driving integration of information across the enterprise. By definition this should be the case.

IFOs are more effective at risk management

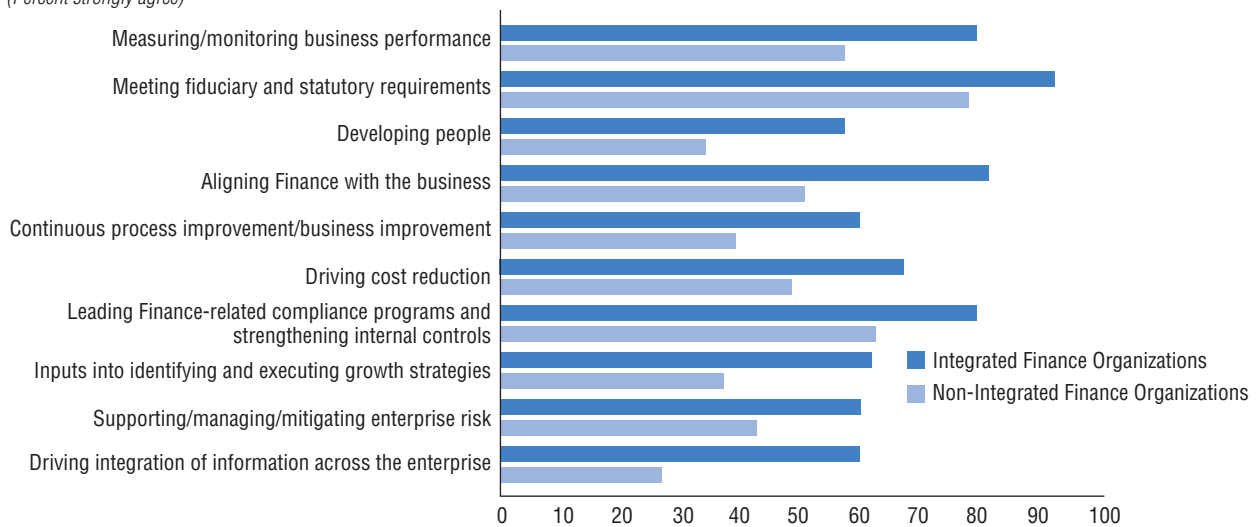
IFOs self-report that they are 1.4 times more likely than non-IFOs to be effective at supporting, managing and mitigating enterprise risk; that is to say, 60 percent versus 43 percent respectively. IFOs were also twice

as likely to be prepared for major risk events. When IFO respondents were asked to measure their own risk preparedness, 62 percent of organizations over US\$5 billion in revenue that experienced a material risk event in the past three years stated that they were prepared, versus only 29 percent of non-IFOs in the same situation. IFOs in our study were more prepared for risk because they were 1.3 times more aware of risk.

To drive outperformance and risk management, information transparency appears to be a prerequisite.

Figure 8. How effectively do you think your Finance organization is performing in each of the following areas?

(Percent strongly agree)



Source: IBM Global Business Services, The Global CFO Study 2008.

STX Pan Ocean: Wielding integration as competitive advantage in Asia Pacific

As Korean-based shipping company STX Pan Ocean pursued ambitious growth and global expansion, CFO Yong Hee Byun realized his Finance organization needed to quickly adapt and evolve. In the three years leading up to a 2005 public stock listing, STX Pan Ocean had experienced 29.7 percent annual sales growth.

The US\$2.9 billion company conducts most of its operations within Asia – this regional focus in a highly competitive industry was limiting the company’s competitiveness and financial performance. By 2010, the company vision is to become one of the world’s top five shipping companies, achieving total group sales of US\$10 billion through construction of a stronger global network and new business models.

Yong Hee Byun realized that STX Pan Ocean needed strong executive and organizational support to enact profound changes. “In order to become more competitive globally and enhance our financial performance,” says Byun, “we needed to invest in the company and become more efficient.” But, as the company pursued aggressive global growth, the following issues surfaced:

- Fragmented processes and reporting systems
- The lack of a management process and system for derivatives risk hedging in shipping industry
- Excessive resources utilized during the budgeting and planning processes
- Unreliable systematic performance measurements (key performance indicators, or KPIs)
- Inconsistent data between financial and managerial reports
- Ineffective global financial closing process and system to support management decision making.

“I used to meet with working-level staff in person to analyze performance,” says CFO Byun. “The integration between the front-end and the back-end was lacking. We needed to conduct forecasting and management evaluations in a more efficient and robust one-stop manner.”

In 2007, STX Pan Ocean completed the transformation of the company’s core processes (including shipping services, Finance and Accounting, customer information management) and technology infrastructure. Several benefits have been observed:

- Stronger corporate management and decision support infrastructure provide a single version of truth through process simplification, data integration and streamlined business policies
- A 35-percent reduction in time required to prepare management reports on market fluctuation, business/investment opportunities and risk hedging
- A single tool is used to plan, budget and measure performance
- The number of days required to complete monthly close was reduced by 30 percent
- A centralized view exists of the operational portfolio, sales performance and scenario-based sales forecasts
- Integrated front-/back-end information processes reduced data input time by 15 percent for cost management and profitability analyses.

As STX Pan Ocean continues the journey, integration will play a critical role in achieving the 2010 corporate goals. “As we continue to develop an advanced and integrated management system, I believe that the most important task is integration. Integration is the key!” says CFO Byun.

The sunflower head is not a single flower, but is made up of 1,000 to 2,000 individual flowers joined at a common receptacle.

SECTION THREE





SECTION THREE

Providing the Truth

“Years ago, we had many ‘versions of the truth.’ Now, we start from the same point, which allows us to debate or resolve the business issue at hand.”

– CFO, Major North American Fashion Specialty Retailer

“Even if the number is wrong, it is right until corrected.”

– Finance Executive, Global Technology Company

At their core, outperformance and risk management are about getting to the truth. Process and data commonality enable the truth to be told. Enterprise standardization opens up new dimensions (for example, customers, channels and suppliers) and new ways to view volumes, revenues and profits. Standards allow the organization to consistently define critical items such as the components of gross margin across the enterprise.

By doing so, the conversation shifts from “Are these numbers right?” to “How do we use these numbers to better our business?” It is the shift from the transactional to the analytical. With data turned into information then turned into insight, Finance moves beyond “taillights” to a keener sense of “headlights” with which to illuminate the future direction of the enterprise.

With the elimination of “numbers massaging,” the truth holds leaders accountable when it is ugly and supports leaders when bold moves are needed. The truth can lead to actively managing operations, expertise and capabilities differently so as to open up the enterprise to new opportunities.

Naturally, the owner of the truth is empowered with, not only a seat at the table, but also agenda-shaping authority. As truth owner, the CFO can help shape operational decisions and strategic direction. CFOs with Integrated Finance Organizations understand this relationship with the truth (see Figure 9). Sixty-nine percent strongly agree that they are a key part of the firm’s top management team. Nearly half own the presentation of the enterprise’s performance to the Board and work closely with the Directors. Over a third strongly agree that they provide the data for key decision support. Well beyond basic accounting skills, prowess in supporting growth and setting strategic direct is a recursive situation that builds on itself; those who help grow the enterprise are given more opportunities to do it (see sidebar, “An uncertain and changing environment places a premium on the CFO’s leadership”).

In non-IFOs, every layer and organizational segment may require a level of interpretation or reconciliation to provide a unified point of view. For example, how processes and data are defined at a country level

(Spain, France, Germany) must be interpreted and rolled into a geography level (in this example, Europe) that then must be re-interpreted when viewed at a global level. Within each level of roll-up, more data escapes common comparisons or requires procedural work – likely manual – to create a view that senior management can use to make strategic decisions. As the CFO of a European chemicals and petroleum company states plainly, “the lack of information integration is our biggest headache.”

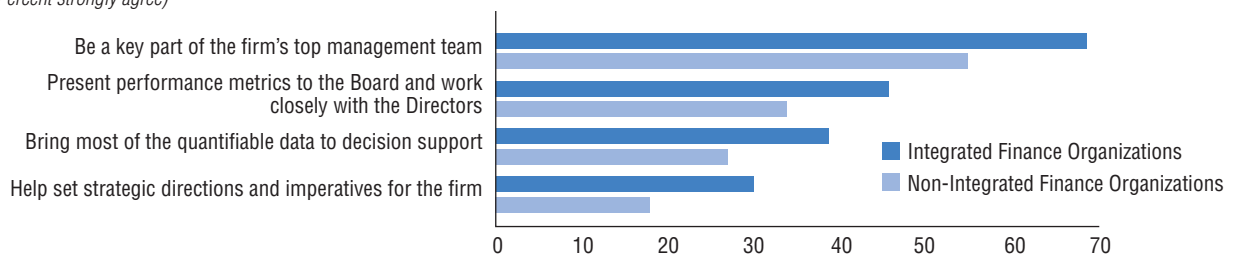
In the case of measuring performance (how well the business is performing in its business-as-usual, non-transformative, non-emergency state), that lag time – the delay in understanding the true state of the business – can mean the difference between being very profitable or slightly profitable. It may be the difference between controlling costs well or poorly. It may affect performance across the board, such as managing the speed of collections, or responding to changes in supply markets.

Providing the truth means having access to it. While IFOs and non-IFOs alike report consistently on the business unit, legal entity, regional and brand dimensions, IFOs are more likely to report on functional, customer, industry, channel and employee dimensions (see Figure 10).

But, how do these organizations get to the truth and become IFOs in the first place?

Figure 9. What is the relationship between CFO/Finance and others in the enterprise?

(Percent strongly agree)



Source: IBM Global Business Services, *The Global CFO Study 2008*.

An uncertain and changing environment places a premium on the CFO's leadership

By Michael Useem, The William and Jacalyn Egan Professor, Professor of Management and Director of the Center for Leadership and Change, The Wharton School, University of Pennsylvania

Rising uncertainty and risk in a company's environment require a stronger executive team within the company. As companies expand, cross borders, face intensifying competition, confront more insistent owners, and encounter transformative technologies and demanding customers, prior research suggests that they place a greater premium on their leadership and its development. And that is because the quality of executive leadership has greater impact on enterprise performance when company environments are more unpredictable and fast changing.

The intensifying uncertainty and change felt in many markets is thus likely to enhance the importance and role of the top management team, including the Chief Financial Officer. This is evident in the data compiled by the IBM Global CFO Study 2008.

We asked the CFOs, "How would you describe your environment?" in terms of

1. External environment/market – From "low-growth" to "moderate or stabilizing growth" to "high-growth"
2. Organizational dynamics – From "static" (no major changes within the past five years) to "no major changes within the past two years" to "major changes within the last year."

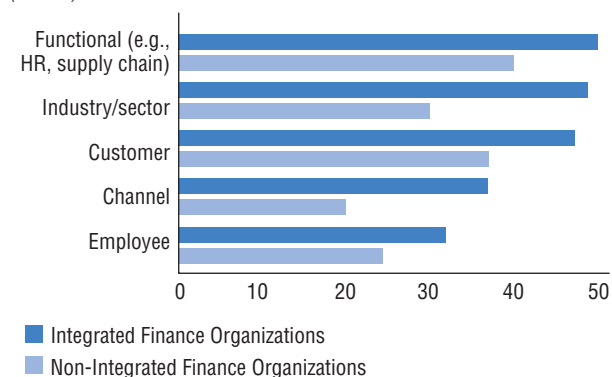
The CFOs judged the two factors to go somewhat together: We find that more growth is correlated with more change.

The CFOs also appraised their own role as more significant and central to the company when facing more growth or change. CFOs with companies experiencing such environments are modestly more likely to say that their Finance organization plays a critical role in identifying and executing growth strategies, and driving integration of information across the enterprise. They also reported more often that "Finance is a key part of the firm's top management team" and that an enterprise-wide risk strategy makes for more accurate business plans and higher rates of return.

As many organizations are likely to face even greater uncertainty and change in the future, the CFO is likely to play a more strategic role in the top leadership team during the years ahead.

Figure 10. In managing your enterprise, which of the following dimensions do you consistently report on (versus *ad hoc* reporting)? (Select all that apply).

(Percent)



Source: IBM Global Business Services, *The Global CFO Study 2008*.

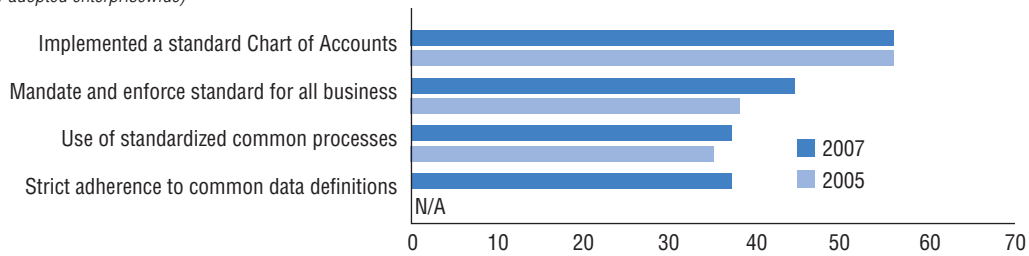
Establish global standards

Two-thirds (69 percent) of Finance executives believe greater integration is difficult to execute, but imperative to achieve. Most enterprises in our study are far from becoming an IFO. They have a long way to go in changing their operations. As one CFO shared, "lack of standardized common practices is a persistent problem."

