Discipline and Balance Drive Success

Investment in information gathering and technology transforms finance

A report prepared by CFO Research Services in collaboration with Cognos

THE NEXT LEVEL OF PERFORMANCE™

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CFO Research Services and Cognos developed the hypotheses for this research jointly. At CFO Research Services, Celina Rogers directed the research and wrote the report.

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Introduction

Improving company performance seems straightforward: sell more, spend less, and manage risk. The difficulty, of course, lies in the strategies and tactics for achieving these objectives. While every company competes in a unique market environment using its own portfolio of assets, all management teams rely on their view of the external environment, their internal capabilities, and the uncertainty in each to guide their efforts to manage revenue, profitability, cash flow, and risk.

In the past several years, many companies have invested heavily in technology systems for storing, analyzing, and reporting performance data—and the results of this study show that many of these investments have paid off handsomely. Nevertheless, there are significant gaps in companies' performance management capabilities—gaps in companies' ability to assess the external economic and market context in which they operate, gaps in their ability to understand their own operating information, gaps in their ability to understand the risks that threaten them, and gaps in their ability to respond meaningfully to changing business conditions. In this research program, we gained significant insight into the ways companies have filled these gaps through a combination of rigorous information gathering, structured risk review, and aggressive investment in IT.

Key findings

- Senior finance executives report greater satisfaction with information gathered from local, company-controlled information sources—particularly information on financial, rather than operational, performance.
- Time delays in management reporting hold decision making back.
- Executives call for a multi-pronged approach to improvement in performance management, including processes, IT systems, and risk evaluation.
- A solid majority of respondents see a "great deal of room for improvement" in their processes for gathering performance information. Specifically, better information on external factors (e.g., markets, customers, suppliers, and competitors) is finance's top priority for improvement.
- Aggressive IT investment, disciplined information gathering and analysis, and a high degree of satisfaction with information quality go hand-in-hand.

About this Report

In November 2006, CFO Research Services (a unit of CFO Publishing Corp.) conducted a survey among senior finance executives in North America to examine companies' approach to gathering and analyzing information that affects business performance. We gathered a total of 184 responses from senior finance executives. Thirty-three percent of all respondents work for companies with more than $1 billion in annual revenue, and more than 90 percent of respondents work for companies with more than $100 million in annual revenue. Respondents come from a broad cross-section of industries and hold a variety of senior finance titles, including chief financial officer (31 percent), EVP or VP of finance (14 percent), director of finance (17 percent), and controller (22 percent).

Greater satisfaction with local, controlled information sources

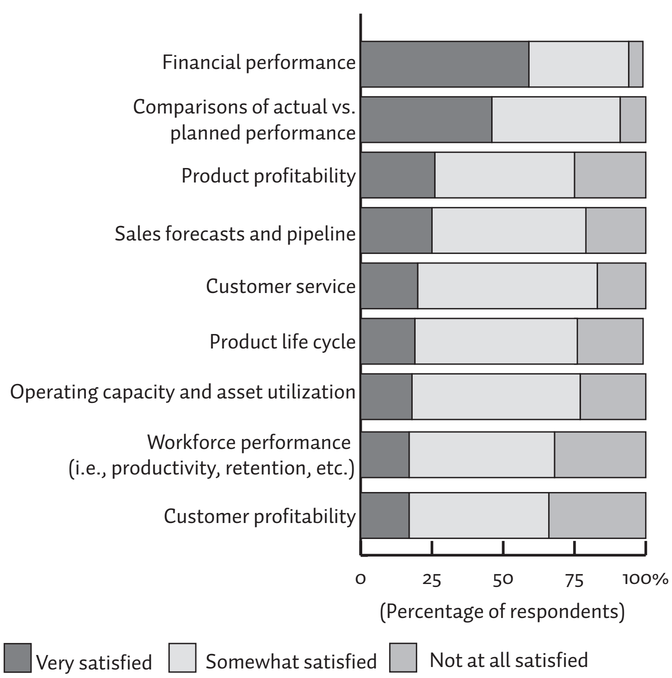
We asked respondents to evaluate their level of satisfaction with their companies' information on a variety of internal and external business factors. In general, respondents indicated greater satisfaction with information on internal business factors—that is, information generated by a company's business activities under its direct control—than with information on external business factors (information on markets, economic conditions, competitors, and other external factors that affect a company's business). (See figure 1.)

