Financial Performance Management for the 21st Century

A CFO's agenda for using IT to align strategy and execution

Benchmark Research
Executive Summary

VENTANA
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Aligning Business and IT To Improve Performance

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Ventana Research performed this research for a fee to determine the needs and practices of organizations that use or plan to use financial performance management. This document is based on our research and analysis of a quantitative survey administered via the Web to qualified respondents. Qualification was based upon involvement with financial performance management.

This research was designed to investigate the practices and needs of individuals and organizations that use or wish to use financial performance management. This research is not intended for use outside of this context and does not imply that organizations are guaranteed success by using only these results to improve organizational productivity. Moreover, gaining the most benefit from financial performance management requires an assessment of your organization's unique needs.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of financial performance management, and that the analysis and conclusions are entirely our own.

Ventana Research

Executive Summary

Many organizations fail to optimize performance because they remain focused on solving yesterday's problems. For many years, proponents of information technology have promised great benefits to business, typically far in advance of actual products that deliver them. Yet when many of these benefits finally are realized, people overlook their significance because they have been hearing about them for so long. In this first decade of the 21st century, we can see this phenomenon in business information. Companies have spent much time, money and effort over the past 20 years assembling IT systems that in fact have made it easier to collect information in a coherent, consistent fashion and then use it.

This is the case with most companies' efforts in financial performance management (FPM), which Ventana Research defines as the process of addressing the often overlapping issues that affect how well finance organizations support the activities and strategic objectives of their company and manage their own operations. FPM deals with the full cycle of the department's functions, including corporate and strategic finance, planning, forecasting, analysis, closing and reporting. It involves a combination of people, processes, information and technology.

We recently completed a benchmark research study on FPM, which confirms that a majority of companies are not providing all useful finance-related information to their employees. They continue to spend too much time and effort refining their approach to addressing basic reporting needs that are already served well and have not taken steps to provide the next level of information. We refer to this focus as meeting 20th century reporting requirements rather than 21st century ones. Being able to deliver basic accounting and operating data efficiently and accurately long was a key objective of many IT investment and deployment efforts. Our benchmark research demonstrates that this mission is largely accomplished, so it is time to move on to providing more complex reporting capabilities.

As corporations have broadened the scope of their automation in recent years to include customer relationship management, supply chain management and other externally facing and operating functions, they have been collecting much more data that can be used to measure performance. Addressing 21st century reporting requirements means increasing the availability of this nonfinancial operational information.

Participants in our research said they are getting enough of the traditional, high-level accounting and operating information about their company. For example, nearly three-fourths report they are getting enough financial information about their company. When it comes to providing more specific operational information, though, participants see less adequacy. More than half said they are getting sufficient information about their business units' operating performance and how well they are performing to their objectives, but about one-third are not. Moreover, based on other benchmark research we have done in this area and our ongoing work with companies, we think the assessments of adequacy are too lenient because they are based on what people are used to receiving. We find that considerably more information exists that would help people gain a broader and deeper view of their performance and the performance of their business units.

It is important for companies to cast a wider net to get a broader set of data. The traditional reliance on accounting information as the basis for management reports produces information mostly about the past. Thus it is not surprising that only 20 percent of participants said they get enough information about leading indicators that will help them anticipate business issues or opportunities; 60 percent reported they do not get enough, and 20 percent are not getting any. Creating leading indicators usually requires a combination of operating and accounting information.

Furthermore, our research shows that while most people are happy with the accuracy of the information they get, they want it sooner. A majority of the executives participating in our research expressed satisfaction with the availability of standard financial and high-level operating information. Two-thirds said they have confidence in the information they receive from their IT systems, and 73 percent said it generally agrees with what they know to be true. Yet a majority (59 percent) think timeliness of the information is an issue. And today, timeliness is critical to a company's ability to react quickly and cohesively to changing conditions.

Beyond the issue of the timeliness and relevance of data is the question of context. Even when people do receive accurate, up-to-the minute information about their business, a majority (51 percent) of our research participants find it difficult or very difficult to determine the "what, why and how" about important numbers. Only one in five finds that easy or very easy to do. Knowing the numbers behind the numbers often is critical to gaining timely insight and therefore knowing what the next steps should be.

