Introduction

Scott Anthony, the author of The Little Black Book of Innovation, recently wrote in the Harvard Business Review that we’ve entered the fourth era of innovation, where start-ups and established companies alike compete for the same customers using the same low-cost online tools and global talent. They also face the same competitive pressures from global capital markets, increasingly volatile supply chains, more informed customers, and more demanding regulators.

The conventional wisdom that “small is beautiful” is being challenged and the pendulum of competitiveness is swinging away from the tech-savvy ‘small fry’ back in favor of established multinationals. The basis of competition is changing.

Innovation, previously the province of small entrepreneurial organizations and marketing prowess, traditionally the preserve of large enterprises, are being displaced by the ability to rapidly develop and deploy new business models – and the processes that support them. One only needs to think of how Apple has mastered its global supply chain, or how Amazon has redefined customer loyalty to understand the value of process excellence.

And it is this new dynamic that is creating an imbalance in competitiveness that favors large enterprises. Put simply, small companies cannot emulate the core strengths that multinationals possess in brand management, distribution, supply chain management, accounting, shared services centers, risk management and compliance.

So big company characteristics are back in vogue. But large enterprises with their hierarchical structures and lengthy decision making processes are not known for their business agility. So how does management tap into innovation and process excellence? One answer is to leverage entrepreneurial individuals, or “catalysts” within the business that have the experience and interpersonal skills, to corral corporate resources that are outside their traditional span of control. And increasingly it is the CFO to whom organizations are turning to capitalize on the business’ unique strengths.

For those businesses that can master process excellence and agility the rewards are high. When large enterprises enable their operations to respond more quickly they often unlock the ability to seize an upside potential that was previously unreachable.

The CFO as catalyst

As the scope of CFO responsibility broadens to include oversight over IT, HR, Procurement, and other areas in the post-recession economy, many CFOs are becoming corporate catalysts for change, heading up transformational projects that increase efficiencies, lower costs, and improve business agility to better address ongoing economic volatility and uncertainty.

One indication of the demand for CFOs as catalysts is illustrated by their increasing popularity as non-executive directors. In 2002 just over a third (36 percent) of top tier CFOs had non-executive roles. Ten years later nearly half of them do.

As companies grapple with the aftermath of the financial crisis and a two-speed global economy, they want leaders who can act as agents of change, provide comfort and confidence in an uncertain world. With their unique combination of analytical, technical and strategic capabilities, CFOs are very well placed to provide it.

Added to which the increasing popularity of ‘business partnering’ in which senior finance staff work alongside both the business units and strategic head office functions to influence, design and execute strategy, operations and planning has paved the way for the CFO as catalyst – defining how it might work. Business partnering requires an understanding of both financial and business drivers, along with the ability and readiness to challenge decisions and serve as a business advisor. It has been shown that leading finance teams employ nearly 40 percent more people in ‘business partnering’ roles. It is likely that the CFO as catalyst will take business partnering to the next level, forming networks or coalitions both within and outside the company to solve big, often global, problems.
Jeff Henley, Oracle’s CFO Catalyst oversaw the dramatic transformation of its global business processes.

Oracle, for example, is well known for its highly-efficient finance and M&A processes, which together have enabled it to successfully acquire and integrate over 90 companies since 2005 - and triple revenues in the process. The corporate catalysts for Oracle’s business transformation that created the foundation for Oracle’s M&A process mastery were Oracle CEO Larry Ellison and former CFO (and now chairman) Jeff Henley. As CFO during the transformation, Henley held weekly staff meetings to ensure that the global IT transformation stayed on track, overseeing the consolidation of Oracle’s 52 disparate application instances and 40 data centers into a single global instance hosted in two data centers, and standardizing and centralizing global business processes into four shared services centers worldwide.

Companies support innovation by implementing new technology along with improved processes and capabilities. But technical innovation tends to be short-lived whereas process excellence is an enduring differentiator:

"Today young companies have what feels like milliseconds to enjoy an early success before they need to start outspending imitators and fighting for talent. Consider the ‘daily deal’ space. By some accounts, Groupon reached a $1 billion in revenue faster than any other company in history. But dozens of instant copycats put it on the defensive – and lower fixed costs today mean those contenders can linger longer.”

