THE ENTERPRISE OF THE FUTURE

IMPLICATIONS FOR THE CFO

IBM

GLOBAL CEO STUDY

INTRODUCTION

In our third biennial CEO Study, "The Enterprise of the Future," which is based on personal interviews with 1,130 CEOs from 40 nations and 32 industries, we discovered five major aspirations. CEOs want their organizations *to be hungry for change*, *to seek innovation beyond customer imagination* and *to become globally integrated*.[1] They are also fashioning their companies *to be disruptive by nature*, introducing new business models that can alter the nature of their industries and catch competitors off guard. And they want their businesses *to be not just generous*, *but genuine*, demonstrating a commitment to social good that transcends traditional notions of philanthropy.

Looking across this new agenda, in which of these areas will the contribution of the CFO and his or her organization be critical? The short answer is all five. With an encompassing view of the business, access to vital information and the ability to analyze, report and advise, the CFO can provide the necessary insights and control that make the Enterprise of the Future a reality.

HUNGRY FOR CHANGE

CEOs anticipate staggering amounts of change ahead. Are CFOs and their organizations shining the headlights in the right direction? Can their analytical expertise help the entire enterprise manage change more effectively?

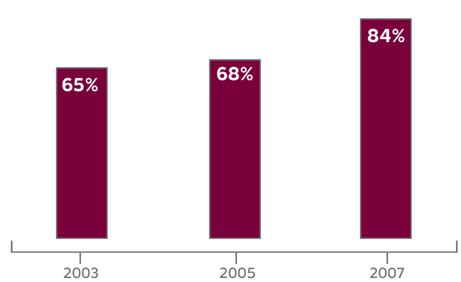
The Enterprise of the Future is designed to change quickly and successfully; but more than just responding to change, it actually anticipates and leads change. It perceives market and industry shifts not as a mortal threat, but as a chance to surpass the competition. The CEOs we spoke with see change coming from all quarters, but market factors, people skills and technological factors top the list in terms of predicted impact on their organizations. More CEOs than ever – eight in ten – not only foresee dramatic change but also plan to make bold moves in response.[2] Yet the confidence of CEOs to enact that change is not nearly as high.

Enter the CFO – in what will perhaps be his or her biggest role in the CEO agenda. With capabilities to manage both performance and risk, the CFO is well-positioned to help the organization change rapidly and effectively. Therefore, perhaps it is no surprise that CFOs place increasing importance on measuring and monitoring performance (see Figure 1).

Building off ERP platforms implemented over the last ten years, the finance organization can use this momentum to drive the implementation of comprehensive information management systems. Although ERP systems are effective at regulatory and statutory reporting, the finance organization must expand these platforms to include flexible and robust management information reporting capabilities.

FIGURE 1 THE IMPORTANCE OF MEASURING AND MONITORING PERFORMANCE CONTINUES TO RISE AMONG CFOs

Percentage of CFOs and senior finance professionals placing high importance on performance management.



Source: IBM Global CFO Studies in 2003, 2005 and 2008.

Performance management – with a promise of timely, relevant management information – provides the insights crucial to navigating times of accelerating change. Our most recent Global CFO Study found that enterprises that make good on that promise integrate information across the enterprise, financially outperform peers and manage risks more effectively.[3] Meanwhile, the latter provides the control necessary to act amid growing uncertainty.

The majority of management reporting fails to incorporate a holistic view of risk. Traditionally, Finance has defined risk rather narrowly, with the focus primarily on factors such as credit, liquidity and compliance. But with risks emerging on so many fronts, CFOs must now be capable of evaluating a growing list of market, geopolitical and operational risks as well. Despite the overwhelming prevalence of risk, our most recent CFO study found that only half (52 percent) of those surveyed had any sort of formal program to manage it.[4] To change effectively, organizations will need CFOs who are masters at starting the cross-silo dialogue and creating a corporate risk management framework.

David Viniar, CFO of Goldman Sachs, clearly demonstrates how Finance can have great influence on the firm's strategic and analytical thinking. In late 2006, he convened a "mortgage risk" meeting to review the firm's full portfolio with his fellow executives. There, he made a case for reducing the bank's stockpile of mortgages and mortgage-related securities and buying expensive insurance to protect against further losses.[5] The CFO's insights proved extremely valuable: while many of its competitors wracked up huge losses with the onset of the credit turmoil in 2007, Goldman enjoyed gains in share price during the year. As the credit crisis deepened, Goldman has been unable to escape tumbling shares but its decline has been less severe than most competitors.[6]

Finance aspires to move beyond "taillights" – historical reporting – to a keener sense of "headlights", with which to illuminate the future direction of the enterprise. To be effective, Finance is going to need stronger decision support capabilities: predictive models/tools and perceptive people. Just as the enterprise as a whole needs to seed itself with "visionary challengers" and provide them with the freedom to spur meaningful change, the finance organization needs to do the same. Of course, the CFO's organization is always going to need control and accounting skills – the vital core of its special competence – but to have greater influence and relevance, it is also going to need people who can think strategically and analytically, with an eye not only on the past and present but on the future as well.

