The Evolution of the Finance Function: Teaming with Business Management to Adapt and Thrive

A report prepared by CFO Research Services in collaboration with Microsoft

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About this Report

In February 2008, CFO Research Services (a unit of CFO Publishing Corp.) launched a research program on business innovation. Through a survey and interviews, this study explores how the finance function works with business managers to support new and better ways of making and selling a company's offerings, as well as new and better methods for executing management processes.

This report presents the findings from our survey of 171 senior finance executives at North American companies and in-depth interviews with executives at the following companies:

- 3M Company
- Accor North America
- Air Products and Chemicals
- Dow Chemical Company
- Fidelity National Financial
- Genzyme Corporation
- Hilton Grand Vacations
- Universal Music
- USDA Food and Nutrition Service
- U.S. Department of Labor
- Valassis Communications, Inc. `
- Wal-Mart

CFO Research interviewed executives at several other companies who asked not to be cited by name in this report. These included companies in the transportation and financial services industries.

Microsoft funded the research and publication of our findings, and we would like to acknowledge the Microsoft team—especially Dan Rasmus—for their contributions and support. At CFO Research Services, Peter B. Lull conducted the interview program and wrote the report. Sam Knox directed the research and managed the project, and David Owens edited the report.

Respondent Demographics

Survey respondents hold positions with the following titles:

Title	%
CFO	26%
Director of finance	24%
VP of finance	20%
Controller	13%
EVP or SVP of finance	6%
Treasurer	3%
CEO, president, or managing director	1%
Other	8%

Respondents come from companies of different sizes in terms of annual revenue:

Revenue	%
<$500 million	12%
$500 million-$1 billion	22%
$1 billion-$5 billion	34%
$5+ billion	32%

Respondents represent a broad cross-section of industries:

Industry	%
Financial Services/Real estate/Insurance	18%
Auto/Industrial/Manufacturing	16%
Business/Professional services	8%
Food/Beverages/Consumer packaged goods	8%
Health care	8%
Wholesale/Retail trade	8%
Hardware/Software/Networking	7%
Pharmaceuticals/Biotechnology/Life sciences	6%
Media/Entertainment/Travel/Leisure	5%
Chemicals	4%
Public sector/Nonprofit	4%
Energy/Utilities	2%
Transportation/Warehousing	2%
Telecommunications	1%
Other	2%

Note: Percentages may not total 100 percent, due to rounding.

This study explores how the finance function works with business managers to support new and better ways of making and selling a company's offerings, as well as new and better methods for executing management processes.

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Executive Summary

Change is everywhere. To address internal needs, companies change their systems and processes, improve how information is gathered, tracked, and delivered, create metrics to collaborate and manage more effectively, and standardize measurements of operational performance. Driven by external pressures from stakeholders, regulators, investment analysts, competitors, and suppliers alike, companies with a global vision have to respond. The distinction increasingly is being made between those who respond as a reaction to problems, and those who proactively foster and cultivate change—the innovators.

As business units envision and create—or refine and rebuild—business models, finance takes an increasingly important role as their partner. Finance teams are looking to expand expectations beyond the traditional accounting and compliance functions they perform. They are eager to apply their expertise to the core of the business, those activities that are most directly tied to the company's success or failure in the marketplace.

Finance sees its greatest impact on change in business model innovation, using its expertise to evaluate and forecast the paths most likely to push their organizations up to the next rung on the ladder of success. Fully a third of the respondents in our survey say that, over the next two years, they expect their companies to allocate resources to effect dramatic—not just incremental—improvement in finance's support for business management. As one executive notes in our interviews, "You cannot get game-changing output from incremental effort."

Being seen as a full partner in collaboration with business managers is one of the most important factors for success in achieving these kinds of dramatic results. To gain an invitation to this "seat at the table," the finance team must work to demonstrate the value that their informational capabilities and analytical acumen has for improving and expanding the business' core products and services. Doing so will help finance to move beyond its traditional reporting and scorekeeping role and into the strategizing function, where they can make a deeper impact on critical business decisions.

This study reveals the value of collaboration by comparing companies that involved end users in evaluating and selecting technology with companies that don't. In virtually every category of effectiveness that we examined, the employees who had substantial input to technology decisions were able to make better use of that technology and derive greater value from it. When companies encourage the collaborative involvement of end users, they find they get better results.

But finance cannot create these kinds of value-added partnerships all on its own—a truly collaborative working relationship needs the help and commitment of others in the organization. Buy-in from top management to support these initiatives, willingness of business unit managers to partner with finance, using the right systems in the right way, and aligning rewards with outcomes all are critical to the successful evolution of the new finance function.

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Finance as a Catalyst for Innovation and an Agent for Change

Change is a constant in the increasingly global business world, and so is the need to respond to change in order to succeed. Charles Darwin's words from the nineteenth century describe today's competitive landscape as aptly as they do his evolutionary theory: "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change." Or, as Todd Call, merchandise finance director in Wal-Mart's apparel merchandising business, says of the $349 billion Bentonville, Arkansas, retailer's efforts to adapt and thrive, "What was good enough 10 years ago hasn't been good enough over the last year or two." To succeed, companies must be willing and able to respond to a multitude of pressures, from stakeholders, regulators, investment analysts, competitors, and suppliers alike.

The finance function's role in helping their companies adapt to change has itself been changing, as more and more is expected from finance. In forward-looking companies, finance is no longer simply the caretaker and reporter of the numbers. CFOs feel they must be at the center of change initiatives, partnering with business unit management to guide and support effective actions and informed decisions that push the business forward.

To gain insights into how the finance function sees its own role evolving in the effort to support change initiatives, we conducted a survey of 171 finance executives from North American companies. First, we asked the executives where their companies were focusing investment across six core business processes. (See Figure 1.) Recognition of the need to continually improve the business is widespread: In five of the six processes, 75-90 percent of the finance executives anticipate some degree of change needed to improve the processes over the next two years, with the most

Figure 1. Finance executives recognize the imperative to continually change and adapt business processes in order to thrive.

Which of the following statements best characterizes your company's investment plans for the following core business activities over the next two years?

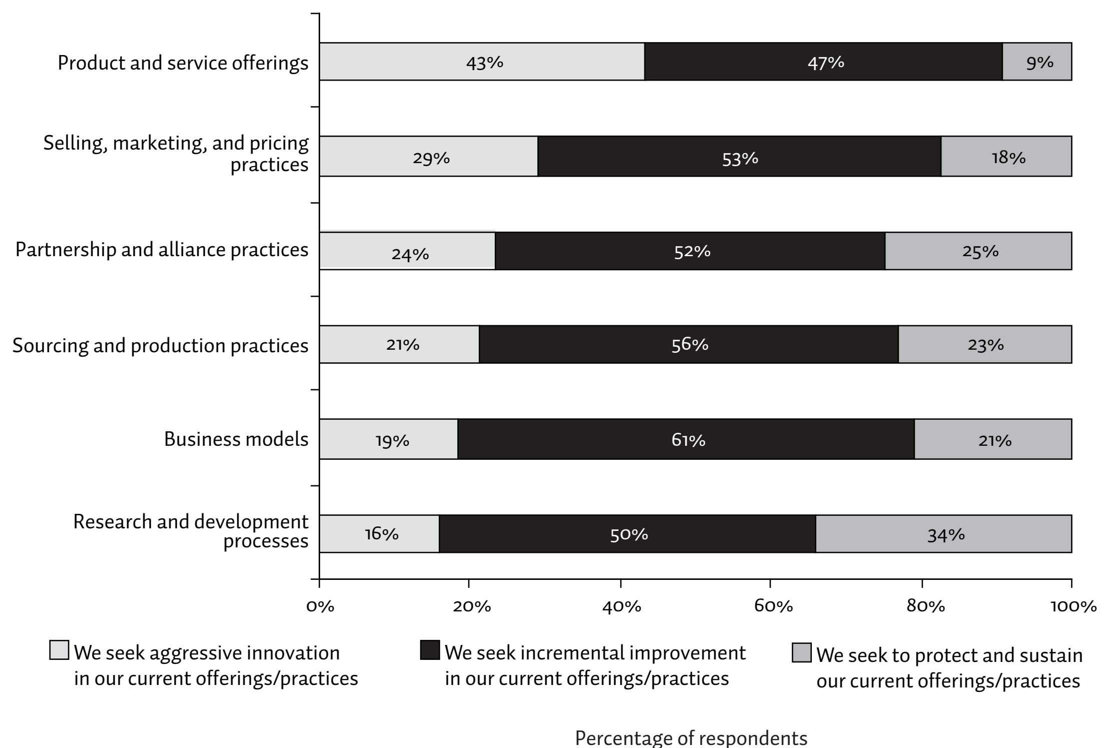

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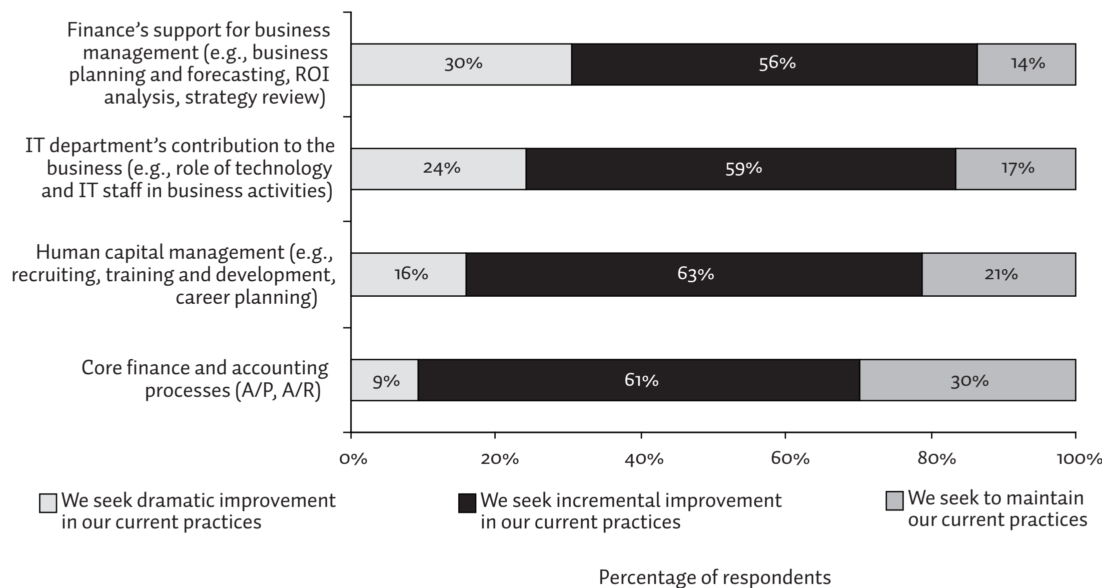
Figure 2. Finance executives anticipate an increased focus on finance's support for business management.