A comparison view of our 2005 data versus today shows the last two years have not yielded significant progress in the collective world of financial management (see Figure 11). Finance organizations have not increased their implementation of a standard Chart of Accounts, enforcement of global standards or

Figure 11. Enterprisewide process and data improvements adoption rates.

(Percent fully adopted enterprisewide)



Source: IBM Global Business Services, *The Global CFO Study 2005, 2008.*

use of standardized common processes. Unfortunately, in 2005, data on common data definitions was not collected.

Process and data commonality through enterprise standards serve as the entry ticket to higher levels of efficacy. With that as the guiding principle, we set out to discover how IFOs were enabling their outperforming enterprises. One Finance executive of a major North American governmental department lamented that, “we have dictated standards but no control mechanisms to ensure they are followed.”

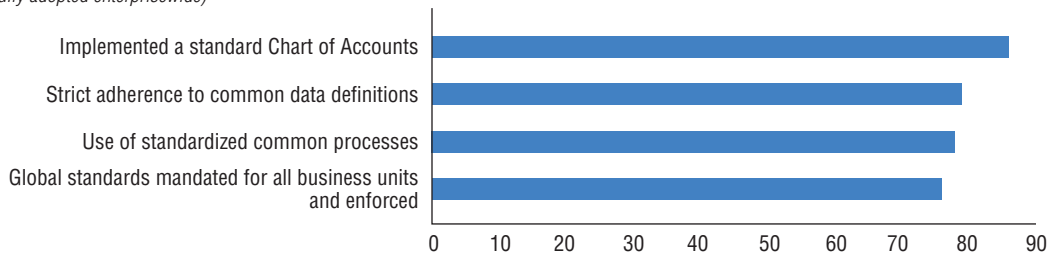
Integration is hard. It challenges the way the organization works and thinks. It comes right up against the culture, or even cultures, of the enterprise. “The lack

of standardization is at least, in part, due to cultural differences. It works differently in Delhi than it does in Canada. There is huge room for improvement in more standard business processing,” according to one CFO.

Global process ownership (as opposed to process enforcement or process participation) is a key enabler to getting past boundaries and barriers. IFOs are 3.5 times more likely to employ global process ownership enterprisewide; that is, 71 percent versus 20 percent for non-IFOs. Organizations with strict adherence to global process ownership are much more likely to have adopted process and data improvements enterprisewide (see Figure 12).

Figure 12. Process and data improvements adoption rates for organizations that have strict adherence to global process ownership enterprisewide.

(Percent fully adopted enterprisewide)



Source: IBM Global Business Services, *The Global CFO Study 2008.*

ABB: Leveraging global strength through finance integration

In 2006, the US\$24.4 billion Swiss-based power and automation technology company ABB Ltd. experienced double-digit revenue growth, while manufacturing, sales and other resources operated at near full capacity. Historically, ABB's decentralized business model enabled rapid expansion into over 140 countries and with approximately 1,000 legal entities. The same model, however, created an overly complex and unmanageable operation. Corporate and Group CFO Michel Demaré realized that ABB's complexity needed to be simplified to enable globalization. "It became apparent that we needed to eliminate costs and also respond quickly to new compliance regulations. We needed to have more consistent systems and processes to provide the business leaders with the planning support they need to continue ABB's growth."

ABB's complex organizational structure resulted in a clustered organization driven by a business unit and divisional structure. In addition, each country maintained numerous Finance reporting units, each having a CFO and Finance staff.

The journey to global integration began in 2005 as ABB embarked on "One Simple ABB" (OsA). OsA is driven from the corporate center and sets ambitious consolidation and integration goals for each country around Enterprise Resource Planning (ERP), Finance and HR.

The Finance component of OsA has the following objectives:

- Decrease in organizational complexity, process duplication and IT systems
- Establishment of consolidated shared services centers
- Consolidation of legal entities
- Upgrade internal control and compliance frameworks
- Improved transparency in Finance and Accounting.

CFO Michel Demaré puts the OsA initiative in context: "Having ABB gain U.S. Sarbanes-Oxley (SOX) certification is a minimum level of achievement for ABB Finance, but the real goal of OsA is to provide more efficient and lower cost transaction processing to our business units and customers, and at the same time, further enhance the internal controls environment. This operational shift enables our Finance team to increase its focus on business planning."

Underpinning these operational improvements, Demaré has a more strategic objective in mind: "Our goal is to double the time spent by our Finance leaders in consulting with our business leaders. By 2010, ABB's Finance team will spend as much time acting as business planners and advisors as they spend today on all other tasks combined."

As ABB continues on the integration journey, the company hopes to realize significant benefits from the consolidation of common activities. With more efficient analytical tools and groupwide standardization of Finance and Accounting processes, the global organization will be more agile. The wide-scale changes may be disruptive to the organization in the short term, yet Demaré accepts the challenge: "With ABB's Finance team becoming more globally integrated, we'll provide a better, more strategic service – to our employees, our customers and to our shareholders."

Global process ownership establishes responsibility and accountability for the consistent design and deployment of a given process. This formalized accountability helps ensure that “everybody’s job” does not become “nobody’s job.” Ownership also encourages best practice sharing and continuous improvement.

Ultimately, the person being rewarded for the performance of the process is motivated to see it succeed. Global process ownership also serves as a governance mechanism that allows for controlled process localization through well-argued exceptions. The process owner’s goal is to maintain enterprise standards while lowering the enterprise’s decision-making center of gravity.

Simplify

Enterprisewide process and data standards provide greater opportunity to simplify enabling systems and delivery models. IFOs remove structural roadblocks in an effort to increase the speed of deployment and execution of Finance activities. Moreover, enabling technologies and delivery models help to maintain global standards while providing Finance with greater flexibility to adjust to changing business models.

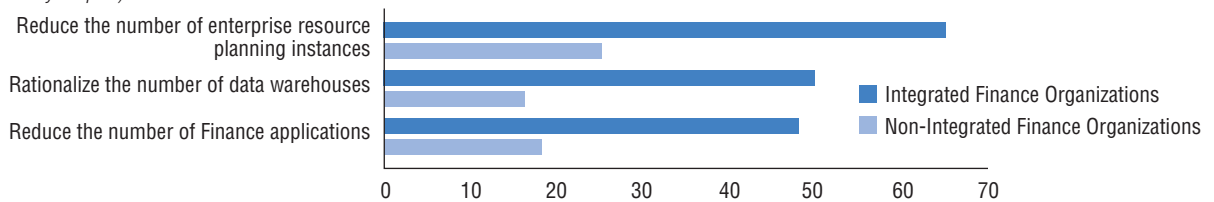
It may be overly obvious, but many processes and standards were defined by their original automation. Enforcing new global standards without improving the underlying systems and models would most likely result in a backlash of manual data manipulation and work-around procedures. Therefore, process and data commonality are intrinsically linked with technology.

Across the board, IFOs have worked to simplify their environments. IFOs in our sample were 2.5 times more likely to have reduced their number of enterprise resource planning (ERP) instances and Finance applications. They were three times more likely to have reduced the number of data warehouses (see Figure 13). Reduction in this sense is not about elimination or use of less technology, but instead the integration and use of the same technology in more places. In each case, achieving standard processes and consistent data definitions is tantamount to consistent system deployment.

While enterprise standards help simplify technology, delivery models help maintain standards. For example, using shared services for transactional activities and building centers of excellence for decision support allow standardization to be a matter of a few organizational instances, versus transforming hundreds of local

Figure 13. How fully adopted are the following enterprisewide technology improvements for your organization?

(Percent fully adopted)



Source: IBM Global Business Services, *The Global CFO Study 2008*.

instances through policy alone. These delivery models also free up “front-line” resources to do more analytical activities, thereby democratizing decision making.

The simplification of delivery models should have an optimizing effect as well. Transactional activities, particularly those that are similar throughout the globe, require standardization, are routine and repeatable, and are prime candidates for consolidation so as to capitalize on: economies of scale, specialized labor and the application of common best practices.

IFOs tap into the benefits of shared services at a rate 2.5 times higher than their non-IFO counterparts (see Figure 14). They are also three times more likely to have established centers of excellence for decision support.

Outsourcing is often particularly well-suited for consolidating routine and repeatable tasks as part of this optimization strategy. IFOs are three times more likely to use outsourcing than non-IFOs (20 percent versus 6 percent), but overall adoption remains relatively low. As enterprises standardize their processes and data, they can select where and by whom the processes will be executed.

For example, transactional processes like Fixed Assets and Accounts Payable can be completely managed

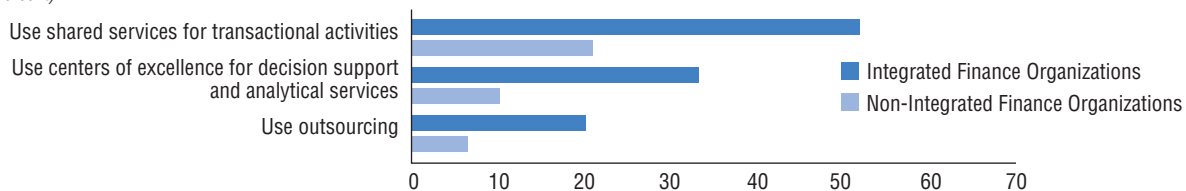
by an outsourcer. Meanwhile, a global planning center of excellence can be administered by an outsourcer, following processes that the internally retained organization defines. General Accounting can be kept in-house for control purposes, but can be globally resourced in lower cost regions. Pricing and Financial Analysis can be delivered through regional centers of excellence, as common processes are deployed, while allowing for unique geographical requirements. And finally, Front-Office Planning providing decision support to unit and regional executives requires skills unique to those organizations and, therefore, can remain co-located within the unit.

Again, global process ownership is a likely enabler. Organizations that adhere to global process ownership are twice as likely to adopt technology and delivery model improvements as compared to the adoption of non-IFOs (see Figures 13 and 14).

Generating insight requires that time and skills are devoted to analytical activity. Transactional, reconciliation and manual activity often rob organizations of valuable analysis time. IFOs’ use of standardized common processes, technology and delivery models explains how they are able to spend 21 percent more time on decision support and control activities than their peers at non-IFOs.

Figure 14. How fully adopted are the following enterprisewide delivery model improvements for your organization?

(Percent)



Source: IBM Global Business Services, *The Global CFO Study 2008*.

Federal Housing Administration: Simplifying the Finance approach

When Deputy Comptroller Ron Crupi joined the U.S. Federal Housing Administration (FHA) in 2000, the Federal government was a decade into enacting sweeping financial management reform. FHA, the largest insurer of residential mortgages in the world, was being spurred to action.

The most notable measure of reform was the Chief Financial Officer's (CFO) Act of 1990, which required fundamental changes to how Federal agencies manage their financial resources to improve fiscal accountability, transparency and oversight.

"In the early days," recalls Crupi, "FHA's systems and processes functioned as individual silos with each group functioning with its own methods." Annual audits revealed material weaknesses in FHA's system environment and internal controls. Further, the U.S. Government Accountability Office (GAO) placed the organization on a list of "high risk" agencies.

In 2001, the FHA Comptroller developed a five-year multiphase blueprint to implement an integrated management system. "We did not have the budget or infrastructure for a big all-out implementation," says Crupi, "so we scoped the project out and rolled out the system in steps, and then built on the success of each step." To manage complexity, the new system was simple and "plain vanilla," satisfying all of FHA's business needs without delving into non-critical add-ons that could delay completion.

By 2007, a number of key objectives were achieved:

- The number of systems used for financial management was reduced from 19 to 11.
- All material weaknesses stemming from the annual audit were eliminated.
- The time to close annual financial statements was reduced from 74 days to 45 days after fiscal year end.
- All financial systems were found to be compliant with Federal regulations and standards.
- FHA moved from a manual to an automated process for funds control and journal entry.
- The agency was removed from GAO's "high risk agencies."

Observing the results of the transformation, Crupi reflects: "Before we implemented the system, staff spent most of their time on manual accounting functions where they were rushing each month to get journal entries in. With greater automation, the staff is now able to conduct more analysis which has improved their jobs, as well as the process."

According to Crupi, "We are continually improving and refining our processes. As federal financial managers, we are responsible for securing the public trust, and by demonstrating that we can produce accurate, timely financial information, we are able to achieve that trust."