Are you ready?

How are you improving decision support capabilities within the finance organization?

How broad is your view of risk? And is risk management integrated into performance management processes?

What are the more discriminating and useful measures to track not only the degree but the effectiveness of change?

INNOVATIVE BEYOND CUSTOMER IMAGINATION

CEOs are investing in new markets and new ways to engage more informed and collaborative customers. But are CFOs guiding them toward the best bets or simply policing budgets?

Customers are becoming more demanding and sophisticated, and CEOs are investing more to serve them. Rising prosperity, particularly in developing countries, is creating new growth opportunities for many companies. Just consider the possibilities unleashed by hundreds of millions of new middle-class consumers in China and India. But tapping into new geographic and demographic markets will require a far deeper understanding of customers and a much more tailored approach.

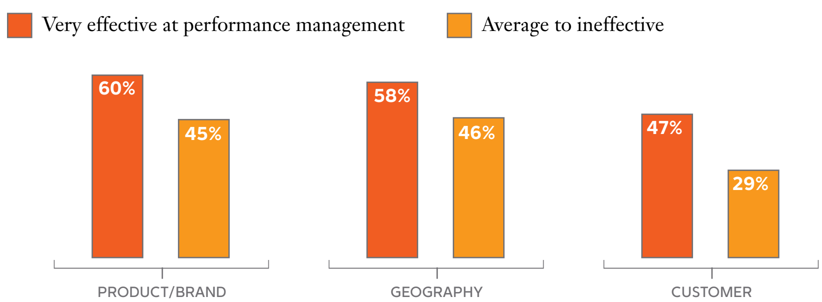
More products. More segments. More markets. As the number and complexity of opportunities grow, enterprises are counting on their CFOs for sound advice. Where should they place their bets, particularly when capital is scarce? How much leeway should risky endeavors be given? To make prudent capital allocation decisions, CFOs must have a keen understanding of opportunity as well as risk – and the timing implications of both.

CFOs and key executives need to understand their situations before they can make intelligent decisions in a fluid and dynamic marketplace. Although finance executives have historically majored on the financial impact of such decisions, they now must have equally sophisticated business acumen, too. Finance has an opportunity to help synthesize the necessary financial and nonfinancial data to support risk-adjusted business decisions. To assess business cases, Finance needs a systematic method for evaluating potential opportunities, which links performance and risk management to build a more accurate picture of the true costs and benefits. CFOs must enable strategic analysis by providing a single version of "the truth" across the enterprise. Enterprises must be able to depend on information veracity and make "apples to apples" comparisons among various customer, segment, product and market opportunities.

The findings from our Global CFO Study suggest that organizations that are highly effective at performance management are much more likely to focus on product, geographic and customer dimensions (see Figure 2). A combination of financial and operational data allows for unique insights and market intelligence that can help shape or influence customer behavior.

FIGURE 2 EFFECTIVE PERFORMANCE MANAGEMENT PROVIDES BROADER INSIGHTS

Finance organizations with very effective performance management reported more consistently than their less effective peers.



Source: IBM Global CFO Study 2008.

Further, and perhaps most important, enterprises need the ability to predict shifts in customers' preferences. Highly effective organizations are one and one-half times more likely to use predictive analytics. Those capable of reacting quickly – acting even before shifts become broadly evident – are effectively gathering and integrating disparate data to gain new customer insights. They are charging their finance organizations with developing new measures to detect shifts. And their finance organizations have the skills and processes in place to be able to analyze and draw insights from this integrated data.

Are you ready?

How are you helping the business detect shifts in customer preferences and behaviors?

How easily and objectively can you compare business cases across different products / brands, geographies and customers?

What complexities and silos are impacting your enterprise's ability to gain new insights?

GLOBALLY INTEGRATED

CEOs are making major business design changes to capitalize on global integration opportunities. But are finance organizations in a position to enable these transformations? Can Finance integrate itself globally?

As the world becomes more connected and accessible, CEOs see great opportunity to expand their global reach, tapping new sources of expertise and new markets. Global integration means new business designs that facilitate easier, faster and more extensive collaboration on a worldwide scale – and crucially, rapid reconfiguration when new opportunities appear. The question is: does Finance have the necessary flexibility not only to accommodate but to enable these enterprise-wide changes?

