

# Pushing the frontiers

*CFO insights from the Global C-suite Study*

## Chief Financial Officer insights from the IBM C-suite Study

This report draws upon input from the 4,183 CxOs we interviewed as part of IBM's first study of the entire C-suite. It is the 17th in the ongoing series of C-suite studies developed by the IBM Institute for Business Value. We now have data from more than 23,000 interviews stretching back to 2003.

Total CFOs interviewed	576
Japan	98
Asia Pacific / Australia, New Zealand	51
Europe, Middle East and Africa	231
North America	102
South America	94

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## Introduction

In the first installment of our Global C-suite Study, we spoke face-to-face with 4,183 top executives covering more than 20 industries to find out how they're earning the loyalty of digitally enfranchised customers and citizens.<sup>1</sup> In this report, we focus on the perspectives of the 576 CFOs we interviewed.

### **So what have we learned?**

First, we've confirmed something we discovered in 2010, during our last Global CFO Study. At that time, we identified four different profiles for the finance organization. We also established that one profile – the Value Integrators, as we called them – outperformed all the rest.<sup>2</sup> Our newest research shows that Value Integrators still stand out from the crowd.

Second, we've unearthed a small subset of Value Integrators that do even better than the other members of their group. We've named these finance organizations Performance Accelerators, and we'll explore the key traits they possess. We'll look, in particular, at what they're doing to become more efficient, more forward-looking and more proficient at creating profitable growth.

*“We need to have the right information, have it on time and invest the right amount of effort in interpreting it.”*

**CFO**, Industrial Products, Mexico

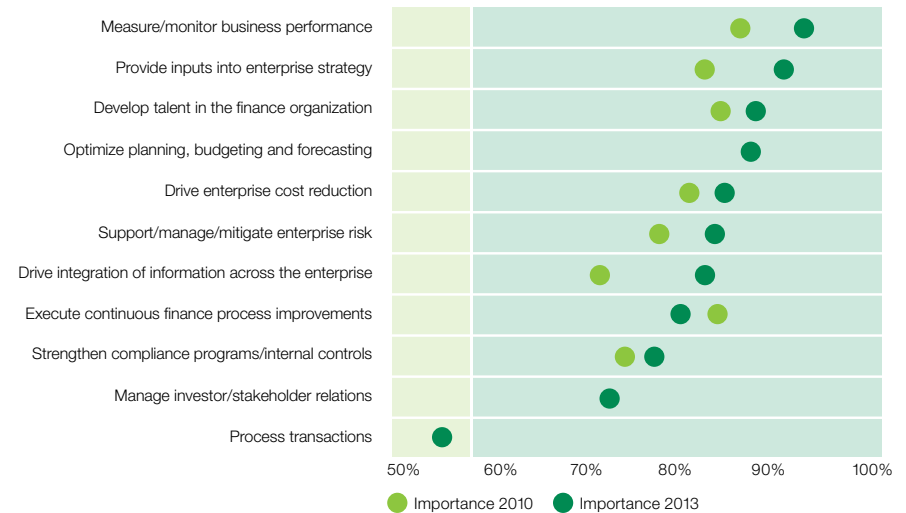
## The evolution of the CFO

The CFO's role is a pivotal one, as all top executives recognize. CxOs say they work more closely with the CFO than with any other C-suite colleague except the CEO. And CEOs rely more heavily on the CFO than on the rest of the C-suite when they're formulating business strategy.

Recent events have reinforced the CFO's elevated status. The CFOs we interviewed told us almost everything they do has become more important over the past three years (see Figure 1). Their most critical task is measuring and monitoring their company's performance. But providing strategic input comes a close second, and developing people with the right skills remains a top-of-mind issue.

**Figure 1**

*Pressing concerns: CFOs say that almost everything they do is now more important*



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Managing enterprise risk and integrating different sources of information to generate meaningful business insights have also soared up the agenda. In fact, only one activity – making continuous process improvements – has declined in importance, possibly because most CFOs regard it as basic practice and have made progress in this area.

