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WHITE PAPER

CORPORATE FINANCIAL MANAGEMENT IN ENTERPRISING COMPANIES

How finance executives can provide strategic leadership and operational excellence to drive growth

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INTRODUCTION

Finance executives must meet a growing number of complex demands and challenges if their companies are to reach the next level of profitable growth.

Operational excellence around core financials is certainly essential. CFOs and their teams are expected to standardize transactional processes and deploy effective and efficient financial systems. They must deliver strong performance in everything from cash management to regulatory compliance to merely address foundational financial requirements.

But finance executives can't stop there. To differentiate their companies and take their own careers to new levels, they must focus on strategic financials. They need to provide forward-looking insight that enhances strategic planning and decision-making. They must extend the capabilities of their financial systems beyond core activities into new areas, automating more processes and driving productivity gains still higher.

This comprehensive perspective—covering core and strategic financials—is known today as Corporate Financial Management (CFM). As CFOs focus on addressing these strategic and operational challenges, they will have to invest in CFM systems and applications that enable them to meet their objectives.

This is where a further challenge emerges. Finance executives must deploy systems that are robust, flexible, integrated, rapidly deployable and cost effective. It is these criteria that will determine whether financial leaders are meeting their business objectives and maximizing their investments in Corporate Financial Management.

MARKET DRIVERS: WHY FINANCE DEMANDS TRANSFORMATION

Never before have the demands on finance been so great—or the stakes so high. There are several mega-trends that are reshaping the role of finance organizations and transforming the careers of the executives in charge of them.

- **Intensified market pressure.** Surging competition is coming from all directions. Whether it is emerging domestically from increasingly productive rivals or from abroad as an array of new entrants fight for global market share, nearly all industries are in throes of hyper-competition. In order to overcome these pressures, CFOs are challenged to analyze trends, patterns and past experience with increasing precision and insight. Companies are looking to finance organizations for guidance enabling them to capitalize on their opportunities.
- **Increasing complexity.** The ongoing proliferation of information technology has certainly created complexity. It has created new transactional channels on the Web and new sources of data throughout an organization. It is not uncommon to have multiple disparate systems running financial applications—creating silos of relevant data. Corporate consolidation also brings complexity as new processes, systems and data sources multiply. Against this backdrop, CFOs are charged with standardizing financial processes and ensuring relevant data is accounted for.

- **Restrictive regulatory environments.** The introduction of new regulatory statutes through Sarbanes-Oxley (Sarbox) and International Financial Reporting Standards (IFRS) have created still more concerns for finance organizations. CFOs are now expected to provide transparency, visibility and control—and the personal and organizational risks associated with mismanagement of these difficult tasks are extremely severe.
- **Growing costs of financial talent.** While the demands on finance continue to pile up, it isn't feasible to simply add more people to manage these growing responsibilities. In this period of relatively low unemployment, talent comes at a premium. As a result, finance leaders find they must enhance, extend and leverage existing financial systems to avoid a destructive escalation of costs.

TOP CHALLENGES FACING CFOS AT ENTERPRISING COMPANIES

This increasingly demanding environment has created a set of key problems or challenges for CFOs at enterprising companies looking for a different approach. Among them:

Inefficiency and ineffectiveness in core financial operations. Finance leaders and managers are struggling with many process challenges that might be considered core or foundational issues. They may even be mission critical. The problem is that the handling of these processes is neither effective nor efficient. Typical processes that must be considered: Procure-to-Pay; Contract-to- Collection; and Service-to-Bill.

Concerns may also arise around cash flow management problems, for instance. The accounts receivable process might be poorly designed. Systems that should be automated are not. This might hamper the enterprise's ability to swiftly collect cash. Or accounts receivable may not be synchronized with accounts payable. Such problems can hinder a company's ability to effectively deploy capital. They can also create earnings uncertainty and volatility that reflects poorly on executive management.

Budgeting and planning processes may be inefficient as well. According to CFO Research, 60% of companies say the budgeting and planning process takes too long. Unfortunately, companies often lack the systems necessary to accelerate the process and ensure it is consistent with company strategies.