How will your company allocate resources to the following functional and management processes over the next two years?



attention focused on improving product and service offerings. In fact, for this core activity of any business, the most respondents (43 percent) say they seek improvements that go beyond the incremental. These finance executives anticipate that their companies will be seeking "aggressive innovation" in their core product and service offerings—the kind of change that may move a company up the curve to more streamlined operations, higher profits, and sustainable competitive advantage.

The importance of continually seeking improvement in a changing marketplace is underscored by the executives we interviewed. Hilton Grand Vacations Company is an Orlando, Florida, operator of timeshare resorts and a subsidiary of the Hilton Hotels Corporation. The company has enjoyed rapid growth over the past several years, but now is contending with the compound headache of a credit crisis coupled with real estate markets running hot and cold in different regions. The company's senior vice president of finance, Johann Murray, notes changes in operations, processes, and finance needed to succeed in this environment: "It's kind of human nature to be resistant to change, but when you grow as rapidly as we do, you have to embrace change or you get left behind. You can't continue to do things the old way."

This view is echoed by other respondents. "In a big company, it's difficult to change everything, but if you don't think of change in your way of doing things constantly, you're going to be obsolete soon," claims Celso Goncalves, the senior business financial director for specialty plastics at the 110-year-old Dow Chemical Company. "For us, change is already in our DNA," he says of the $53.5 billion chemical company headquartered in Midland, Michigan. "We have been changing the shape of the business every year, basically."

What role, then, will finance be expected to play in these change initiatives? In short, finance executives themselves are looking to expand their involvement in shaping their companies for the future. When asked how they expected their companies to allocate resources for functional and management processes in the next two years, the largest number of respondents (86 percent) cite improving finance's support for business management. In fact, nearly one-third of respondents say they expect resources to be applied in this area to achieve dramatic improvements, not simply incremental change. (See Figure 2.) In contrast, the same number of respondents (30 percent) think their companies essentially will stand pat on

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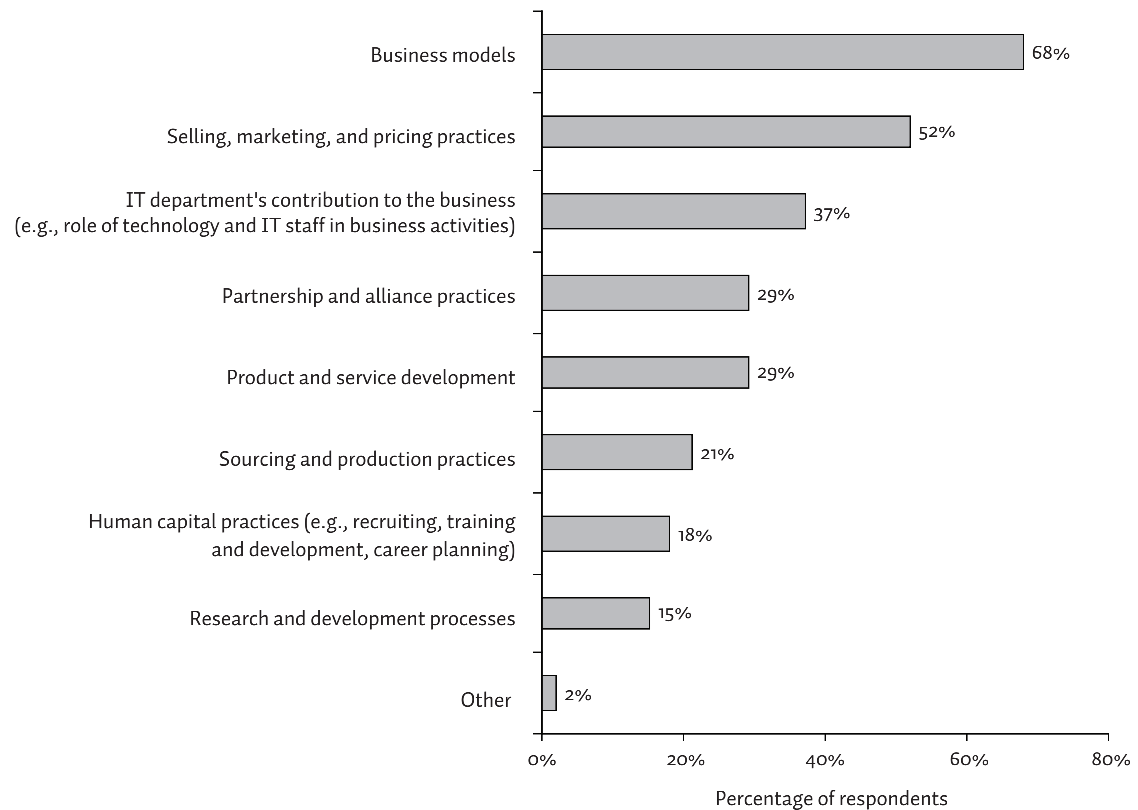
Figure 3. Finance executives are looking to make greater contributions to refining and improving their companies' business models.

Which of the following business activities at your company would benefit the most from a greater contribution from the finance team?



traditional core finance and accounting processes; less than 10 percent of respondents see any need for dramatic improvement in these traditional processes. It seems clear that many finance executives see the basic "blocking and tackling" of their function to be well established, and are looking to deploy their expertise more widely and in more strategic areas.

This conclusion is supported further when we look at responses to the question of where finance executives believe their companies would benefit from more of finance's input. Nearly seven in ten respondents (68 percent) say their companies' business models would benefit from a greater contribution from finance, and more than half of the respondents (52 percent) cite selling, marketing, and pricing practices. (See Figure 3.) These responses easily outdistance the third most frequent selection, IT's contribution to the business (37 percent). Finance executives seem eager to apply their expertise to the core of the business, those activities that are most directly tied to the company's success or failure in the marketplace.

But finance executives also recognize that change is needed to fulfill these expectations. Their input—and more importantly, their insight—isn't being fully tapped yet. As shown in Figure 4, a little more than 70 percent of finance's time is still spent on the "blocking and tackling," and less than 30 percent of their time is devoted to decision support.

Finance executives seem eager to apply their expertise to the core of the business, those activities that are most directly tied to the company's success or failure in the marketplace.

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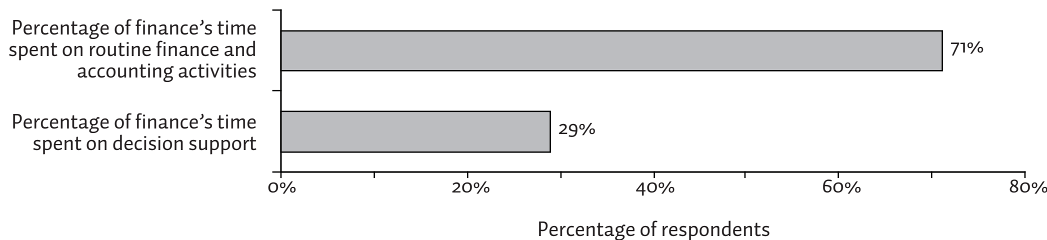
Figure 4. Finance still labors under traditional roles.

How much time and attention does your company's finance function spend on routine finance and accounting activities? On decision support activities?



As one vice president of finance at a $5+ billion pharmaceutical company laments in a survey comment: "Not all business managers see the value of finance in helping achieve their objectives. Some business managers' expectations are for finance to provide the score, but not ideas on how to win the game." An associate director of finance at a company with annual sales topping $3 billion put this dilemma in even starker terms: "This is a terrible thing to throw out, but I don't think innovation and finance are used very frequently in the same sentence."

"Some business managers' expectations are for finance to provide the score, but not ideas on how to win the game," comments a vice president of finance.

Some inroads have been made. The controller for a major national services company speaks of improvements in automation which have required "a lot less effort in physically pulling together a budget and reporting on the results. In the past, 50 to 75 percent of our work was to generate that budget. Now, that feels like it's 20 percent of our work." This improvement allows for more focus on strategic issues, "trying to create a focus towards the big items that are going to change our future," he says. And Gary Maupin, the deputy administrator for financial management and chief financial officer of the Food and Nutrition Service within the U.S. Department of Agriculture (USDA), describes the impact of USDA's efforts to make more information available to more people: "Having all the processes in the most information technology friendly sense available to the people in an organization can just make a monster difference. CFOs can help really make that happen, and that makes change in an organization."

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Finance Steps Up—Business Models and Partnerships

Finance's challenge is to move up the curve to where its informational capabilities and analytical expertise can be employed to the fullest advantage, by C-suite and business management alike. Benjamin Schneider, vice president of financial planning and analysis at the direct mail arm of Valassis Communications, Inc., has this to say: "Now our focus is fulfilling that partnership with the rest of the business. Sometimes it's getting the information that will help them make a better decision. Sometimes it's acting as a counsel on how to look at it, and how to make that better decision. Then there's also an aspect of being a control point for that decision to make sure that what's being decided is financially the best bet."

