

ENTERPRISE PERFORMANCE MANAGEMENT – FINANCIAL EXCELLENCE AND BEYOND

HOW CFOs BECOME STRATEGIC ADVISORS AND
HELP TO OPTIMISE OVERALL OPERATIONS

Thought Leadership

SAP Solutions for Enterprise Performance Management

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EXECUTIVE SUMMARY

Given the complexity and global nature of today's business world, organisations are looking for ways to deal with intricate new realities and turn them to their advantage. CEOs and other members of the executive team must respond to immense pressure coming from a variety of sources, ranging from the board of directors and activist stockholders to regulatory authorities and customers. They deal with any number of global financial conditions, including 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 of 2002.

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

In this new role, you can take advantage of the latest advances in financial performance management solutions to help your organisation capitalise on the value of corporate data, become more agile, and achieve the organisational alignment and visibility needed to drive performance excellence. In addition, these solutions can give you and other senior executives confidence in the accuracy of your corporate performance data and the reports that you provide to regulatory bodies as part of your compliance requirements.

This paper explores how financial performance management software – very often categorised as one aspect of enterprise performance management – can help you to maximise profitability, immunise your company against non-compliance, and optimise 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, are easy to use for optimal productivity, and can predict future financial performance.



THE CHANGING FACE OF BUSINESS

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 centre stage as the main drivers of global GNP growth, multinational corporations are localising 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 2005'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 maximise profitability – which requires greater visibility into and control over the drivers of their organisation's finances and operations. Naturally, the CEO looks to the CFO to help to solve these problems.

As a CFO functioning in this new environment, your responsibilities include:

- Ensuring that the company is executing toward strategic goals
- Acting as strategic advisor to business management by providing analytical support and helping to optimise overall business operations and meet regulatory requirements
- Reporting on results of core finance activities and investor and shareholder relations
- Personally attesting to the appropriateness, fairness, and accuracy of company financial reports, and thus minimising risk of noncompliance

Your role in financial performance management typically includes working in concert with other members of the organisation, such as the CIO and business users. CIOs are usually responsible for the integrity of the information delivered to the CFO and for the viability and security of the IT infrastructure that drives value to all aspects of the business, including finance.

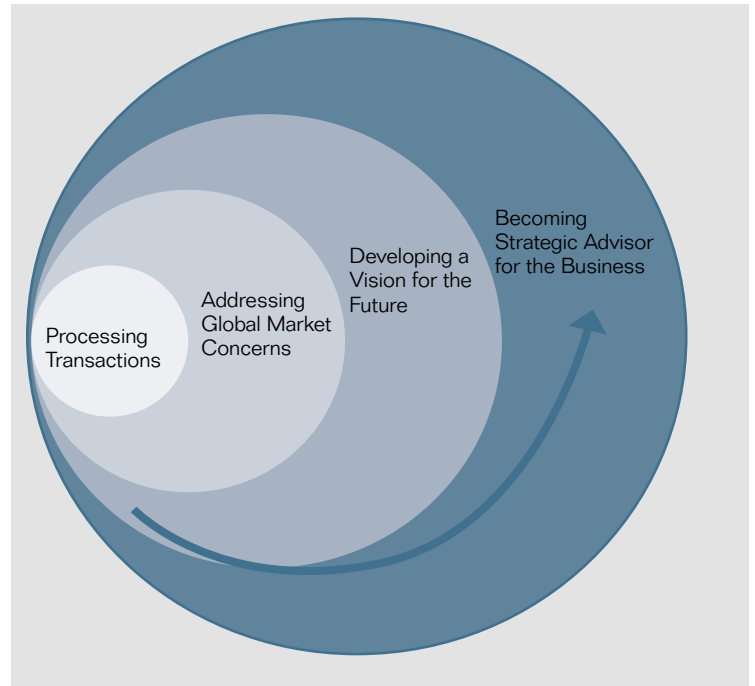
¹ Sarah Johnson, *M&A Surge to Continue in '07*, CFO.com, www.cfo.com/article.cfm/8514186.

The CFO's Role in Transition

Over the past several years, the new pressures and challenges faced by the finance organisation 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 standardised 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.

Figure 1: The Evolving Role of the CFO



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
- Optimising strategic planning execution and profitability management
- Promoting collaboration across the organisation 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 organisation 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 organisation. One of the major enablers that the CFO and IT organisation can take advantage of is the discipline commonly referred to as financial performance management.