Yet another key aspect of core financials is compliance. Is the enterprise effectively complying with Sarbox, IFRS and other regulatory statutes designed to create investor confidence? Even privately held companies need to ensure they have strong operational controls in place and have clear visibility into the business. In many cases, finance is struggling to merely keep up with today's compliance and accountability requirements, which crowds out time and resources necessary to manage other operational responsibilities. One issue that hampers the finance team is data access. "Many companies have difficulty accessing data," according to a recent report by Accenture and Cranfield School of Management. "This combined with the local use of spreadsheets means that no single view of data is available."

Inability to rise to a strategic level and provide valuable insight. While operational excellence is necessary to merely address the core aspects of finance, it's another challenge altogether to rise to a strategic level within the enterprise. This is the point where finance provides advice, insight and analysis that can truly differentiate a company and generate profitable growth.

According to a recent survey of CFOs by IBM Business Consulting, the top areas for providing greater value for the business include:

- Supporting the CEO to create shareholder value (68%)
- Measuring and monitoring business performance (65%)
- Managing governance/controls/risks (54%)

Executives are looking to finance groups to provide greater decision support and performance management. In too many cases, however, the finance organization may struggle to produce basic reports—much less compelling analysis. It might not be able to clearly state which products are performing the best or which customers are most profitable. Such challenges prevent organizations from redirecting their activities and resources to the areas of greatest opportunity. Indeed, the corporation may end up punishing units that represent the most significant growth while propping up underperforming units.

To elevate finance to a more strategic role, CFOs also will have to identify new areas where processes can be enhanced and automated—and then, oversee the task. Non-standard processes such as "recruitment-to-retirement" may be ripe for process improvement. Companies that are globalizing may want to explore new ways to automate processes around taxation or treasury. Moreover, finance organizations can increase their strategic value by extending excellence in financial management out to trading partners and other activities on the edge of the enterprise.

Uncertainties about financial systems that will cost effectively support strategic and operational initiatives. To address the challenges around core and strategic financials, it will take systems that can streamline and automate processes. This creates a new set of uncertainties for the CFO. If they fail to obtain relevant and robust capabilities, their systems may not be able to scale up to meet growing demands. And if they spend excessively or choose systems requiring long implementations, they are unlikely to derive a strong return on their investment.

Surveys of today's enterprise resource planning (ERP) users have found that at least one third find it "difficult" or "very difficult" to implement new capabilities. Rigid, inflexible systems have clearly made it difficult for many finance organizations to incorporate new layers of functionality and automate new processes.

Yet another challenge lies in avoiding systems that do not work well together. Some vendors offer "point solutions" that address a specific problem in a sophisticated way. Unfortunately, these products aren't easily integrated with other applications in the financial management system. The resulting havoc and escalating integration costs can undermine any gains that could have been realized with these specialized tools.

These are the risks that CFOs face as they contemplate investments in financial systems that will support them as they grow, enhance core processes and seek to elevate their organizations to increasingly strategic levels. They need to select and deploy financial systems that are robust, flexible, integrated, rapidly deployable and cost effective if they are to meet their overarching objectives.

CORPORATE FINANCIAL MANAGEMENT: THE SMART SOLUTION

In order to address objectives around both core and strategic financials, CFOs should look to Corporate Finance Management (CFM) as a proven solution. CFM is an integrated approach that combines flexible transaction processing and other core applications with the real-time reporting, analysis and planning capabilities necessary to strategically guide an enterprise.

In a single, integrated environment, CFM provides core financial applications such as general ledger, accounts payable and receivable, cash management, asset accounting and compliance. It also extends outward to manage and automate other non-standard applications such as procurement, contract management, vendor management and human capital management. It supports self-service transactions for procurement, expense management and human resources purposes. And, finally, it delivers the powerful reporting, analysis and performance management capabilities necessary to address the strategic concerns of top decision-makers.