In modern agricultural techniques, the plowing of the furrows and seed plantings are carried out using GPS technologies. This upfront precision provides for more efficient irrigating and higher yield with mechanized harvesting.

SECTION FOUR





Managing Risk

“In the future, CFOs will be acting as initial detectors of risk within the organization. They will be positive agents, creating solutions and proposing different scenarios. The role will become increasingly important to risk management.”

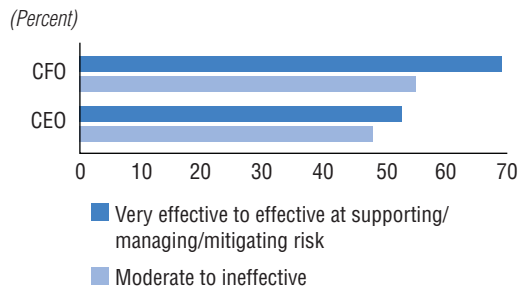
– CFO, Global Industrial Company based in Europe

Risks are prevalent in an interdependent global marketplace. Despite this prevalence, our study finds that risk management remains fairly immature, even among IFOs. Additionally, risk is currently not a broadly used factor in decision making.

Moreover, only 42 percent of respondents do historic comparisons to avoid risk. Just 32 percent set specific risk thresholds, and only 29 percent create risk-adjusted forecasts and plans. IFOs are only slightly farther along with 66 percent conducting formalized risk identification that is institutionalized in organizational responsibilities. The data also suggests IFOs are slightly more likely to adopt other risk management related activities.

Enterprises are looking to the CFO for leadership in this area (see Figure 15). However, it is clear that this discipline is a team sport and collaboration across the enterprise is necessary. As the CFO of a major European bank said, “The business units own the actual risks. Finance helps them manage the risks.”

Figure 15. Key owners of risk management.



Source: IBM Global Business Services, *The Global CFO Study 2008*.

Risk management is about orchestration from the Board level to middle management. Currently, enterprises are struggling to understand their holistic enterprise risk profiles. In the collective, business units are exposed to a variety of risks and getting to a holistic profile has to be orchestrated from the top. That said, no one is suggesting that it is easy. It will be a cultural challenge as the CFO of a Canadian government ministry suggested, “organizational culture doesn’t like to talk about problems.”

Moreover, the simple risk / reward equation means that all performance is intrinsically linked to risk. Therefore, enterprises must begin to move toward risk-adjusted performance management; that is, the convergence of performance and risk management.

Orchestrate risk management

CFOs are uniquely positioned to determine and guide the overall enterprise risk profile. In publicly traded companies, they are the only C-suite members called upon quarterly to provide an aggregate picture of the enterprise. They are also personally vested in knowing

where risk resides, as an increasing number of jurisdictions require certification of financial statements with their signatures. CFOs understand that reward is intrinsically tied to risk but are also generally led by a conservative nature.

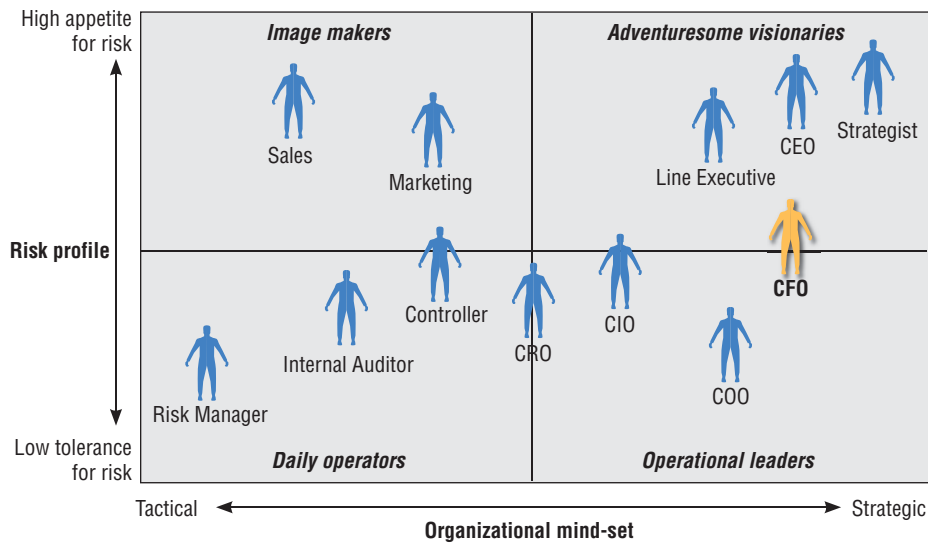
The approach to risk varies by role in the organization. As one CFO observed, “At the top of the organization, the appetite for risk is robust, but lower down, the culture tends to be highly risk averse.” Risk management is often controlled more by the enterprise’s culture (for example, conservative or aggressive) than by facts.

Another Finance executive of an Australian utility company shared, “All business units manage risks using the framework or corporate risk profile established by Finance.” Therefore, CFOs can help the C-suite balance the enterprise’s risk appetite and tolerance to better understand the overall enterprise risk profile (see Figure 16).

How directed and purposeful could business activity be if risk appetite and tolerance were removed from the informal and elusive domain of culture, and set firmly in a pronounced, fact-powered risk strategy and policy?

CFOs executing effective risk management were 1.2 times more likely to have risk management reporting directly to them; that is 54 percent to 44 percent. That said, at 54 percent; this is still a relatively low percentage, given the leadership expected of the CFO that was highlighted in Figure 15. Interestingly, and related to the IFO theme, information technology was 1.3 times more likely to report into the highly effective to effective CFOs in our sample.

Figure 16. Perception of the enterprise risk profile by role (illustrative).

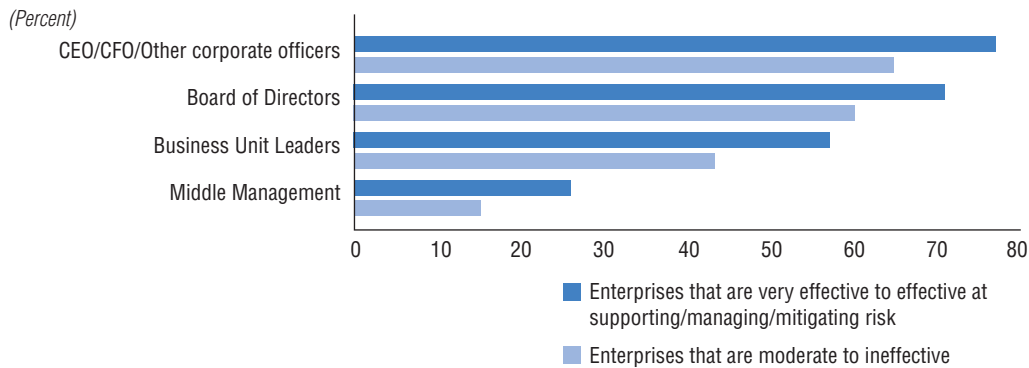


Source: IBM Institute for Business Value.

Effective organizations are also more likely to provide greater top-down direction about the enterprise's official position on risk appetite and tolerance from the Board level to middle management (see Figure 17). Communication is a key element into any strategy.

One skeptical CFO of a North American healthcare provider asked, "Is the whole notion of enterprise risk management simply a buzzword or fad? The biggest challenge is how to get a workable plan." Given the level of risk management maturity, this CFO is not alone. However, it is clear CFOs have a role to play in finding an answer.

Figure 17. For which stakeholders do you formally document and communicate the enterprise's appetite/tolerance for business risk? (Select all that apply).



Source: IBM Global Business Services, The Global CFO Study 2008.

Converge performance and risk management

Since risks are not likely to disappear of their own accord, enterprises must begin to move toward risk-adjusted performance management. Those who take control of their risk management in a formal and purposeful way are more likely to identify risk events faster, respond to them quicker and prepare for them better. A highly effective way to embed risk management into the enterprise is to use the same techniques and disciplines used to measure performance.

CFOs should leverage their strengths, and knowledge of planning, budgeting and forecasting to help set the risk management strategy. Key risk indicators should be presented alongside key performance indicators, and both should be prioritized based on their material impact on value drivers. As the CFO of a North American healthcare payer conveyed, “Improving risk management within Finance is important, but integrating it with operational performance is critical.”

Effective organizations proactively manage risks to close performance gaps (see Figure 18). Across the board, it is clear that they engage in more formal risk management activities than less effective organizations, including the use of monitoring, reporting, historical comparisons, evaluation tools, predictive analytics, risk-adjusted forecasts and process controls.

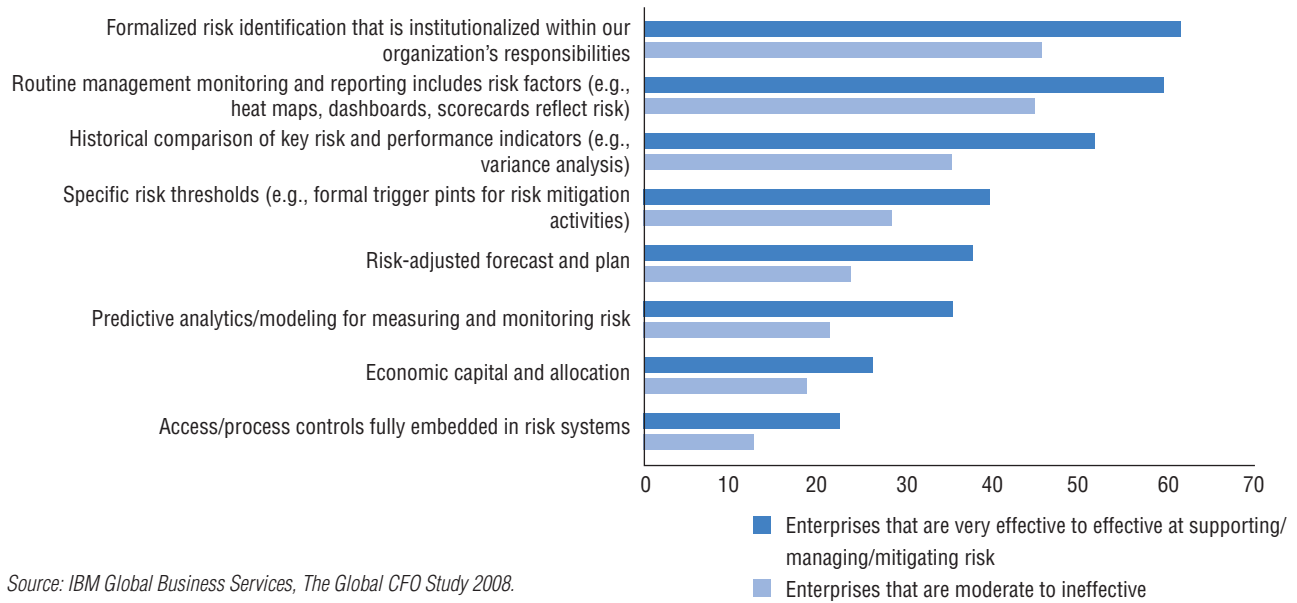
Some of the largest gaps between these two groups are in the more sophisticated aspects of risk management. Effective organizations are more likely to use predictive analytics, risk modeling and risk as an economic evaluation tool.

While today’s current adoption of risk as an economic evaluation tool is low, nearly half (49 percent) will employ it in the next three years. Meanwhile only a quarter currently focus on risk-adjusted performance today, but over a third (38 percent) plan to leverage this performance within the next three years. This suggests that risk will increasingly be a part of the decision-making process.

The simple reality is that risk is a real part of the performance of a business, regardless of whether it is prepared for, managed formally or ignored altogether. It is not enough for CFOs to agree with the “theory of risk” and then not embed its management into the tactics of running the business. These tactics rely on good, high quality information that is achieved in the same manner that CFOs operate, with process ownership, standards, data governance and simplified operations.

Figure 18. Which of the following risk management activities does your company conduct enterprisewide? (Select all that apply).

(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

BBC: Reducing risk through enabling tools and a managed approach

As Program Director for the British Broadcasting Corporation (BBC) “Future Finance” program, Audrey Alexander faced several challenges in the delivery of an ambitious transformation program. The BBC is the largest broadcasting corporation in the world, with an operating budget of US\$8 billion. Alexander reflects, “The BBC is notoriously difficult to change because it has a federal structure. The divisions have a lot of autonomy and independence, and Finance was seen as subservient to the business.”

The BBC is currently executing 17 change programs simultaneously to find US\$640 million in annual savings by 2010. In 2006, the cost of the BBC Finance function was 2 percent of the license fee charged to each British household – double the benchmark for world-class Finance organizations. The team’s mission was to cut that figure in half to 1 percent, or US\$70 million per year.

Alexander and her team faced several complications in achieving autonomous decentralization:

- All 17 BBC divisions operated like separate companies.
- Finance operated as an independent department within each division.
- Numerous *ad hoc* reports were frequently produced requiring high-level adjustments.