But CFOs are dubious about how well their own finance organization fulfills some of these duties. Only 47 percent think it's effective at measuring and managing performance – the task they ranked as most important. Only 51 percent think the finance organization is effective at planning and executing strategy, and only 64 percent think it's effective at controls and managing risk.

Moreover, there's a growing gulf between the importance CFOs attribute to certain activities and how well they think the finance team performs them. In 2005, for example, 35 percent of CFOs considered it vital to combine information from the different parts of their enterprise, and 16 percent believed the finance organization was doing this effectively.<sup>3</sup> Today, 82 percent of CFOs see the value of integrating enterprise-wide information, but only 24 percent think their team is up to the task. This 58 percent gap reflects a 205 percent increase between 2005 and 2013 (see Figure 2).

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*“Today, there are 15 divisions with their own back offices. We want to have commonality of systems, and we’re already making progress on this shared-service approach.”*

**CFO**, Professional and Computer Services, United Kingdom

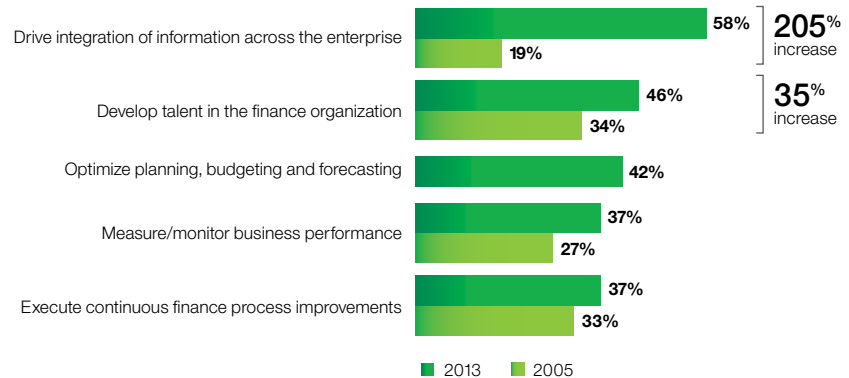
*“We need to ensure we deliver value through changing technology versus being a slave to our systems.”*

CFO, Insurance, United Kingdom

## Pushing the frontiers

**Figure 2**

**Growing gulf:** Nearly every gap between the importance CFOs attribute to certain tasks and the effectiveness with which those tasks are performed has grown larger



So CFOs' expectations of the finance organization have evolved quite markedly over the past few years, as have their views on technology. Macro-economic and market factors still head the list of external forces they expect to have most impact on their enterprises in the near future. But technology is now third on the list – up from fifth place in 2010.

That said, many CFOs don't yet exploit the power of existing technologies as fully as they could. They use enterprise resource planning systems and analytical tools for about a third of their work. The rest of the time they rely on spreadsheets or old-fashioned intuition. Thus, the finance organization's responsibilities are expanding, but most finance departments haven't been able to keep up.

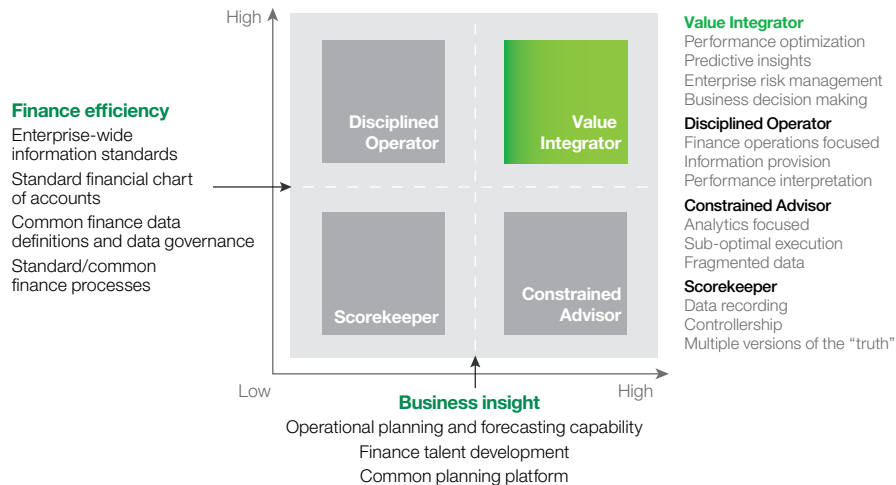
## Value Integrators still ahead of the game