The findings from our Global CFO Study suggest a fundamental prerequisite for CFOs who intend to be indispensable, trusted advisors: integrate your finance organizations. Among the more than 1,200 CFOs we interviewed, those with enterprise-wide data definitions, a standard chart of accounts, and standardized processes – or Integrated Finance Organizations (IFOs), as we call them – have an advantage.

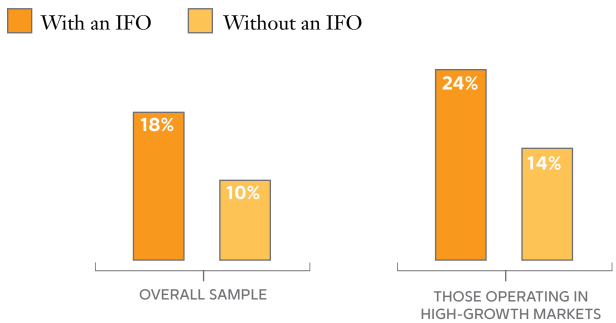
Though it may sound counterintuitive at first, standardization creates transparency and flexibility. Common processes, data definitions and system platforms allow enterprises to combine, integrate and reconfigure capabilities as required. This is true not only at an enterprise level, but within Finance itself.

IFOs help create a common "financial language" across the enterprise that makes meaningful, objective comparisons possible. This standardization also makes rollups of financial data less onerous. If profitability, for example, is defined consistently across product lines and divisions, enterprises can more easily and accurately determine customer profitability. Simply put, Finance spends less time reconciling data – and more time discerning valuable insights.

New insights can also be focused on the top line. In fact, compared to their less standardized peers, enterprises with IFOs enjoyed nearly double the compound annual revenue growth rate (see Figure 3).[7] And, since IFOs were distributed proportionally across our broad study sample, we can infer that they are a better practice, and not just a reflection of enterprise management structure, sector, revenue size or geography. They represent a broader corporate philosophy of governance and collaboration.

FIGURE 3 ENTERPRISES WITH AN IFO ARE REWARDED FINANCIALLY

They have five-year revenue compound annual growth rates nearly double those of non-IFOs.



Source: IBM Global CFO Study 2008.

Creating a common language across the enterprise not only helps eliminate seams and gaps between lines of business, but also generates insights that might not be apparent in a single business unit's view. Enterprise-wide standards can also help simplify technology and enable more cost-effective delivery models like shared services and outsourcing.

Process and data commonality also allow for scalability and adaptability to new business models. Within the finance organization itself, CFOs can optimize their operating models by consolidating routine, repeatable activities to capitalize on economies of scale, specialized labor and implementation of best practices. Indeed, in our Global CFO Study, we found that IFOs are twice as likely to use transactional shared services and three times as likely to use outsourcing as their non-IFO counterparts. They're also three times more likely to establish centers of excellence for decision support. These delivery models enable the finance organization to more readily process the acquisitions and divestitures required to reshape the enterprise's business model.

To accelerate integration, organizations should consider establishing global owners for key processes. Global process ownership is critical to overcoming internal boundaries and barriers. More than 70 percent of IFOs versus 20 percent of non-IFOs have instituted global process owners.[8] Ownership establishes responsibility and accountability for consistent process design and deployment. It also facilitates sharing of best practices and continuous improvement. Global process ownership serves as a governance mechanism, allowing controlled localization when appropriate.

Historically, the Switzerland-based power and automation technology company ABB Ltd.'s decentralized business model enabled rapid expansion into over 140 countries and integration of approximately 1,000 legal entities. However, Corporate and Group CFO Michel Demaré realized that ABB's complexity needed to be simplified to capitalize on 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." Its journey to global integration began in 2005 when ABB embarked on "One Simple ABB" (OsA). OsA is driven from the corporate center and sets ambitious consolidation and integration goals related to ERP, Finance and HR for each country.[9]

Most enterprises' worldview of globalization does not match today's reality; they allow a proliferation of local standards when, more than ever, governance, transparency and information integrity need to be consistent 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 and flexible, helping them outperform their peers. To get there, CFOs should take ownership of their finance processes enterprise-wide, simplify their technology and delivery models and provide a new, single version of the truth to their enterprises.

Are you ready?

How consistent are your processes and data definitions across the finance organization?

Who is responsible for stewarding enterprise information and maintaining "the truth"? If not Finance, do you have a sufficient voice in the stewardship?