“The levers of control and accountability were quite diffuse,” recalls Alexander. “Our ability to respond quickly to a change in priorities or a need for information was very diluted.” The challenge was for the Finance organization to provide reliable information and rapid analysis that is critical in the media business. “Finance adds value to the quality of the decision support and professional advice it provides so that the business makes the right decisions.”

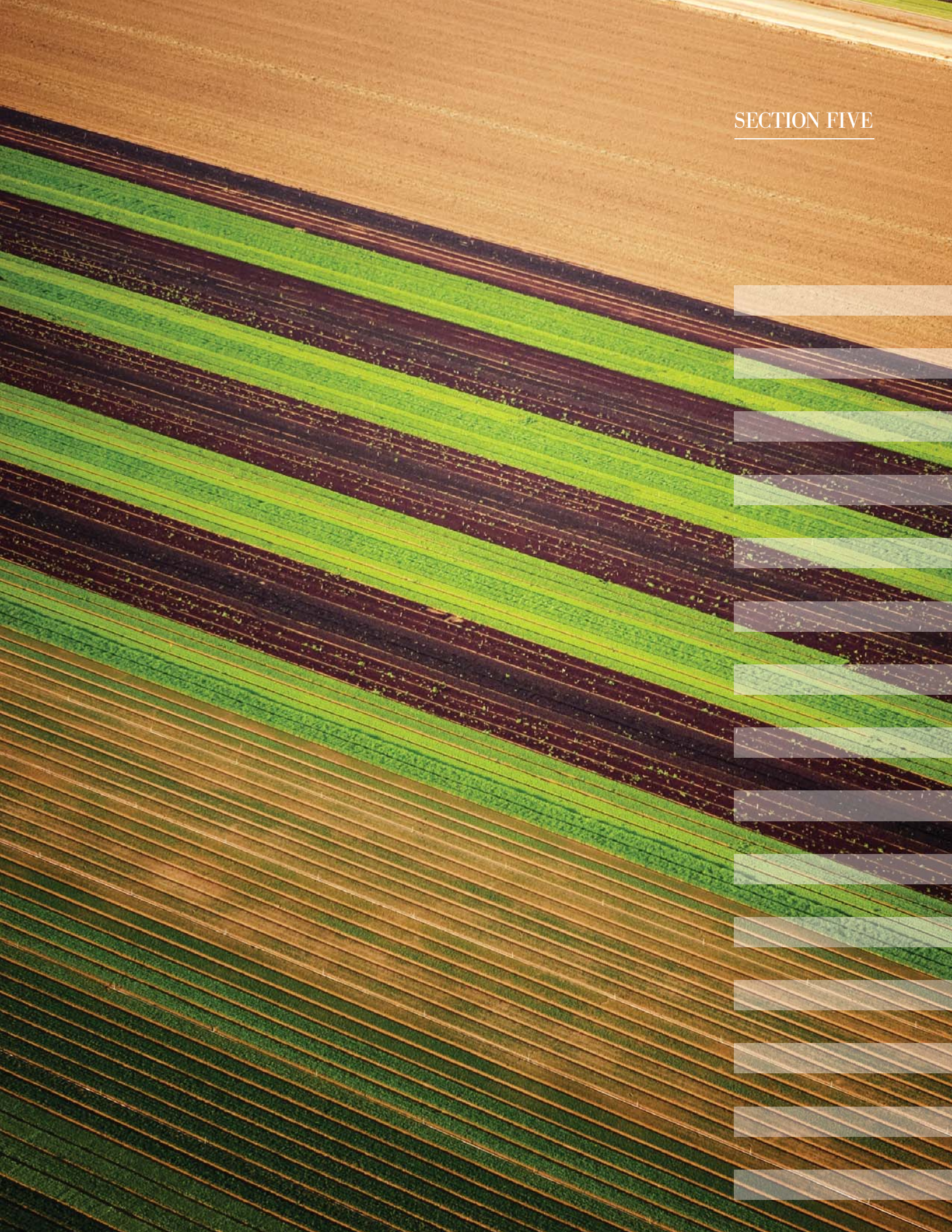
For 2007, the goal was to redesign the entire operating model to reduce the cost of Finance to between 0.8 percent and 1 percent by April 2008. The following actions were taken:

- Reduced Finance headcount from 650 to 300
- Created a shared service center of excellence to gather one version of the financial “truth” in one location
- Streamlined and standardized all transaction and reporting processes involving planning, budgeting, forecasting and cost management functions
- Built a robust technology solution within a streamlined controls framework, with emphasis on self-service and enhanced reporting functionality
- Embedded Finance staff with small strategic teams within the businesses.

Audrey Alexander reflects on the lessons learned in the first year. Although financial risk has been efficiently managed and contained, it will take a long time for the BBC “to stabilize and for us to fully realize the vision.” She adds, “I’m absolutely convinced of the strength of the Future Finance model. It’s hard to get right, but it is definitely worth doing. A considered and well-managed approach will enable the successful achievement of our goal of remaining a world-class Finance organization.”

These rows of proprietary varieties of baby lettuce are grown specially to be harvested well before maturity. The different colored leaves – usually green, red or purple – are the ingredients for mixed leaf packaged salads.

SECTION FIVE





Making the Transformation to an IFO

“CFOs should take on more of a coach and advisor role.”

– CFO, North American Health Care Provider

Finance organizations must embark on a journey that starts with the formalization of actions (that is, taking a programmatic approach), building new skills with the right people, changing how the organization thinks, and deploying technology and infrastructure in support of the changes.

Change itself is difficult – it takes time, energy and commitment. Perhaps the process will expose too much. Will a single version of the truth work when the truth isn't that great? What other shortcomings will appear? What risks, previously dodged by sheer luck, will be identified?

Old work habits are hard to forfeit, and change is resisted. Most organizations have a full workload managing business-as-usual, much less managing a major organization transformation simultaneously. Integration of Finance can be seen as a distraction, if not an opportunity for catastrophic failure if it goes wrong. It requires leaps to be made and workforces to be adapted as they continue to deal with their calendar of reporting and planning requirements. It

requires commitment from much more than the CFO and regional leaders. The Board, the CEO and other leaders must not only buy into it, but stake their reputations on its success. Transformation requires more than a simple mandate and a strategy; it requires new management competencies and sometimes painful reorganization.

While seasoned Finance professionals may have a good conceptual understanding of what is entailed in mandating global standards, implementing a standard Chart of Accounts, adhering to common data definitions and employing common processes enterprisewide, the first challenge is to truly understand the current state of their own Finance organizations.

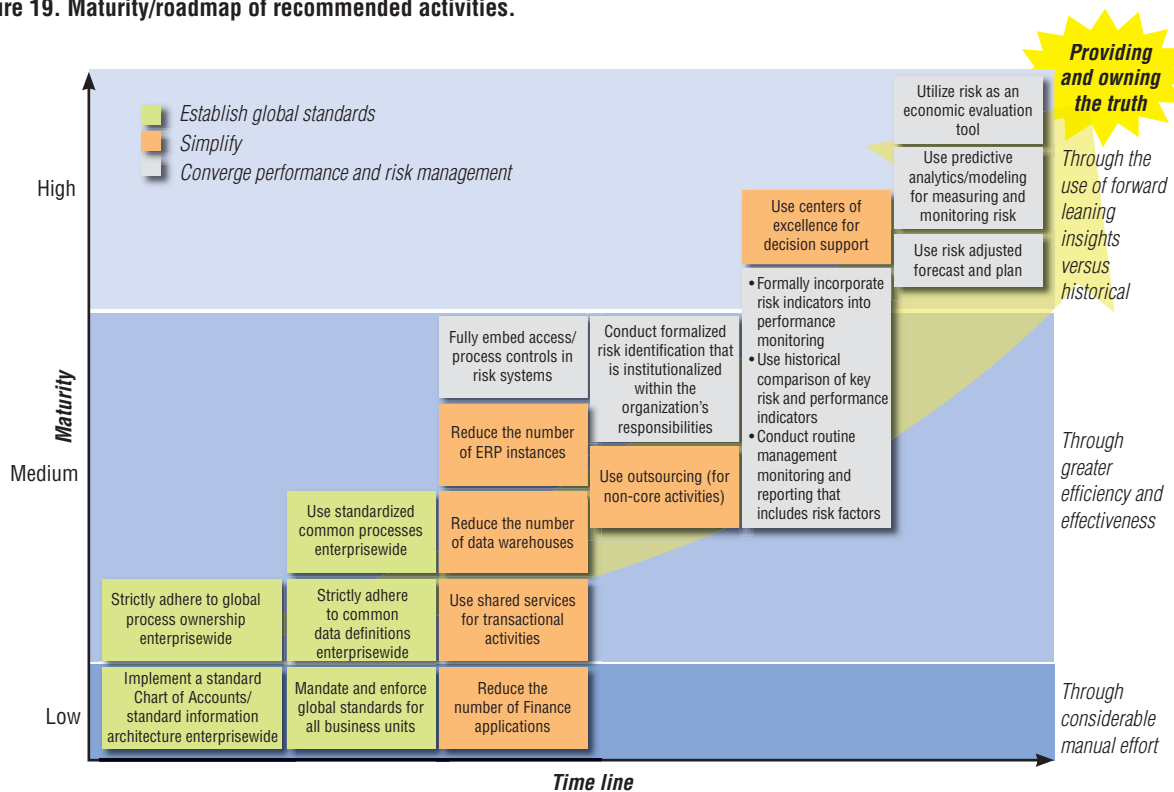
As a first step, it could be argued that defining the “right” processes and standards (a big and challenging task in itself) may be less important than the enterprise adhering to the same ones. Based

on the trail blazed by IFOs, we have developed a roadmap documenting how enterprises can grow, evolve and transform their capabilities over time (see Figure 19).

Once an enterprise decides to pursue greater integration, the data suggests failing to establish process ownership will set the enterprise on a longer journey. As enterprises progress from the lower left of the map toward the upper right, the Finance organization eventually switches from addressing pain points and problems to proactively finding new advantages through stronger risk management and provision of the truth.

Determining your organization’s position on the map is the first step to becoming an IFO and a more effective risk management organization. Each Finance organization is different, and each path forward is equally unique. Determining the right path becomes one of the first and most critical decisions for a CFO looking to create an IFO.

Figure 19. Maturity/roadmap of recommended activities.



Source: IBM Institute for Business Value.

A true story about becoming an IFO

In the mid-1990s, a major airline CEO and a Fortune 50 CEO were discussing over dinner the possibilities of a favorable travel relationship between the two. The airline CEO asks a simple question: “How much do you spend annually on air travel?” The Fortune 50 CEO didn’t know and asked his CFO, who oversaw a wholly decentralized Finance organization. His CFO didn’t know immediately, but how long could it take to get the answer? A day? A week? A month?

As it turned out, the answer was technically impossible to ascertain. After weeks, the CFO could not provide an exact response. Each country in which they have businesses tracked travel differently, using different schedules, procedures, cycles and definitions. Data was kept in different systems. This incident served as a wake-up call to the company. If it couldn’t answer this simple expense question, how could they manage all other types of spending or the business at large?

The decentralized Fortune 50 firm had multiple challenges:

- Oversized and ineffective Finance organization – Its best attempt at benchmarking suggested they had twice as many Finance professionals as most comparable enterprises.
- Unusable, unreliable data – Less than 1 percent of the Finance data it collected globally was usable in a centralized form.
- Poor risk detection – It was very difficult to detect or plan for risk quickly due to the use of a casual network of phone calls for risk management.

Solution: Integrating the Finance organization

Although integrating the Finance function took years to complete (and arguably, will always be a work-in-progress), benefits were realized quickly. Some of the company’s actions included:

- Setting and enforcing standards – It mandated standards such as a standard Chart of Accounts and standard data definitions, and took ownership of Finance processes.
- Centralizing transactional tasks, but keeping decision support local – Functions and activities that were repeatable and routine were centralized, but decision support remained local to align decision-making capabilities to the specifics of the business unit.
- Building one version of the truth – It built a culture and mandate of one version of the truth, where Finance data could only come from the trusted source.

As the company’s IFO grew in sophistication, it began to hold authority and influence within the organization at large. Other leadership members began to perceive Finance as “owner of the facts,” inviting its participation more frequently in critical business decisions – even those that would seem wholly growth- or entrepreneurial-based, such as new product concepts or market evaluation. The Finance function is now better able to focus on headlights and support better business decisions.

Now as an IFO, the question, “How much does your company spend on travel?,” is no longer a small indicator of a big problem for this company. It can get an exact answer in realtime by looking at its dashboard.

CONCLUSION

Most enterprises' worldview of globalization is mismatched with the reality of globalization today; they bring a proliferation of localized standards when, more than ever, governance, transparency and information integrity need to be maintained consistently throughout the enterprise. By mandating common standards, implementing a standard Chart of Accounts, building common data definitions and deploying common processes across the Finance function, enterprises can transform into IFOs. This will position them to be more responsive, more flexible, and to outperform their peers.