As business units envision and create—or refine and rebuild—business models, finance takes an increasingly important role as their partner.

Valassis Communications is a $1.1 billion marketing services company, based in Livonia, Michigan, which is best known for its branded advertising offerings; its subsidiary Valassis Direct Mail has more than 3,900 employees. Mr. Schneider's three points of contribution from finance—sharing data, providing guidance, and influencing decisions—neatly illustrate the role finance has carved out in his organization, an important function because of the subtleties of the profit aspect. "The business model itself is on the surface fairly straightforward. You're putting pieces in the package, you're getting them in the mail, and you're getting paid for it," he explains. But weekly gyrations make "the profit dynamics of this business model complicated, once you peel back a layer or two," says Mr. Schneider, and finance's ability to sort out the data helps management better understand the impact their decisions have on the business.

Having a command of these subtleties is finance's calling card with business unit managers, and leading finance executives are focusing on working with the business units to build and strengthen partnerships with their operations counterparts. Asked whether they should allocate less, the same amount, or more effort to specified activities with business managers, survey respondents identify finding and validating opportunities to improve operating performance as their primary concern. Nearly four out of five respondents see a need for improvement—and not a single respondent feels that less effort is needed in this activity. (See Figure 5.) Devoting more time to understanding revenue, cost, and profit implications of decisions also figures prominently in the category of more effort needed, with seven in ten selecting it—outpacing "understanding competitive dynamics" and "developing business cases for investment decisions."

In these efforts, finance is not necessarily in charge, but rather brings to bear its analytical and financial expertise upon the critical decisions that shift companies into the next gear. As business units envision and create—or refine and rebuild—business models, finance takes an increasingly important role as their partner.

In interviews and open responses, many finance executives report better working relationships in forecasting and strategic initiatives, and stronger partnerships for setting these business agendas and playing an important leadership role. They cite examples where, if finance is not in the captain's chair to guide the way forward, then it at least acts as navigator in the dangerous waters of today's business environment.

As Mr. Call notes about the interaction at Wal-Mart, "I think it's an evolution from reactive problem-solving mode to a higher-level business partner type of role, every step in the process versus 'We'll let you know if something goes wrong.'" Previously, he explains, finance would have been relegated to producing reports, tracking, and reporting "this is what happened." A newer model introduced in the last two years beefs up finance's role to include modeling decisions and evaluating their financial impact. "The process is now more of a step-by-step, 'help us make sure that we're seeing this the right way,' approach," says Mr. Call. "Earlier involvement, as opposed to keeping score after the fact."

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Figure 5. Working with business units to improve operating performance is a top priority for finance.

Should your company's finance team devote more, the same amount, or less effort to the following activities conducted with business managers?

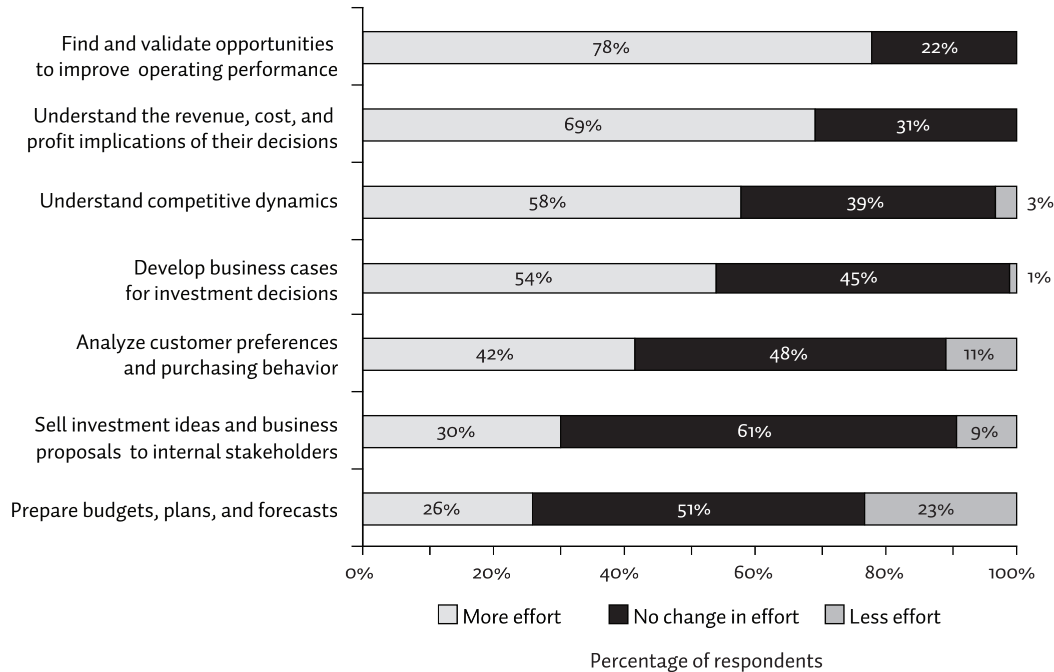
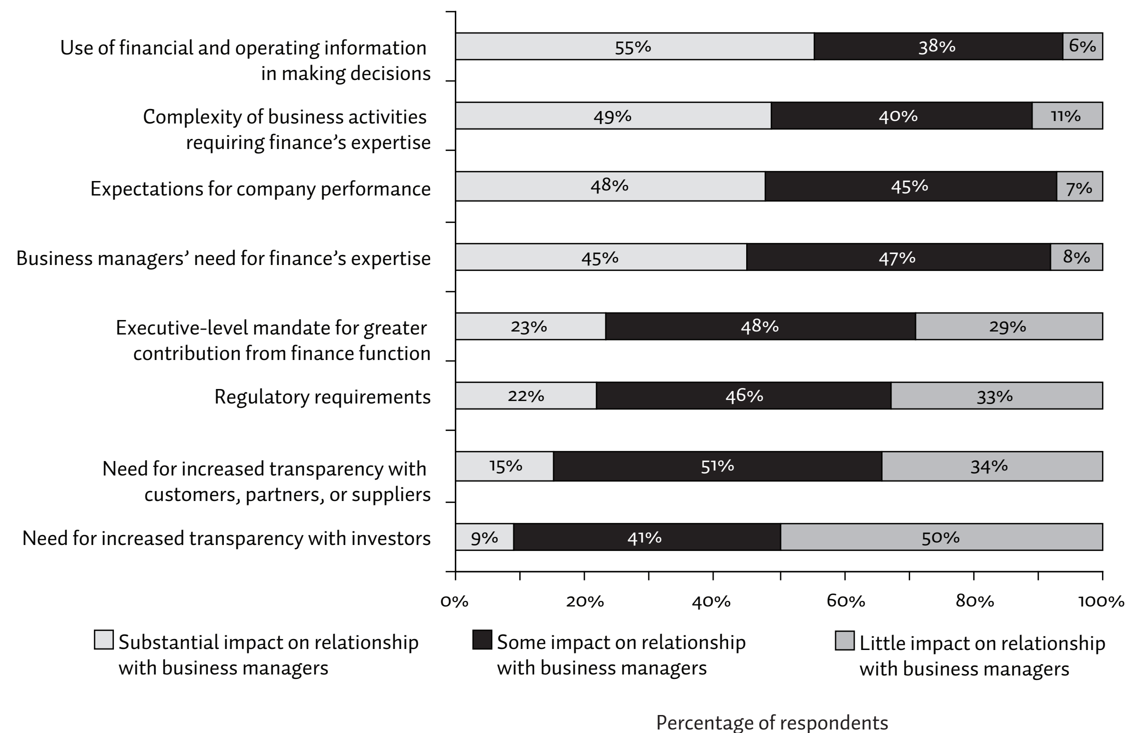


Figure 6. Finance executives feel their expertise and information for business decisions are key forces in relationships with business managers.

How much do the following forces affect the relationship between the finance function and business managers?



Says one finance director, "Meeting with [field managers] face-to-face or providing training on how [finance's] requests are more than 'just paperwork' was very beneficial" in educating business unit managers and building working relationships.

To cultivate closer working relationships with operating units, finance is well advised to focus on the areas where its expertise can most directly influence the business. The survey asked about the impact of various forces on the relationship between finance and business managers, with answer choices of little, some, or substantial impact. (See Figure 6.) Nearly three in five respondents (56 percent) say that the use of financial and operating information in making decisions has a substantial impact on their relationship with business managers (and only about one in fifteen – 6 percent – feel it has little impact). The more a company relies on excellent information to support decision making, we may assume, the more valuable finance becomes to its ability to execute on its strategy.

Teamwork and collaboration made an impact on finance at Valassis, according to Mr. Schneider. "It enabled us to focus on what we should be doing," he relates. "Adding up the numbers and distributing reports is one thing, relating those results to how the business works and making recommendations on how to make the business run better is another—that's what we strive to do and have working here in finance."

As that collaboration grows, it fosters trust and inclusion. Carolyn Seabolt, director in accounting for Accor North America, a subsidiary of Accor S.A, headquartered in Paris, France, talks about the progression she has seen in the last several years: "You don't just hand reports over and say, 'Here are the results.' The role has definitely progressed to say, 'These are the results and this is where we're going, and also here are projected numbers for the future based on other scenarios.'" Ms. Seabolt notes that her opinion for the best alternatives for the company, a multi-billion-dollar hotel operator, is always solicited in those meetings: "There is an expectation for strategic direction from finance."

The ability to create these close working relationships and gain understanding about each others' needs is a critical step for collaboration. As Mr. Maupin notes about the USDA, "There's a lot of trust between the managers and finance and vice versa. It just makes a huge difference in getting change made. Trust between units and understanding between units of what each other's needs are, wherever I've been, it's just been absolutely crucial." Mr. Maupin goes on to note that finance should envision itself as being a tool to be used in the path to greater success that helps to facilitate change. "Seeing yourself as the person that's supporting the business units to be successful—and if you believe that's your job—that builds trust and helps support change, and they trust you to do that," Mr. Maupin says.