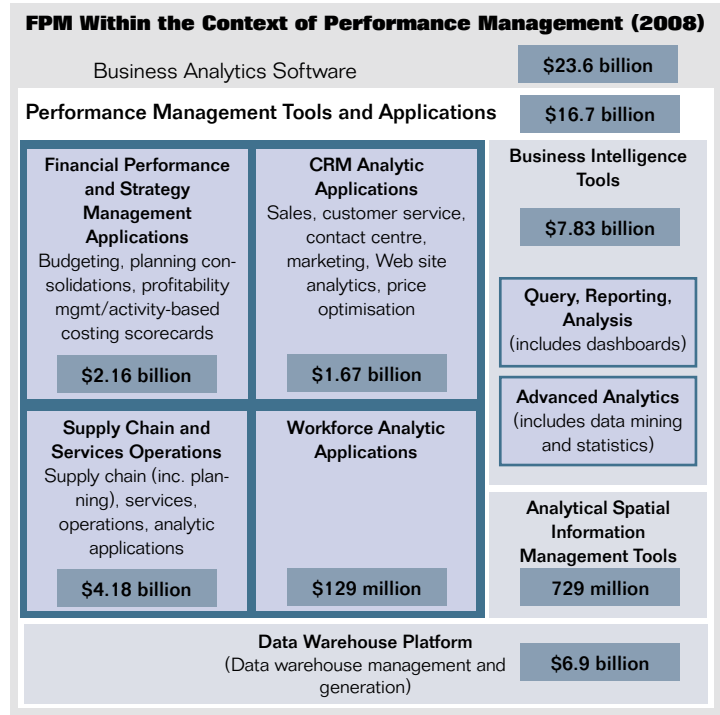
Financial Performance Management

Financial performance management is a subset of enterprise performance management and is focused specifically on the financial management processes of a company. All areas of an organisation need to define strategies and plans, set budgets, analyze performance, and generate financial and performance-related reports. These and other financially relevant activities must then be rolled up into a larger corporate overview.

At SAP, we view enterprise performance management as the entire scope of performance management in all areas, from HR and marketing to manufacturing and distribution (see Figure 2). Enterprise performance management helps companies to streamline and optimise activities across all areas for greater control over operational and financial performance.

Figure 2: Financial 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; figures in U.S. dollars**



Shortcomings of the Typical Approach
 Beleaguered CFOs need to manage financial performance in a complex corporate environment; but many of today's software applications still have a long way to go to support their needs. Some of the issues with financial performance management applications include the following:

- Usability – The applications can be inflexible and hard to use, and maintaining them can require much IT support.

- Data dispersal – At many companies, the required data is scattered across multiple applications running on a mix of legacy systems. To work effectively, the 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 the 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 financial performance management 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 – 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 – Performance management needs to be treated as a baseline and iterative process that helps to 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 financial performance management applications that meet your current and future needs, helping you and other senior executives meet the following key goals:

- Maximise business profitability to increase market and shareholder value
- Optimise operational efficiency to reduce operational costs and free up resources for innovation
- Minimise 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, that they are appropriate, accurate, and fair



SAP® SOLUTIONS FOR ENTERPRISE PERFORMANCE MANAGEMENT – FOCUS ON FINANCIAL PERFORMANCE MANAGEMENT



SAP® solutions for enterprise performance management enable organisations to manage both financial and operational performance and capitalise on the value of their corporate data. Businesses using financial performance management software can become more agile in driving transformation and controlling performance. The applications can be deployed separately or together to form a comprehensive solution. When deployed together, they support the complete financial performance management life cycle, empowering the CFO to:

- Measure assets, profitability, costs, and capacity at a granular level
- Align strategies with goals, initiatives, metrics, and people
- Enable 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

With the solutions, you are better able to meet the unique requirements of today’s global, fast-paced business environment and can assume the new and demanding role of strategic advisor to the organisation. To learn more about the full breadth of SAP solutions for enterprise performance management, call your SAP representative today or visit us on the Web at www.sap.com/solutions/performancemanagement.

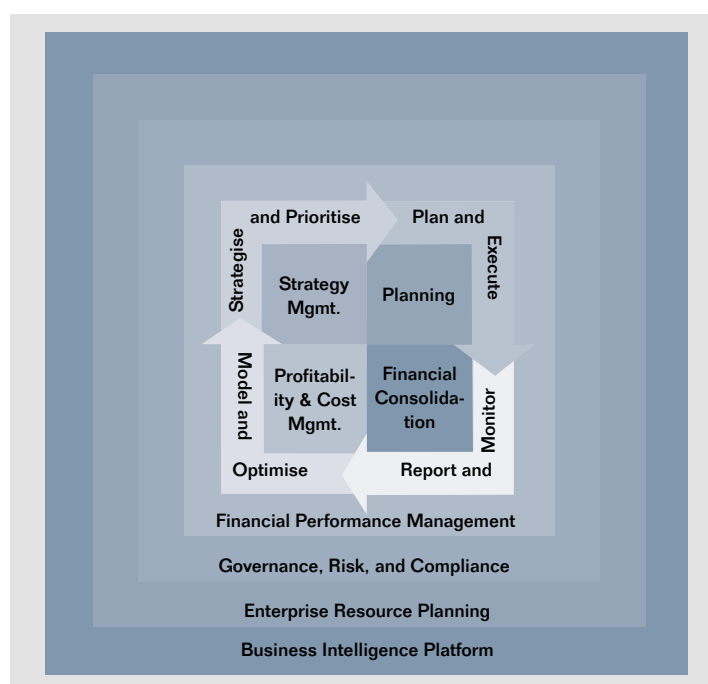


Figure 3: Financial Performance Management Applications at Work

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