But it is not just start-ups that are affected in this way. Mature businesses bringing innovation to market suffer the same ‘copycat’ syndrome – think Apple and Samsung or the multitude of traditional insurers that now compete in the direct insurance space; or low cost airlines that compete for reservations online.

It seems that companies derive the greatest advantage from innovations when competitors cannot adopt them quickly. Once many companies in a sector have implemented a set of applications they become just another cost of doing business, not sources of competitive advantage.

So we are now entering a new era in competitiveness characterized not so much by technical breakthroughs but by innovative business models twinned with process excellence. "One analysis shows that from 1997 to 2007 more than half of the companies that made it onto the Fortune 500 before their 25th birthdays, including Amazon, Starbucks and AutoNation, were business model innovators."  

Catalyst CFOs recognize that a highly-optimized, highly-efficient finance organization has become a key source of competitive advantage in today’s economy, delivering the technical analysis and critical guidance necessary to ensure that strategic investments deliver against growth, profit, and market expectations. They are investing in finance process excellence, leveraging automation, analytics and advanced controls to redefine and optimize key finance processes; rethinking new implementation approaches based on shared services and centers of excellence to extend reach and responsiveness; and adopting new deployment models to acquire and scale new technologies faster and more cost-effectively than competitors.

By all accounts there is plenty of headroom for improvement. Hackett research indicates that the cost and productivity gaps between world-class and peer-group finance organizations are higher than in any other business function it has studied. World-class organizations employ 53 percent less full time equivalents (FTEs) and their total finance costs as a percentage of revenue (0.61%) is 47 percent lower.

Process excellence such as this manifests itself in increased competitiveness which simply cannot be matched by smaller and less efficient competitors. It’s a view shared by Oracle Chairman Jeff Henley who in a speech to the Detroit Economic Club in November 2012 said, “Business-process excellence becomes strategic when it is used to create a competitive advantage that is difficult to copy. Think about Apple’s mastery of its global supply chain and partner networks, which has allowed Apple to roll out the iPhone 5 in 31 countries since its September launch, supported by agreements with 240 carriers. Or Oracle’s strategic approach to mergers and acquisitions, where we’ve used our highly efficient IT, finance, and HR processes to successfully acquire and integrate over 90 companies since 2005.”

But the catalyst CFO will also need to bring about a change in the way that a business views its core processes. A new post-recession era of competitiveness will need to be accompanied by a shift in
emphasis from process optimization (geared towards user productivity and cost reduction) to leveraging process excellence for competitive differentiation.

So what are the processes that matter? The answer is to some extent driven by the unique characteristics of each industry sector but underlying these special traits is a common set of processes which, regardless of industry, can confer significant economic, operational and strategic advantage for businesses that strive for process excellence.

Areas that are especially noteworthy are; shared services centers (SSC); centers of excellence, financial reporting and performance management as well as harnessing newly emerging technologies and deployment methods.

**Shared Service Centers (SSC)**

Popularized throughout the nineties and continuing with considerable momentum right through to the new millennium, the idea of simplifying, streamlining and unifying processes through implementing shared services is well established. Shared services allow varied processes and practices from across the organization to be standardized and excess staffing levels to be removed. But they also provide the opportunity to re-engineer processes, eliminating tasks that do not add value. As a result, organizations moving to a shared services model can save considerable sums of money while at the same time removing complexity and improving service levels.

According to research by KPMG7 organizations are now seeking to extend the benefits of successful shared services by taking on more sophisticated activities - with 85 percent looking to reduce complexity still further by turning their attention to higher-value processes such as management information and analysis and opening the SSC to other back-office functions such as procurement, HR and supply chain management.

But these modest objectives are being eclipsed by the realization that shared services centers can provide a foundation for real competitive advantage. Indeed, 89% of executives worldwide now consider shared services centers as strategic.8 Often deployed on a regional basis and leveraging a common ERP system, process excellence in SSCs allows businesses at the top of their game to pursue aggressive merger and acquisition activity, add market share and quickly absorb new operations with the minimum of disruption.