What role are global process owners playing in your standardization efforts?

DISRUPTIVE BY NATURE

Business model innovation – particularly changes to enterprise models – is high on the CEO agenda. Will Finance prove to be an obstacle or an enabler?

Nearly 70 percent of CEOs are embarking on extensive business model innovation.[10] They're changing their business models because it is increasingly difficult to differentiate their enterprises based on products and services alone. In other words, how enterprises make something is becoming as important as what they make. CEOs are also changing business models because they now have the means to do so. Technology, for instance, is allowing enterprises to find niche markets. Processes are becoming more Internet-based, and new delivery channels are overturning entrenched industry conventions.

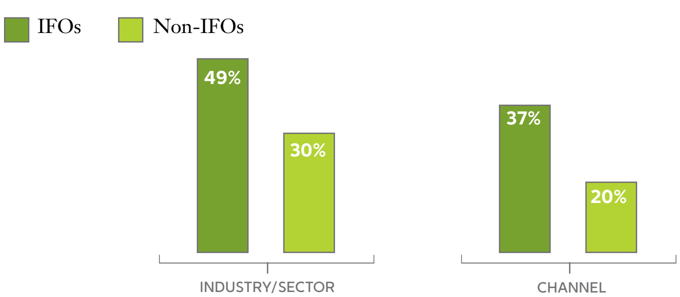
To be competitive in this new environment, enterprises need to be more predictive, which means having the necessary information at hand. The most successful enterprises will be watching other industries for concepts and business models that could transform their markets. So, what is Finance's role in helping the enterprise become a disruptor instead of a reactor?

One of the most critical contributions CFOs and their organizations can make is providing market intelligence interwoven with valuable channel and financial insights (see Figure 4). In an uncertain and changing environment, Finance must provide leadership in areas well beyond accounting. CFOs must help set strategic direction and grow the business. They must have historical hindsight and a fact-based perspective on the future to support entrepreneurs and new business models while maintaining and improving today's performance.

From the Global CEO Study, we learned that the most prevalent business model changes are those related to enterprise models; 44 percent of all CEOs are implementing enterprise model innovations over the next three years. They are focused on becoming more specialized and differentiated by rethinking what is done in-house versus through partners. Implementing these innovative business models requires greater levels of collaboration, both internal and external.

FIGURE 4 IFOs PROVIDE BROADER INSIGHTS

IFOs reported on industry and channel dimensions more consistently than their less integrated peers.



Source: IBM Global CFO Study 2008.

For example, as the Korean shipping company STX Pan Ocean pursued ambitious growth and evolved from a regional player into one of the world's top five shipping companies, CFO Yong Hee Byun realized his finance organization needed to quickly adapt and evolve. Byun led an effort to transform and link the company's core processes (including shipping services, Finance and Accounting, and customer information management) with its technology infrastructure. As a result, STX Pan Ocean created stronger decision support; reduced the time required to prepare management reports on market fluctuation, business/investment opportunities and risk hedging; and centralized views of the operational portfolio, sales performance and scenario-based sales forecasts.[11]

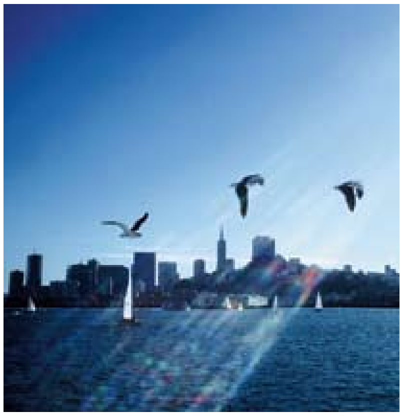
Business model innovation that cuts across divisions, functions and departments requires the integration of strategy, data and technology. The finance organization can facilitate innovation by standardizing and simplifying processes and information definitions wherever possible. For instance, it can create a governance structure to help ensure common information standards, or rationalize budgeting and forecast tools. To make decision support more robust, Finance also needs to incorporate external market, competitor and customer data to strengthen the underlying assumptions of its planning and forecasting models so that executives can more confidently take bold action to innovate their business models and potentially disrupt the industry to their advantage.

Are you ready?

How is Finance laying the groundwork to help identify and enable new business models?

Who is responsible for supplying data and analysis to drive insight?

How are you identifying and learning from best practices in other industries?



GENUINE, NOT JUST GENEROUS

CEOs are increasing investment in corporate social responsibility (CSR) by 25 percent over the next three years. How can Finance ensure the business does well while doing good?