The most satisfactory information on internal business factors, according to respondents, is information on financial performance (59 percent of respondents report they are "very satisfied") followed by comparisons of actual versus planned performance (46 percent report "very satisfied"). Executives are least satisfied with information about operational business factors such as customer profitability, asset and resource utilization, and product life cycle performance. Satisfaction with information on external business factors, however, lagged far behind. Queried on a wide range of external business factors, respondents said they were most satisfied with their companies' information on customer satisfaction and customer demand. But only 30 percent of respondents report they are "very satisfied" with their companies' information on customer satisfaction—and only 21 percent of respondents said they were "very satisfied" with their companies' information on customer demand.

Figure 1.

In general, respondents indicate greater satisfaction with internal business information than with information on external business factors.

How satisfied are you with the information your company gathers on the following business factors *internal to your company?*



How satisfied are you with the information your company gathers on the following business factors *external to your company?*

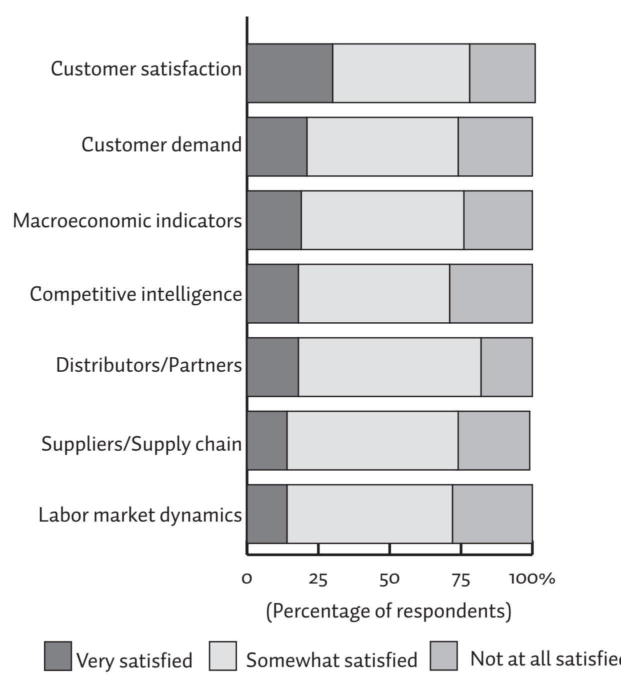
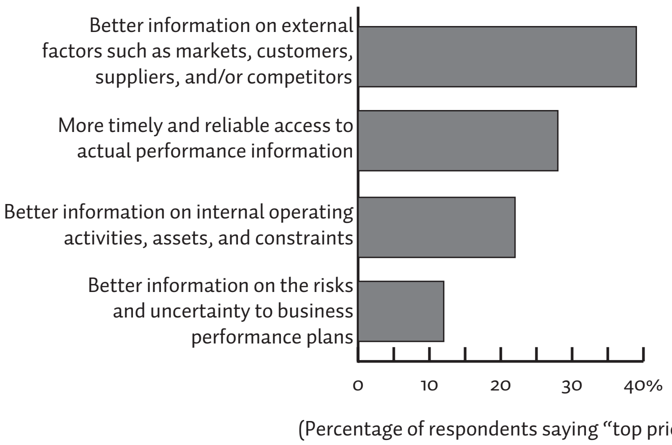


Figure 2.

Respondents most frequently cite "obtaining better information on external business factors" as their top priority among a variety of performance management dimensions.

In your opinion, which of the following dimensions would offer the greatest return to your company's business performance?



Internal and external business information

For the purposes of this study, we defined internal and external business information as follows:

Internal business information: Information generated by a company's business activities that are under its direct control. Internal business information is gathered and reported to management decision makers, investors, and other stakeholders through company-governed business processes and IT systems. Examples include information on financial performance, workforce performance, operating capacity, asset utilization, and product profitability.

External business information: Information about the markets, economic conditions, competitors, and other factors that affect a company's business but usually are not under the company's direct control. Examples include information on customer demand, macroeconomic indicators, and competitive intelligence.