**Experian plc deployed ERP in regional shared services centers to support global expansion and improve efficiency.**

Experian plc, a global information services company, provides data, analytical tools, and marketing services to clients in more than 65 countries. It provides businesses with decision-making support - helping them to manage credit risk and prevent fraud—and assists consumers with checking credit reports.

It turned to a shared services approach to create a scalable platform to support rapid expansion and enable it to deploy new core financial and human resources functionality quickly to additional countries. As part of the initiative it upgraded its enterprise resource planning system (ERP) to a single global instance of Oracle E-Business Suite Release 12 in 21 countries and created three regional service centers.

It completed the upgrade in five months, while supporting concurrent country deployments. It enabled Experian to establish a global chart of accounts, and complete its financial close to agreed service level agreements. Business managers benefitted from improved visibility of operations and greater reporting capabilities.

It also created an extensive, stable ERP foundation that offered new functionality and enables rapid integration of new businesses into its financial information services network.

"Oracle E-Business Suite Release 12 applications provided a solid foundation on which to deploy value-added functionality across the business," explains Collin Markwell, Senior Vice President, Global Corporate Systems, Experian plc. "It enables Experian to be agile as we continue to grow and expand our network of credit and financial information services around the globe."
Centres of Excellence
The CFO catalyst knows that the sheer breadth and depth of skills within a large enterprise is one of its core strengths relative to smaller competitors but ‘knowledge management’ remains a formidable challenge. Hewlett Packard CEO Lew Platt hit the ‘nail on the head’ when he said, “If only HP knew what HP knows, we’d be three times more productive.” Despite the apparent trend towards the increasing ‘democratization of information’ organizations struggle to leverage their ‘know-how’.

It’s a serious problem since ‘know-how’ underpins process excellence, innovation and competitiveness. Several business models have been fashioned to promote the exchange of critical knowledge, such as business partnering (mentioned earlier) and centers of excellence. Centers of excellence are teams of specialists who work together to develop and promote best practices in their area of responsibility. Centers of excellence may provide subject matter guidance to the rest of the enterprise, or deliver business services. This can include areas such as human capital management, project management, quality assurance, regulatory compliance, business analysis, continuous process improvement, and enterprise performance management.

CFO catalysts bring a new and informal dimension to the established models of knowledge sharing by roaming across inflexible organizational hierarchies and, according to Scott D. Anthony, “corralling” corporate resources that are outside of their traditional span of control to encourage process excellence.

Centralized Procurement
Continuing innovation in purchase automation has taken organizations well beyond the limited confines of traditional purchase-to-pay (P2P) processes, providing considerable economic advantage as well as limiting the incidence of fraud and error. ‘Maverick’ spend on unauthorized suppliers typically accounts for around 30% of all transactions in a business that does not have its purchasing under effective control. Every purchase made from an unauthorized supplier sacrifices in the region of 11% in negotiated discounts had the orders been placed with approved suppliers instead.

Modern applications which provide round the clock access to capabilities such as on line-catalogues, custom pricing and paperless orders on suppliers can dramatically improve P2P efficiency. For their part suppliers can leverage the same systems to better control their end of the supply chain, improving service, reducing paper flows and bottlenecks. As a result, P2P is becoming a strategic tool in managing the global supply chain.

Process excellence is being extended still further by automatic e-tendering, and supplier auctions, providing large businesses with economies of scale and putting them in the driving seat when it comes to controlling vendors’ costs. The ability to reduce the number of approved suppliers and manage group purchasing policies yet allow local operational flexibility provides the best of all worlds in a highly competitive environment.

Guohua Electric Power benefits from centralized procurement and reduces inventory costs.

Founded in 1999, Beijing Guohua Electric Power and its divisions invest in, construct, and operate electric power plants and serve as consultants for new energy projects. Recently, the Chinese power company implemented a unified business management system based on Oracle E-Business Suite Release 12 to support its expanding domestic and international operations. Guohua Electric Power used Oracle Procurement in conjunction with its Oracle supply chain management system, to establish a centralized procurement system to regulate purchasing decisions and lower procurement costs.