An emerging generation of socially minded customers, workers, partners, activists and investors is watching virtually every move that companies make. And when they see moves they do not like, they spread the news around the world in seconds through e-mail, blogs, social networks and the like. However, CEOs – almost 70 percent of them – believe customers' rising CSR expectations are actually an opportunity, a chance to differentiate.[12] As a result, CEOs are investing in CSR initiatives that touch on all functions within the value chain.

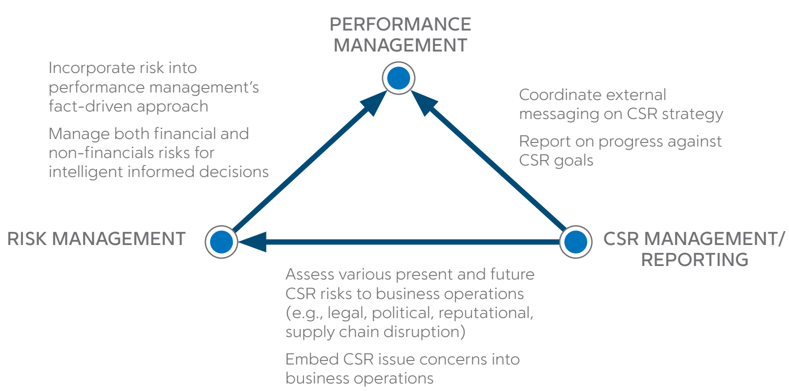
Across industries, companies are beginning to integrate CSR into their broader corporate strategies. Increasingly, as CSR itself becomes more pervasive and sophisticated, the CFO will be called upon to consider issues like the linkage of CSR initiatives to the enterprise's value drivers; the quantification of the costs and benefits of CSR; the tracking of real assets (for instance, carbon offsets);

and the financial risks of *not* complying with CSR sentiments. As a result, CSR may mature into another input of a broader performance and risk management framework (see Figure 5).

In this arena, the CFO can lend sobriety and structure to a program that sometimes can be carried away by strong ideals and passions (both for and against). The CFO serves as conscience and intellect, reminding the organization that all CSR initiatives have costs and benefits that need to be quantified and carefully weighed like any other business decision. The point of this guidance is neither to expose companies to the risks of CSR inaction, nor to dissipate valuable resources in initiatives with little return. To help drive CSR activities, Finance is uniquely positioned to be the steward for CSR data and help with the performance monitoring and reporting. Finance can also play a role in incorporating CSR into the enterprise's overall performance management strategy and establishing processes and systems that integrate information across the entire value chain.

FIGURE 5 CSR IMPACTS PERFORMANCE AND RISK MANAGEMENT

CSR reporting will mature into another input for performance and risk management.



Are you ready?

Is CSR on your radar?

Do you have the ability to quantify the true costs and benefits of your enterprise's CSR activities?

Are you incorporating CSR considerations into performance and risk management?

CONCLUSION

CFOs have a major and perhaps even decisive role to play in accomplishing the new CEO agenda revealed in the IBM Global CEO Study. In an enterprise hungry for change, the CFO's organization will need to provide stronger decision support to anticipate shifts, better risk management to guide decision making, and more sophisticated measurements to judge effectiveness.

To help the enterprise become innovative beyond what its customers can imagine, Finance will need a level of business knowledge commensurate with its accounting expertise, more effective methods for predicting market shifts, and data and process commonality that allows meaningful comparisons among innovation initiatives.

As the business strives to become more globally integrated, the CFO has the opportunity to lead the way by modeling how to operate as an integrated, enterprise-wide function within his or her own organization.

With the enterprise growing more disruptive and constantly experimenting with new business models, someone must provide a single version of the truth and risk-adjusted market intelligence for fact-based decisions. Plus, the CFO will need to get the finance house in order – simplifying and standardizing or, in other words, establishing an Integrated Finance Organization – so that it becomes an enabler of new models, not a hurdle to overcome.

And as the enterprise begins to demonstrate its genuine concern for society and shoulder greater social responsibilities, the CFO faces a tight-rope task. He or she must guide the enterprise toward sound CSR decisions – without squelching the passion vital to its transformation – and manage the impact of CSR on performance.

For many CFOs – especially those accustomed to a role centered on data collection and reporting – the adjustment to these new realities and demands may be somewhat painful and perplexing. But those that grab the mantle of trusted business advisor will help build the Enterprises of the Future.

FOR MORE INFORMATION

We look forward to learning more about where your finance organization is headed. For additional information about the Global CEO Study and its implications for CFOs and finance organizations worldwide, we invite you to e-mail one of the following contacts or visit **ibm.com**/bcs/financialmanagement

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IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
January 2009

GBE03147-USEN-00