To get there, CFOs should take ownership of their Finance processes enterprisewide, simplify their

technology and delivery models, and provide a new, single version of the truth to their enterprises. They must formally define their risk programs and take an active role in risk management.

For the enterprise to live up to this vision, change and integration will need to come from all areas of the business, not just Finance. With this in mind, the CFO can be a leader in this charge, armed with the facts and trusted with the reins of the enterprise in confident hands.

To learn more about this IBM Institute for Business Value study, please contact us at iibv@us.ibm.com. For a full catalog of our research, visit:

ibm.com/iibv

APPENDIXES





Regional Viewpoints

ASIA PACIFIC (excluding China and Japan)

Eyeing a global footprint

Enterprises in Asia Pacific predominantly operate in a single country with an export model, but have aspirations to have a greater global footprint. Not surprisingly, they are enjoying high-growth markets for their goods and services. Asian enterprises are 1.3 times more likely to expect increased resiliency and faster mobilization from greater integration. To that end, they have higher adoption of standard common processes enterprisewide. The speed of change has Asian CFOs concerned with developing their people, and they are more likely to report on an employee dimension.

Risk management tends to be a cross-functional discipline with contributions from audit, legal, treasury and planning. Risk identification, specific risk thresholds and routine monitoring tend to be more formalized. Asian enterprises are also more likely to involve multiple levels of the enterprise in risk management ownership (for example, audit committee, CFO, CEO, CIO) and formal communication (such as Board, corporate offices, business unit managers and middle management).

CHINA

Holding up integration, company structure may make integration harder

Chinese enterprises are more likely to be holding companies. Operating in high-growth emerging markets, these enterprises are placing considerable importance on the development of their people and their talent relative to other regions. Despite a belief in the value of integration, almost half consider integration too difficult to implement. Chinese enterprises (along with the Japanese) lag behind in the adoption of global process ownership and implementation of a standard Chart of Accounts. Moreover, these enterprises are less likely to adopt delivery models such as shared services and center of excellence for decision support.

Only 13 percent of IFOs are holding companies. Therefore, company structure may be an impediment to greater integration in Chinese enterprises.

JAPAN

Moving from taillights to headlights for the enterprise

Japanese Finance executives are more likely to operate in a low-growth marketplace and operate a decentralized enterprise.

In Japan, Finance holds a more traditional role, for example, compliance and controls, and is less likely to have a seat at the executive table, own the audit committee relationship, contribute to decision support or be seen as a key part of the enterprise's management team. In fact, Japanese CFOs are nearly three times more likely (15 percent) to report to the COO. Since strategic planning and risk management often reports elsewhere, Finance is less likely to bring quantifiable data to decision support. As a result, most are neutral toward Finance's position and influence.

Indeed, these enterprises struggle with data. Sixty percent need more than a day to get to a global spend figure and 5 percent cannot obtain a global figure at all. Most only recommend global standards (59 percent). Their global process ownership adoption rate is half the global average. As a result, they are less likely to use common processes, implement a standard Chart of Accounts, reduce ERP instances or adopt alternative delivery models.

Risk management is relatively immature in Japan. Enterprises are less likely to routinely monitor risks, do historical comparisons and communicate to lower levels (such as business unit managers). However, Japanese enterprises are more likely to share risk data with value networks.

Organizational structure may inhibit Finance's ability to bring about change, but CFOs should look to standardize data definitions and processes to provide more headlights than taillights for the enterprise.

EUROPE, MIDDLE EAST AND AFRICA (EMEA)

Growth and compliance not on the agenda

Enterprises headquartered in EMEA are more likely to be in stable-growth markets and focus less on developing growth strategies. Over 50 percent of EMEA enterprises expressed their desire and expectation to become more globally integrated in the future.

Presently, EMEA Finance organizations do not bring the quantifiable data to decision support and are less confident in the data they do provide. As a result, Finance is less likely to help set strategic direction.

Along the integration journey, EMEA enterprises acknowledge that there is considerable work to be done. However, these enterprises are more likely to mandate global standards and are more likely to have partially achieved greater process, technology and delivery models integration.

In an environment of growing regulations and statutes, it is somewhat surprising that these enterprises do not place as much importance on meeting fiduciary and statutory requirements as other geographies. Nor do they consider leading compliance programs and strengthening internal controls to be a critical priority.

EMEA's risk management remains relatively immature. Over 50 percent report that performance monitoring does not incorporate any risk, and a great majority (83 percent) do not manage risk across functions. As a result, EMEA enterprises are more likely to acknowledge that they are poorly prepared when a major risk event occurs. EMEA enterprises are more likely to view data as a key obstacle to integrating risk with performance monitoring.

As EMEA continues on the path to enterprise integration, it may only be a matter of time until risk and performance converge.

LATIN AMERICA

Becoming a key strategic advisor

A majority of Latin American enterprises are looking to expand their global footprint. Their smaller enterprise size may explain why other functions (for example, performance management, human resources, shareholder relations, treasury and IT) are more likely to report into the CFO. They enjoy higher-growth markets, and 80 percent report major changes in their organizations within the last couple of years. Given the amount of change and opportunity, Latin American enterprises are focused on identifying / executing growth strategies, but also have an eye on cost reduction.

Latin American CFOs appear to be influential. Their organizations are more confident in their effectiveness, execution of growth strategies, continuous process improvement, information integration and alignment with the business. Finance is more likely to be a key part of the management team, provide quantifiable data to decision support, help set strategic imperatives and work closely with the board of directors.

This influence, along with a greater use of process ownership may have driven Latin America's greater use of mandated global standards, common data definitions and common processes enterprisewide. They are also more likely to have rationalized ERP instances and data warehouses. As a result, these enterprises are 1.5 times more likely to be able to "pull" information in under an hour and have the most confidence in that data.

However, Latin American risk management frameworks are least likely to be formalized. They are less likely to manage risk across functions, have formal performance / risk tools, conduct routine risk monitoring, establish risk thresholds and use historical comparisons. Moreover, these enterprises were most likely to have experienced a major risk event within the last 3 years.

Coupled with the dynamic organizational changes, Latin American CFOs should use their influence to help their C-suite identify their enterprise risk profiles and formalize risk management.

NORTH AMERICA

Getting beyond compliance

North American enterprises remain compliance-oriented. With compliance, controls and internal audit are more likely to report into the CFO, this stance is embedded into the organization. They are more likely to place importance on fiduciary / statutory requirements. Nearly half are able to report on a greater number of other functional areas (for example, HR and supply chain). North American enterprises are less likely to mandate global standards.

Like other geographies, risk management is fairly immature. Enterprises are less likely to have formal risk identification, conduct routine risk monitoring, share risk data with value network and set specific risk thresholds. Moreover, North American enterprises are less likely to formally communicate risk strategies down to middle management.

North American enterprises need to move beyond mere compliance to strengthen their risk management capabilities. Since the geography is the most likely to assign risk management ownership to the CFO, CFOs are positioned to make something happen.

Sector Observations

COMMUNICATIONS

Navigating slow-growth

Nearly half (48 percent) of all Communications enterprises have seen major changes in the last year and are more likely to view their marketplace as low-growth relative to other sectors. Recent consolidation and acquisitive strategies may explain why companies in this sector are more likely to consider themselves more effective than other sectors at cost reduction.

The sector has also made greater progress in reducing the number of finance applications, creating standards (like a standard Chart of Accounts) and adopting alternative delivery models, such as shared services.

Driving greater integration within Finance may provide leadership with a greater sense of their business with new views on volumes, revenues and profits. That could lead to greater headlights to navigate the sector churn and find a way out of the slow-growth environment.

DISTRIBUTION AND INDUSTRIAL

Struggling to address emerging risks with global reach

The Distribution and Industrial sectors have a symbiotic relationship as both sectors contribute to the full value chain. As a result, their financial management philosophies are similar. The Finance organization tends to exert considerable strength and control with multiple functions reporting into the CFO. Given their global reach, both sectors are focused on geography/regional reporting, but the Industrial sector is focused more on suppliers, while Distribution is focused more on brand.

Industrial companies consider themselves more integrated and see increased integration leading to increased resiliency and mobilization. The focus on speed makes sense in a culture of global supply chains, cycle times and inventories.

Risk management is fairly immature in the Distribution and Industrial sectors. Distribution companies are less likely to have formalized their risk management systems and to have formal risk documentation. Both sectors have lower adoption rates for more complex risk management concepts, such as predictive analytics. Industrial companies report that they rely heavily on supply chain and manufacturing for input to overall risk management. Distribution companies rely more heavily on business partners relative to other sectors.

Given the strength of the Finance organization and the reach of these global supply chains, Distribution and Industrial CFOs may want to partner more tightly with their COO to address emerging risks in an interdependent world.

FINANCIAL SERVICES

Driving in neutral

The Financial Services sector is more likely to be neutral toward Finance's position and influence. This may be because companies make their money utilizing financial management principles (risk/reward opportunities, optimizing return and growth). Fewer departments report into Financial Services sector CFOs, relative to other sectors. These CFOs were also less likely to be aligned with the business and less likely to consider themselves a key part of the management team identifying growth strategies. The majority only recommend standards, versus mandating them.

The overly neutral stance toward the Finance organization, lack of process standards and the sector's acquisitive nature may contribute to the sector's increased structural complexity. Financial Services companies are less likely to have:

- Reduced the number of Finance applications
- Implemented a standard Chart of Accounts
- Strictly adhered to common data definitions enterprisewide.

As a result, Financial Services firms are less likely to be capable of accessing their data in an hour or less.

Not surprisingly, however, Financial Services enterprises are more likely to employ more risk management activities. Many Financial Services enterprises report integrating advanced risk management strategies into their everyday operations and have created formalized documentation, processes and infrastructure related to risk management. Within Financial Services, corporate risks are more likely to be handled by an interdisciplinary committee. When a C-suite officer is tapped for risk, it is more likely to be the CIO than the CEO and CFO. The sector's maturity in integrated risk management programs has produced benefits. Collectively, the sector believes it can react faster and handle risk more effectively.

Finance professionals in this sector are more likely to point to data and enabling technology as significant challenges to greater enterprise integration. However, our survey results suggest Financial Services sector CFOs also need to focus on the establishment of standards and common processes to make the technology truly enabling.

PUBLIC SECTOR

Maintaining public trust

Public sector CFOs are nearly 30 percent more likely to place critical importance on meeting fiduciary and statutory requirements – presumably to maintain public trust. They are also more critical of their ability to measure and monitor business performance. That may explain why Public sector CFOs are 25 percent more likely to believe greater integration will lead to enhanced decision support.

To drive integration, the Public sector is 20 percent more likely to mandate enterprisewide standards. In fact, Government entities are 27 percent more likely than the private sector to have implemented a standard Chart of Accounts enterprisewide. They are also much more likely than the private sector to have reduced the number of ERP and Finance applications enterprisewide.

In terms of major risk events in the last three years, the Public sector has fared better (35 percent have experienced an event, versus 52 percent for the overall sample). Despite that fact, formalized risk identification and routine risk monitoring / management have lower adoption rates in the Public sector.

Faced with a multitude of metrics beyond the bottom line, Public sector CFOs will continue to grapple with how to truly measure and monitor their enterprise performance, but in picking up the challenge they will continue to earn the public's trust.

Enterprise Size Observations

UNDER US\$1 BILLION IN REVENUES

Keeping it simple

Not surprisingly, smaller enterprises have more functions (such as compliance, HR, IT, outsourcing and shared services) reporting into the CFO and are more likely to place responsibility for data integrity on their functional leaders (for example, COO, CFO, CHRO and CIO) than other leaders. They have reduced structural complexity by being 27 percent more likely than the average to use common processes, 27 percent more likely to have reduced ERP instances and 33 percent more likely to have reduced the number of Finance applications.

However, small enterprises are less likely to adopt shared services, centers of excellence for decision support and outsourcing.

These smaller enterprises are less likely to routinely monitor risks and more likely to tag the CEO with ownership of risk management.

As these enterprises grow, they should avoid the growing pains of slightly larger firms by mandating and maintaining standards.

US\$1 TO US\$5 BILLION IN REVENUES

Growing pains

These enterprises are less likely to have global standards. As these enterprises grow, they will want to explore how larger organizations mandate and maintain standards.

US\$5 TO US\$20 BILLION IN REVENUES

Looking to simplify

Nearly half of all enterprises over US\$5 billion use shared services. Enterprises between US\$5 billion to US\$20 billion are placing current focus on the rationalization of data warehouses. Not surprisingly, enterprises over US\$5 billion are more likely to report on geographies and regions.