Yet the news isn't all bad. Now, as in 2010, there's a small cohort of CFOs with finance organizations that would get top marks from any college professor. We discovered in our previous Global CFO Study that these Value Integrators were more effective than their peers in every area we assessed. They were especially good at measuring and monitoring business performance, managing risk and generating predictive insights (see Figure 3).<sup>4</sup>

This particular blend of skills equipped them to help their companies make smarter decisions – and the proof was in the numbers. The enterprises they represented consistently delivered superior revenues and earnings before interest, taxes, depreciation and amortization (EBITDA), as well as higher returns on invested capital (ROIC).<sup>5</sup>

**Figure 3**

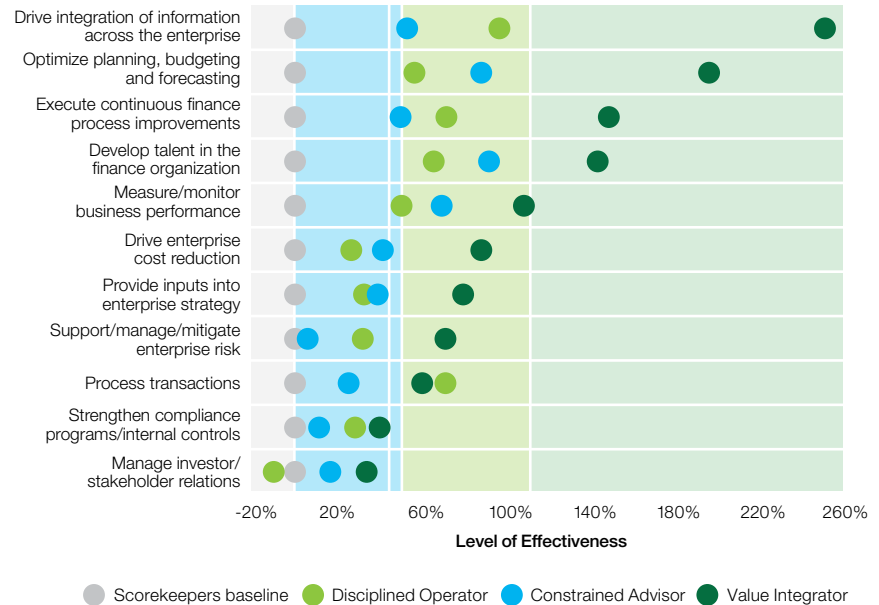
*Star turn: In 2010, we identified a group of finance organizations that outperformed the rest*



The same is true today. The Value Integrators in our latest study are better than their peers at integrating information from numerous internal sources. They're also better at planning, budgeting and forecasting, and continuously fine-tuning everyday financial processes. In fact, they're better at everything except transaction processing, where Disciplined Operators likewise excel and the difference between the two groups is marginal (see Figure 4).

**Figure 4**

*Sustained focus: Value Integrators are better at performing almost every finance activity*





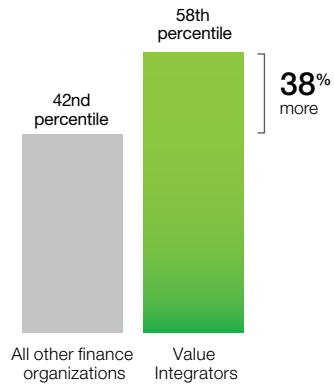
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Once again, this superior performance has produced concrete financial results. Over the past three years, Value Integrators have proved 38 percent more successful than other finance organizations, measured in terms of the revenues and profits earned by the enterprises they represent (see Figure 5).

