CFO Finance Performance & Efficiency Roundtable

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IBM GBS BAO ASEAN
Today’s Agenda

- Role of the CFO
- Highlights of the IBM CFO Study
- CFO Solution
- Why IBM?
Uncertainty – The New Normal
Velocity and Volatility

The world has been transformed from a series of loosely connected economies with reasonably predictable flows between them to a complex web of relationships where the global impact of local events is felt almost instantaneously.

“Over 60% of Finance executives believe that when the recovery takes hold, the heightened uncertainty in the business will remain.”

CFO Magazine/Duke University Business Outlook, September 2009

Sense that volatility, uncertainty and risk are going to be part of the new economic landscape.
The Competitive Landscape

• Major acquisition of Companies in the U.S. and Europe.
• Fierce global competition from and in Emerging Markets.
• Extraordinary amount of change:
  – Scientific developments.
  – Societal changes (attitudes/ageing).
  – Industrial Policies, especially Green Revolution.
  – Corporate ethics & responses to corporate collapses.

Implication for CXO’s

• Continuous Strategic Planning.
• Emphasis on the rapid Adaptability.
• More rapid decision making.
• Reduction of complexity.
Evolution of the Finance Function

**Cash**
Significant changes have and are continuing to take place which have a major impact on the finance function and the role of the CFO.

**Language of Finance**
Increased move from financial function away from a focus on transactional activities to more strategic roles within the organisation – from a “control” role to a “planning & management” role.

**Business Analysis**

**Business Planning**
No longer just “chief steward”, increasing “strategist/business partner” activities.

**Business Partner**
The Changing Focus of Financial Management

- Decision Support: 10%
- Controls: 30%
- Reporting: 20%
- Transaction Processing: 40%

Role Transformation
- Process Redesign
- Value Added Services
- Integrated Systems & Shared Services

Sharing Responsibility
- Decision Support & Risk Management: 50%
- Controls: 10%
- Reporting: 20%
- Transaction Processing: 20%

Efficiency/Effectiveness
CFO’s Transitioning Role

• The CFO’s role within the organisation: External and organisational forces have altered the scope of the finance function within an organisation, expanding its borders to areas such as operational decision support and corporate governance. In addition to the traditional functions such as financial statement presentation and cash flow management. The CFO’s role has evolved with these changes.

• Expectations of external stakeholders from the CFO: Financial and accounting improprieties by some of the world’s largest corporations in recent years have thrust the CFO into intense public scrutiny. External stakeholders are increasingly demanding that the CFO relentlessly commit to corporate governance compliance and assume responsibility for corporate financial results to ensure public trust.

• The CFO Career path: With an expanded corporate role and heightened visibility, we see that the CFO’s position is often a springboard to the CEO position. More and more Corporate Boards are considering the CFO as a natural successor to the CEO.

This evolution and expansion of the CFO’s role, the corporate CFO’s visibility as a key arbiter of public trust and his potential career progression to the CEO level has elevated the CFO to a position of increasing importance, influence and public scrutiny. Significantly, it is expected that the CFO role evolution is more apparent in developed economies and within multinational corporations.
CEO’s Increasingly Turning to CFO’s

• Influence Decision Making
• Craft Internal and External Strategies
• Communicate to and Help Manage the Board
• Manage other Functions
• Help Manage Operating Companies
• Help Corporate Financial Literacy
• Add Economic Value
• Help Manage the CEO
CFO of the Future involves Leadership & Stewardship

Leadership

- Management Advice & Performance Management
- Stakeholder Management
- Planning & Resource Management

Stewardship

- CFO Organization Management
- Financial Accounting & Reporting
- Risk Management & Control
- Policy Development
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According to the 2010 IBM CFO study, CFO’s are taking a more prominent role in enterprise decision making.

### Elevated Role of Finance

*Role of Finance in Driving Decisions Across the Enterprise*

<table>
<thead>
<tr>
<th>Issue</th>
<th>Advisor (e.g., analysis and insight)</th>
<th>Decision Maker (e.g., create a plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise cost reduction management</td>
<td>45%</td>
<td>44%</td>
</tr>
<tr>
<td>Selection of key performance indicators</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>Capital asset management</td>
<td>34%</td>
<td>50%</td>
</tr>
<tr>
<td>Risk management</td>
<td>41%</td>
<td>42%</td>
</tr>
<tr>
<td>Prioritization of resource allocation</td>
<td>53%</td>
<td>26%</td>
</tr>
<tr>
<td>Strategic revenue planning</td>
<td>54%</td>
<td>24%</td>
</tr>
<tr>
<td>Business model innovation/ reshaping</td>
<td>59%</td>
<td>19%</td>
</tr>
<tr>
<td>Information management strategy</td>
<td>39%</td>
<td>33%</td>
</tr>
</tbody>
</table>

> Over 70% of CFOs believe they have an advisory or decision making role on the Enterprise agenda.

Source: 2010 IBM Global CFO study
Finance continues to struggle with structural complexity due to issues related to automation and standards

Efficiency Challenges

- Nearly 40% of enterprises produce financial metrics manually
- Finance continues to spend nearly 50% of time on transactional activities
- Over 35% lack a common reporting platform
- Over 25% lack the necessary common data definitions and processes

Source: 2010 IBM Global CFO study
The majority of enterprises are not able to effectively deliver business insights.

**Business Insight Challenges**

- Nearly 50% lack a common planning platform
- Over 50% manually producing operational metrics
- 55% not satisfied with their operational planning and forecasting analytical capability
- 44% are poor to average at anticipating external forces

Source: 2010 IBM Global CFO study
Value Integrators implement a common reporting platform and a common planning platform to a greater extent.