It's not surprising that respondents report a greater level of satisfaction with internal information, since companies have not only direct access and control over such information, but also established policies, procedures, and processes for reporting it. Although respondents indicate greater satisfaction overall with their companies' information on internal business factors, they report far greater satisfaction with their companies' financial information—information on financial performance and comparisons of actual versus planned performance—than with operational information on factors such as customer profitability, the sales pipeline, customer service, product life cycle, workforce productivity, and asset utilization.

Viewed together, these results suggest that companies have a better grasp on internal information than on external information—but this grasp is firmest on financial information (and, in particular, financial information addressing past performance), where reporting requirements create pressure to institute formal information-gathering and reporting processes. In the operational realm, where information is primarily used for forward-looking business decision making, companies' grasp of information is much shakier. When we asked respondents to identify the performance management initiative that would yield the greatest return to business performance, however, respondents cited "better information on external factors such as markets, customers, suppliers, and competitors" most frequently. (See figure 2.) Why this interest in improving information on external operating factors? Such information forms the basis of critical activities such as planning, budgeting, and forecasting; decision making about operations; and, ultimately, business performance.

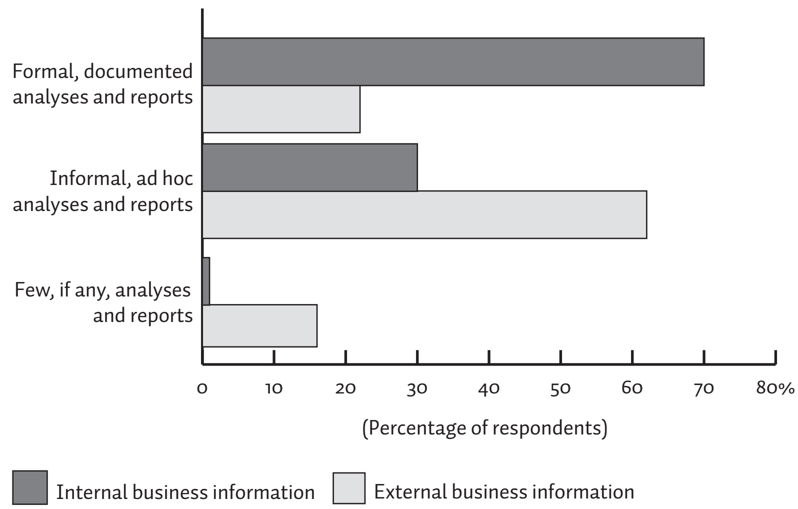
It may be tempting to attribute low levels of satisfaction with external business information to a lack of access to such information; similarly low levels of satisfaction with operational data, however, point to a different problem: the lack of formal processes and procedures for gathering this information. Seventy percent of respondents said their companies prepare formal, documented analyses and reports on internal business information—but only 22 percent of respondents said their companies prepared formal reports on external business information. (See figure 3.)

These results suggest that the first step toward improving information on external business factors may be to find ways to treat external business information in much the same way as financial performance information—by developing processes and procedures for external data-gathering and requiring thoughtful, disciplined reporting of relevant external information to decision makers.

Figure 3.

Respondents report a more disciplined approach to gathering internal business information than external business information.

Which of the following best describes your company's process for gathering and analyzing business information?



Time delays hold management back

A familiar paradigm in the discussion of information quality measures information against two axes: speed and reliability. We asked respondents to assess their companies' performance information against these axes. We found that, while very few companies are experiencing the worst of both worlds—reporting that is both slow and unreliable—few are experiencing the best of both worlds—reporting that is both timely and reliable.

Very few respondents—only six percent—said that their companies' reports on performance information were both slow and unreliable. But relatively few (37 percent) said their companies' reports on performance information were both timely and reliable. This implies that 63 percent of the companies do not have access to timely and reliable information to make decisions. Looking at each axis independently, we found that 82 percent of respondents say their reports are reliable, but only 48 percent of respondents say those reports are timely. (See figure 4.)

Figure 4.

Companies tend to sacrifice timeliness for reliability.

Which of the following best describes your company's reports on both internal and external performance information?

	All unreliable: 17%	All reliable: 82%	
Timely	11%	37%	All timely: 48%
Slow	6%	45%	All slow: 51%
	Unreliable	**Reliable**	

(Percentage of respondents)

Note: Respondents chose one answer from the following list: slow *and* unreliable (6 percent); slow, but reliable (45 percent); timely, but unreliable (11 percent); or timely *and* reliable (37 percent).