**Figure 5**

*Money matters: Value Integrators help their companies achieve superior financial results*

**Average ranking on measures of profit and revenue**

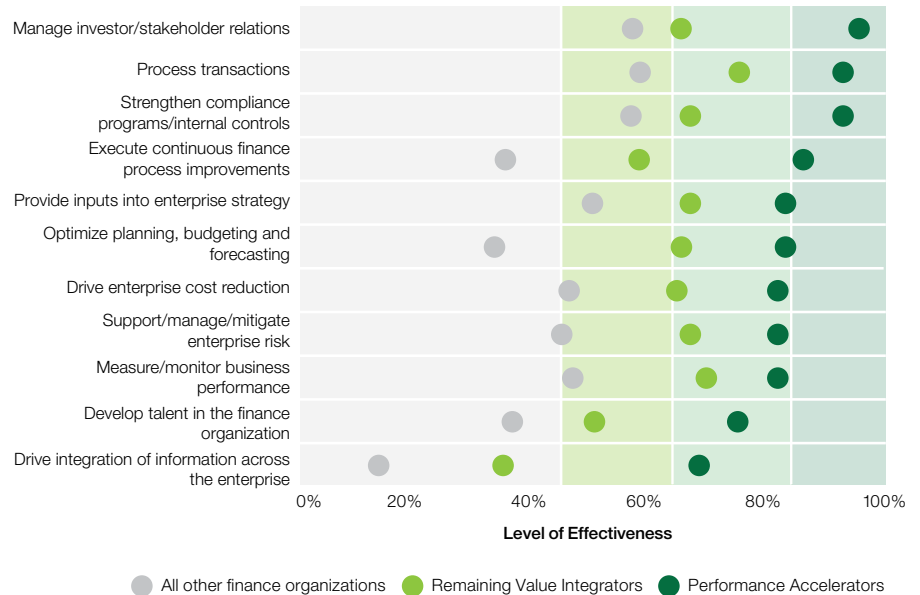


## Performance Accelerators push the frontiers

But our latest research shows there's a small subset of Value Integrators with an even more impressive track record. We've dubbed these superstars Performance Accelerators because they've mastered their core duties so thoroughly that they're far ahead of every other kind of finance organization – including their fellow Value Integrators (see Figure 6).

**Figure 6**

*Best of the best: Performance Accelerators outshine their fellow Value Integrators*



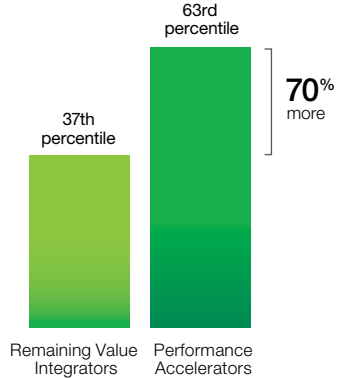
In fact, the percentage of Performance Accelerators that are effective at integrating enterprise-wide information is double that of the remaining Value Integrators. Similarly, the percentage that are effective at continuously improving the processes they use is 43 percent higher, while the percentage that are effective at developing finance talent is 48 percent higher.

Yet again, that's had a direct bearing on the results of the enterprises they advise. Performance Accelerators have been 70 percent more successful than their fellow Value Integrators, measured in terms of revenues and profits generated over the past three years (see Figure 7).

So what, exactly, differentiates Performance Accelerators from Value Integrators? Closer analysis shows they're neck-and-neck in terms of efficiency. But Performance Accelerators start to pull ahead when it comes to creating business insights. That's a precondition for profitable growth, and it's here that Performance Accelerators really hit their stride.

