



Structured management processes lead to better business performance

About this CIO2CFO report:

CFO Research Services and IDG Research Services gathered 200 complete survey responses from senior finance and IT executives based in the United States to prepare this report.

Introduction

In recent years, companies have invested aggressively in streamlining operations, reducing error rates, and improving operating efficiency. The 1980s were the decade of reengineering the corporation, Baldrige awards, and Total Quality Management. In the 1990s, Six Sigma and other process excellence campaigns rose to prominence. These efforts focused on clearly defining and measuring processes and aggressively applying IT to business operations. Companies have reaped impressive financial rewards from their business process automation efforts, and, for a time, improved operating efficiency offered companies a real competitive advantage.

Today, business process automation is commonplace and seldom distinguishes high-performance companies from others. To compete successfully, companies need to look beyond operating efficiencies (that is, getting the right goods and services to the right customers more quickly and less expensively than their competitors) to improving their processes for managing performance. Now, high-performance companies compete on their ability to identify emerging threats and opportunities and to respond to them quickly, with well-informed decisions.

Performance management has come to be understood as the set of processes, metrics, methods, and technologies that allow an organization to forecast, measure, and react to both internal and external business drivers and performance indicators—all in the service of business strategy. Heavy investment in technology in recent years has helped companies manage performance better, but it's increasingly clear that performance management processes—those that link performance management activities and information sources—are just as

important as the technology itself. Performance management processes have typically been less automated and less structured than production and other operating activities. The challenge for senior finance executives is this: How do you implement excellent processes for managing performance and, by doing so, institutionalize excellent managerial decision making?

This research program, conducted by CFO Research Services and IDG Research Services among senior finance and IT executives, finds that companies that have adopted clearly defined, well-structured, repeatable processes for strategy setting, business planning, and decision making are more able to make well-informed and timely decisions in response to internal and external changes. Companies that have excellent processes in place for managing performance also have more collaborative management teams, as well as more effective business planning and management reporting.

Difference in perception of information quality suggests deeper misalignment issue

To make excellent managerial decisions, companies need access to information that encompasses not only company performance but also the broader competitive landscape. Yet relatively few respondents to our survey say that their companies have access to the information they need for business decision making. Indeed, finance and IT executives agree about the quality of only one category of business information, out of the eight categories we queried them on: internal business information—the category that has been the beneficiary of the highest degree of investment in recent years.

In all other categories, finance and IT executives hold very different views of the quality of available information for business decision making. They are especially likely to disagree on the quality of external information. For example, 39% of finance executives agree that their companies' IT systems give management the information it needs to make well-informed business decisions, compared with 53% of IT executives. We also asked respondents if their companies have the ability to adapt their business systems to changes in the organization. Forty-six percent of finance executives agree with that statement, compared with 57% of IT executives. Queried on the availability of useful *external* information, only 28% of finance executives agree that their companies have access to useful information on customers, competitors, suppliers, and markets, compared with 45% of IT executives.

Taken together, these results show that finance executives in general do not have access to the information they need to manage performance, despite the best intentions of their colleagues in IT—and heavy investment in recent years. The relatively wide gulf between finance and IT executives' views on information quality suggests that many companies are experiencing a deeper problem that no set of technologies alone can address: a lack of organizational and process alignment that prevents companies from realizing the full value of sophisticated technology systems.

Structured processes for managing performance lay a foundation for better decision making

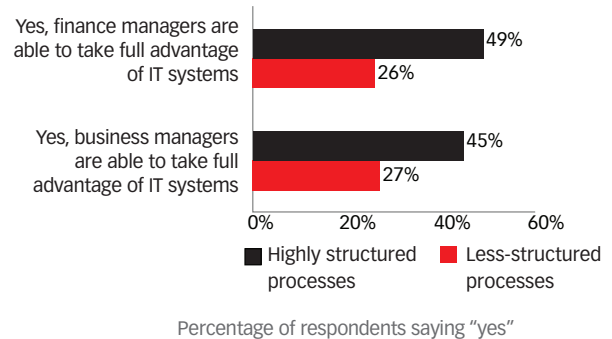
We asked respondents if they believe their finance and business managers are able to take full advantage of their companies' investments in IT. We found that a majority of respondents believe they are not able to do so. Fifty-seven percent of all respondents say that finance managers at their companies are not able to take full advantage of IT investments—and the same number also say the same about their business managers.

Finance executives' low appraisal of their companies' access to good information for decision making may well be tied to their inability to take full advantage of their IT systems. While improving training and system functionality may certainly play a role in improving information quality, survey results suggest that ensuring the alignment of management processes with systems—the tools companies use to execute processes—also helps to improve information quality. In other words, survey results indicate that management processes and information must be aligned with business objectives for finance and line-of-business decision makers to be able to take advantage of the systems at their disposal.