These enterprises are beginning to confront the structural complexity that can come from growth of support functions and data needs. They are addressing this issue through the use of delivery models and rationalized technologies.

OVER US\$20 BILLION IN REVENUES

Eliminating surprises and being responsive

The largest enterprises are the most likely to mandate global standards. Not surprisingly, these enterprises are more likely to aspire to greater global integration.

These larger enterprises are more likely to place importance on meeting fiduciary / statutory requirements, leading compliance programs / strengthening internal controls, and supporting / managing and mitigating enterprise risk. They are also more likely to consider themselves more effective at leading compliance programs / strengthening internal controls.

However, they struggle to pull together a global picture of their data. These enterprises are 35 percent less likely to “pull” global data in less than an hour. Nearly half need more than a week. Six percent cannot get a global snapshot of data, such as global travel spend. While a quarter of all CFOs have IT reporting to them, CFOs in these larger enterprises are less likely to enjoy the same reporting relationship (17 percent).

For these enterprises, risk management is about the elimination of surprises. They are also looking for increased resiliency and responsiveness through greater integration. In an effort to achieve these goals, they are 35 percent more likely to use predictive analytics.

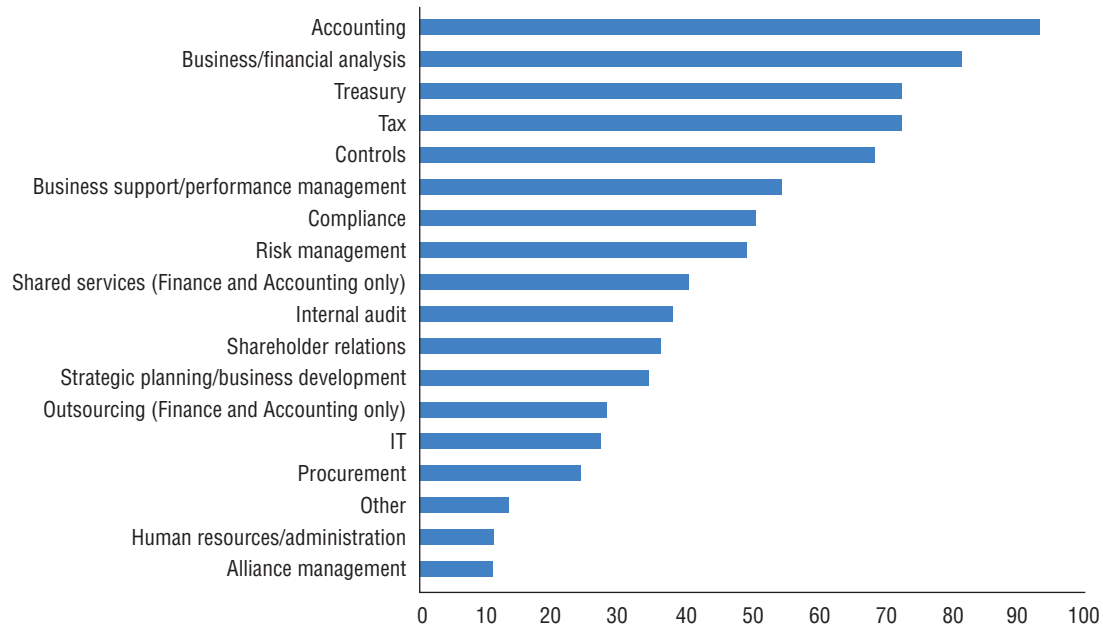
As enterprises get larger, they are more likely to formalize their risk identification. That said, these enterprises’ formal management performance systems are more likely not to incorporate risk indicators. While comprising only 17 percent of study participants, these enterprises are 1.4 times more likely to use interdisciplinary risk steering committees. These enterprises are 30 percent more likely to also assign some risk ownership to the CIO.

Larger enterprises are struggling to manage their increased complexity. Hence, they are focusing on control-type activities and broader risk programs, but struggling to get their arms around data within their organizations. Therefore, more work around common data definitions and processes should become a priority for these enterprises.

Study Results

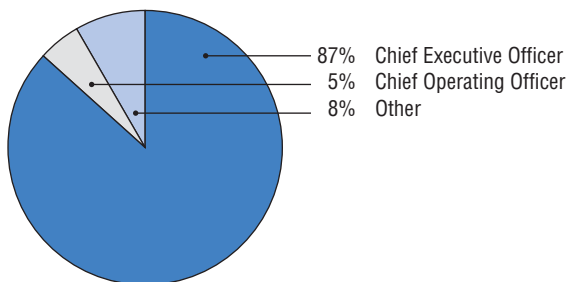
Which of the following functions report to the CFO in your organization? (Select all that apply).

(Percent)



Source: IBM Global Business Services, *The Global CFO Study 2008*.

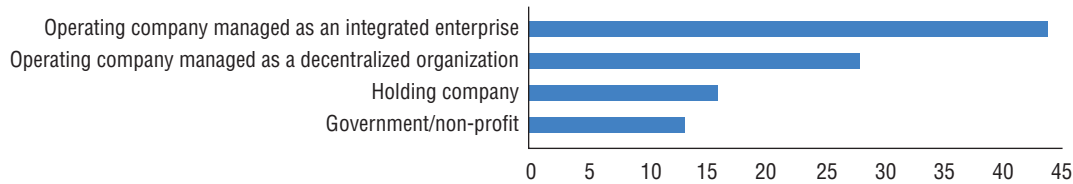
In your enterprise, who does the CFO report to?



Source: IBM Global Business Services, *The Global CFO Study 2008*.

What best describes your management structure?

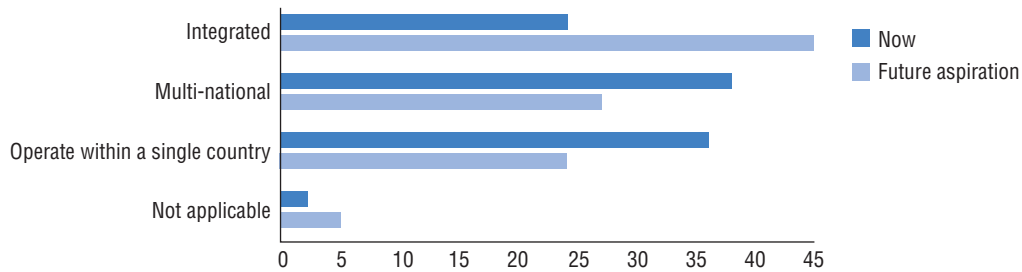
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

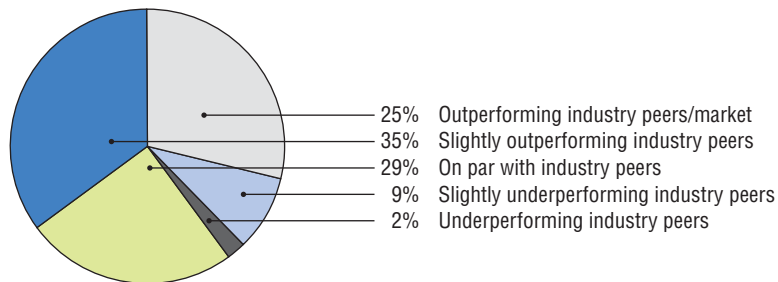
Which of the following statements best describes your enterprise structure?

(Percent)



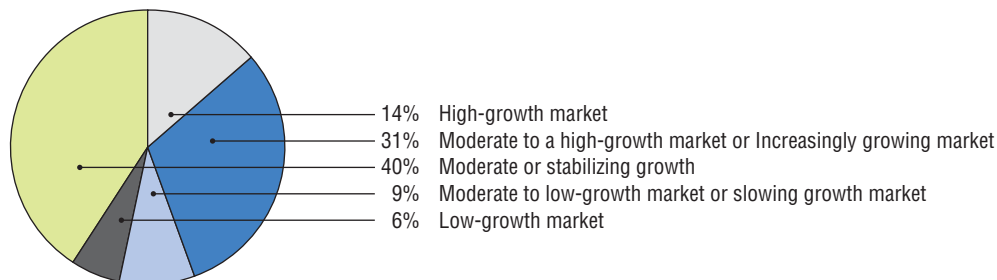
Source: IBM Global Business Services, The Global CFO Study 2008.

How would you describe your company's operating environment? Competitive position.



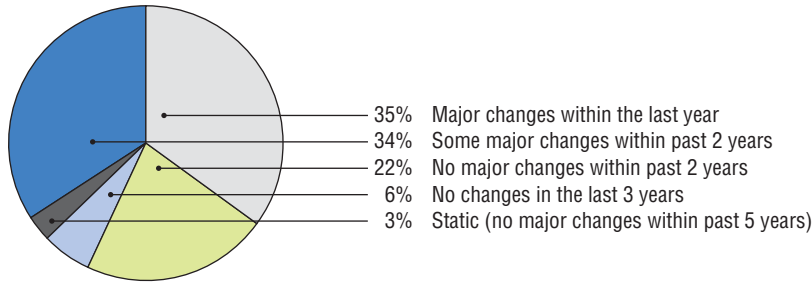
Source: IBM Global Business Services, The Global CFO Study 2008.

How would you describe your company's operating environment? External environment/market.



Source: IBM Global Business Services, The Global CFO Study 2008.

How would you describe your company's operating environment? Organizational dynamics.



Source: IBM Global Business Services, The Global CFO Study 2008.

How important are each of the following areas of responsibility to your Finance organization?

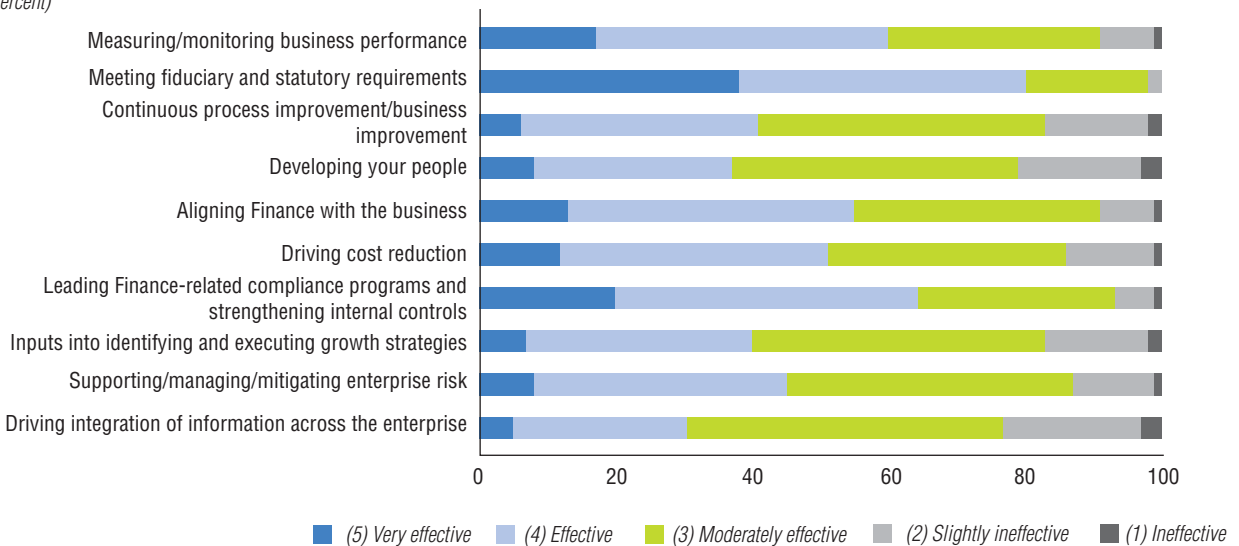
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

How effective do you think your Finance organization is performing in each of those areas of responsibility?

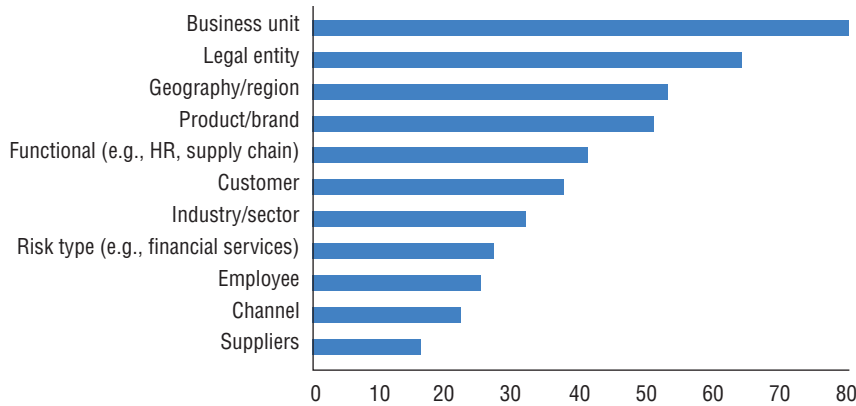
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

In managing your enterprise, which of the following dimensions do you consistently report on (versus *ad hoc* reporting)? (Select all that apply).