**Figure 7**  
*Fiscal flair: Performance Accelerators trump other Value Integrators when it comes to helping their firms succeed financially*

**Average ranking on measures of profit and revenue**



*“We’re adopting a two-pronged approach: first, making our transaction processing as efficient as possible, using global processes and shared services; and second, training our finance staff to be real business partners, not just financial analysts.”*

**CFO**, Technology, United States

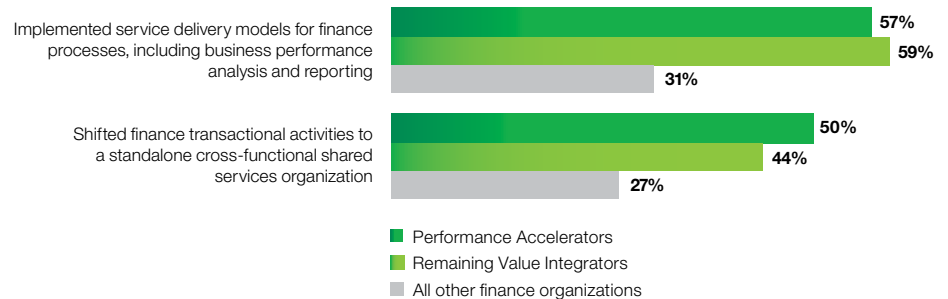
## Perfect your financial efficiency

One of the defining characteristics of Performance Accelerators and Value Integrators is that they typically operate much more efficiently than other finance organizations. They are, for example, 43 percent more likely than the rest of our sample to have a standard chart of accounts. They’re also twice as likely to use common finance data definitions and processes.

Similarly, more than half of all Performance Accelerators and Value Integrators have created a service delivery framework to guide the design, development and operation of key financial processes. And they’re more likely than other finance organizations to use a standalone, cross-functional shared services center for transactional financial activities (see Figure 8).

**Figure 8**

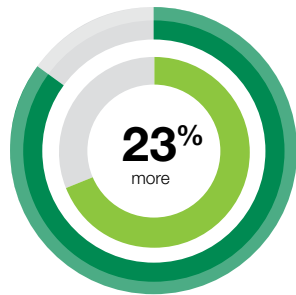
**One for all:** Many Performance Accelerators and Value Integrators use service delivery models



But the majority of Performance Accelerators have gone one step further, with the adoption of enterprise-wide information standards (see Figure 9). And it's this threefold combination – a clear service delivery framework and shared services model, together with common standards across the entirety of the business – that catapults a company into the next league. With a single point of responsibility and accountability for the consistent design and deployment of every financial process, regardless of business unit or territory, it's much easier to automate manual procedures, detect variations in performance and disseminate best practices.

**Figure 9**

**Uniform approach:** *Most Performance Accelerators use enterprise-wide information standards*



69%

Remaining Value  
Integrators

85%

Performance  
Accelerators

## Taking action:

### **Unify and simplify**

Create a single operating model. Establish centers of excellence to help ensure a consistent approach and generate economies of scale.

### **Get clean and lean**

Consolidate and standardize. Develop common financial data definitions, processes and reporting procedures to deliver a single version of the “truth”; automate wherever possible; use a shared services center to become more efficient; and encourage a culture of continuous improvement.

### **Connect the dots**

Forge seamless links between the different parts of the business, including customer-facing functions like marketing and sales, as well as back-office functions like manufacturing and distribution. Data and analytics are essential for efficiency, and both depend on common technologies and processes.

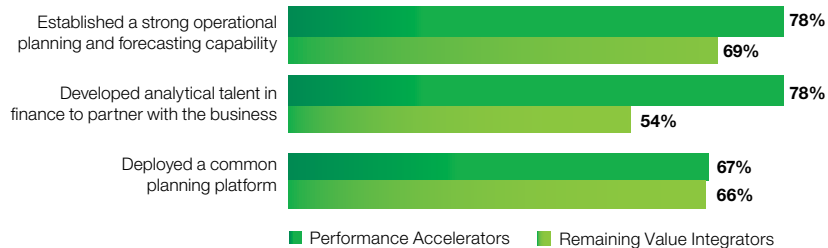
## Capitalize on business insights

We've talked about efficiency, but that's a prerequisite for something even more important: the ability to generate business insights. This is where Performance Accelerators start widening their lead.