Performance management processes can be internally focused (for example, budgeting and reporting), but they also look outside the company (for example, strategy development and external market analysis). They can be forward-looking (financial and operational planning), but they also look at the past (variance analysis). Every company engages in this set of activities in some way. Our analysis of survey results shows, however, that creating more-structured performance management processes often improves underlying business performance.

Figure 1. Managers are able to take greater advantage of their IT systems when they use structured processes for managing business performance.

In your opinion, do you believe your finance and business managers are able to take full advantage of your company's investments in IT?



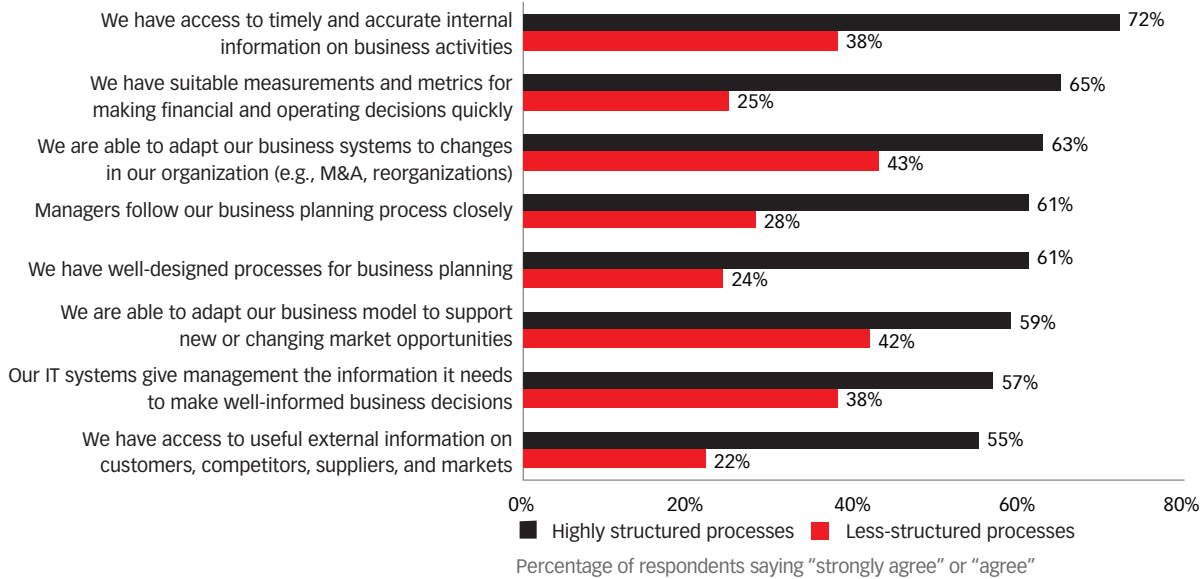
How do more-structured performance management *processes* improve *performance*? And what are the benefits, if any, of using structured, repeatable processes to assess information? To address these questions, we divided respondents into two segments—the 44% who use structured, repeatable processes for four or more of six types of analysis (understanding stakeholder requirements, external market analysis, strategy formulation, financial and operating planning, data analysis, and management reporting) and their peers who use structured, repeatable processes for fewer than four types of analysis (56%). Our analysis reveals that respondents who use highly structured processes for managing performance are more likely than their less-structured peers to say that their finance and business unit managers are able to take full advantage of IT systems. (See Figure 1.) Respondents with highly structured processes are also more likely to say they have access to good information. (See Figure 2, next page.)

Our analysis of survey results also shows that using structured, repeatable processes is associated with better collaboration between finance, IT, and line-of-business management. We asked respondents to rate how effectively their finance, IT, and line-of-business managers collaborate on a range of business activities. Across the board, respondents with highly structured processes are significantly more likely than their less-structured peers to say their collaboration levels are "excellent" or "adequate." "For [performance management] processes to work well and produce meaningful results, they have to be approached in a cross-functional manner," says Paul Janicki, CFO of Roquette America Inc., a subsidiary of an international manufacturing group.

Structured processes are the foundation for collaboration, and allow executives to use a common vocabulary when making decisions and reviewing performance. "Structured processes provide a common method of understanding—which enables collaboration. You can't have collaboration if one person speaks French and the other person speaks Russian," notes one finance

Figure 2. Respondents with structured processes for managing business performance view their information quality more favorably than their less-structured peers.

To what extent do you agree with the following statements?

