Finding the Fast Path to Corporate Performance Management Value

Gartner RAS Core Research Note G00165790, Neil Chandler, 28 May 2009

Organizations are increasingly deploying corporate performance management (CPM) applications to help them improve measurement and management of the business. CFOs and CIOs must evaluate the benefits and challenges associated with CPM to assess the best starting point.

Key Findings

- CPM continues to be a major focus for the finance office. The current recession is another driver increasing CPM suite adoption to improve planning and manage costs, compliance, and legacy system replacement, and pursuing value-added activities.
- CPM combines management methodologies, metrics, and IT processes and systems to better understand and manage overall organizational performance, especially with planning, budgeting, forecasting and reporting processes.
- CPM acquisitions are increasingly deployed to help communicate and execute the strategy, and as a spearhead to assist cost-cutting and profit-optimization programs.

Recommendations

- CPM can deliver significant business benefits, and can leverage investments in business intelligence (BI) and business applications. For those who have not yet implemented CPM, consider an immediate evaluation.
- CFOs should include the IT organization in the selection, design and maintenance of CPM suites, and look to the IT organization for guidance in support of building process flexibility and business application integration.
- CIOs and CFOs must involve the management team in any CPM project to realize greater maturity (and benefits) from the project.

WHAT YOU NEED TO KNOW

With concerns over the recession, increasing compliance demands and a need to reduce costs, there is increasing interest in CPM solutions, and increasing maturity of vendor offerings. In many cases, the finance office purchases and implements CPM applications with little or no IT organization involvement. We do not recommend this approach. To deliver the most transformational use of CPM and generate the biggest return on investment (ROI), the best approach is collaborative, involving finance, IT and other management teams. A clear understanding of the success factors and challenges will help organizations evaluate the best approach to CPM.

ANALYSIS

Many organizations need to improve the monitoring and management of their corporate performance. Gartner estimates that nearly 50% of large enterprises and 75% of midsize businesses are still using spreadsheets or legacy applications to meet their core management process for budgeting, planning and forecasting (BP&F), financial consolidations and financial reporting. There are CPM solutions available to help align financial, management and budget information, and that can increase consistency with data used for other reporting purposes, enabling the organization to spend more time in value-added activities focused on identifying cost savings and revenue optimization.

However, CPM implementations are not without their challenges. The key issue is not convincing the organization to adopt CPM, but it is ensuring that you maximize the opportunity of the investment in CPM. Users are often keen to replace manually intensive and time-consuming spreadsheets or legacy solutions with robust and packaged alternatives, and there is a clearly defined business case for doing so. However, they risk replicating processes and underachieving the project's true potential benefits if led by finance alone. Typically, finance-only led projects underdeliver on the potential benefits of CPM solutions, compared with finance and IT co-led projects. Moreover, the leaders of the CPM project must ensure that it extends beyond finance in the context of a road map, planning how the necessary elements fit into a wider BI and performance management framework. Even in the implementation of one element of a CPM suite (such as BP&F), there may be significant challenges to overcome. Individual phases should be justified on a short-term payback period (such as within a year). Clients are increasingly looking to make smaller investments and realize rapid business benefits to streamline costs and optimize performance. Different components of a CPM suite provide different business benefits. Table 1 provides a quick reference to help organizations prioritize their fast path to CPM.

Certain types of organizations will find it more difficult to realize the benefits of a CPM strategy because of their cultures and infrastructures. See Table 2 to determine how CPM might work for your organization. Rank yourself against each of the categories. If you have mainly (or exclusively) success factors, then a CPM implementation is more likely to be successful.

All but one of the key decision considerations for CPM are business issues, rather than technology. This reinforces the point that CPM implementations should be primarily business-led projects, with a robust business case based on business issues. However, the IT organization plays an important role by supporting these projects, educating the business on the vendor's landscape and product functionality, supporting the project's planning and execution, and crucially ensuring that CPM is part of a wider approach to BI and performance management. Therefore, CIOs should discuss the scope of proposed CPM projects with CFOs to help them understand the benefits of extending a CPM project beyond finance processes and financial reporting.

What to Do If the Challenges Outweigh the Success Factors

Organizations considering CPM that find their challenges outweigh their success factors have other options:

1. Adopt a spreadsheet management strategy. When it isn't desired, practical or cost-effective to replace spreadsheets with more-robust alternatives, Gartner advises IT organizations to adopt a spreadsheet management strategy. Gartner recommends a five-step approach for controlling user-developed applications.

2. Consider a partial solution for BP&F. BP&F analytic applications can provide a short-term payback and, therefore, are ideally suited to provide a quick win to support cost and optimization initiatives. This is because BP&F affects most parts of the organization and many users, and is pivotal to the definition and communication of the business strategy (supported with planning) and tactics (supported with budgeting). CPM applications can be implemented quickly and relatively easily, because integration with underlying systems is relatively straightforward.

3. Address the organizational issues that are creating the challenges prior to implementing CPM. CIOs should work with the CFO to engage the management team so that they understand the value of using CPM applications. Create a steering committee or competency center of engaged stakeholders to plan how to overcome challenges and build an appropriate business case.