Most have already put common planning platforms in place – as, indeed, have other Value Integrators. However, Performance Accelerators are also far more likely to have created a robust planning and forecasting process, and developed the analytical skills to partner with other areas of the business (see Figure 10).

**Figure 10**

*Future perspective: Performance Accelerators are better equipped to produce deep insights*



*“We’re currently working with the sales team to help our salespeople reach the customer. For the next three to five years, we plan to work on providing insights from different sources of information – sales, brands, packaging, pricing and the like – to generate higher profits.”*

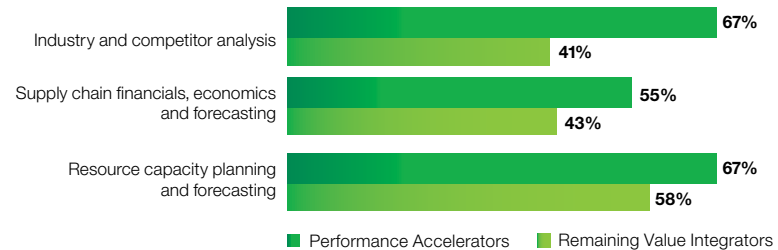
**CFO**, Consumer Products, Turkey

More than two-fifths of Performance Accelerators likewise combine internal and external data to produce these insights, whereas less than a third of all Value Integrators do so. The result? Performance Accelerators are more effective at conducting various forms of analysis. They're better at tracking and forecasting supply chain financial data, for example; better at forecasting resource capacity; and very much better at conducting industry and competitor analysis (see Figure 11).

This strong emphasis on analytics helps Performance Accelerators excel at scenario planning. A full 92 percent are good at working with colleagues to create timely, reliable forecasts for steering the business, and 74 percent are skilled at evaluating proposals from other parts of the organization. That compares with just 59 percent and 44 percent of Value Integrators, respectively. The percentage that are effective at assessing market trends and using predictive modeling to determine the best course of action is likewise much higher.

**Figure 11**

*The long view: Performance Accelerators are better at certain forms of analysis and prediction*





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## Taking action:

### **Hit the speed dial**

Align your data platform with your business priorities, embed analytics in every process and automate recurring analytical processes. The faster you can analyze the information you collect, the faster you can make decisions.

### **Merge to surge**

Integrate financial and operational data to get a deeper understanding of complex questions such as how much it really costs to serve individual customers, which ones are most profitable and what else you can offer them to generate sustainable increases in profit.

### **Read the signs**

Use advanced analytical techniques to predict future trends and prescribe the best course of action. It's impossible to be sure what tomorrow will bring, but analyzing all the variables provides a much clearer picture of the range of future possibilities – and your resulting options.

*“We’re spending less time on maintenance and more on strategic activities to facilitate innovation.”*

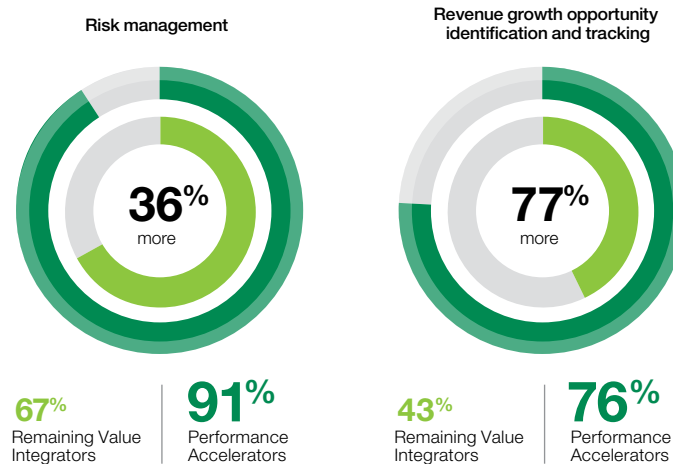
**CFO**, Professional Services, Brazil

## Create profitable growth

Lastly, Performance Accelerators use the deep insights they’ve unearthed to create profitable growth. They spend significantly more time than other Value Integrators on a wide range of activities, particularly forging an infrastructure to capitalize on big data, handling acquisitions and divestitures and developing new business models. They’re also more effective at managing risk and identifying new opportunities for revenue growth (see Figure 12).