Guohua Electric Power set up a list of preferred suppliers in the provinces in which it operates, ensuring subsidiaries are doing business with the most price-competitive suppliers. While subsidiaries are free to select from this list, there are some items that must be purchased from a particular supplier. These items and the appropriate procurement agreements are preset in the Oracle system to alert staff to the protocol. The inventory management system provides staff with real-time updates on inventory levels. This helps them ensure there is always enough stock on hand to meet current and projected demand while preventing overstocking. As a result, Guohua Electric Power has cut inventory costs by more than 20%.

Performance management
According to Hackett Group, “knowledge-centric” processes, as distinct from transaction systems, are relatively under-served by automation. It’s a view borne out by PwC which highlights that leading finance teams spend 17 percent less time on data gathering and 25 percent more time on analysis than typical finance functions. Added to which leading finance teams report results 30 to 40 percent faster than typical functions.
It seems that during a prolonged period of recession businesses have concentrated their efforts on reducing costs and increasing productivity but have been less alert to the opportunities for competitive advantage afforded by process excellence in performance management. These are perhaps more subtle and less tangible than direct cost savings yet the ability to optimize financial reporting, forecasting and even compliance and risk management can have a profound effect on a business’ prospects for success.

Take for instance financial reporting which for too many businesses is still mired in cumbersome and unwieldy spreadsheet-bound activities. Excellence in the ‘record to report’ process ensures that organizations can deliver their results to internal and external stakeholders in accelerated timescales, providing superior insight as well as high levels of confidence in management reports, disclosures and filings. All of this reflects well on the company and its share price, enabling it to tap into a variety of sources of capital and make acquisitions on more favorable terms than competitors.

Globally, large businesses are dogged by rising levels of employee fraud and misfeasance. It is thought that the amount of money lost to fraud annually amounts to around 5 percent of revenues – to which must be added the cost of compliance failings and error. Underlining the upward trend in crime the Securities and Exchange says that in fiscal 2012 its offices received 3001 complaints from whistleblowers.

But it’s not just the raw cost of fraud that is a problem. An inability to identify, quantify and confidently manage risk inhibits management decision making. Conversely, process excellence around compliance and risk management helps businesses match ‘risk appetite’ and reward, enabling boards of management to compete more aggressively in higher risk environments which provide better growth opportunities such as emerging markets where competitors may be more wary.

Companies at the leading edge of forecasting techniques also factor risk and probability into business forecasts. As things stand only 1 percent of companies hit forecast exactly and only 22 percent regularly get within plus or minus 5 percent of their forecasts. Leading companies use techniques such as Monte Carlo Simulation to model the range of risks and probabilities in different business scenarios giving deeper insights and delivering competitive advantage.

Northrop Grumman finds that Monte Carlo simulation helps the business to manage uncertainty and improve forecast accuracy.

Northrop Grumman is a multi-$billion information systems integrator and managed services provider, rated by outside industry analysts as the number one government systems integrator and the premier provider of software and information technology services to the defense and intelligence sector.

To maintain its leadership position, the business has to continually invest in a variety of projects which ensure that it is endowed with leading edge capabilities, such as unique intellectual property and prototype systems that enable it to compete successfully for large government programs. But as Dr Robert Brammer, Vice President and Chief Technology Officer, Northrop Grumman Information Technology points out, traditional investment appraisal techniques are left wanting when it comes to managing multi-million dollar investment appraisal decisions in a complex, volatile and uncertain environment.

“In years past we used classic discounted cash flow techniques to compare investment opportunities, but the impact of probability on anticipated cash flows was only recognized in an informal and subjective way. For example, a bid manager might claim that a particular cash flow had a probability of 40 percent but there was nothing to back up the assertion other than his business judgment.”

Several years ago Brammer decided he needed a more objective and transparent approach to project appraisal which would lead to more robust and confident decision making. He introduced Monte Carlo simulation into the mix, a technique familiar to mathematicians and scientists but which had yet to make its mark in a business setting. However, the value of the technique quickly became apparent.

“We needed a better way of handling uncertainty in investment appraisal. The size and complexity of our programmes meant that probability distributions did not conform to normal probability distribution curves. We have to cope with multiple probability peaks and simultaneously with a very large numbers of project variables,” says Brammer.