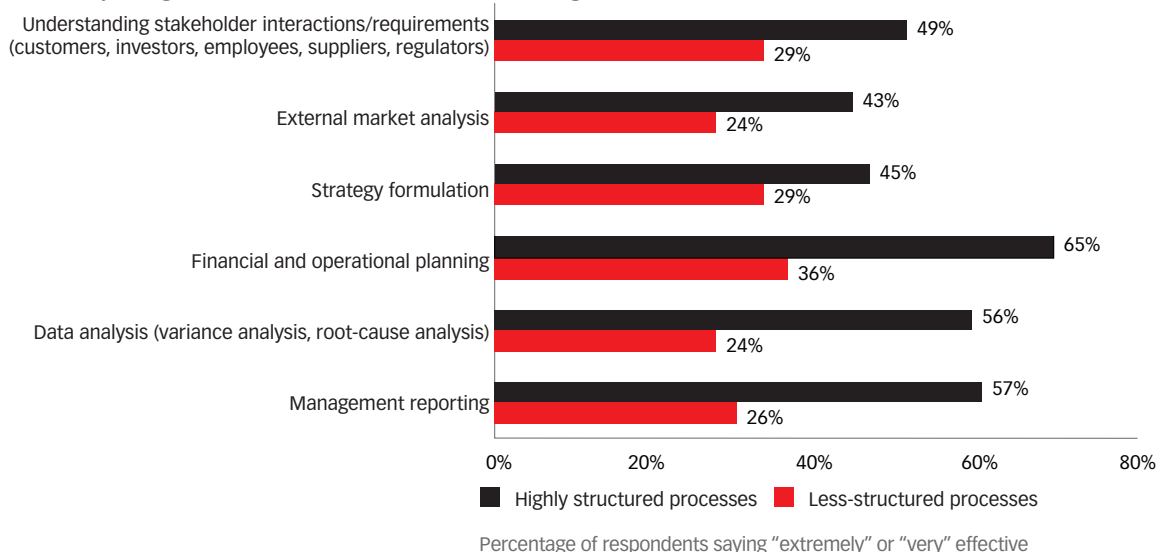


executive from our interview program. Reiterating this idea, the VP of finance of a medical-equipment manufacturer says, "Structured processes ensure uniformity and standardization across the board, which enable cross-company decision making." Because structured processes enable closer collaboration across the business, they can help promote greater understanding of the business and its competitive landscape—which ultimately results in better decision making.

Highly structured process respondents are also significantly more likely than their less-structured counterparts to report that their companies are "extremely" or "very" effective in various areas of performance management. In particular, highly structured process respondents rate their performance in financial and operating planning and management reporting much higher than their less-structured counterparts. (See Figure 3.)

Figure 3. Respondents report higher levels of effectiveness in performance management when they use structured management processes.

Please rate your organization's effectiveness in each of the following areas:



Conclusion

Streamlining processes often results in greater efficiency, reduced costs, and lower error rates. These benefits are easy to recognize when companies make improvements to operating processes. For a time, many companies were able to differentiate themselves by their ability to deliver goods or services faster, less expensively, and more accurately than their competitors. High-performance operations are now more commonplace, and as a result operating process improvements are less of a source of additional value for companies.

Today, companies increasingly compete on their ability to identify market opportunities and risks, and their ability to respond to them faster than their competitors can. To do so, they not only need access to timely and accurate internal and external information, they also need to promote good collaboration between finance, IT, and lines of business. Bringing the same level of discipline, rigor, and structure to processes for managing performance that companies have long applied to operational and even transaction processes will help ensure that critical information is shared across the organization in a way that allows all constituents to contribute actively to decision-making processes.

Companies with structured, repeatable processes are better equipped to make excellent managerial decisions in increasingly competitive markets.

This research shows that companies that have adopted structured, repeatable processes for managing performance report better information quality; stronger collaboration between finance, IT, and line-of-business management; and higher levels of effectiveness in performance management. Overall, companies with structured, repeatable processes are better equipped to make excellent managerial decisions in increasingly competitive markets.

Sponsor's perspective

"Customers tell me they're using sophisticated enterprise software for their operations, manufacturing, sales and service, but when it comes to planning and performance management, they're using Excel," notes Jeff Epstein, CFO of Oracle. "As a result, data is often decentralized, inconsistent, and incomplete. Reporting may be inflexible and sometimes arrives so late that business owners build their own shadow analytical staffs to create their own sets of reports. Both the official and the unofficial finance teams work long hours finding and reconciling data, leaving no time for thoughtful analysis and proactive decision support. They know there must be a better way."

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