**Figure 12**

*Leading edge: Performance Accelerators are better at managing risk and spotting new revenue sources*

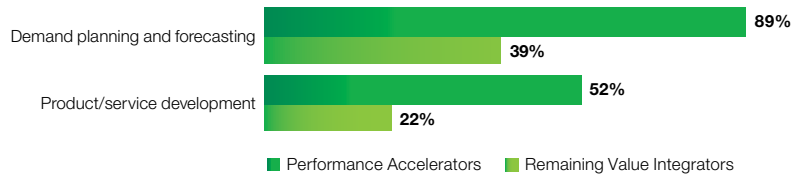


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But what defines Performance Accelerators – and really differentiates them from Value Integrators – is not just that they’re better at tasks normally regarded as part of the finance organization’s sphere of responsibilities. They’re more willing to enter new arenas, and more competent when they do so. Indeed, more than twice as many are effective at demand planning and forecasting and product/service development (see Figure 13).

**Figure 13**

*Explorers: Performance Accelerators are much better at performing activities that lie outside their usual sphere*



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*“We’re moving from a reactive approach based on financial analysis to a proactive approach based on business analysis, an understanding of the nuances of the business that goes beyond the strict numbers and hands-on involvement in developing solutions.”*

**CFO**, Industrial Products, Canada

## Taking action:

### **Encourage analytical acumen**

Foster the skills required to analyze integrated cross-functional financial and non-financial data. Some of these skills may sit outside the finance department – or, indeed, your entire enterprise – so you may need to look further afield.

### **Treat data as a natural resource**

Use the financial and operational data you've integrated to unearth new sources of value. Evaluate the marketplace and incorporate information from social media sources to identify new revenue streams and opportunities for business model innovation.

### **Pull everything together**

Model the strategic and financial implications of any such opportunities, select the best options (bearing the risks in mind when you evaluate them) and develop a roadmap. Then align your capital and other resources accordingly, and find partners to help you, where necessary or appropriate.

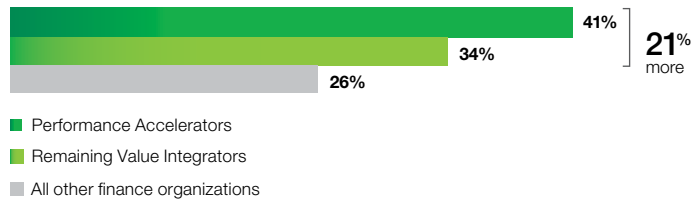
## Entering new territory

In short, Performance Accelerators exert more influence on the enterprises they serve, and make a bigger contribution to performance, than any other kind of finance organization. And they do so because they are particularly adept at generating deep insights that can be used to stimulate profitable growth.

But that's not the only reason for their success. The CFOs who head them also possess two distinguishing features. First, they have a much better grasp of the digital domain; nearly half work in companies with a seamlessly integrated physical-digital strategy. Second, they understand – and collaborate with – customers far more extensively than other CFOs (see Figure 14).

**Figure 14**

*Customer-savvy: CFOs heading Performance Accelerators understand their customers better than other CFOs*



*“We have a huge opportunity to help our colleagues understand and get closer to our customers.”*

**CFO**, Insurance, Mexico

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*“Finance has a role in bringing balance to the funding of innovation. We play a role in challenging ideas and calling out where they are not working. Finance applies discipline to the process.”*

**CFO**, Life Sciences, Unites States

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In fact, we expect to see much more collaboration between CFOs and CMOs in the future, as companies search for new sources of profitable growth. Enterprises in which the CFO's ability to analyze alternative scenarios is coupled with the CMO's ability to look outside the enterprise will be far better equipped to exploit opportunities the digital era offers.