As the controller of a national services company explains, "We want this free flow of information. We don't want business unit managers to talk one way when finance people are there and different when they're not." This controller actually works in the operations buildings, being embedded with that group and hearing their problems and challenges firsthand—a common practice for the finance staff at this company. "The finance people basically understand the needs, not to the exact detail level of a business unit manager, but at least understand the medium to high-level reasons behind it so that we can be better partners to those folks," says the controller. "We do spend a lot of time trying to understand the challenges. What are the things that keep them up at night? How can we resolve that?" This interviewee admits that it takes time to become an effective partner who truly understands the business units' needs and concerns, but working side by side yields benefits in both savings and clarity on various initiatives.

According to the survey, the highest-value business innovations come from cross-functional teams, as cited by three-quarters of respondents. And when finance partners with the teams, it's much more effective in moving change, according to John Morris, a senior finance executive in the credit card division of a major bank, the finance personnel can train other team members "how the business works financially, how the financial drivers work, what are the financial metrics and how they can track them, so they start to understand why the business works the way it does."

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Mr. Morris credits this teamwork and earlier intervention of finance with heading off misunderstandings. In an effort to stimulate sales volume, a non-finance manager came up with the idea of simply reducing the price on one of the promotional plans. "What they didn't realize was that the way that we made money was strictly through the price. So, when you cut the price, you get the additional volume. You're not really getting additional revenues. You're actually reducing your revenues. They didn't understand how that leads to or doesn't lead to profits for the business," explains Mr. Morris. Through education, he was able to show the group how to generate product ideas that were profitable, and foster more understanding and partnering. Often it is this interaction on day-to-day decisions that will add the most value to the big picture, underscoring the critical need for effective partnerships.

According to one finance executive, "We're right in there [with operations] as a partner. It doesn't feel like it's in the background and it doesn't feel like it's leading the parade, either. It's really more side-by-side."

Ms. Seabolt of Accor cites a similar approach in their efforts to educate and partner with the business unit managers to create wins. Backed by hands-on experience and cross-training with the field staff to understand both the *what* and the *why* of a request, they were able to make changes more easily and improve processes. "One thing the company does is require new corporate employees to work at the point of sale location for three days so they can experience what's going on at the site. This was certainly an eye-opener for me," avows Ms. Seabolt. She found a much better reception from the field managers once they learned how their actions impacted the P&L for their sites and for the company overall. "There was more cooperation to our requests," she notes. Before, emails or phone call requests from finance were viewed as "just another thing that accounting needs: 'All they care about is paperwork,'" Ms. Seabolt recalls. "Meeting with them face-to-face or providing training on how these requests are more than 'just paperwork' was very beneficial." (See sidebar, "Partnering to Change the Model at Accor.")

Partnering to Change the Model at Accor

As a director in accounting for Accor North America, Carolyn Seabolt is enthused about the growing role finance is playing in partnering with operations to roll out new programs. She sees a transformation from finance simply giving an opinion—"It was advice, and it could either be heeded or not"—to a more level playing field with operations, and success is growing for the company that operates or franchises more than 950 economy hotels, most notably Motel 6.

While she credits their previous CEO with initiating changes more favorable to finance, the new CEO comes from the CFO role, meaning the emphasis for finance has clearly shifted to a partner role. There has been a cultural change as a result, showing "that the 'bean-counter' finance person can also put on a broad-spectrum hat and lead the entire company," Ms. Seabolt explains. As the company kicks off new initiatives centered around sales and marketing, finance has a major role. "I was really excited to see that some of those are being led by accounting," she says.

Ms. Seabolt also explains how working together with other departments has yielded benefits. "We have processes that have been implemented to share customer information," she explains. In the old days, access to that information was on the sales and marketing side, not realizing that the finance/accounting side needed that information as well, particularly to identify financially sound customers. "We've had cross-departmental processes put in place where we can work with marketing and sales and provide that type of information, as well as share leads," Ms. Seabolt points out.

Another example is working with IT to get specifics on resource spending in the search for cost reductions. "It just wasn't making any sense," she says. "Why are we chasing pennies when we could be going in another direction, looking at another area, and chasing dollars?"

A key move was to incorporate some of the traditional finance benchmarks into the operations management bonuses. This assigned operations more control in a way that impacted their wallet, thus changing the compensation and performance models. "Certainly one of the prime examples of that is billing errors and disputes expense," offers Ms. Seabolt. If the product was delivered at the hotel site for a different price than originally booked, it ends up being a cost of the sale if it can't be collected. "In the past, operations viewed it like bad debt and out of their control," she says. "What we managed to do was have that built into the bonus structure. If the operations managers were diligent in the delivery of the sale and the completion of the sale, thereby collecting on the sale, they would be rewarded. And if they didn't, they would be penalized. That definitely got their attention and increased the interaction between accounting/finance and operations management." By implementing a new process and educating operations on what they needed to do in order to achieve their maximum bonus potential, finance was able to significantly improve behavior in an area that operations previously had considered to be beyond their control.

John Mathison, financial planning manager for the 3M Company, the $24.5 billion St. Paul, Minnesota, manufacturer, relates how to tell a partnership is achieving success. "It's a pat on the back when the businesses are hiring a bunch of people out of finance," he notes. "They're saying, 'Hey, that person is so valuable to our team, we want him in the division. We want him in a division role.' It really shows that we are making a significant contribution to the business."

The controller at the national services company explains the balancing and sharing that cultivates cooperation and co-ownership: "We may think of an idea and then we're going to go talk to the operations about doing that, but actually we want them to take it over and own it." His team runs the numbers and offers to support the plan, but gives operations the lead. "Ultimately, they own it," he explains. "We're definitely right in there on supporting any of the analysis that this is a good idea or this is not. We're right in there as a partner. It doesn't feel like it's in the background and it doesn't feel like it's leading the parade, either. It's really more side-by-side."

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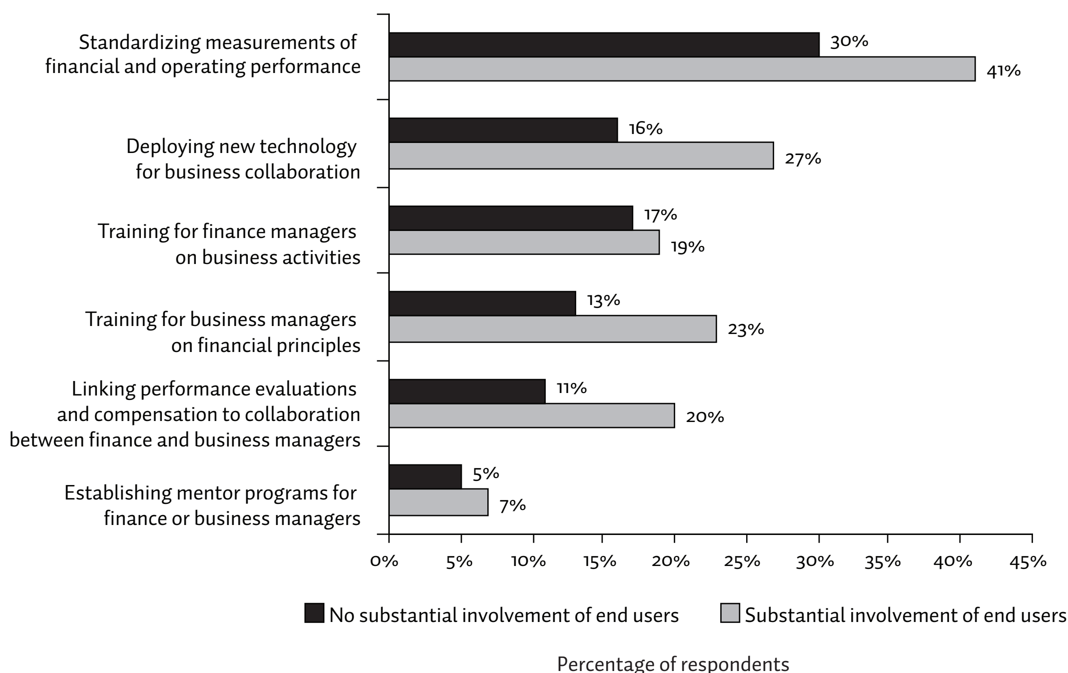
The Value of Collaboration — Improving the Use of Information

Our survey provides quantitative support for the positive impact of collaboration on business results. We asked for responses about the role end users usually play in finance and lines of business investment decisions for systems used to support analysis and collaboration. Companies that have the end users make a "substantial contribution" to the IT process—that is, companies that promote a collaborative process—get better results consistently. In all categories, a higher percentage of respondents who cite substantial involvement of end users also report more frequently that their company's efforts in that category are very successful. (See Figure 7.)

Even more dramatic differences are found when we examine employees' use of information to generate business value. As shown in Figure 8, respondents were asked how much they agreed with a series of questions relating to the use of data to drive business performance. In the aggregate "agree" responses (those who responded agree or strongly agree to the questions), we see marked advantages at companies where end users have been involved. For example, more than three-quarters of respondents from the substantial contributor group agree or strongly agree that their companies' employees have the authority to take advantage of and process activity data to generate business value; among respondents whose companies have not sought the involvement of end users in decision making, less than half (45 percent) agree with this statement. Similar disparities are revealed concerning employees having the right technology tools to leverage data on business processes and activities, teams having access to information they need to improve business processes, and the collection of timely and accurate data on customers, activities, and production processes. In all these categories, employees appear to be more empowered—and ultimately more effective in generating value for the organization—when their needs and inputs are considered in the selection of the technology they end up using.

Figure 7. Companies that use a collaborative process to involve end users in technology selection see better results.

Which of these initiatives have been particularly successful in improving collaboration?