These results suggest that many companies do indeed face a trade-off between speed and reliability in their performance reports—and, when faced with that trade-off, companies seem to sacrifice speed for reliability. This choice makes sense, considering the zero-sum relationship between the two dimensions; there is little value in making quick decisions if they're based on faulty information.

But what is the cost of this sacrifice? In some cases, at least, companies may be missing opportunities to make critical adjustments in response to market changes or performance gaps. Survey responses confirm this view. In general, respondents hold a positive view of their companies' use of performance information to assess business conditions, understand risk, and make business decisions. A notable exception to this positive assessment: their companies' ability to assess performance gaps with enough lead time to make changes. Forty-nine percent of respondents agreed that their companies are able to assess performance gaps with enough lead time to make adjustments in strategies, tactics, and operations—but 52 percent of respondents disagreed with that statement.

Majority of executives find fault with the processes, IT systems, and risk evaluation associated with performance management

Despite years of aggressive investment in performance management initiatives, many companies recognize the need for more improvement in the processes, IT systems, and risk evaluations associated with performance management. Most respondents (61 percent) see "a great deal of room for improvement" in their companies' processes for gathering performance management information. Thirty-seven percent of respondents say they see a little room for improvement, and only two percent see no room for improvement. (See figure 5, next page.)

Figure 5.

Most respondents see a great deal of room for improvement in their companies' processes for gathering performance management information.

Do you see room for improvement in your company's processes for gathering external and internal performance management information?

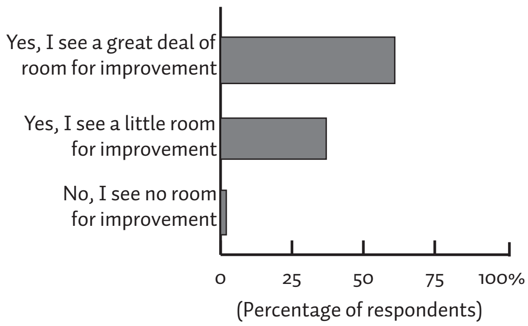
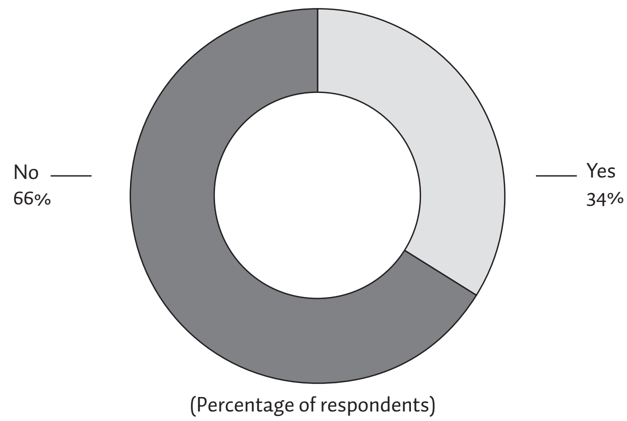


Figure 6.

Most respondents don't believe their companies take good advantage of IT for performance management.

In general, do you think your company takes good advantage of IT for performance management?



Furthermore, a solid majority of respondents say they don't think their companies take good advantage of IT for performance management. Two-thirds of respondents say "no" when asked if they think their companies take good advantage of IT for performance management; only 34 percent say "yes." (See figure 6.)

When asked to evaluate their processes, IT systems, and risk evaluations for performance management, a majority of all respondents say their companies need improvement in each category—and respondents appear to weigh all three categories nearly equally. Fifty-four percent of respondents say their companies' processes for performance management need improvement, 61 percent of respondents say their performance management IT systems need improvement, and 61 percent say their companies' risk evaluations associated with performance management need improvement. (See figure 7.)

Figure 7.

A majority of respondents cite a need for improvement in each of three major performance management categories: processes, IT systems, and risk evaluation.

How would you rate your company's processes, IT systems, and risk evaluations for performance management?