Currently, less than a fifth of all CFOs include the CMO in their inner circle, but those who have a good grasp of the customer's perspective are much more likely to work closely with the CMO. This small cadre of CFOs is thus uniquely equipped to anticipate changes in the commercial landscape and help the enterprises they work for respond appropriately.

“Cost cutting isn't the answer to everything,” the CFO of an Australian consumer products company wryly noted. “We have to make our products more relevant to the needs of our customers – and that means understanding them better.”

The CFO of a U.S. energy supplier clearly agrees. “Technology's not only changing very quickly, new customers are using it in new ways,” he remarked. “What's our most important customer initiative, moving forward? The one we haven't thought of yet.”

There's no easy method of creating a customer-activated enterprise because it's very difficult to foresee – let alone fulfill – the changing needs and preferences of customers. But where the CFO is intimately involved in the process, the company seems far more likely to succeed.

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## How we conducted our research

This report is the fourth installment in our ongoing Global C-Suite Study, the seventeenth such IBM study to focus on the C-suite and the first to cover six major roles simultaneously. Our aim was to get a better understanding of the opportunities and challenges the members of the C-suite face, and how they are working together to support their organizations.

Between February and June 2013, we met with 4,183 top executives representing a wide range of public and private sector enterprises in more than 20 industries and 70 countries. They included 884 Chief Executive Officers (CEOs), 576 Chief Financial Officer (CFOs), 342 Chief Human Resources Officers (CHROs), 1,656 Chief Information Officers (CIOs), 524 Chief Marketing Officers (CMOs) and 201 Chief Supply Chain Officers (CSCOs).

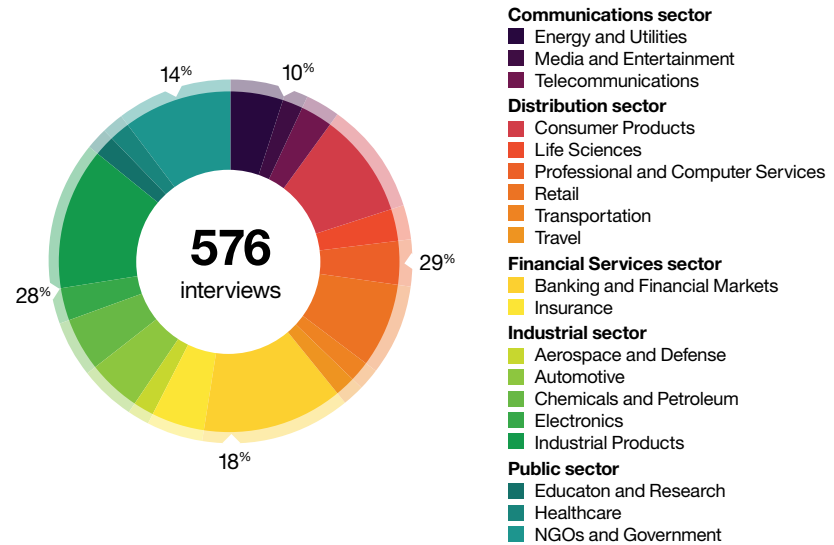
This installment focuses on the responses of the 576 CFOs around the world who participated in our study (see Figure 15).

We normalized the data to eliminate geographic distortions, using actual regional gross domestic product (GDP) for 2012. We also normalized for overrepresentation of individual roles, using a quota process to randomly select from oversampled CxOs.

Our research includes an analysis of the differences between the responses of CFOs in effective and ineffective enterprises, and those in financially outperforming and underperforming enterprises, based on how they assess their own enterprises. We asked CFOs to rate their organization's ability to perform 12 key financial capabilities. We also asked them to rate their organization's three-year revenue growth and profitability relative to that of its industry peers.

**Figure 15**

*Sector spread: We spoke with CFOs from more than 20 industries*





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**IBM Institute for Business Value**

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