

Are You Superbly Agile?

A globally integrated enterprise focuses on the right costs, the right skills and the right business environment. But does the finance discipline have the flexibility to accommodate and enable this innovation?



Globally integrated enterprises get a big tick in the IBM® Global CFO Study 2008 (due for release in Australia and New Zealand early 2008) which predicts a corporate evolution that will spur new innovative business models focused on operations and functions.

CFOs need their organisations to perform. In the globally interdependent marketplace, they want to outperform their peers with consistently strong growth. They need to be superbly agile to change, tenacious with unexpected opportunities and resilient to risk. Some CFOs attempt to do so by letting their business units and geographical units conduct finance activities according to specialised standards and provincial preferences. However, early findings in the Global CFO Study 2008 suggest this to be increasingly a problematic approach.

Standardising Your Enterprise

The notion of being 'global' is evolving beyond a multinational structure, or mere presence in different countries, toward establishing an interdependent network of worldwide assets with the ability to optimise resources horizontally and vertically. Successful CFOs are providing the truth (a single set of facts about the business that reflects the reality of the enterprise's performance generated by hard data) and taking a lead in risk management.

Leading property group, Lend Lease, is headquartered in Australia and operates in a number of countries across a range of business units. Over the past two years the company's Group Finance Director, Steve McCann, has implemented an integrated business model built around capital recycling. The initiative aims to deliver the best possible return on shareholder equity by working across Lend Lease's business units.

"The best projects are where we develop, we build and then we manage, because we get returns from each of those aspects and it drives our return on capital," said McCann¹.

McCann says the finance function plays an important role at both the front end, in securing projects and approving the allocation of capital to the right projects, and in the delivery of outcomes.

"We make sure we're a service provider to the businesses. It's up to them to tell us the best way to run their businesses and it's up to us, as a finance function, to make sure that we extract the best value from each project and the best synergies across the businesses that we can," he said.

Lend Lease's split business planning process is overseen by the finance function. It involves a strategic planning process, which produces three-year and ten-year business plans, and a business planning process which represents the financial components of the business plans.

"By separating the two functions we can focus on establishing and agreeing what the real value drivers are, and then measuring performance against those value drivers and then incorporating that into our budgets."

Owning the Truth

Many enterprises' worldview of globalisation is mismatched with the reality of globalisation today. They bring a proliferation of localised standards when, more than ever, governance, transparency and information integrity need to be maintained throughout the enterprise.

Enterprise standardisation can help to open up new dimensions (for example, customer channels and suppliers) and new ways to view volumes, revenues and profits. Data standards allow an organisation to define critical items consistently across the enterprise. Enabling such consistency helps to shift the conversation from "Are these numbers right?" to "How do we use these numbers to better our business?" It is the shift from the transactional to the analytical, with data turned into information, then into insight.

With the elimination of 'numbers massaging' the truth emerges. Leaders are accountable when things get ugly and the facts provide support to leaders when bold moves are needed. The truth can lead to actively managing resources, expertise and capabilities differently and open up the enterprise to new opportunities. As the owner of the truth the CFO is empowered with much more than a seat at the table. The CFO has an agenda-shaping authority, which guides operational decisions and strategic direction.

Enterprise-wide standard common processes are the components of good governance as well as a significant enabler of what IBM calls the Integrated Finance Organisation (IFO). Breaking with conventional wisdom, IFOs do not necessarily sacrifice nimbleness and responsiveness. Compared with non-IFOs, they can perform better in many ways including:

- Generating higher revenue growth rates and outperforming industry peers in high-growth markets
- Executing finance activities with greater effectiveness
- Supporting enterprise risk management more efficiently, including being more responsive to risk and better prepared to address major risk events.

Becoming an IFO

An enterprise can transform itself to become an Integrated Finance Organisation by mandating common standards, implementing a standard chart of accounts, building common data definitions and deploying common processes across the finance function.

To get there, a CFO should take ownership of finance processes enterprise-wide, simplify technology and delivery models and provide a new, single version of the truth to the enterprise. The CFO must formally define risk programs and take an active role in risk management.

While seasoned finance professionals may have a reasonable conceptual understanding of what is entailed in mandating global standards, implementing a standard chart of accounts, adhering to common data definitions and employing common processes enterprise-wide, the first challenge is to truly understand the current state of their own finance organisations.

Based on the trail blazed by successful IFOs, IBM has developed a roadmap documenting how enterprises can grow, evolve and transform their capabilities through a series of recommended activities. The roadmap guides enterprises through the establishment of global standards, to ways to simplify procedures and finally to the convergence of performance and risk management. As enterprises progress along the timeline, the finance organisation increases the degree of difficulty and it eventually switches strategies from addressing pain points and problems to proactively finding new advantages through stronger risk management and provision of truth.

Using proven diagnostic tools, IBM can help CFOs assess their finance organisation and develop a vision, strategy and blueprint to support the changing needs of the enterprise. IBM's financial management expertise, industry-specific knowledge and practical implementation know-how can help transform a finance organisation's capabilities to that of a valued business partner.

Arm Yourself with the Truth

Every finance organisation is different and each path forward is equally unique. Determining the right path is one of the first and most critical decisions for a CFO looking to create an IFO. But do CFOs have the flexibility to enable this innovation?

There's no denying that living up to the IFO vision is a massive challenge. For most enterprises it means change and change takes time, energy and commitment. Change and integration will need to come from all areas of the business, not just finance. The CFO is the leader in this charge, armed with the trust, technique and mandate to deliver on the global stage.

Reference:

1. CFO Magazine, December 2007 issue.

The customer story in relation to Lend Lease is based on information provided by Lend Lease and illustrates the position of one organisation. Many factors have contributed to its results and the benefits it has derived from its approach to business. IBM does not guarantee comparable results elsewhere.

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