Technology: Applications Rationalization

- **Value Integrator**
  - Common reporting platform: 85%
  - Common planning platform: 79%

- **Disciplined Operator**
  - Common reporting platform: 65%
  - Common planning platform: 46%

- **Constrained Advisor**
  - Common reporting platform: 65%
  - Common planning platform: 65%

- **Scorekeeper**
  - Common reporting platform: 46%
  - Common planning platform: 27%

Source: 2010 IBM Global CFO study
Advancing analytical capabilities improve the Value Integrator’s effectiveness against the #1 CFO agenda priority – ‘providing inputs into enterprise strategy’

Evolution of Analytics and Value Integrator’s Effectiveness in Providing inputs into Enterprise Strategy

- Operational Planning and Forecasting: +65%
- Scenario Planning: +75%
- Predictive Analytics: +89%

Source: 2010 IBM Global CFO study
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CFO of the Future Responsibilities

- Time available
- Business support
- Statutory reporting
- Risk management
- Cash management
- Policies framework & implementation
- Strategic planning
- Transaction compliance & planning
- Transaction processing
- Providing capital
- Communication
- Thinking
- Continuing professional education, e.g., IFRS
The Performance Challenge for Finance

- More than 50% manually produce operational metrics
  
  CFO Survey, IBM Institute of Business Value, 2010

- Finance continues to spend nearly 50% of their time on transactional activities
  
  CFO Survey, IBM Institute of Business Value, 2010

- 47% of a financial analysts time is spent on collecting and validating information
  
  APQC Survey, 2009

- Over 25% lack common data definitions and processes
  
  CFO Survey, IBM Institute of Business Value, 2010
How Answers are Often Found

Why?

How are we doing?

What should we be doing?

FINANCE

INTERNAL DATA

EXTERNAL DATA

ERP

HR

CR

RETAIL

TBS/D

AC NEILSON
Typical Processes and Areas of Financial Analytics

Objectives – Partner with the Business to enable strategic profit improving actions through efficient and effective analysis
IBM Cognos TM1 Gives our Customers a Better Way for Financial Analytics
Provide a CFO dashboard with an enterprise focus

- **General Accounting & Financial Management**: monitor key financial KPI’s including general accounting, financial statements, AR/AP/GL analysis.
- **Planning & Performance Management**: monitor critical financial and operational planning and performance management KPI’s.
- **Risk Management**: monitor critical financial and operational risk KPI’s.
General Accounting & Financial Management

- Automate production of key financial metrics.
- Dynamic reporting.
- Ad-hoc Analysis.
- Drill-through to transaction detail.
- Business self-service.
Planning & Performance Management

- Automate production of operational metrics – leading & predictive indicators.
- Incorporate KPI's from revenue, expense, workforce, capital and operational plans and forecasts.
- Integrate what-if scenario planning.
- Model business outcomes & perform sensitivity analysis.
- Evaluate performance gaps.
Risk Management

CFO Dashboard
Assess & Respond

- Define and monitor Key Risk Indicators (KRIs).
- Model and incorporate risk events, effects and risk-mitigating initiatives.
- Reflect into strategic and operational plans.

Example of compounding effect of risks at a major food manufacturer:

<table>
<thead>
<tr>
<th>Event</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency strengthens...</td>
<td>Since bulk of revenue is in U.S. dollars while reported results are in Canadian dollars, the stronger foreign currency resulted in a lower revenue figure on the income statement, while costs remained relatively flat</td>
</tr>
<tr>
<td>Canadian government restricts water exports...</td>
<td>The restricted water exports damage the supply of raw materials and increase the cost to the organization while sales opportunities are lost, which in turn leads to pricing pressures and volume difficulties</td>
</tr>
<tr>
<td>Weak results cause goodwill write-off...</td>
<td>Due to weaker results, goodwill (for accounting purposes) no longer has economic value and is therefore written off</td>
</tr>
<tr>
<td>Debt covenants are violated...</td>
<td>This, in turn, affects the debt-equity ratio and causes the violation of certain debt covenants</td>
</tr>
<tr>
<td>Dividends are suspended...</td>
<td>The violation of debt covenants requires a suspension of dividends</td>
</tr>
</tbody>
</table>

Source: IBM Institute for Business Value analysis.
Assemble trusted information from all data sources and applications

Leverage existing infrastructure
- Financial Systems
- ERP
- Legacy Systems
- Data Warehouses

Relational and dimensional sources
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How do you get started?

Industry out-performers are 8 times more likely to pursue information-led transformation at an enterprise level than industry under-performers.

**IOD Software & Solutions:**
Information Infrastructure

**Information Agenda:**
BAO Strategy Services

- **Plan an information agenda**
- **Establish a flexible information platform**
- **Apply business analytics to optimize decisions**

**BI/Performance Management,**
Advanced Analytic & Optimization Services
IBM Business Analytics & Optimization

- Over $15B in software investments since 2005
- New division for Business Analytics
- Over 4,000 dedicated Business Analytics and Optimization (BAO) consultants
- Creation of 6 BAO Analytic Solution Centers
Performance Management System

Financial Performance Management Solutions

Revenue
Expense & Capital
Workforce
Operations

Analytic Applications

Financial
Workforce
Supplier / Procurement
Customer / Sales

Plan, Forecast, and Control
Close, Consolidate, and Report
Analyze and Optimize

FINANCE
MARKETING
HR
SALES
OPERATIONS
PRODUCT DEVELOPMENT
CUSTOMER SERVICE
IBM CFO Roundtable
ASEAN Clients in 2009