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White Paper

Planning Budgeting Forecasting Profitability Analytics Consolidation Reporting Tax

CPM: Bridging the Gap Between Financial Control and Strategic Opportunity

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Prologue

Today, successful corporations are making the right decisions, decisions based on one enterprise "truth". This "truth" is acquired through automation combined with leading edge technology that enables a real-time flow of accurate, current and trusted information. "Truth", exposed enterprise-wide, allows confident decision making from a position of control from which the enterprise can attack opportunities, strategize, dream and predict.

Introduction

Long before the advent of the term Corporate Performance Management (CPM) — an umbrella term Gartner originated to describe the methodologies, metrics, processes and systems used to monitor and manage an enterprise's business performance — there were processes in place to create an environment of enterprise awareness and control. However, economic globalization added complexity to this already significant challenge, with an enterprise conducting business around the clock and around the world with multiple currencies, languages and business rules, all of which are increasingly dynamic. The business boom of the 1990s found many companies struggling to achieve the basic foundation of control or "truth", thereby eroding the value and viability of perceived opportunities and raising the risk on seizing those opportunities, which ultimately led to diminishing the value of these companies as they overspent and undermined shareholder confidence.

Today, a growing number of large global companies rely on CPM solutions to control the processes that make it possible to achieve success. According to a survey conducted by AMR Research, planned expenditures for software, services and hardware related to CPM initiatives will have exceeded $22B in 2005, primarily to support focused, informed and responsive management strategies.[1] CPM solutions enable corporate decision makers to use the financial and non-financial information assets within their businesses to better understand what drives company results, align resources toward common goals and achieve ever-higher levels of operational and financial performance.

With the effective implementation of CPM as an essential competitive enterprise advantage, the issue of control or "truth" can be resolved. However, an interesting debate emerges. The old-economy 80/20 rule, which was applied to everything from the philosophy of life to finance, including the maxim that 80 percent of the Finance department's time is spent on control and producing the "truth" and 20 percent on pursuing new opportunities, just isn't a competitive reality in today's global economy.

Industry analyst firm Gartner reports that a global CFO survey in 2005 showed that finance departments spent 47 percent of their time on transaction processing (i.e., 'control'), down only 3% from 2003 levels. This shows that CFOs' efforts to transform finance functions from transaction processors into strategic advisors to the business have stalled. The same survey showed that, in 2005, finance functions only spent 26 percent of their time on strategic activities, such as decision support, performance management and helping the business seize new opportunities.[2]

So, what is the new ratio? The new ratio of control-to-opportunity suited for the environment within which we do business today is 20/80.

Corporate culture and industry sector will undoubtedly impact this ratio; but there is one certainty in relation to weighing control against opportunity. Transforming Finance and the enterprise begins with the quality and accessibility of data.

Data quality is a challenge for most organizations. Gartner says that "most organizations have silos of information – inconsistent, inaccurate and conflicting sources with no "single version of the truth".[5] Poor data quality has a negative effect on the efficiency of the organization and can jeopardize transformational efforts and put investments in business intelligence and CPM at risk. A Deloitte survey in November, 2005, for example, showed that nearly 80 percent of organizations found that their decision making was being adversely affected by these multiple versions of the truth.[2] Enterprises wishing to manage corporate performance at a strategic level must be diligent in analyzing the quality of key data (e.g., validity, completeness) early in their efforts, as well as in maintaining an ongoing focus on data quality. Gartner predicts that enterprises that proactively emphasize data quality will decrease the time it takes to implement a strategic performance management initiative by 50 percent, as well as increase user acceptance and benefits (0.7 probability).[3]

To attack opportunity from a position other than absolute financial "truth" is perilous and risk-laden.

Using Control to Support Opportunity

In his book "It's Not About the Bike," Lance Armstrong talks about the importance of making tactical, well-informed decisions at a moment's notice. In order to accomplish the goal of victory, Armstrong built his personal structure to a point of maximum strength well before the race. Armstrong doesn't just seize an opportunity — he attacks it! But it is only through teamwork and endless preparation that he can create the separation from his competition.