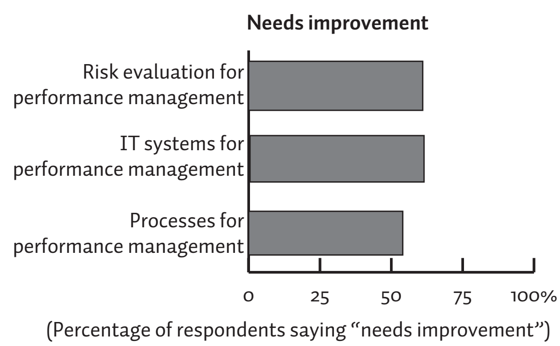
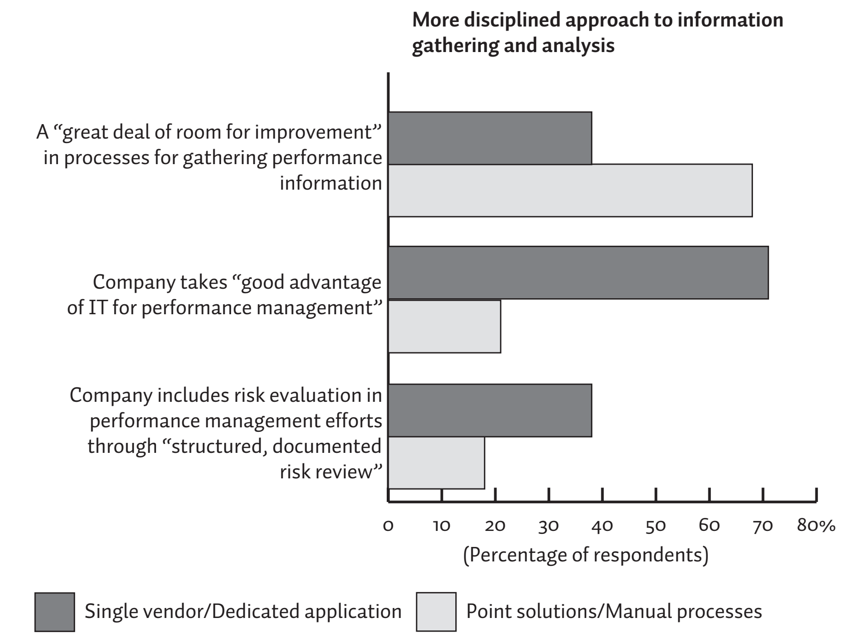
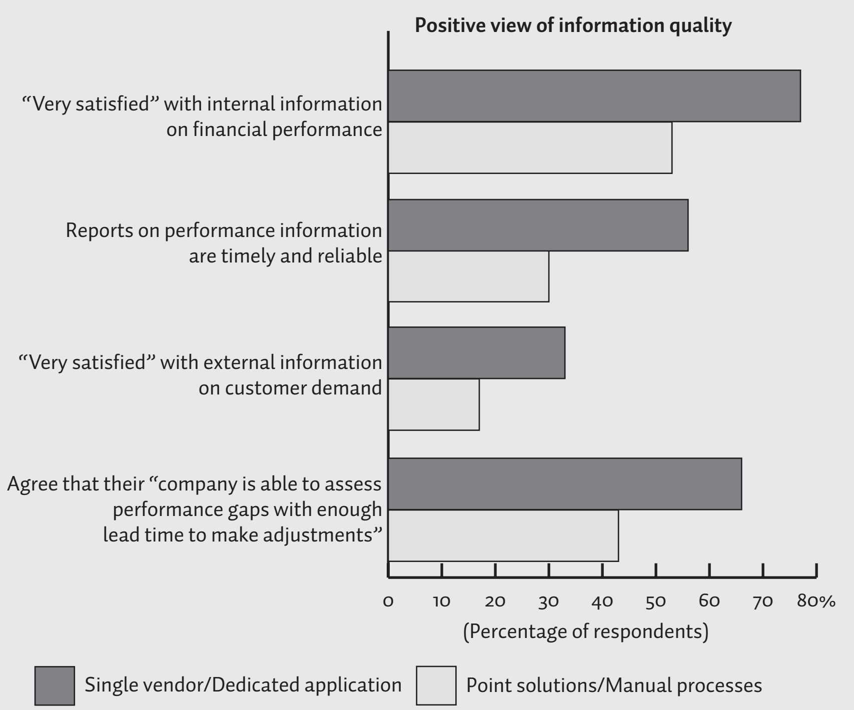


Figure 8.

Aggressive investment in finance technology systems correlates with higher-quality information, better processes for gathering performance information, a more disciplined approach to risk review, and a more positive view of IT.