What Brammer finds particularly valuable in Monte Carlo simulation is the availability of ‘Tornado’ diagrams which highlight the most significant variables, i.e. the ones that drive project sensitivity. “One cannot feasibly
work with all of the variables but knowing which ones matter the most gives a better picture of the sensitivity of forecasts and therefore which variables to focus on."

The technique has proved to be very accurate and over time Brammer has been able to demonstrate a correlation between early investments in R & D projects and the ability of the Group to win competitive tenders down the line. "If an investment costs a $1 million but helps secure a contract of $500 million it is easy to demonstrate a return on investment," he says.

Another benefit is that decision making stands up to scrutiny. "I have to be able to convince myself that an investment is justified as well as field questions from others. Classic discounted cash flow is subjective but using Monte Carlo simulation we can determine the probability distribution of winning a contract, the probability of the customer coming up with the funding and the probability of being able to agree terms and conditions."

The success of Monte Carlo simulation is catching on and it is likely that the technique will be rolled out to other areas of financial forecasting - perhaps using the method directly in the bidding process.

New opportunities for competitive advantage

The skills of the CFO catalyst are likely to be stretched to the limit by the sheer scale and variety of opportunity brought about by technology innovations such as Cloud computing, ‘Big Data’, and mobile computing.

Cloud

The Cloud is widely appreciated by CFOs and others for its ability to more easily accommodate business change. The ability to bring Cloud applications on board very quickly, to absorb a re-organization, an acquired business unit, or simply to test a new market venture, liberates businesses from the technical constraints of old and inflexible legacy systems. Cloud computing offers businesses a step-change in capability, injecting renewed agility into large enterprises previously constrained by ageing legacy systems.

A $300 million business moves to the Cloud

When General Electric sold its Morpho Detection Unit to Safran several years ago, the $300 million company was faced with building a new IT infrastructure from scratch. Management wanted to avoid asking the company’s new owners for an infusion of funds to support that effort. "We needed a system that could manage our cash flow," said Morpho CFO Jeremy Avenier. "We also wanted to keep our costs down after the initial investment." Morpho Detection turned to Oracle Cloud Services to host its entire ERP system, including Oracle Financials, Oracle Order Management, Oracle Supply Chain Management, and Oracle Hyperion applications.

Avenier appreciates the security and compliance that Oracle’s cloud services provide. "Data security and credit card information security - that is one of our highest priorities. Working with Oracle and being in the cloud has made me, as CFO, a lot more comfortable with what I am approving.”

Big Data

So profound is the potential impact of Big Data that the World Economic Forum considers it to be a new class of economic asset, yet few organizations are well positioned to take advantage of the profit opportunities it affords. Through 2015, more than 85% of Fortune 500 organizations will fail to effectively exploit Big Data for competitive advantage. Most organizations are being held back by fractured information systems, poor data management, insufficient database and hardware performance, as well as limited access to cutting-edge data discovery and visualization tools.

Catalyst CFOs will be called upon increasingly to take a crucial leadership role in assessing the value of Big Data initiatives, building on their traditional skills, analyzing and reporting on data to drive decision making. The most recent Gartner study on CFOs and technology reflects this new mandate, with business intelligence and business analytics investments ranking first among CFO investment priorities. That’s why CFO catalysts are taking control of big data and business analytics projects, not just to uncover new ways to drive growth in a slowing global economy, but also to broaden their influence and impact on the enterprise.
Mobile Computing
CFOs seem especially interested in mobility as a deployment platform, no doubt due to the fact that 80% of businesses worldwide are expected to support a mobile workforce by 2013, and 33% of all BI functionality will be consumed by mobile devices by next year.

However, deploying mobile functionality also presents CFOs and their management teams with a major challenge, given the fact that users select multiple devices, making it difficult to support different operating systems, secure corporate information systems, and integrate mobile technologies with other enterprise systems.

There are also challenges concerning the amount of information that can be sensibly displayed on a mobile device and hence the applications that should be supported. However, the rising popularity of mobile computing and specially developed Apps provides unique opportunities for driving competitive advantage.

Oracle rolled out mobile Business Intelligence to its employees.