At a corporate level, controlled financial management and transparency provide the foundation and freedom to make strategic decisions: to shift direction when needed, to dare to take advantage of an opportunity and to separate from the competition before they can react.

In the case of one high-tech manufacturer, opportunity spawned when they were acquired by a large global company. With the right controls in place, the acquired company, now positioned with the capital to take advantage of opportunity, grew through their own acquisitions from two locations and 2,500 employees to more than 40 locations and 40,000 employees worldwide within two years. Using a scalable CPM application, the high-tech firm consolidated and easily converted its financial information and other data using a single, integrated solution and newly acquired companies using different accounting application software were easily integrated. With control in place, this high-tech diamond in the rough realized its full potential by being ready to seize opportunity when opportunity presented itself. They used CPM to flip the control-opportunity ratio to their advantage.

Control and Credibility

What results when the control-opportunity ratio is out of whack? An answer can be found by analyzing the financial boom of the 1990s, which ended, in part, because companies under-invested in 'control' and put 100 percent of their effort into opportunity without having the "truth". In a post-Enron business environment, companies face new regulations such as the Sarbanes-Oxley Act, which mandates earlier filing deadlines. Companies are also striving to regain or enhance their credibility with various stakeholders, including investors, customers, partners and employees.

While there are obvious differences between Armstrong's competitive philosophy and strategic finance, there is also a common thread: there are no shortcuts to the amount of discipline, preparation and teamwork required to succeed. Discipline and control create a level of freedom and the reserves necessary to seize the goal.

CPM delivers corporate information to executives and enables current, accurate information to be exposed far and wide across an enterprise with great speed. In many cases, corporations rely on "siloed" software to handle one function that is otherwise useless when applied to another key area of the company. Software used for budgeting won't work for public reporting; software designed to manage cost structuring is ineffective when applied to managing the demand-planning side of the business. A good CPM solution bridges the entire strategic process, crossing traditional departmental boundaries to control and manage the full lifecycle of business decision-making.

Leading multinationals turn to CPM solutions to tie initiatives to strategic objectives, thus closely monitoring and controlling activities critical to achieving their business goals. CPM enables executives, managers and employees to measure progress, track vital business trends and focus on areas of great opportunity. Research by AMR indicates that organizations that have implemented at least part of the CPM framework will continue to surpass their competition.[4]

Blending Discipline and Freedom

An executive can put the right values in place and instill the right qualities. But there is also a need to loosen control without losing control. Allowing flexibility leads to creativity, passion, energy and organizational speed.

For example, an executive in the U.S. telling a division in London or a group in Australia how to run their business poses a threat to success. But having the right structures and models in place and allowing those divisions to be part of the process while also retaining their own unique approach to business, leads to an impassioned organization that is not fighting the system.

Conversely, Six Sigma, a corporate self-help approach to success, follows a very rigid process to attain a goal of near perfection; but it can also impose bureaucracy. When it comes to strategic finance, trying to attain zero mistakes is impossible; however, those mistakes are greatly reduced when the necessary information is exposed across the company and trusted within the entire enterprise. The whole is greater than the sum of the silos.

The Competitive Advantage

A major distraction within a company is noise, that non-productive tendency to argue about what constitutes the right information: the truth. The goal in strategic finance is to provide the enterprise with the most accurate information. It requires meeting Generally Accepted Accounting Principles (GAAP) and it's based on trust. To eliminate the noise, CFOs put enormous energy into making sure the information gathered is correct before they share it with the executives and board members.

Gartner makes two noteworthy predictions regarding pursuit of the truth and the evolving role of CFOs and the Finance Department:[2]

1. Midsize and large enterprises that do not centralize finance systems and standardize finance processes will incur higher operating and compliance costs than those that do;
2. CFOs who do not work with CIOs and IT to address data quality issues will suffer from multiple versions of the truth and will not be able to provide effective strategic advice to the business.

