IBM Center for Applied Insights
IBM Institute for Business Value

Accelerating performance

The evolving role of the CFO

Summary:

The 2010 IBM Global Chief Financial Officer Study introduced a group of outperformers called Value Integrators that excel at finance efficiency and business insight. This group has continued to show financial outperformance—through all phases of the economic cycle. However, today's challenging environment is stretching Value Integrators and CFOs at large, expanding their influence beyond financial decisions to broader, strategic choices about their business. In this new era, CFOs will be responsible for helping accelerate performance by driving not only efficiency but also innovation and transformation.

In the shadow of the global financial crisis, the 2010 IBM Global Chief Financial Officer Study introduced a group of outperformers called Value Integrators. These outperformers excel at finance efficiency and business insight. They apply business and analytical capabilities to help their enterprise make decisions with forethought. They show skill in managing enterprise risk and measuring and monitoring their business. Their companies also experienced 49 percent more revenue growth and 20 times the EBITDA growth of other enterprises between 2004 and 2008.[1]

A few years have passed since the study, and CFOs continue to face a number of significant, persistent challenges related to growth, risk, regulation and the scope of their role. During the crisis, CFOs focused on shoring up balance sheets until the global economy stabilized. Today, the tide has shifted. U.S. companies have collectively amassed a record $1.45 trillion in cash, requiring CFOs to manage increasing shareholder expectations.[2] CFOs are also increasingly using the power of analytics to inform their growth agendas and improve performance. Meanwhile, new technology platforms—such as cloud, mobile and social—have become more important.

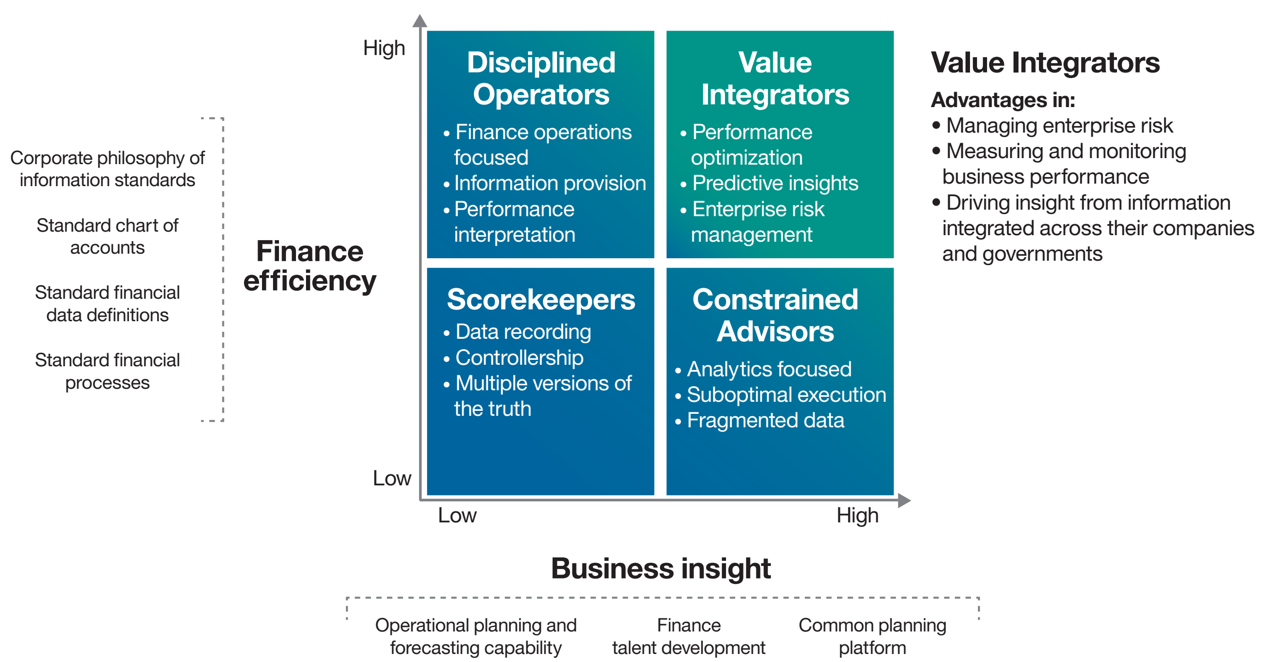
How have Value Integrators fared through all of this disruption? Is their performance through expansion, recession and recovery signaling a changing role for CFOs? We believe so. This new environment is stretching CFOs, expanding their influence beyond financial decisions to broader, strategic choices about business and operating models. And in this new era, CFOs will be responsible for helping drive enterprise performance, not just reporting on it.

Strong performance throughout the cycle

The 2010 IBM Global CFO Study revealed two dimensions strongly associated with outperformance: **finance efficiency** and **business insight**. The interplay between these two capabilities yielded four archetypes for the CFO, including the group of financial outperformers dubbed Value Integrators. Value Integrators drive data and process commonality as well as analytics capability, talent and technology to consistently outperform. They excel at managing enterprise risk, measuring and monitoring business performance and deriving insight from information integrated across their organizations.