Corporate Finance Management solutions should be expected to deliver an array of key benefits to the CFO and the rest of the finance organization:

- **Meeting critical business challenges.** The CFM solution provides a single, powerful platform to not only establish effective financial management and regulatory compliance, but to enhance strategic efforts such as planning and forecasting.
- **Integrating financial and operational data.** While many financial organizations struggle to consolidate data, CFM can integrate financial planning and operational data to provide consistent and accurate reporting across the business.
- **Reducing errors and data duplication.** In a single, integrated environment, transactions can be posted once as opposed to several times in multiple systems. This eliminates the necessity for re-keying data and eliminates associated errors. Reporting, after all, is only as accurate as underlying data in the system.
- **Cutting costs and creating efficiencies through self-service.** One important way that finance accomplishes more with less is by enabling employees, partners and other parties to manage certain transactions on their own. By enabling employees to manage their own expenses or allowing vendors to track their own payables online, finance can realize enormous productivity gains.

- **Establishing a consistent and auditable environment.** Given the growing requirements for regulatory compliance, the deployment of a single, integrated system provides stronger financial controls and greater visibility into underlying processes, patterns and data.
- **Gaining flexibility and agility.** Whereas many legacy systems are rigid and monolithic, CFM provides the flexibility to change as the business changes. Whether new perspectives are required due to new acquisitions, divestitures or other factors, this solution allows finance to easily change structures of analysis around customers, suppliers, partners, products and internal departments.
- **Extending and elevating financial management.** Through robust CFM systems, finance can extend its reach to encompass areas such as Enterprise Asset Management and help the firm maximize its returns on assets in the field. It also can become more predictive—providing actionable insight into where key business opportunities lie and how they can be seized. In this way, finance helps set plans and budgets that are truly reflective of strategic priorities.

The combined capabilities of Corporate Financial Management result in compelling performance gains in the finance organization. Not only is finance more effective and efficient in its core processes, it extends its reach to automate other processes within the enterprise and elevates its strategic role as a provider of valuable analysis and guidance.

SUCCESS CRITERIA: WHAT TO LOOK FOR IN A CORPORATE FINANCIAL MANAGEMENT SOLUTION

When considering an investment in a financial system that can support the objectives of managing both core and strategic financials, there are several key criteria to keep in mind. It is necessary to address them to ensure that the solution matches the needs and requirements of a dynamic, enterprising firm that aspires to growth and is capable of continuous change. Among the key success criteria:

- **Cost and speed of implementation.** Decision-makers should expect comprehensive product functionality and support without a huge license-to-implementation ratio. While some solutions require $5-6 of implementation cost relative to a single dollar spent on the software license, the proper ratio should be more like $1-2 of implementation to every license-related dollar. Those lower ratios should reflect a more rapid deployment capability.
- **Cost of ownership.** Finance teams should not be expected to continually upgrade and re-implement the solution. Look for a solution provider that delivers an enduring and scalable system that won't require heavy investments in maintenance and support. The solution should support your business rather than burden IT.
- **Integrated solution.** Seek a solution that integrates the financial environment by consistently linking various applications—whether those modules address core transaction processes or more strategic uses such as budgeting, planning and forecasting. Through such integration, the system should provide both a transactional and strategic view of corporate financial initiatives and processes.

- **Open, agile, and flexible framework.** Look for an open, service-oriented architecture (SOA) framework that enables finance to integrate its systems with other operational systems (including supply chain management and customer relationship management). This scalable architecture should enable finance to add applications and extend its reach with a minimum of disruption. Such frameworks should enable finance to more effectively align with other operational groups—and even trading partners—as part of an integrated process or on an ad hoc basis.

- **Global functionality with local support.** In an era of increasing globalization, it's important to have local support for these mission-critical systems. Seek a solution available in relevant languages that meets currency requirements and compliance statutes for the regions of operation.

It's important to get the balance right with respect to required functionality and investment. Enterprising companies need robust systems that can scale up as they grow. In order to both meet their business objectives and maximize their return on investments in these systems, they need to invest appropriately and ensure their costs are carefully managed.

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