Getting the right information quickly enables the enterprise to:

- React before the competition
- Make the right acquisition
- Determine whether to enter a new market
- Analyze the success of a new product launch, new market launch, or a strategic re-direct
- Be flexible about shifting the manufacturing process
- Attack its opportunities!

Financial Architecture and Vision

Having a strong financial architecture in place is important for any company. There is a need to report information in a common, understandable, transparent way so that executives can really understand the performance of the company and also look to the future to fulfill their vision.

A corporation with the right control infrastructure in place is able to turn its attention to strategic opportunities: evaluating cash management strategies and tax strategies, improving the bottom line, using assets more effectively and not getting lost in the whole control process. Done effectively, the enterprise can spend more time on the opportunity side of the control-opportunity equation.

Conclusion: The New World, the New Rule

Business and economic pundits claim the new ratio for the new business world is now 20/80, with 20 percent of effort applied to control by having the right tools, technology and processes in place and the remaining 80 percent focused on opportunity. Initially, a company may need to focus nearly all of its effort on developing the right control processes and implementing the right infrastructure. Invest well and attention can shift to focusing on opportunity.

The 20/80 rule ensures companies will avoid some of the reporting and accounting scandals that rocked the business world in recent years, while experiencing competitive growth. It involves teamwork and financial truth and trust that place even more responsibility on a CFO – a business version of Lance Armstrong's approach to competitive cycling.

Not to be underestimated is the value of the right CPM application. A CPM application is the underlying foundation of an enterprise, which makes it possible to attain the right balance of control and opportunity. Once a company is able to gather financial data quickly and accurately and has expenditures under control, it can attack opportunities and create separation from the competition.

CASE STUDY

Network Appliance is a global leader in enterprise storage and the delivery of data and content on demand, with over 2,300 employees and doing business in more than 70 countries. The company's storage solutions ensure that customers get information where and when it's needed. Financial information was being provided in a number of forms, but Network Appliance needed one source for financial information it could use for detailed planning, analysis and reporting — a single data repository.

Network Appliance chose Longview 7 as its CPM application for a number of reasons:

- Scales to accommodate global operations
- Provides superior reporting and analysis capabilities
- Allows security controlled user flexibility in input, analysis and reporting capabilities
- Integrates with Network Appliance's other software applications — human resources, G/L and ERP
- Leverages the company's allocation capabilities within the Longview Platform to perform multiple allocation schemes worldwide

The Longview application enabled Network Appliance to:

- Regularly bring key finance data into one integrated database, improving analysis capabilities and data integrity
- Provide user flexibility in reporting, analysis and planning input while maintaining corporate consistency, format and processes
- Significantly reduce the amount of Financial Analyst time involved with the collection, manipulation and reporting of nonstandard data and ad hoc analysis
- Provide real-time view of planning data throughout the planning process

About Longview Solutions

Longview Solutions provides corporate performance management (CPM) and tax reporting software that leading companies such as Trustmark, Time Warner, Home Depot, Eaton, Welch's, and Integrys use to drive performance with speed, visibility and financial integrity. Since 1994, many of the world's most respected companies have been using Longview to create a single repository of financial truth from which all, or any one of the following key financial processes can be performed: Financial Planning, Budgeting, Forecasting, Modeling, Disclosure Management/XBRL Reporting, Statutory Consolidation, Management Reporting, Profitability Analytics, Tax Provisioning, Uncertain Tax Positions and Tax Data Warehouse. Longview is headquartered in Toronto, Canada with additional offices in Philadelphia, Chicago (USA) and London (UK).
For more information visit www.longview.com.

ENDNOTES

[1] AMR Research: "EPM Spending Will Top $22B This Year", June 2005
[2] Gartner Research: "CFO Finance System Priorities Through 2009", August 2006
[3] Gartner Research: "CPM Demands Data Quality", January 2004
[4] AMR Research: "Take Control of your Business with EPM", August 2002
[5] Gartner Research: "Hype Cycle for BI and CPM, 2006", July 2006

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