The 2010 Global CFO Study indicated that by combining efficiency and insight, Value Integrators experienced higher compound annual growth rates (CAGRs) in earnings before interest, taxes, depreciation and amortization (EBITDA) and revenue as well as a higher average return on invested capital (ROIC).

Recently, we revisited the financial performance of these Value Integrators to find out how this group performed across the larger economic cycle. Our goal was to determine whether their dual focus on finance efficiency and business insight helped Value Integrators maintain superior levels of financial performance throughout a difficult decade.



SOURCE: IBM Institute for Business Value, *The New Value Integrator: Insights from the Global Chief Financial Officer Study*, http://www.ibm.com/services/us/cfo/cfostudy2010/

Figure 1: Value Integrators are the most mature with respect to finance efficiency and business insight.

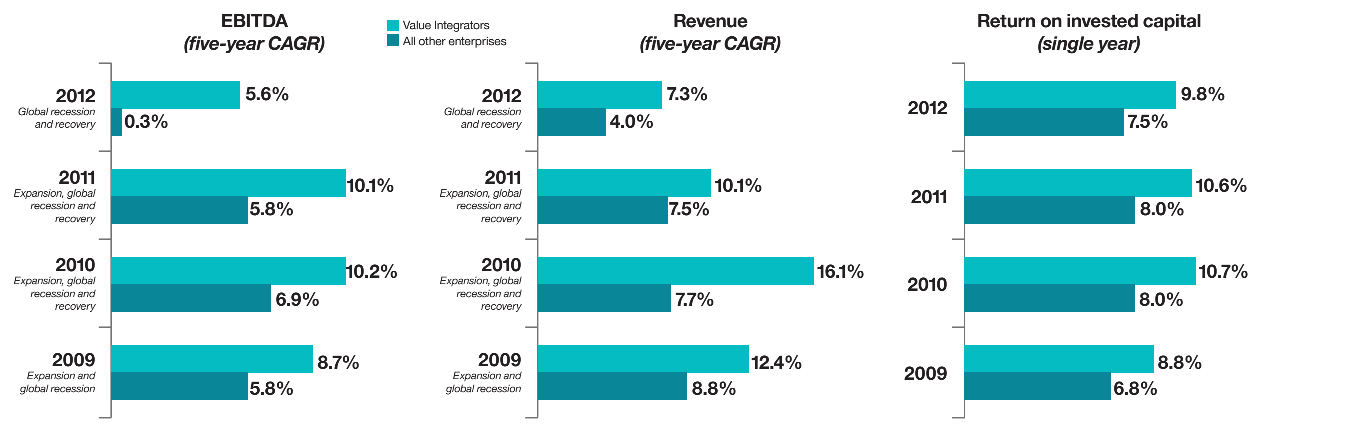
We looked at financials for four different five-year CAGRs (2004–2009, 2005–2010, 2006–2011 and 2007–2012). Looking at the different time periods allowed us to understand how the organizations fared during different phases of the economic cycle—expansion, recession and recovery.

The results from our extended analysis show that the Value Integrators from the 2010 Global CFO Study continue to outperform—exhibiting the same high-performing pattern across three financial measures. Their revenue was between 35 and 109 percent higher and their EBITDA at least 45 percent higher across all time periods. The Value Integrators surpassed other enterprises through expansion, global recession and recovery—clearly showing that they are worth emulating.

The emergence of the Performance Accelerator

However, as the customary financial disclaimer goes, past performance is no guarantee of future returns. So how will Value Integrators keep their edge in the coming decade? Given the pressures and challenges enterprises are facing today, how will the role of finance and the CFO need to change? And what will stay the same?

Through crisis and stability, the role of finance has revolved around three enduring traits: It has maintained an efficient and effective operating model to deliver financial integrity. It has delivered trusted information. And it has always guided decisions about enterprise investments. These three responsibilities remain. But today, CFOs need to do more to stay competitive.



