PERFORMANCE MANAGEMENT – BEYOND FINANCIAL EXCELLENCE

How CFOs Can Become Strategic Advisors and Help Optimize Overall Operations
CONTENTS

Executive Summary ........................................................................................................... 4

The Changing Face of Business ....................................................................................... 5
The CFO's Role in Transition .......................................................................................... 5
Making the Transition ....................................................................................................... 6
Corporate Performance Management ................................................................................ 7
– Shortcomings of the Typical Approach ...................................................................... 8
Making It All Work .......................................................................................................... 8

SAP Solutions for Performance Management ............................................................. 9

SAP and CPM for the CFO ............................................................................................ 10
Performance management solutions can provide competitive advantage to the organization, and ultimate control to you as the CFO. From defining strategy and managing profitability to planning, budgeting and forecasting, and streamlining accurate consolidations, your organization can synchronize performance from a trusted data source. These solutions allow your entire organization to adapt quickly and easily to business changes, and enable all stakeholders to become more aware of the financial impact of their individual and team performance on the organization as a whole.

This paper explores how performance management software can help you maximize profitability, immunize your company against noncompliance, and optimize operational efficiency by ensuring delivery of information when it’s needed, in context. The premise is that the best solutions are integrated and adaptable to rapid business change, easy to use for optimal productivity, and predictive for anticipating future financial performance.

EXECUTIVE SUMMARY

Given the complexity and global nature of today’s business world, organizations are looking for ways to deal with these new realities and to turn them to their advantage. CEOs and other members of the executive team must respond to immense pressure from a variety of sources, ranging from the board of directors and activist stockholders to the demands of regulatory authorities and expectations of customers. They deal with any number of global financial conditions that might include fluctuating exchange rates, rapidly changing economies and interest rates, and compliance with a variety of regulations, such as Basel II in banking, and government mandates, such as the Sarbanes-Oxley Act.

As a result, they are looking to their CFOs to provide the solutions required to cope with these many challenges. In the process, your job as CFO is transitioning from the traditional financial role dealing with standardized business processes and systems to that of change agent and strategic advisor to the CEO, who is responsible for ensuring the integrity of the company’s overall financial performance.

In this new role, you can now take advantage of the latest advances in performance management solutions to help your organization capitalize on the value of corporate data, become more agile, and ensure the organizational alignment and visibility needed to drive performance excellence. In addition, these solutions can give you and other senior executives confidence in the accuracy of corporate performance data and the reports you provide to regulatory bodies as part of your compliance requirements.
Today’s business executives must cope with extraordinary complexity. Rapid technological change, complicated regulatory and compliance requirements, and demand from customers contribute further to this turbulent environment. In fact, one of the more unexpected and positive trends that is transforming business is the shift of power to the customer. Indeed, the customer’s growing influence on the design and delivery of products and services, thanks to the Internet and e-commerce, allows businesses to more effectively meet the needs of their market.

A worldwide marketplace means that CEOs and CFOs are dealing with growth that extends beyond their country’s borders; in today’s volatile stock market, international growth is often essential for profitability. Also, with developing nations taking center stage as the main drivers of global GNP growth, multinational corporations are localizing products and services to build their market share.

Another trend is a record level of mergers and acquisitions (M&As). According to CFO.com, “. . . globally, 2006’s worldwide M&A value – worth $3.8 trillion – beat 2000’s numbers and was 38 percent higher than 2005’s total . . .” In addition, the value of deals in Europe is also showing strong growth. The same report states that the value of these deals is “. . . higher, in fact, than in the U.S. Last year, European deals increased 39 percent to $1.4 trillion, compared to the 36 percent growth that the U.S. experienced. . .” Western Europe, China, and Canada were predicted to see the majority of activity.¹

All of these factors are putting increasing pressures on CEOs, and indeed the entire executive team, to boost performance and cut costs while dealing with a myriad of governance, risk, and compliance (GRC) issues. They need new ways to maximize profitability — which requires greater visibility into and control over the drivers of their organization’s finances and operations. Naturally, the CEO looks to the CFO to help solve these problems.

The CFO’s Role in Transition
Over the past several years, the new pressures and challenges faced by the finance organization are causing executives to make significant shifts in their focus and priorities. CFOs are transitioning rapidly from a somewhat limited financial role that deals with standardized business processes and systems, and the people needed to support those systems, to the role of strategic advisor.