Oracle recently upgraded to Oracle Business Intelligence 11g, which includes new mobile business intelligence applications. Using Oracle Mobile BI, all content in Oracle’s enterprise-wide BI deployment is now immediately available to Oracle employees on their iPads, including hundreds of BI dashboards and tens of thousands of reports. Although Oracle just rolled this out recently, management has seen a lot of enthusiasm from the business users thanks to dynamic interactivity, quick access to favorites, thumbnails and previews to view content, and deep security integration.

Summary
Innovation on its own is no longer a dependable and enduring source of competitive advantage. New products and services are copied within months and the widespread availability of affordable new technology has lowered the barriers to competition. In this environment what matters most is the ability to evolve and implement new business models, supported by world class business processes.

All businesses whatever their size are similarly afflicted by the new competitive landscape but it is larger enterprises with their rich store of experience and 'know-how', coupled with their global reach, resources and business processes that are poised to take best advantage of the situation.

But despite these advantages, big businesses with their weighty management structures find it challenging to emulate the nimbleness of entrepreneurial small businesses. Navigating the complexity of a large organization and marshalling resources from across the enterprise to encourage innovation and process excellence requires a special blend of skills. Increasingly, it is the CFO as “Catalyst” to whom many organizations are turning for help.

Research shows that there is a wide disparity between the process capabilities of leading enterprises and their peers with considerable latent potential for improvement in almost every core process, ranging from shared service centers, to procurement and performance management. New technologies too, provide a rich seam of potential competitive advantage for those organizations willing and able to seize the opportunity. Large organizations such as General Electric and Oracle are already leveraging Cloud and mobile technology to boost their competitiveness. With CFO catalysts at the vanguard of change, large enterprises are entering a new era in which they are able to innovate and reassert themselves in global markets in a way that other businesses will find it difficult to match.
Bibliography

Note1 The New Corporate Garage, by Scott D Anthony, September 2012 Harvard Business Review
Note2 McKinsey Quarterly: Agile operations for volatile times, MAY 2012 • Mike Doheny, Venu Nagali, and Florian Weig
Note3 CFO and Beyond, Unprecedented demand for CFOs on Corporate Boards, Ernst & Young 2012
Note4 Putting your Business on the front foot. PwC Finance effectiveness benchmark study 2012
Note5 McKinsey Quarterly Getting IT spending right this time, May 2003 Diana Farrell, Terra Terwilliger, and Allen P. Webb
Note6 Technology Enablement: The Critical Role of Technology in Improving Productivity and Efficiency in the Finance Function and GBS Organizations; Finance Executive Insight; Hackett Group, November 21, 2012
Note7 “Finance Shared Services- Delivering the promise” CFO Europe Research and KPMG 2008
Note8 The Shared Services and Outsourcing Revolution is Here,” Shared Services and Outsourcing Network, 2011.
Note10 web3 - Source to Pay (S2P) – a new paradigm in the mid-market, FSN October 2010
Note11 The Association of Certified Fraud Examiners’ 2012 Report to the Nations on Occupational Fraud and Abuse
Note12 Report: Forecasting with Confidence; Economist Intelligence Unit/KPMG 2007

Oracle

Oracle Corporation (NASDAQ: ORCL) is the world’s largest enterprise software company. With the market-leading Hyperion enterprise performance management suite, world class financial applications, and integrated governance, risk and compliance solutions Oracle helps finance executives maximize potential and deliver results for their organizations. For more information about Oracle’s Solutions, visit us at www.oracle.com.

FSN

FSN Publishing Limited is an independent research, news and publishing organization catering for the needs of the finance function. This white paper is written by Gary Simon, Group Publisher of FSN (Financial Systems News) and Managing Editor of FSN Newswire. He is a graduate of London University, a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the British Computer Society with more than 27 years experience of implementing management and financial reporting systems. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

Gary.simon@fsn.co.uk

www.fsn.co.uk

Whilst every attempt has been made to ensure that the information in this document is accurate and complete some typographical errors or technical inaccuracies may exist. This report is of a general nature and not intended to be specific to a particular set of circumstances. The publisher and author make no representations or warranties with respect to the accuracy or completeness of the contents of this white paper and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives, or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. FSN Publishing Limited and the author shall not be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.