Involving End Users Improves Results at Universal Music

"It all comes down to time and money," is Jason Gallien's succinct view of working together effectively to get change accomplished. He is vice president and U.S. territory group controller for Universal Music Group, a subsidiary of Vivendi. This recording company may well wake up every day facing a new distribution channel having been created overnight, as their industry evolves from one traditionally regionally focused to one harnessing global demands and electronic distribution. The challenge for Mr. Gallien and his finance colleagues is to monitor, capture, monetize, and report this activity, a monumental task.

To tackle the challenge, Mr. Gallien explains, "There's a lot of investment in, and a lot of review of, the way we've conducted business. Given industry conditions and the evolution of digital business lines, we need to find ways to work smarter, not harder, wherever possible." They needed to completely reinvent their entire revenue processing cycle: "We are investing millions in resources and new systems across the board in order to both deliver the content as well as ingest the reporting back from these worldwide customers." As of five years ago, most of the systems to capture this new activity effectively hadn't yet been created because the needs were developing so rapidly.

And the older systems in place were not the most efficient nor scalable. The accountings for product usage coming from digital customers provide an "excruciating level of valuable detail, but those revenue details were not available in any kind of a meaningful way to the people running the record label," according to Mr. Gallien. The volume of data was overwhelming on a transactional level, but actually prevented it from being useful on an actionable level. There was a need for an application to summarize the information into easily manageable chunks to see "which titles were in fact earning the most so that they could make decisions early in the release cycle to determine where to invest additional marketing dollars," Mr. Gallien explains.

The finance team needed to have a more efficient system for aggregating the incoming flood of data. Finance partnered with the IT team to build from scratch an internal revenue query tool. A key component of the project was involving those who would be responsible for doing the queries. "We did it by bringing in the end users of this data and asking them to tell us what they needed, what they wanted at the end of the day," says Mr. Gallien. From there the IT people used existing software to build the data cube. They included a simple front-end filtering, querying web page for people to drill down on the revenues and records across periods. "We went from having really no visibility to the underlying data unless you had a degree in statistics and you knew how to use a very complicated data warehouse tool," says Mr. Gallien, "to putting something out there that the average person in a sales department could use to figure out what was going on, what releases were earning what revenue, what partner the revenues were coming from so that they could make decisions.

In the span of five months, the system went from drawing board to essential revenue query tool. Mr. Gallien estimates that in the 16 months since implementation they have probably run more than 15,000 queries on the system, making it one of the most broadly used applications in the company. "It only happened because there was a critical need and we got the right stakeholders to the table and got everybody's political agendas set aside and had everybody focus on it and get it done," Mr. Gallien relates. "There are plenty of opportunities if you get the right people together to collaborate on it. It was a very encouraging project. And there are a number of them like that that we have ongoing today."

Finally, companies that encourage collaboration with end users in technology selection also appear to be able to make substantially better use of that technology. For each of six activities relating to the use of technology in business analysis and collaboration, higher percentages of respondents from the substantial involvement group say technology investments have a positive impact than do respondents from companies that have sought little or no involvement of their end users. (See Figure 9.) The differences are particularly noteworthy for technology's impact on individual productivity, work group productivity, collaboration, and quality of decision making. In other words, when a company actively seeks collaborative input from the end users of technology, the technology is more likely to be put to good use.

The power of engaging members of various groups to identify and solve mission-critical business problems is illustrated by the experience of Universal Music Group. (See sidebar, "Involving End Users Improves Results at Universal Music.") When faced with the challenge of improving the interface for accessing their data, the team was able resolve the issue both quickly and elegantly. A key component of their successful approach was to expand end user involvement in the development process.

When a company actively seeks collaborative input from the end users of technology, the technology is more likely to be put to good use.

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Figure 8. Companies that involve end users in technology decisions gain a substantial advantage in their employees' use of information.

To what extent do you agree with these statements about your employees' use of information to generate business value?

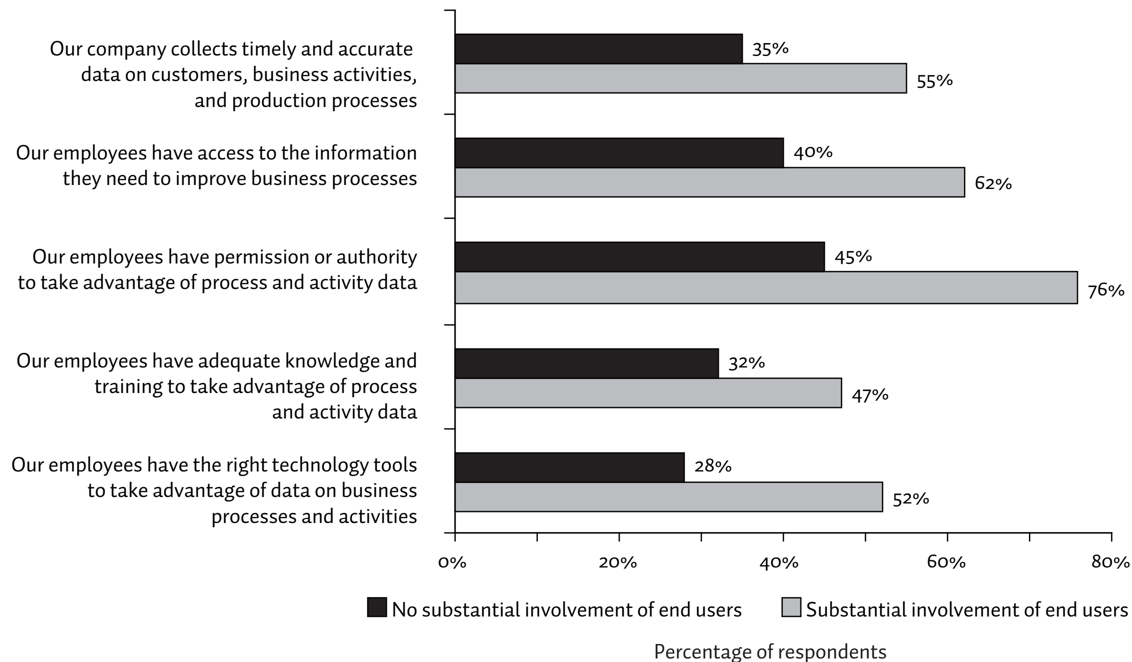
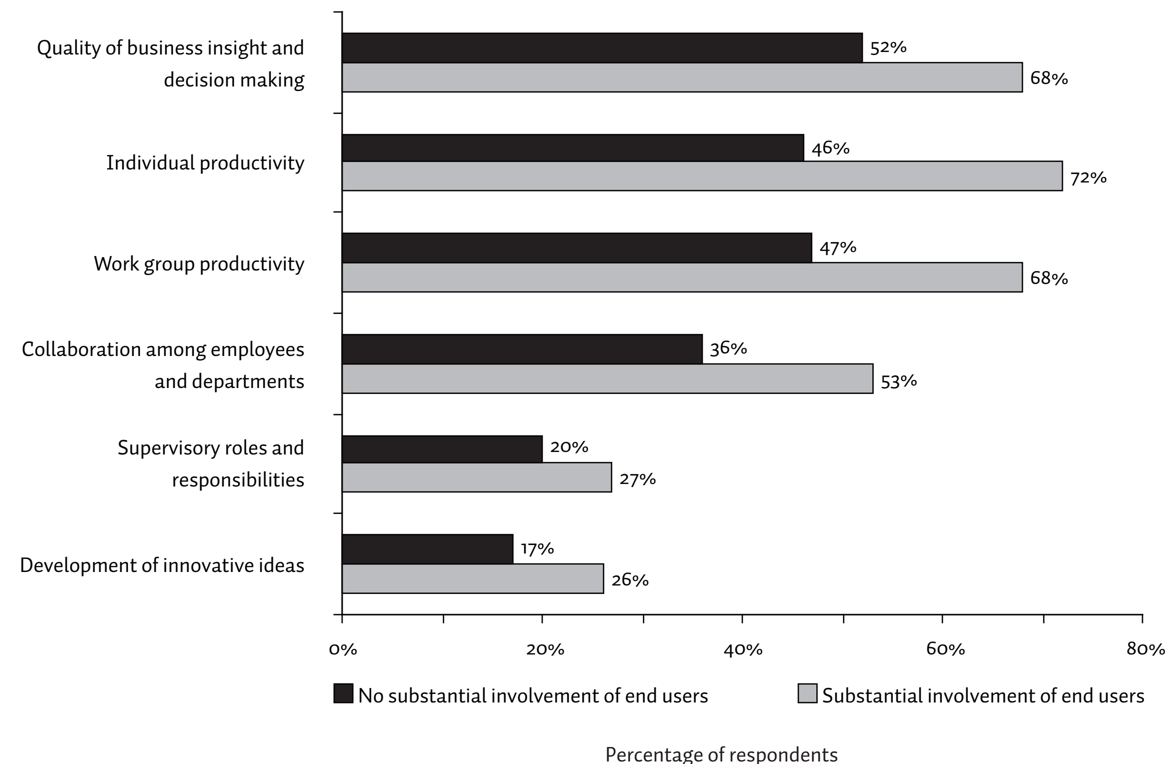


Figure 9. Finance sees greater positive impact for analysis and collaboration when end users are involved in the technology selection process.

What impact have investments in technology for business analysis and collaboration had on the following attributes of your company's business activities?



Challenges for Organizations and their Finance Teams

"When you're creating the need for change, you can boil it down to three very simple sentences," according to Mr. Mathison at 3M. "It's the what, the so what, and the now what. What is the change? Why is it important? How are we going to get there? That really helps people scope the idea of change, and it's simple." While there is often common agreement that changes need to be made, the sticking points come when it is time to identify what —and more importantly, who—is most in need of revamping, refining, or retooling.