This new role includes ensuring the company’s financial integrity and making informed and calculated business choices to meet the company’s growth strategy in accordance with overall company objectives. These objectives might include, for example, improving financial and operational performance, growing revenue and earnings, increasing return on investment, and building shareholder value. But in any case, the CFO must ensure lean, compliant financial operations; provide financial and business leadership; and rapidly deliver new financial services that keep pace with and accelerate the growth of the business.

As shown in Figure 1, the shift in a CFO’s responsibilities is an evolving process. The first step is the transition from focusing primarily on transaction processing to include the management of information flow as well. This lays the groundwork for the CFO to begin addressing global market concerns, working with other C-level executives and line-of-business managers to develop a vision for the company’s financial future, and ultimately playing a key role as strategic advisor and “chief planning officer.” This evolution is not a series of well-defined steps, but rather a continuous process that varies in time and scope depending on the size and requirements of each company. It is cumulative in nature; each step builds on the foundation of the previous steps.

Several major tasks are associated with this new role, including:

- Implementing enterprise-wide, effective change management to set the foundation for performance measurement
- Enabling strategic direction to be defined and monitored on an ongoing basis
- Optimizing strategic planning execution and profitability management
- Promoting collaboration across the organization on initiatives, plans, budgets, and intelligently managing resources while focusing on initiatives critical to corporate strategy
- Working with the CIO and business managers to achieve operational excellence

Making the Transition

The key to this transition is to focus on the demands of the present while simultaneously working to predict future financial performance. For example, you may need to pay close attention to driving customer revenue growth to increase total net revenues, adjusting the product and service mix to improve gross margins and gross profits, or reducing operating costs to increase net income. In some cases, a specific asset category, such as inventory, property, or equipment, might be reduced to improve cash flow and increase total assets.

A myopic focus on the future alone puts current financial performance at risk; an exclusive concentration on the present sacrifices incipient opportunities. Finding a balance between these two potentially conflicting poles is one of your major challenges.
As described above, your role as CFO involves the day-to-day business of managing risk; efficient, integrated financial planning; and confident statutory reporting. But making the transition also means adapting to the future, with the following:

- **Strategic agility** – Today’s business environment has become increasingly unforgiving. A single misstep or delay in executing a strategy or following up on an opportunity can have severe consequences. CEOs and CFOs must be alert to emerging threats and opportunities and be able to adapt their strategies quickly to deal with the new situation. For the CFO, this also means being able to deliver new financial services that keep pace with the business as it changes in response to marketplace and regulatory pressures.

- **Business model innovation** – Executive leadership is required not only to develop and launch innovative products and services, but to implement innovative processes and business models as well. In addition, executives are required to enforce performance management throughout the organization while acting as agents for change.

This means close collaboration with the CIO, key lines of business such as sales and manufacturing, and IT functions that support and ensure the integrity of the CFO-driven business processes that span the organization. One of the major enablers that the CFO and IT organization can take advantage of is the discipline commonly referred to as corporate performance management, or CPM.

**Corporate Performance Management**

“Performance management” can often be confused with three terms used in the marketplace: corporate performance management, business performance management, and enterprise performance management. In fact, all three terms can be focused entirely on financial analytics, rather than the overall health or performance of a company.

SAP calls out the real differences among these overlapping terms, using “performance management” to refer to all related activities within the enterprise and “corporate performance management” for financial control aspects of all business operations, as illustrated in Figure 2.

For example, all operational areas – from HR and marketing to manufacturing and legal – need to define strategies and plans, set budgets, analyze performance, and generate financial and performance-related reports. These and other financially relevant activities need to be rolled up into a larger corporate financial overview. CPM helps companies streamline and optimize these activities for greater control over corporate performance.

---

**Figure 2: Corporate Performance Management Within the Context of Performance Management (2008)**

**Source:** IDC, Sept. 2007 – Worldwide Business Analytics Software 2007-2011 Forecast Update and 2006 Vendor Shares: Business Intelligence, Data Warehousing, and Analytics Applications Forecasts Point to Continued Strength
Shortcomings of the Typical Approach

CPM should be exactly what beleaguered CFOs need in a complex corporate environment; but many of today’s software applications that support CPM still have a long way to go. Some of the issues include the following:

• Usability – Applications tend to be inflexible and hard to use, and maintaining them requires much IT support.