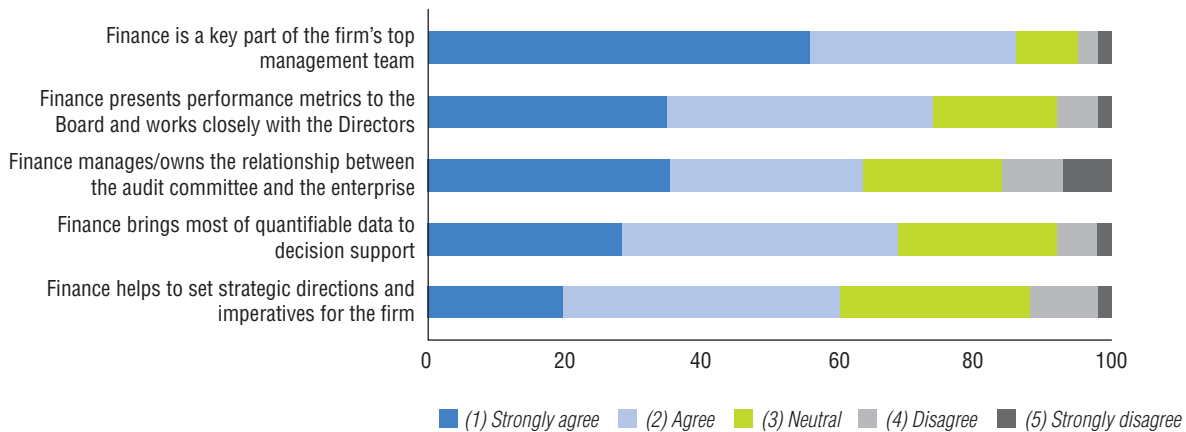
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

To what extent do you agree or disagree with the following statements in the way they describe the relationship between the CFO/ Finance and others in the enterprise?

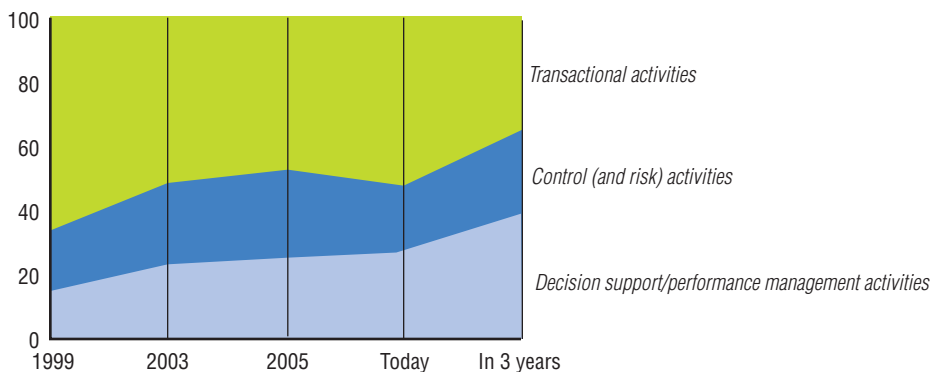
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

How do you see the Finance workload distributed in percentage terms?

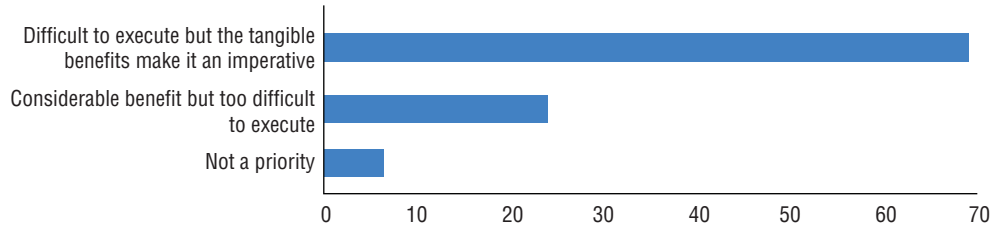
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

What is your attitude toward a more integrated infrastructure (integrating processes, data and technology leading to achieve greater transparency)?

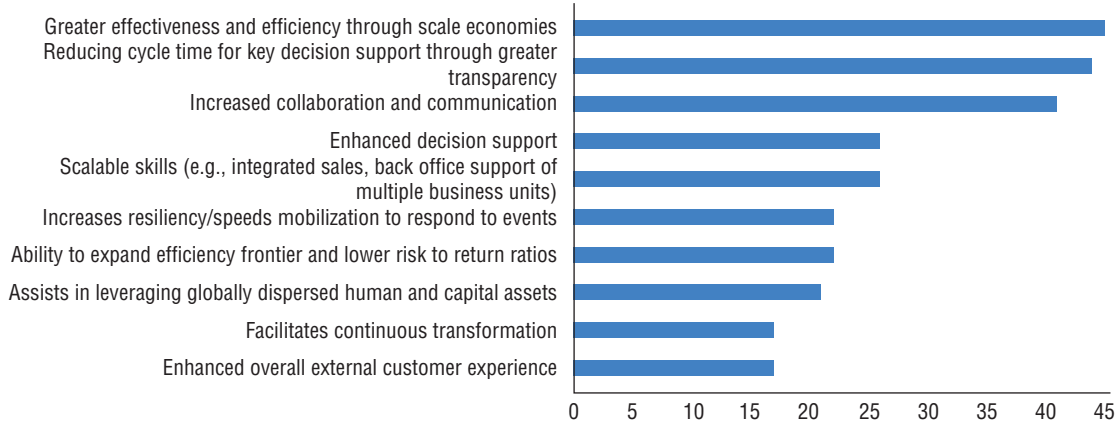
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

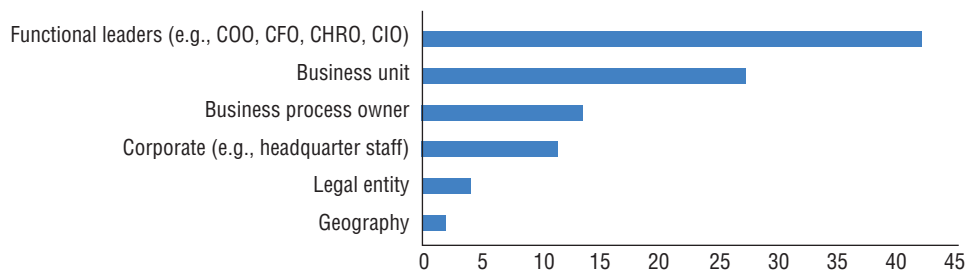
Which of the following potential benefits do you consider to be most important when thinking of a more integrated infrastructure? (Select top three choices).

(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

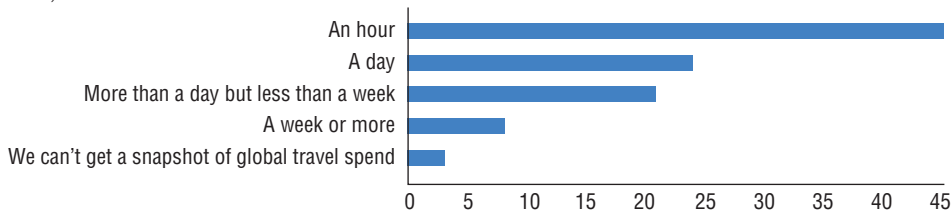
Within your enterprise, who/what is viewed as predominantly responsible for ensuring the accuracy/integrity of information? (Select one).



Source: IBM Global Business Services, The Global CFO Study 2008.

How long would it take you to find out the amount of money your enterprise spent on global travel last month?

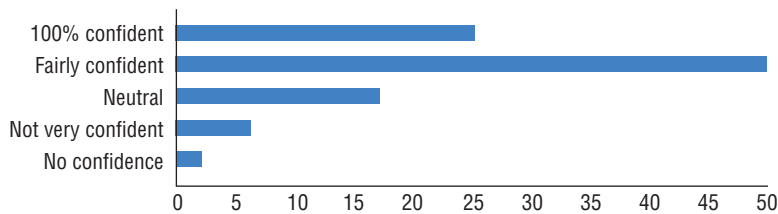
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

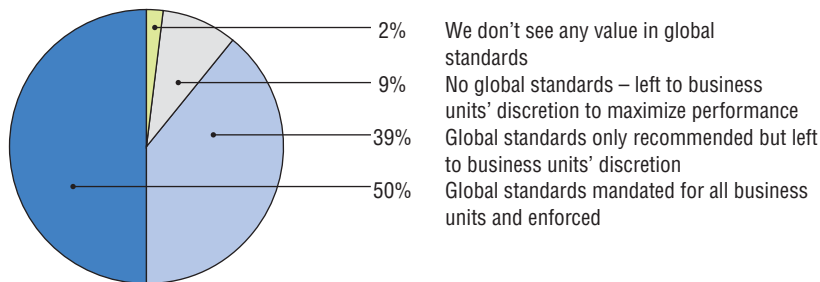
How confident would you be in the reliability/integrity of that global travel spend figure?

(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

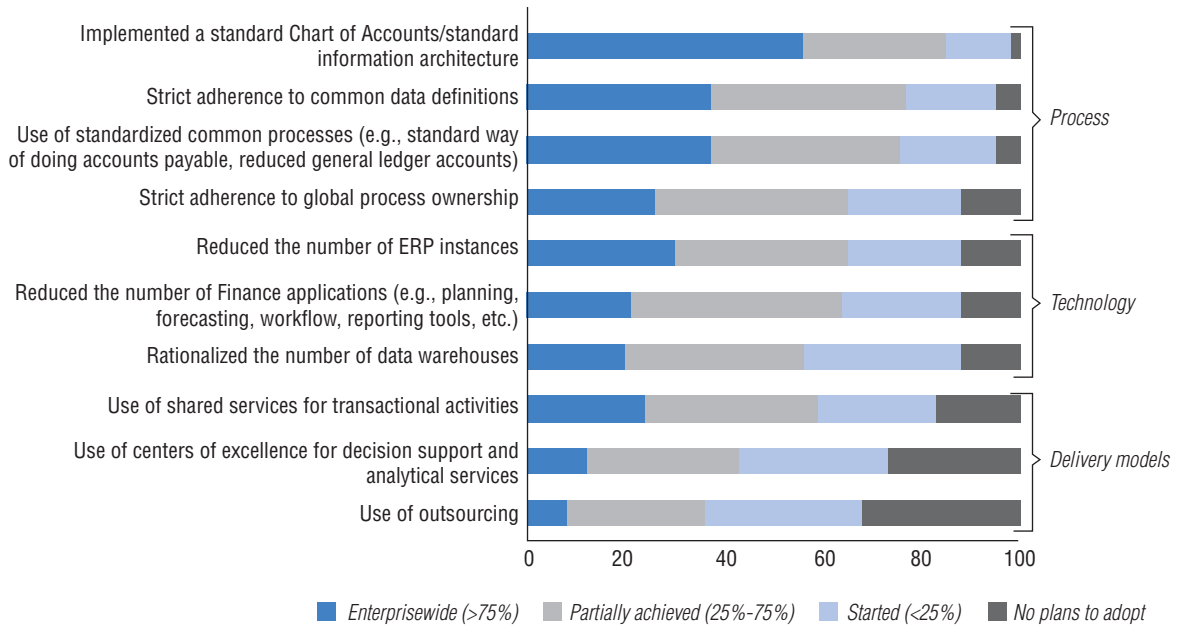
What is your corporate philosophy on global standards (for example, process, data, technology)?



Source: IBM Global Business Services, The Global CFO Study 2008.

Which of the following process, technology and delivery model improvements has your organization undertaken to address the structural complexity in Finance?

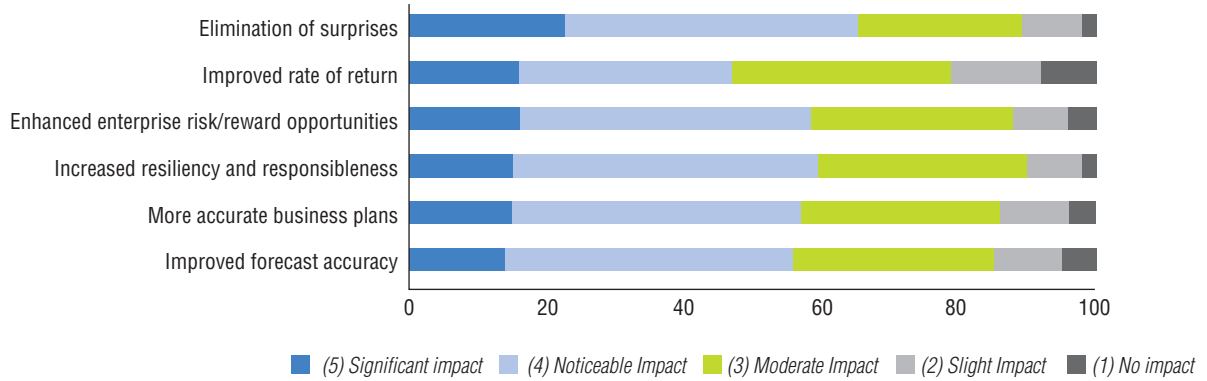
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

How much impact would/does an enterprisewide risk strategy have on the following aspects of your business?