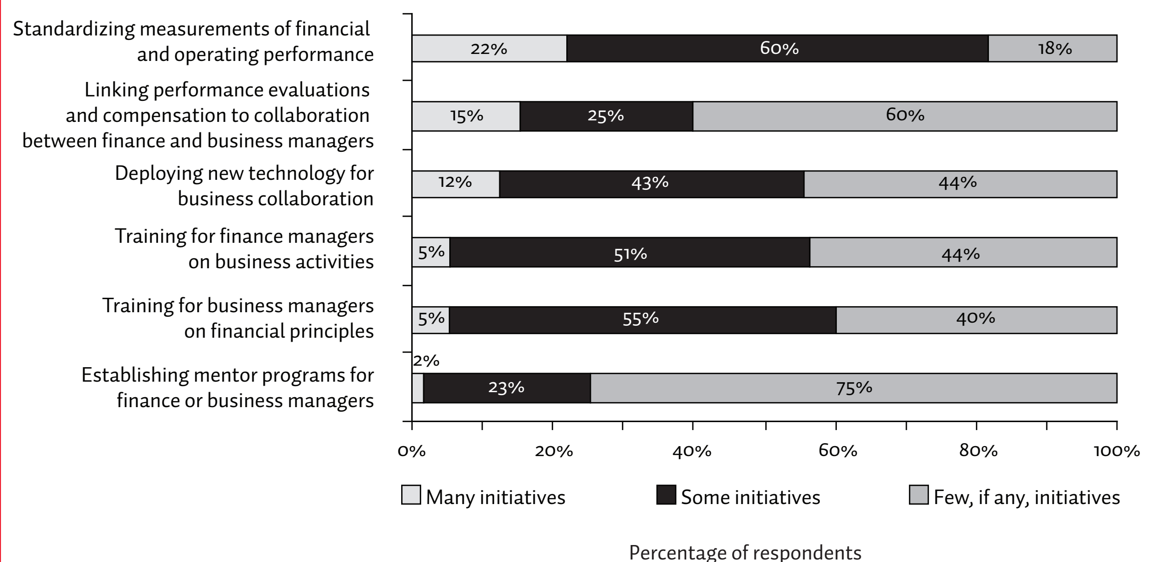
To be more innovative in the making and selling of goods and services, companies need finance to work more closely with unit managers. But, while respondents say their companies are starting to allocate more resources to this collaboration, there is still much work to be done. When asked the extent of steps to encourage closer finance and business unit collaboration, barely one in eight respondents indicate their companies have many initiatives in this area, and fewer than half, in aggregate, even acknowledge having any initiatives. (See Figure 10.) The area receiving the most attention for improved collaboration isn't yet the strategic, but standards-focused: More than four out of five survey participants acknowledge that their companies have either "some" or "many" initiatives for standardizing measurements of financial and operating performance. No other set of initiatives for promoting collaboration is in place at any more than half of the respondents' companies.

Attitudes and perceptions still need to change if finance is to fulfill its expectations for contribution to their companies' strategy and value. Survey respondents list a number of key challenges that companies need to address if they are to get the most out of their finance teams:

- Getting a seat at the table
- Making IT work for you
- Linking performance and rewards
- Taking on the risk
- Getting to "yes"

Figure 10. Much more can be done to foster collaboration between finance and business management.

To what extent has your company taken any of the following steps to encourage finance and business unit managers to collaborate more closely?



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Getting a seat at the table

The first challenge for finance is making sure that they have a seat at the table as a trusted partner. In the survey, finance executives indicate that, for the most part, working relationships with business managers are not an impediment; only 13.5 percent of respondents cite poor working relationships as an issue that limits the finance team's ability to work with business managers. However, more than one in five respondents cites the lack of mandate from executive management as an obstacle, and two in five cite business management's perception of finance's value. In many companies, the finance team still has work to do to demonstrate the value of their expanded capabilities and to build working relationships.

Executive support is critical not only in fostering effective partnering, but also in implementing change. "If you've got the leadership, change is definitely something that can be addressed and overcome," offers Mr. Schneider at Valassis Communications. "Lack of leadership, even with all the resources in world, you're still probably not going to end up getting very far."

Mr. Murray at Hilton Grand Vacations has a similar observation about senior corporate management. He stresses that it isn't an age issue so much as an organizational chart axiom that the more seasoned personnel tend to be more reluctant to embrace change than people in the middle. "I think some people when they get to the top of the org chart, they've always done things a certain way," says Mr. Murray. "They're comfortable with it, and sometimes it's a little more difficult to break them loose and get them out of their comfort zone."

A little understanding can also help to break down that resistance, notes Jason Gallien, vice president and U.S. territory group controller for Universal Music Group, a subsidiary of the $26.4 billion Vivendi Holdings in Paris, France. "There are colleagues out there on the creative and business affairs side that are beginning to appreciate that the back-end business process and information flow can actually be a source of value, that if we don't invest in it, we're going to lose money." He notes, "That's a very new perspective for the music industry, in my experience."

Making IT work for you

Some of the biggest challenges faced by organizations today center around their IT systems and information gathering and sharing. Companies are almost completely dependent upon technology for communications, order and payment processing, product delivery, R&D efforts, inventory management, forecasting, and countless other activities. And technology complexity is growing exponentially. For example, Mr. Gallien at Universal Music outlines how rapidly shifting market dynamics are turning his company's technology structure on its head at the world's largest recording company and music publisher. The company's legacy systems were originally designed to track daily "physical" CD sales units in the hundreds of thousands, reported in dollars; today's reality is that they track and process millions of digital sales transactions in fractions of dollars across an increasing variety of formats and revenue streams—MP3s, ringtones, broadcast satellite stations, web ads—and they must also provide electronically the underlying content information and metadata that go with each individual revenue transaction.

The first challenge for finance is making sure that they have a seat at the table as a trusted partner.

Today's technology reality is summed up by Mr. Maupin at the USDA's Food and Nutrition Service: "There's so much here that's automated, we just wouldn't survive without it." The director of finance at a large credit card services provider reflects on the challenges finance faces in capitalizing on the technology. "If you don't have the relevant data, the relevant level of detail, you can't get to anything," he says. "I think the biggest time barrier in work is just gathering information from non-compatible sources and trying to compile it. A great deal of finance's time is spent just data-herding versus actually analyzing. That speaks to a big opportunity—focusing on using the information versus gathering the information."

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Despite the obvious need, half of the respondents in our survey say that IT systems that don't support collaboration between finance and business are limiting the finance team. In our interviews, finance executives talk of manual feeds, vital reports housed in one person's desktop, and a tsunami of different spreadsheets to deal with. One executive notes significant risk in the area of IT because his company's core financial systems are written in COBOL and go back 20-plus years. He says that even finding people who can work on the systems with proper coding experience is difficult now. And in a merger or acquisition environment, there can be resistance to accepting new systems, with one finance person commenting that it felt like "we're going to go back to the days of the Stone Age" by not adopting a unified technology solution.

In stark contrast to the potential that technology presents, many finance executives see it as a stumbling block, limiting their ability to work optimally with business managers. In the survey, only a quarter of the respondents indicate their companies will be allocating resources to dramatically improve the IT department's contribution to the business (see Figure 2); nearly half of the respondents report that their companies are planning few, if any, initiatives to deploy new technology for business collaboration (see Figure 10). When asked to comment on employees' use of information to generate business value, nearly 40 percent of finance executives surveyed either disagree or strongly disagree that their employees have the right technology tools to take advantage of data on business processes and activities. Technology offers the opportunity to foster collaboration and improve efficiencies, yet companies are not prioritizing this capability to capitalize on it.

Many organizations still wrestle with how to take a system of disparate sources and legacy systems—sometimes built with 20-year old obscure computer languages or relying on manual feeds into a comprehensive database—and improve processes to make them faster, smoother, and more streamlined. In this schema, how do you build a database that both lets you see activity at a granular enough level for analysis, but also provides a lens capable of capturing the big picture? The challenge is how to employ technology to get what is now seen monthly delivered on a weekly basis, or how to get the weekly reports daily, and perhaps from there feed the data into a constantly updating dashboard.

Mr. Morris at a major bank, talks of having more rigor in analysis and their documentation to standardize methods, which will lead to both easier auditing and repeatability. "We're a lot more artist in finance for what we do, and we're looking to become more engineers, more productionalized so that it's much easier for corporate to be able to understand what we did and why we did it," he notes. Michael Morse, associate director of finance for Genzyme Corporation, a $3.7 billion biopharmaceutical company based in Cambridge, Massachusetts, feels a more integrated software system could give people much more information "on a timely basis that they would be able to look at and use. It would probably make the forecasting and budgeting a lot better and a lot less painful." Presentation of this critical data is also an area of opportunity. "To be able to have that information displayed in a nice user-friendly format would make it a lot easier for people to look at these things from a big picture perspective," says Mr. Morse.

"A great deal of finance's time is spent just data-herding versus actually analyzing," comments a director of finance. "That speaks to a big opportunity—focusing on using the information versus gathering the information."

Standardizing processes around data so that finance can recreate pricing projects or monitor performance metrics helps to identify problems earlier. Establishing a common language helps drive understanding and facilitates comparisons between regions and business units, and that has brought many benefits, according to Russell Flugel, segment controller for the merchant gases segment of Air Products and Chemicals, Inc., an industrial gas and specialty chemical manufacturer with $10 billion in revenue: "Now that I have that kind of visibility and process discipline, we can start to share best practices and metrics that allow us to drive at the same key business improvement opportunities. That's something that finance has been very effective in helping to deliver. Let's take data out of this system, and let's use it to talk about our businesses in a very consistent fashion."

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But getting the data out in a timely manner and with appropriate detail is a major challenge. Mr. Morris, at a financial services company, notes the level of granularity that is needed to identify the most important trends. The finance side of the business would like to have information at the individual account level on a daily basis, something that shows up on the operations side, but currently that isn't available to finance. "That lag makes it harder to actually do something about the information," he laments. While they have made progress, getting the data on a daily basis will be most useful.