Table 1. CPM Fast Path to Functionality

CPM Component	Business Function Affected	Purpose	Implementation Effort	Business Benefits
Financial Consolidation	Head Office Finance, Business Unit Finance	Improve the rigor and speed of the financial close process. Provide consolidated financial perspectives to support legal and management analysis.	Typical implementation time: 5 to 10 months; average cost: $750,000	Anticipated ROI of 30% to 100%, and 9- to 18-month payback. Can reduce the duration of the financial close by 20% to 80%, and reduce the cost (including auditing fees) by 20% to 50%.
BP&F	Head Office Finance, Business Unit Finance and Enterprisewide	Increase the speed and accuracy of the planning processes. Integrate the strategic, operational and financial planning processes.	Typical implementation time: 3 to 6 months; average cost: $500,000	Anticipated ROI of 50% to 150%, and 6- to 12-month payback. Can reduce the duration of the planning cycle by 30% to 90%, and reduce the cost by 25% to 75%.
Statutory, Financial and Management Reporting	Enterprisewide and External	Increase the production speed, accuracy, transparency, and leverage financial information.	Typical implementation time: 2 to 4 months; average cost: $300,000	Anticipated ROI of 50% to 100%, and 3- to 9-month payback. Can reduce the duration of the reporting cycle by 20% to 50%, and reduce the cost by 30% to 80%.
Strategy Management	Head Office, Business Units	Identify strategies and align with tactical activity, define objectives and measures, motivate successful behavior.	Typical implementation time: 3 to 6 months; average cost: $250,000	Anticipated ROI of 50% to 200%, and 3- to 9-month payback. Can support contingency planning, simulations, strategic alignment and enterprisewide measurement.
Profitability Modeling and Optimization	Head Office, Business Units	Identify the true causes of cost and drivers of profitability, simulate strategies for optimal performance.	Typical implementation time: 3 to 6 months; average cost: $500,000	Anticipated ROI of 50% to 200%, and 6- to 18-month payback. Can help focus efforts on most-valuable customers, products and suppliers, and deliver more-accurate and granular insight to support cost optimization initiatives.

Source: Gartner (May 2009)

Table 2. CPM Success Factors and Challenges

Key Decision Considerations	Success Factors	Challenges	Fast Path Recommendations
Homogeneity and Structure of Business Model	Single primary core business with similar or standardized business processes. Integrated financial processes, linking finance, operations and strategy.	Diversified or autonomous group with wide range of business processes Purely a financial focus with simple budgeting and financial reporting. Manually intensive and time-consuming.	Centralized and standardized organizations will be able to support a single-instance CPM solution for enterprisewide use. Decentralized organizations may use a “hub and spoke” approach with a unifying solution deployed at the head office, or may decide to employ multiple solutions at the business unit level. Start by implementing CPM at a single location (such as the head office) and for a single function (such as BP&F). Then expand the solution through multiple phases to other business units and other CPM functions. Use the rollout process to help standardize the core financial management processes and business metadata (such as a common chart of accounts and common business segmentation).
Organizational Culture	Strong C-level sponsorship with centralized approach to systems and open desire for business change.	Siloed and bounded departments and business units. Resistance to change and inherent systems open to politics and gaming.	Senior executive sponsorship encourages the right team mix to ensure that distinct divisional and corporate requirements are incorporated. It is essential that the project has a senior sponsor to mediate and drive consensus, and support the necessary change. Engage the CFO or other C-level manager to sponsor CPM adoption both financially and physically. Investigation of references for the CPM Magic Quadrant shows that senior sponsorship increases the success rate by as much as 100%, and increases overall business value obtained.
Level of Strategic Alignment	Strong discipline to articulate and communicate strategy and active use of strategy maps. Financial goals are outcomes of business driver targets. Individuals are measured on business-driver targets.	No clear link between strategic and operational activities. Individual targets set by functional managers, with no coordination across functions.	Ensure that strategy management is one phase of your CPM road map. Fewer than 25% of CPM implementations include it, but Gartner estimates that those that do are twice as likely to deliver transformational business benefits. Encapsulating strategy involves the senior management team, and enables alignment, increases business value and supports business transformation through the reorientation and reprioritization of roles throughout the enterprise. The key to translating strategy into action is defining a strategy map that shows the cause-and-effect relationships between objectives and metrics.
People	Key line of business managers included in the selection, design and maintenance of CPM to provide process flexibility and business application integration. Well-established BI.	Finance-led projects with little or no IT involvement.	The most successful projects occur when all the necessary stakeholders engage in a collaborative process, driven by management, and delivered by a hybrid business-IT project team (see “Measuring and Managing Corporate Performance: The State of the Art”). Gartner research has found that the maturity level and business benefits obtained in CPM improved significantly where a hybrid team implemented the projects. When organizations don’t have a staff with the necessary combined IT and financial skills, they frequently contract a service provider for the requisite consulting.

continued

Table 2. CPM Success Factors and Challenges

Key Decision Considerations	Success Factors	Challenges	Fast Path Recommendations
Metrics	Well-defined, agreed common metrics organized into an enterprise metric model and mapped to value drivers and strategic objectives.	Fragmented, overlapping, uncommon use of metrics and dashboards.	Identify the relevant types and levels of metrics, and link them to overall business objectives. The process for defining these metrics should be collaborative, engaging the senior management to define the key strategic initiatives, and middle management to overlay this with operational and departmental measures, defining and agreeing to indicators, and assigning owners to supervise the outcomes.
Technology Environment	Enterprise-level architecture with similar technologies.	Spreadsheet dominated or entrenched legacy solutions.	Most organizations rely on Microsoft Excel and legacy solutions for the majority of their financial processes; CPM replaces these with a robust standards-based approach. CPM is the foundation for a wider performance management strategy that will help bridge the gap between strategy formulation and operational execution. It is one of the key aspects of the evolution of BI from analyzing events after they have happened to a more proactive BI and performance management environment. CPM requires a clean and consistent feed of data; CPM-derived information can be leveraged throughout the organization in management reports. Gartner estimates that organizations that include IT to ensure CPM integration in an enterprise-level architecture are twice as likely to contribute transformational business value.

Source: Gartner (May 2009)