Investment in IT and process discipline

In order to learn how companies' finance technology investment correlates with their experience with performance management information, we segmented respondents into two categories: those who say their companies have a single vendor for all finance applications or a dedicated application for performance management (66 percent of all respondents), and those who say their companies manage performance using point solutions or manual processes with gaps (33 percent of all respondents).

When we compared the responses from the two segments, we discovered a strong correlation, nearly across the board, between aggressive investment in financial technology and positive views on nearly every aspect of performance management: information quality—including the timeliness and reliability—performance management processes, risk evaluation, and IT effectiveness. (See figure 8.)

What does this correlation mean? Certainly, the relationship between heavy investment in IT systems for finance and satisfaction with the timeliness and reliability of information suggests that IT makes accessing information easier. This relationship seemed to hold across both of the broad categories of information we studied—information on internal and external business factors. For those who have recently undertaken major IT implementation projects in finance, it is probably heartening to see that 71 percent of aggressive investors in IT report that their companies take "good advantage of IT for performance management," as opposed to only 21 percent of their more lightly investing peers.

Another correlation in the data, however, provides additional insight. Heavy IT investment, we found, correlates strongly among survey respondents with the perception of a disciplined approach to performance information gathering and analysis. (See figure 8.) This disciplined approach is characterized by more rigorous information-gathering processes, a more structured approach to risk evaluation and review, and more fruitful use of IT systems. Where companies invest in technology, in other words, they also tend to invest in process improvements and structured information analysis.

The same discipline that drives technology investments may well drive this more rigorous approach to information gathering—not only with respect to internal business factors well within the companies' control, but also with respect to external business factors that are critical to decision making. The combination of aggressive technology investment, together with a more disciplined, rigorous approach to information gathering and analysis, may in turn explain the far more positive view of the role information plays in heavily-investing companies' management decision making.

Technology enables finance transformation

As the variability and pace of business continues to increase in response to dynamic market conditions, finance and business executives are under greater pressure to make better decisions faster. Yet only 34 percent of senior executives feel they are taking advantage of information technology (IT) to improve performance management. It is no surprise, then, that 67 percent of senior executives feel they don't have access to the timely, reliable information they need to make effective business decisions. Furthermore, 52 percent of executives do not feel their company is able to assess performance gaps with sufficient lead time to make adjustments in strategies and operations.

Beyond automation, the opportunity is to let technology enable finance transformation. For example, the survey indicates that respondents are three times more likely to say they're satisfied with financial performance information when compared with information on a variety of operational business factors. Yet—operational drivers are the leading indicators for financial performance. For instance, unexpected loan volume in a mortgage lending division has an impact on staffing requirements at the loan processing center, which in turn impacts divisional expenses. In manufacturing, variability in unit shipment demand impacts material procurement, production capacity, and inventory plans. These, in turn, further impact income statement, balance sheet, and cash flow.

Such realities highlight the opportunity for senior finance executives to link operational and financial performance management processes more effectively and more sustainably. In fact, many of our leading customers are moving towards driver-based planning and forecasting to align operational tactics with financial targets. They use Cognos solutions to help automate and link strategic, financial, and operational processes, plans, and forecasts to improve the cross-enterprise allocation of resources (people, capital, and assets) as corporate objectives or business conditions change. They are transforming performance management processes to meet dynamic business requirements and rhythms more effectively. Cognos offers a complete suite of solutions to help increase competitive advantage. Through the strategic application of planning, financial consolidation, scorecarding, reporting, and analytics, Cognos solutions can help you improve performance management quickly, with low risk, and on an enterprise scale.

About Cognos

Cognos, the world leader in business intelligence and performance management solutions, provides world-class enterprise planning and BI software and services to help companies plan, understand and manage financial and operational performance.

Cognos brings together technology, analytical applications, best practices, and a broad network of partners in a complete performance system. The Cognos performance system is an open and adaptive solution that leverages in-place ERP, packaged applications, and database investments. It gives customers the ability to answer the questions—How are we doing? Why are we on or off track? What should we do about it?—and enables them to understand and monitor current performance while planning future business strategies.

Cognos serves more than 23,000 customers in more than 135 countries, and its top 100 enterprise customers consistently outperform market indexes. Cognos performance management solutions and services are also available from more than 3,000 worldwide partners and resellers. For more information, visit the Cognos Web site at www.cognos.com.