This misalignment of systems and needs is not uncommon. As Mr. Gallien of Universal Music says, "It's very easy for people to get excited about the potential of a new business model without fully addressing whether or not you have the right systems and people in place in order for it to be supported." He foresees their industry relying more on outsourcing to external technology companies, which can develop the systems more quickly, and identifying partners for joint venture application development opportunities.

Some companies are taking steps to overcome this obstacle. The director of finance at a credit card services company advocates for the power of combining change and technology. "You can make change without changing your technology. I think that putting the two together you get a multiplicative, if not exponential, effect as you're changing and thinking effectively about how will we change and how will we take advantage of the technology," he explains. "I think similarly if you change technology, it forces you to change." And at a large management consulting firm, Steve Battles (controller and finance director for one of the company's regions) feels that they have done a very good job recently of employing information technology: "It seems to be facilitating other change to happen, not only within this region but also around the world. We're starting to use the same type of information and getting better at doing that."

Mr. Murray at Hilton Grand Vacations addresses the risk these hurdles pose for not getting your IT systems up to speed. "It is not prudent today to only put Band-Aids and bubblegum on our old systems. We were forced to act," he explains. "You want to do that before it's imposed upon you. If you start changing because you're desperate, it's going to be inefficient and costly."

The CFO of a governmental organization notes, "You can get people to understand why you want them to change…you can provide them with the tools, but if you don't provide them the incentives to use the data in a value-added fashion, then ultimately the whole system breaks down."

But other interviewees note that you don't need to completely overhaul your systems infrastructure to gain benefits. Mr. Mathison at 3M uses his desktop technology to monitor key customers in real time. He believes that finance people who tend to climb up the ladder are the ones who understand market conditions and spend time tracking it every day. He uses a stock page portfolio tool profiling key customers and their top competitors to see instantly headlines, press releases, and market activity. "I think that's so important," says Mr. Mathison. "You have to have a much better view of your environment because obviously when you look at our economic conditions and the changes in our currency over the last year and a half, we've had huge external change. The best finance people have a grasp, and they dedicate some time to that every day."

Linking performance and rewards

Survey respondents acknowledge for the most part that there have been few, if any, initiatives at their companies linking performance evaluations and compensation to encourage collaboration (see Figure 10). Incentives must be properly aligned with outcomes for change to achieve its objectives, and these aims must be conceived as team goals. In some cases, there isn't enough, or even any, incentive for adopting improvements. In other situations, the value of the improvements only becomes evident over time, but getting the behavior change is the key. Mr. Morse of Genzyme asks, "If we change the measurement scheme for everybody, would you drive different behavior?"

Mr. Battles, at the large management consulting firm, acknowledges that it took a little time to get the incentives lined up properly. They were set up for goals by office, rather than for achievement as a region. They recognized

Risk Management Scenarios

Every major change of process involves a complex web of trade-offs for management to decide. Where finance can step in to act as facilitator and play more of a moderator's role is in risk management, offering its expertise as evaluator.

Russell Flugel, segment controller for the merchant gases segment of Air Products and Chemicals, Inc., says that their finance department helped build a comprehensive risk assessment tool that covers more than 20 different categories of key risk items to look at before finalizing a customer transaction. Mr. Flugel says many of these risk assessment techniques were spread throughout the company, but it was finance that "stepped in and collected up all of these best practices in terms of how to assess risk around various categories, including capital, the contract that we're signing, the customer's credit, the risk around the industry that we were going to be serving with our plant, how volatile it is, and so on. With all of these inputs, we're now able to do a very all-inclusive kind of risk assessment." This centralization allowed them to gauge their tolerance for risk around a transaction much better.

Mr. Flugel shares that it wasn't necessarily easy to get everyone on board for this new process aimed at deals of a certain size. "I think our finance function really got out there with each of our business areas and taught people the value in using it," he says. A critical goal was awareness. "Not only do we want our business teams identifying what the key risks are," he explains. "We want them to find ways to mitigate those risks or to minimize them. That's the real value."

Mr. Battles cites a specific case of risk his management consulting firm faces with office space. The company has real estate commitments that could become a growing liability if there is a deepening of the economic downturn in the next year or two. "I see that as a big risk, and an area where finance should take a leadership role, spend more time, and at least put the data in front of management," says Mr. Battles. It is up to finance to offer cost-saving measures such as "hoteling" and show their financial impact. Millions of dollars hinge on that decision, for which finance needs to provide guidance "helping the business understand not only cost, but efficiency, and really seeing this as a process improvement; finance can initiate that, and drive the business forward," explains Mr. Battles.

The risks at a retailer such as Wal-Mart center on better understanding of issues such as margin structure and tolerances for inventory, according to Mr. Call. "These are the parameters that we need to pay close attention to in order to be successful," he says. He explains that finance's evaluations allow the merchants "cover to invest in an order of magnitude more than they would, and say, 'Yes, the numbers make sense. We believe this is something that's in the best interest of our company, and we've mitigated any risk.'"

In the coming year at the Department of Labor, Dr. Webster plans to be out talking about enterprise risk management using a "portfolio mentality." He wants to ensure that they aren't looking at risk from a stove-piped perspective, but instead "identifying all the stovepipes by a comprehensive look at risk, and then balancing those risks assessed in a portfolio manner across the entire enterprise." This type of overview is a challenge in private industry, and even more so in government, but "is an issue that needs to be discussed and implemented," he states. He knows it is a long-term process, but worth the investment.

At a major financial services company, the director of finance notes that any major change requires risk, "something that isn't natural for finance. You don't find a lot of gamblers in finance organizations; that's just not the nature of the people that are drawn to it." Since much of finance is about managing and mitigating risk, finance is fundamentally anti-risk. "Change is hard for us, but I think that nothing good happens without change. Everything good in life involves a change. I think we as finance professionals need to be more comfortable with it," he concludes.

the need and value of change, and how "in the long term that would create some better incentives for North America to operate efficiently as a region. Let's think about our internal processes. If we could improve efficiency there, doesn't that help all of us?"

Mr. Morris, at a major bank, also notes that people will do what they are rewarded for achieving. He uses sales as an example of an area where the conflict can arise of sheer volume versus profitable business: "They're very rational in being able to drive the metric that they get incented on. It's the same thing within finance. If we get incented only on a particular metric and not a balanced set of metrics, it can lead to the wrong kind of behavior."

Providing teams with both proper tools and incentives is critical, in the view of Dr. Douglas W. Webster, chief financial officer at the U.S. Department of Labor. "You can get people to understand why you want them to change, you can win their hearts along with it. You can provide them with the tools, but if you don't provide them the incentives to use the data in a value-added fashion, then ultimately the whole system breaks down," he claims. "But if there are no incentives in place for the operational leadership or the non-financial leadership to actually be held accountable for more cost-effective decisions, then it's very difficult for the CFO to force that use on them."

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Taking on the risk

To be able to fulfill this strategic role and be a major catalyst for change, there is one critical element which must be tolerated, and it is one not easily embraced by finance: risk. There has to be a sense that the changes to be made are revolutionary, not simply evolutionary. The environments which will allow for truly new ideas and models to be tested will foster this thinking of taking bold steps. It must be safe to assert the risk, so new methods can be vetted. (See sidebar, "Risk Management Scenarios.")

One of the most difficult barriers to overcome for implementing change is the concept of changing at all.

"I think the key is not so much rewarding the wins, because I think that's easy," says the director of finance at a financial services company. "So if you deliver a change, it adds a lot of value, the rewards are going to follow. That's kind of the easy one. I think the opportunity is to reduce the risks of failure and create a space in which it is safe to experiment." He notes that you don't want people to feel, "Hey, if I go too far out on the limb I might lose my job."

Mr. Mathison of 3M also touches on the importance of partnering with the business managers on common goals and pushing through mistakes to get momentum on the path to innovation. "Most people get onboard where the industry is, and now there's energy. Now people are hopping on, and once people start moving, even if you make mistakes, it's easier to backtrack and go again than it is to get people moving from a stationary point. Once people are moving, it's okay to make mistakes along the way, and people aren't beaten up for making mistakes. But it's getting those first few steps going."

Turning up the heat

One of the most difficult barriers to overcome for implementing change is the concept of changing at all—trying to fix what isn't perceived as broken. Mr. Morse at Genzyme cites forecasting data as an example of this issue: "If people are getting the information that they feel they need to manage the business and run the business, where is the incentive to change?" But he goes on to add that, "It's a publicly traded corporation, and all we have to do is miss our quarterly numbers once and we get pummeled. If we miss them because a forecast is bad, because we didn't get good data, then there's incentive to change. As long as you're getting the information you think you need, there is no incentive to change."

A finance executive at a credit card services company echoes that sentiment. He feels that "absent a change-inducing event, a clear 'we have to' mandate, there's not a real impetus for it." He sees that dramatic change in business processes and output can only be realized when organizations sign on for radically different approaches to the work: "You cannot get game-changing output from incremental effort, and there's a reluctance tied to that. If the business leader says, 'Hey, I've been successful leveraging this approach,' there's a reluctance to give up that which has led them to be successful in the past. I'm going to say to be truly successful, it requires an active invitation from the business for finance to interact in a different way." And he adds, "I'm not sure that that kind of opportunity exists."

Mr. Call is part of a strong corporate culture at Wal-Mart, where the successful track record can actually on occasion stifle innovation. "Things have worked so well for so long that it is easy, especially if you're a long-time employee, to assume that everything you're doing is always working. In the majority of cases, that may be true, but that can sometimes blind you to the minority," he explains. An influx of new employees helps to refresh ideas and offer the perspectives they bring from other companies.

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Resources always figure prominently in getting change onto the agenda. “We have changes going on in operations and in processes and finance,” Mr. Murray at Hilton Grand Vacations says. “We don’t stand still at this company, so every year it’s a matter of how much change you have the appetite for or the budget money for.”