Ventana Research sees information technology as a particular focus of FPM because we find that most finance organizations are not using these assets as fully as they could. Complexity of the information technology infrastructure is a consistent (and often overlooked) barrier to improving financial performance management. More than half of participants agreed or strongly agreed that in their company, the complexity of the IT environment is a barrier to their ability to access timely data, ensure data consistency or enable collaboration. Among those who said they find IT complexity a barrier to accessing information, two-thirds said it is difficult or very difficult to drill down to underlying data (compared to just 20 percent who find it easy or very easy), and half said it is difficult or very difficult to determine "the numbers behind the numbers" that would deepen insight into the context of the information and its consequences.

Thus, an important step – indeed, often the first step – a company must take is to address information complexity issues. We advise larger organizations to take a two-pronged approach to IT complexity: manage the IT infrastructure continuously to limit or reduce complexity, and apply technology effectively to adapt to the complexity. Understanding that these issues are root causes of ineffective performance and taking steps to overcome them are important first steps in elevating a company's overall performance.

As noted earlier, effective financial performance management involves people and processes as well as information and technology. For example, senior executives spend time crafting and refining a strategy, but ultimately what matters is how well it is implemented. Most (81 percent) of our participants said their company's senior management has a well-defined strategy, but relatively few (14 percent) said they manage to it well. Also, people often find it difficult to understand how to align their daily activities to longer-term strategy, and the incentives executives set for managers and employees do not always work in parallel with the stated strategy. The most common approach is to set specific, measurable objectives for each business unit. But often these objectives focus too much on financial measures and do not include nonfinancial objectives critical to achieving the corporate goals. Fewer than half (45 percent) of companies lay out formal, strategy-driven objectives in a scorecard. Only one in five companies communicates those objectives to individual managers.

An important goal of performance management in any corporation is to ensure that strategy and objectives are aligned across departments and business units. Yet only one-fourth of our participants said they have a clear understanding of the specific goals of other parts of the business, such as sales quotas, production targets or profitability, and how these affect their own area. Often things change in one part of the business that will impact the rest, such as when a new product release is delayed, sales quotas are adjusted or new facilities come on line sooner than planned. When this happens, it can be a major challenge for large companies to coordinate actions across the enterprise. More than one-third (37 percent) of participants told us that their company reacts to change in an uncoordinated fashion; only 9 percent said they do so in a very well coordinated fashion; half chose the middling response "somewhat coordinated."

Issues of coordination generally arise from a lack of communication or information availability, and when the problem is an inability to coordinate actions, the underlying issue usually is an inability to share information easily. Having the means to bring together information from multiple data sources can make it feasible to increase knowledge of actions and status across the business. In contrast, information deficits combined with poorly designed processes can limit severely how well all departments, including Finance, do their jobs. Our benchmark research shows there is important information that people could receive – or already do receive – that would improve their performance and help align their actions to strategy.

To help their companies compete successfully, finance executives must improve their own abilities to execute and manage to corporate strategy. More than ever, they need to focus on improving the effectiveness of the whole finance organization rather than trying to eke out small improvements in efficiency. Seeking and applying best practices in financial performance management can help them do this.

How Ventana Research Can Help

Ventana Research helps organizations develop, execute and sustain business and technology programs that align people, processes, information and technologies essential for success. As an objective and trusted advisor, we are your insurance that your business and IT initiatives deliver both immediate and long-term improvements to your business.

We offer a variety of customizable services to meet your specific needs including workshops, assessments and advisory services. Our education service, led by analysts with more than 20 years of experience, provides a great starting point to learn about important business and technology topics from compliance to business intelligence to building a strategy and driving adoption of best practices. We also offer tailored assessment and benchmarking services to help you connect the business and technology phases of your project by leveraging our research foundation and methodologies. And we can provide Ventana On-Demand access to our analysts on an as-needed basis to help you keep up with market trends, technologies and best practices.

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