• Data dispersal – At many companies, data required by a CPM application is scattered across multiple applications running on a mix of legacy systems. To work effectively, the CPM application must have access to all pertinent data (including Microsoft Word documents and other unstructured data) to ensure accuracy and timeliness. This data access also compresses processing time.

• Long budget cycles – Because CPM applications typically are not collaborative or streamlined, the budgeting process breaks down. People on the front lines have little or no input into budget deliberations, then are handed a budget and told to live with it.

• Need for even more collaboration, communication, and processes – Most CPM applications lack sufficient support for standard business processes, teamwork, and fluid sharing of information so that everyone can be “on the same page” and do the right thing.

• Accountability gaps – Performance management only works when initiatives are linked to tasks that are well defined and people are held accountable. Most applications do not incorporate mechanisms that allow all stakeholders to agree on ownership of a performance management strategy, track its progress, and make sure it aligns with overall corporate strategy, initiatives, and plans.

• Disconnected spreadsheets, or “spreadsheet hell” – Spreadsheets are the most commonly used tool for planning and strategy, and individually these are highly productive tools. But that’s not the case when information needs to be shared and collectively updated. People are not operating from a common data store that delivers one version of the truth. The inability to certify and trace submission to the various spreadsheets breeds a lack of confidence in the information being presented. As a result, people spend more time debating the information than decisively taking action on it.

• The performance gap – CPM needs to be treated as a baseline and iterative process that helps define overall corporate strategy as well as the CFO’s strategic initiatives, not something that is tacked on as an afterthought. Performance execution often breaks down because of planning defects, corporate culture, or lack of management commitment. In fact, the right technology solution can go a long way toward fixing these problems.

Making It All Work

What is needed is a new set of performance management applications that meet your current and future needs, helping you and other senior executives meet the following key goals:

• Maximize business profitability to increase market and shareholder value

• Optimize operational efficiency to reduce operational costs and free up resources for innovation

• Minimize risk to the business by ensuring that decisions are based on accurate data, and that statutory reports provided to regulatory authorities are in compliance — that is, appropriate, accurate, and fair
SAP® SOLUTIONS FOR PERFORMANCE MANAGEMENT

SAP provides a complete set of applications that enable organizations to capitalize on the value of their corporate data. As a result, they can become more agile in driving transformation and controlling performance. The following applications can be deployed separately or as part of a complete CPM solution:

- The SAP® Strategy Management application
- The SAP Business Planning and Consolidation application
- The SAP Business Profitability Management application by Acorn

Now your organization can measure performance using a trusted, centralized data source and meet all stakeholder requirements for “in-time” and “in-context” information. At the same time, you can perform all key financial and operational performance management activities in concert: defining strategy and managing execution aligned with corporate goals; budgeting, planning, and consolidation; and modeling cost and profitability. These applications infuse awareness across the enterprise regarding the financial impact that people and departments can have on overall corporate performance.

When deployed together, the applications support the complete corporate performance management life cycle, which includes the following:

- Strategize and prioritize using SAP Strategy Management
- Plan and execute using the planning, budgeting, and forecasting functions of SAP Business Planning and Consolidation
- Report and monitor using the predictive analysis, reporting, and consolidation functions of SAP Business Planning and Consolidation
- Model and optimize using SAP Business Profitability Management

Figure 3: CPM Applications at Work
SAP AND CPM FOR THE CFO

In short, SAP software for performance management is a powerful set of applications that the CFO can use to:

- Measure assets, profitability, costs, and capacity at a granular level
- Align strategies with goals, initiatives, metrics, and people
- Ensure efficient planning, budgeting and forecasting, and management of the “triple bottom line”
- Achieve greater confidence in management and compliance reporting through fast, accurate close processes and self-service reporting
- Provide frontline business users with trusted information delivered through native integration with familiar Microsoft Office productivity tools in concert with an intuitive Web 2.0 interface

SAP solutions for performance management can integrate with the SAP Business Suite family of business applications; SAP solutions for governance, risk, and compliance; SAP xApps® composite applications; the SAP NetWeaver® Business Intelligence component; and SAP NetWeaver Business Intelligence Accelerator software. These comprehensive offerings can help you meet the unique requirements of today’s global, fast-paced business environment and assume the new and demanding role of strategic advisor to the organization.

To learn more about SAP solutions for performance management, call your SAP representative today or visit us on the Web at www.sap.com/solutions/performancemanagement.
www.sap.com/contactsap