Sometimes change is thrust upon a company as a result of a merger or acquisition, which brings its own special set of challenges. Mr. Morris at the major bank explains how his team tried to make the best of a merger situation: “My group has made decisions that, despite knowing their tools and techniques are not designed with our type of business in mind, we’re going to take the burden of learning and adapting those techniques and making them work rather than trying to justify why we can’t use those tools. I think that’s an important distinction.” In other groups, there is a feeling of anticipation that the new methods might not work, setting the stage for integration problems. “By using [their] tools and correctly adapting them to our business, we’ll be able to get much more acceptability of our recommendations from our new management,” he points out.

For Mr. Morris, this more flexible approach has its basis in some of his earlier experiences working at a major finance company, where the norm was to move people through other business units to gain exposure of their needs and operations. Staying in one particular area “makes it harder to drive these changes because you don’t have any exposure to other business units and their techniques or have bridges built,” he says. The benefits are not only a broader context of the business, but also, according to Mr. Morris, “it standardizes the analysis techniques and processes that are used across the business. If you spend your whole career in one business unit, that creates more of an insular outlook within the business units and makes sharing harder.”

In the midst of all the challenges of change is the fact that finance must still run the books and be on top of compliance. Mr. Mathison at 3M comments on how this will impact finance’s input and development in the near future: “The role is going to grow, and the information needs are going to accelerate. We’ll have to be internal and external experts. I would say it’s not just evolving—it’s growing. We can’t give up our base because it’s too important, but we can provide more and more value.”

Getting to “yes”

One area of change that does not get enough attention is the soft part of change, encompassing attitudes, agreement, and acceptance. “If you can’t get their agreement, understand why you can’t because it is possible that the change isn’t the right direction,” says Mr. Morris. At Hilton Grand Vacations, Mr. Murray constantly runs surveys, gathering new ideas for change. He knows no one suggestion will generate change, but enough will establish a trend to act as a catalyst. He acknowledges that not everything will be a pure ROI type of change, but if it is a long-term, goodwill type of improvement, “eventually you know you will get rewarded for that change.”

The cultural aspects of change—encompassing attitudes, agreement, and acceptance—are the most overlooked issues universally.

Dr. Webster at the Department of Labor is convinced that cultural aspects of change are the most overlooked issues universally. “I’ve seen time and time again organizations invest in tools without investing in the organization and individual behavioral changes that are necessary to really use the data that comes out of the tools,” he states.

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Conclusions

- As companies adapt to changing markets, technology, and competition, the finance function is evolving as well. In forward-looking companies, finance is no longer simply the caretaker and reporter of the numbers. CFOs feel they must be at the center of change initiatives, partnering with business unit management to guide and support effective actions and informed decisions that push the business forward.

- Many finance executives see the basic "blocking and tackling" of their function to be well established, and are looking to deploy their financial and analytical expertise more widely and in more strategic areas. A substantial majority of finance executives in our survey anticipate that their companies will allocate resources to bolster finance's support for business management over the next two years. Almost a third of respondents report that their companies will be looking for dramatic improvements in this area.

- Finance executives believe that they can make a greater contribution to refining their companies' business models, as well as providing more support for selling, marketing, and pricing practices. Finance is able to add value through its expertise of analysis and modeling, providing guidance on and insight into a broad range of factors that many business units do not fully grasp concerning trade-offs that impact costs and profits.

- However, executives also report that less than a third of the finance team's time is currently spent on decision support; much of their time is still consumed by traditional, routine finance and accounting activities. Some business managers still expect finance simply to "provide the score," instead of contributing to "winning the game." Finance must find the time and resources it needs to expand its skill set and provide more value-added.

- Collaboration is essential to understanding each group's needs and leveraging these insights into product and service improvements. The finance team needs to develop closer collaborative relationships with business management, so that they are working side by side to find and validate opportunities for improving operating performance. Finance executives see their involvement evolving from backward-looking report generation and problem solving, to forward-looking, higher-level business partnerships.

Finance executives see their involvement evolving from backward-looking report generation and problem solving, to forward-looking, higher-level business partnerships.

- Companies that already promote a collaborative process consistently get better results. Companies that actively involve end users in technology decisions report that those users get more value out of the technology, once implemented, than do end users who have not been consulted. Employees of companies that seek substantial end-user input into the technology selection process are more likely to have the tools to take advantage of data on business processes and activities, have authority to take advantage of process and activity data, have access to information to improve business processes, and collect timely and accurate data. All of these capabilities empower employees to generate improved results for the company.

- To promote greater collaboration with business management, finance teams must work to demonstrate the value of their expertise and capabilities. They should seek senior management buy-in and support, at the same time that they educate line management on the uses and value of their input and analysis. In addition, companies must do a better job of linking rewards to collaboration.

- By and large, companies fail to fully utilize the technology available for promoting and supporting collaboration between finance and business management. Better aligning information systems with business managers' information requirements is a high priority.

Sponsor's Perspective

The CFO Research Services study, *The Evolution of the Finance Function: Teaming with Business Management to Adapt and Thrive*, points toward a continued evolution of finance. Finance organizations are starting to think about how they will balance their fiduciary control responsibilities with a renewed emphasis on growth through collaboration. The study suggests three related themes:

- *Innovation* in the consideration of new business models
- *Collaboration* between finance and operating units
- *Co-creation* of the technology and business environments in which employees work

Each of these areas challenges deeply held perceptions of the role finance plays, and opens opportunities for finance to provide greater insight throughout an organization's value chain.

Enabling Innovation

A study by Doblin reports that only 4 percent of innovation investments pay off. In the CFO Research Services study, 40 percent of respondents report that their companies are seeking aggressive innovation in product and service development, and almost 30 percent are pursuing innovation in selling, marketing, and pricing practices. As new models emerge, finance must become more nimble, providing business functions with guidance on the tradeoffs, risks, and opportunities engendered by change. The study indicates a transition from finance as a standalone, centralized function, to finance as an enabler of business change in a distributed, networked workplace.

However, the study also reports that more than two-thirds of finance's time is still spent on routine transactions, and that 80 percent of respondents say they are impeded by time, budget, or manpower constraints. If finance is spending the vast majority of its time still managing routine transactions, how can it effectively enable innovation? The answer lies in distributing the finance function, to become more integrated with the business functions.

Finance in a Networked World

Nearly 50 percent of survey respondents cite performance expectations and complexity of business activities as having significant impacts on the relationship between finance and line-of-business management. Organizations are indeed becoming more complex, as they grow more global, outsource more functions, and create new partnerships with looser integration (as compared to vertical integration). Operations no longer functions in a self-contained vacuum, but rather through negotiated agreements among partners, linked by technology. And finance, in a networked world, must learn how to work collaboratively with operations.

A new concept called "virtual distance" describes the dimensions of collaboration among distributed teams. Virtual Distance International (VDI) and The Institute for Innovation and Information Productivity, of which Microsoft is a founding member, co-funded a white paper exploring VDI's concept of virtual distance, outlining 11 factors that influence an organization's effectiveness when working together:

- Geographic distance
- Temporal distance
- Organizational distance
- Team size
- Face-to-face
- Multitasking
- Technical skills and support
- Cultural distance
- Interdependence distance
- Relationships distance
- Social distance

Simply placing people in the same location may help manage geographic, temporal, and face-to-face issues, but it does little to address issues such as cultural distance or organizational distance. Finance, for instance, may be located in R&D, but it may be so conceptually removed from the way engineers view cost and risk, that it may not be able to relate its discipline in a meaningful way to the efforts it is being asked to help manage. To work together effectively, individuals from different disciplines must make a concerted effort to negotiate a consensus view for closing the distances that challenge their mutual responsibilities. (Further information can be found in Lojeski and Reilly, "Making Virtual Distance Work," available at www.iii-p.org.)

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As even the smallest organizations feel the pull of globalization, they will face more and more demands for collaboration that cross physical and organizational boundaries. These are not just single dimensions that need to be managed, but complex, multi-dimensional shifts that require a new way of seeing workplace relationships.

Co-Creating the Workplace

Many businesses today focus on creating differentiating customer experiences, but the employee experience is often fragmented among various organizations, from direct management to HR, leaving the employee less than satisfied. The CFO Research Services survey contains a key finding on one aspect of that investment: involvement in information technology decisions.

Respondents indicate that those end users who have been given a significant stake in IT investments enjoy higher individual and workgroup productivity, have better insights, and make better decisions than those who have been given little opportunity to be involved with IT investment decisions. If we go back to virtual distance, technology skills and support represent a single dimension. The co-creation of environments can stretch well beyond tools to include the other dimensions of virtual distance as well.

A recent study by Basex, an analyst firm based in New York, reports that more than 60 percent of respondents have developed innovative ways of using the software they were given on the job, and more than 80 percent say they have modified their software environment in some way. These findings point directly back to the CFO study, regarding people's greater likelihood of success when they co-create their technology environment.

Innovation requires an environment that empowers its employees to explore the edges of problem spaces, to look for new patterns, and to act on their insights in order to create new value. If individuals do not own the tools that they use, if they cannot control the basic way in which they work—how then do they contribute to the way an organization will function, or what products or services it will deliver?

A Call to Action for Finance

In the transition to a networked, knowledge-based economy, finance's success will not necessarily lie with its ability to foster new business models for the organization, but to adopt new business models itself. Innovation starts at home. As finance evolves to more integrated models, as it finds ways of empowering organizations with the wealth of information available—as it finds new ways to guide and mentor, coach and lead—it will become highly influential in its broad range of remits: from controlling costs to driving innovation.

At the core is empowerment of people to adapt to the changes they see, internally and externally—to view staff and contractors as a human network capable of sensing change and feeding back observations and advice to the organization. When that happens, finance will have moved through this transition and, in the ideal world, will be using its newfound skills to sense the next change on the horizon.

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