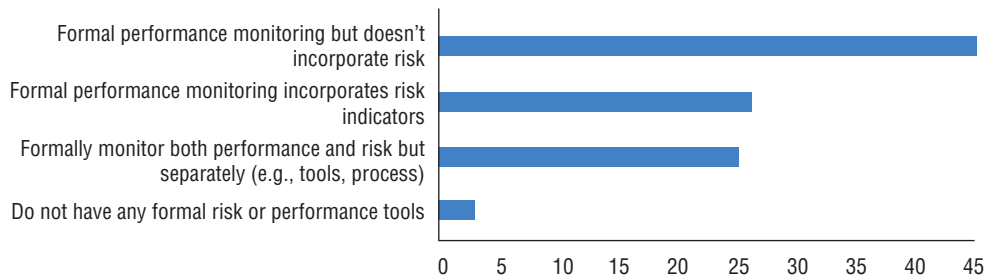
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

Which of the following best describes your organization's approach to performance management and risk management?

(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

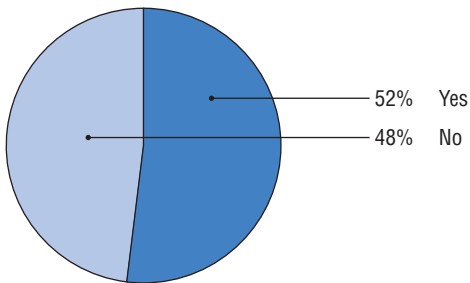
If you manage risks across functions, who provides key contributions to the process of evaluating and mitigating risk? (Select all that apply).

(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

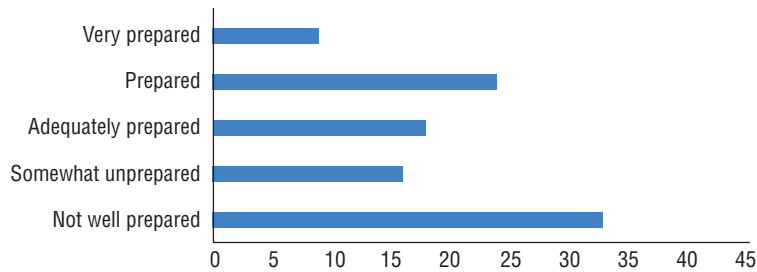
Did your organization encounter a major risk event in the past 3 years that substantially affected your operations and/or results?



Source: IBM Global Business Services, The Global CFO Study 2008.

How prepared was your organization (in dealing with a major risk event in the past 3 years that substantially affected your operations and/or results)?

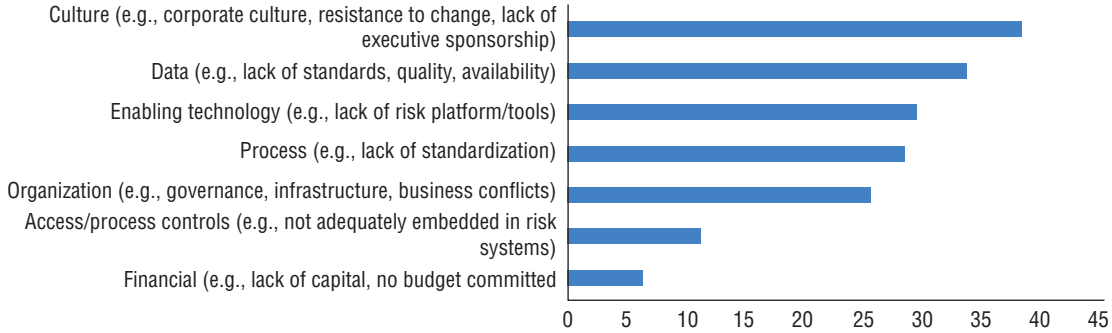
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

Which are the most significant obstacles to integrating data for risk management in your enterprise? (Select top two choices).

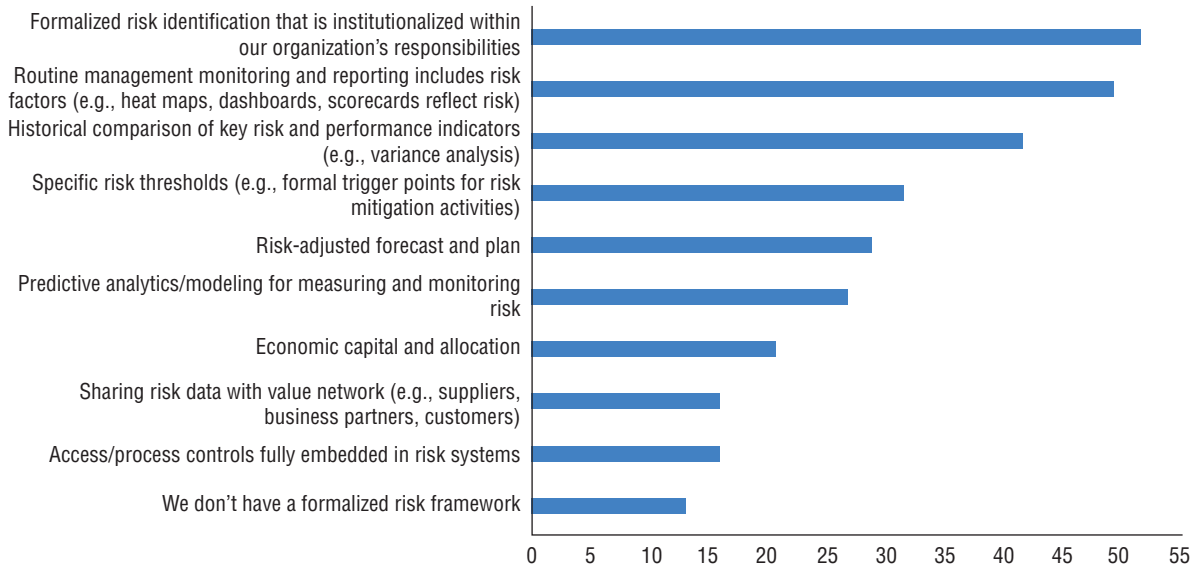
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

Which of the following risk management activities does your company conduct enterprisewide? (Select all that apply).

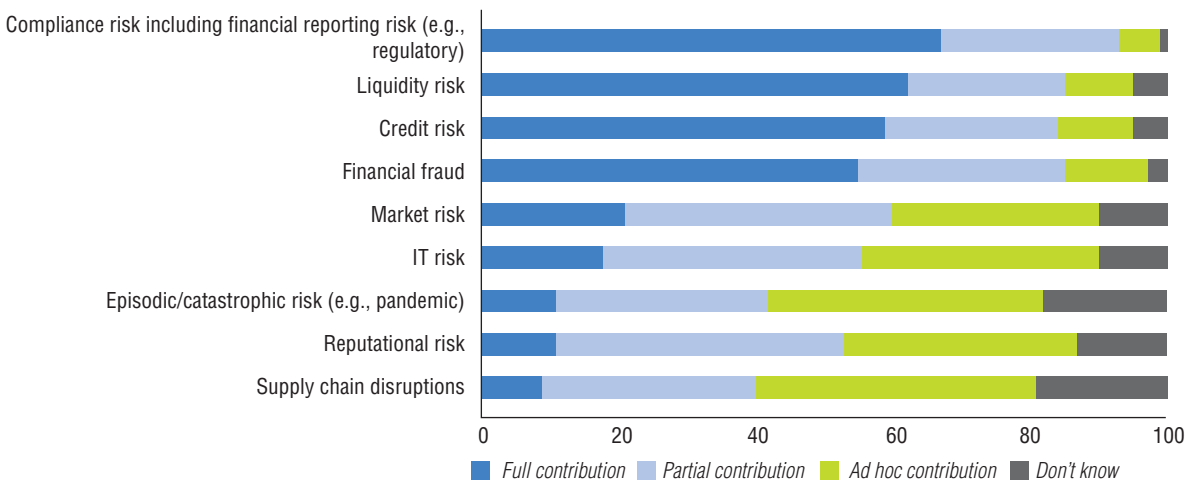
(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

To what degree does Finance contribute to enterprise risk management?

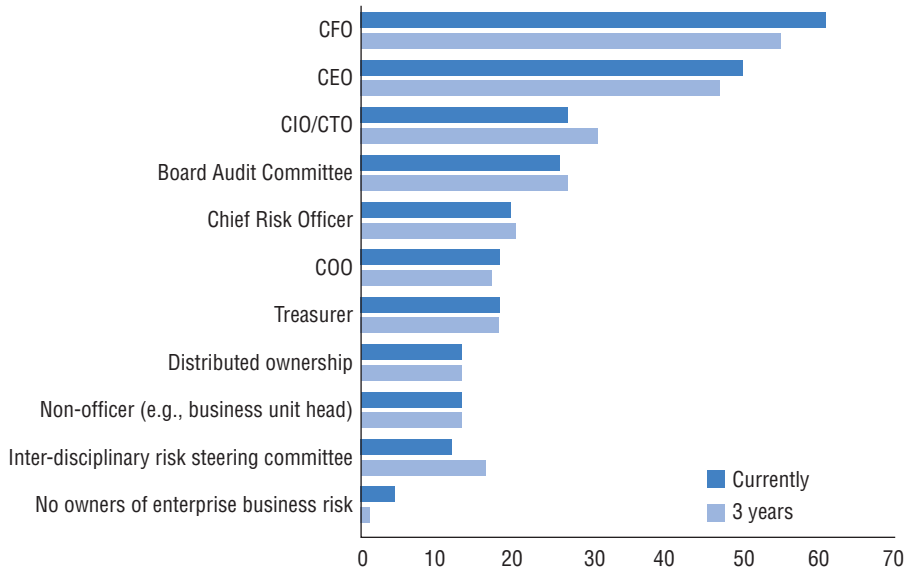
(Percent)



IBM Global Business Services, The Global CFO Study 2008.

**Who are the “owners” of enterprise risk management in your enterprise? Who do you expect to be the owners in three years?
(Select all that apply).**

(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

**For which stakeholders do you formally document and communicate the enterprise’s appetite/tolerance for business risk?
(Select all that apply).**

(Percent)



Source: IBM Global Business Services, The Global CFO Study 2008.

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Related Publications

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With business experts in more than 160 countries, IBM Global Business Services provides clients with deep business process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. We draw on the full breadth of IBM capabilities, standing behind our advice to help clients implement solutions designed to deliver business outcomes with far-reaching impact and sustainable results.

The IBM Institute for Business Value, part of IBM Global Services, develops fact-based strategic insights for senior business executives around critical industry specific and cross-industry issues.

About IBM Global Business Services' Financial Management

IBM Global Business Services' Financial Management focuses on enabling enterprise innovation and performance through improved Finance organization efficiency and effectiveness. With more than 4,000 practitioners, Financial Management has a full suite of end-to-end capabilities to address a client's challenges. Our capabilities include Finance Transformation, Finance Operations Improvement, Business Performance Management, Business Risk Management and Finance Enterprise Applications.

Further Information

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REFERENCES AND NOTES

- ¹ Executives asked: How effectively do you think your Finance organization is performing in each of the following areas of responsibility? Effective organizations are respondents who answered “Very effective” or “Effective” in supporting / managing / mitigating enterprise risk versus those who responded “moderately effective,” “slightly ineffective” and “ineffective.”
- ² Analysis used five-year compound annual growth rate for respondents’ stock price and revenue from Thomson Financial. To normalize industry differences, the stock price compound annual growth rates (CAGRs) are the differences between an individual company stock price CAGR and the appropriate industry CAGR from the 2007 *Wall Street Journal* “Annual Industry Report.”
- ³ Bernanke, Ben S. “Global Economic Integration: What’s New and What’s Not?” Federal Reserve Bank of Kansas City’s Thirtieth Annual Economic Symposium. August 25, 2006.
<http://www.federalreserve.gov/newsevents/speech/Bernanke20060825a.htm>
- ⁴ Palmisano, Samuel J. “Leadership, Trust and the Globally Integrated Enterprise.” Executives’ Club of Chicago. April 12, 2007. http://www.ibm.com/ibm/sjp/04_12_2007.html
- ⁵ In our study, stock price comparisons among respondents were normalized against industry indices.
- ⁶ IBM Corporation. “Expanding the Innovation Horizon: The Global CEO Study.” 2006.
- ⁷ Corporate Executive Board. “Organizing for Risk Management: Key Decisions Guiding Risk Management Activities.” 2005.



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