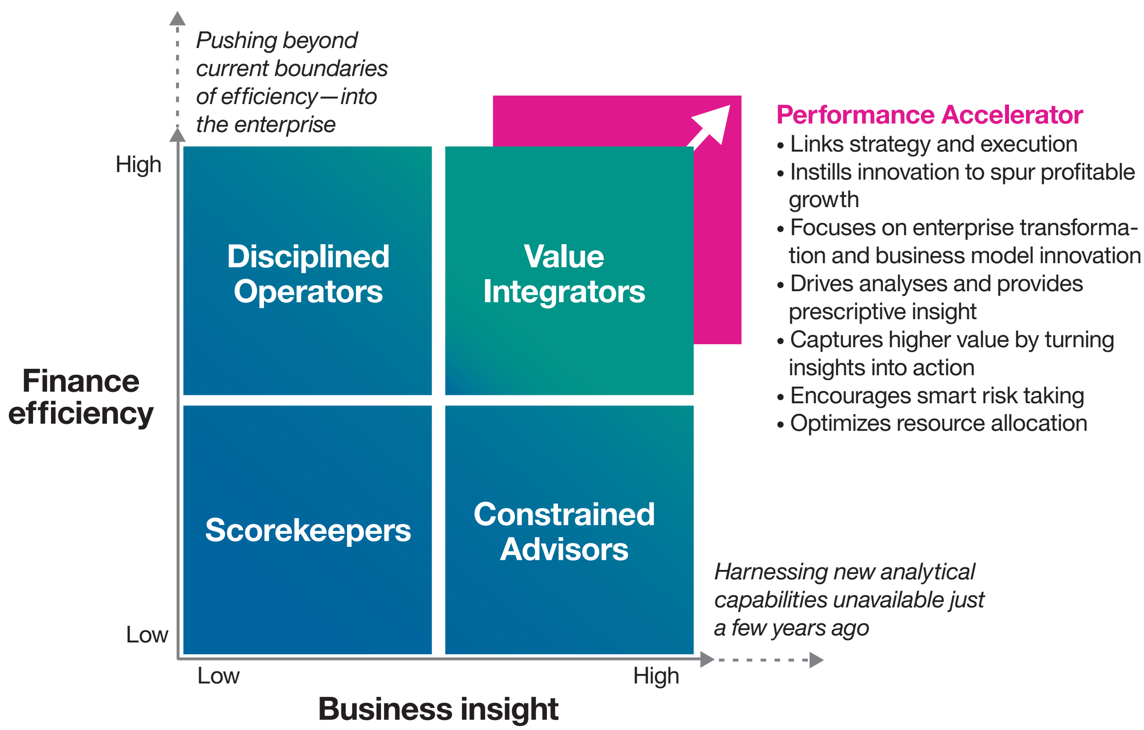
NOTE: We examined a subset of companies that were analyzed in the 2010 Global CFO Study—those that were identified as Value Integrators as well as the other three archetypes. Across the three financial metrics evaluated, based on the years analyzed, the number of Value Integrators with available financial data ranged from 60–70, and the number of "All other enterprises" (the remaining three archetypes) ranged from 250–350.

Figure 2: Value Integrators continue to outperform other enterprises through expansion, global recession and recovery.

We see signs of a new era—characterized by cash-rich balance sheets, growing shareholder expectations, higher levels of transparency and new analytical capabilities that weren't available just a few short years ago. Spurred by these shifts, the CFO's role is evolving into a transformative one—with greater influence and responsibility to lead their companies toward change and growth.

Given their strengths in finance efficiency and business insight, Value Integrators are well positioned to capitalize on these trends. Armed with more analytical horsepower, Value Integrators are poised to **accelerate the performance** of their organizations, bringing new insights and greater discipline to front-office decision making.

As they transition from Value Integrators to Performance Accelerators, these CFOs will use their advanced business insight and efficiency capabilities to turn insights into action, capturing higher value for the organization. They will extend their scope, integrating more with the front office and the enterprise as a whole. They'll instigate innovation, encourage smart risk taking, enable enterprise transformation and help reinvent business models. On top of operational duties such as closing the books, driving efficient performance and preserving cash, they will take on strategic ones such as optimizing business outcomes and driving profitable growth.



SOURCE: IBM Institute for Business Value, *The New Value Integrator: Insights from the Global Chief Financial Officer Study*, http://www.ibm.com/services/us/cfo/cfostudy2010/

Figure 3: Value Integrators may be pushing the boundaries of efficiency and insight, evolving into Performance Accelerators

What's next?

The 2010 Global CFO Study stated that the combination of business insight and finance efficiency pushes organizations toward smarter decisions and fuels better performance. Our recent reevaluation of financial measures shows this still to be the case.

However, CFOs are being asked to do more—to advance a growth agenda and accelerate the performance of their organizations. Finance organizations that continue to bolster their analytical capabilities and use their business and financial acumen to drive growth are on the path to becoming Performance Accelerators. This evolution of finance—and the outperforming organizations that are leading it—will continue to be at the center of our research agenda. We look forward to sharing more as additional insights emerge.

About the authors

William Fuessler, Americas leader for IBM's financial services strategy and transformation practice, has more than 25 years of management and consulting experience implementing enterprise transformation projects for global companies. Bill was previously the global and Americas financial management leader for IBM. Under his leadership, Bill was the sponsor for *The New Value Integrator*, IBM's 2010 Global CFO Study. Bill can be reached at **william.fuessler@us.ibm.com**.

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1 IBM Institute for Business Value, *The New Value Integrator: Insights from the Global Chief Financial Officer Study*, March 2010, http://www.ibm.com/services/us/cfo/cfostudy2010/

2 Agustino Fontevecchia, "U.S. Companies Stashing More Cash Abroad As Stockpiles Hit Record $1.45T," *Forbes.com*, March 19, 2013, http://www.forbes.com/sites/afontevecchia/2013/03/19/u-s-companies-stashing-more-cash-abroad-as-stock-piles-hit-record-1-45t/

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