Releasing Resources to Support Growth

The Long-Term Benefits of Finance Transformation

A report prepared by CFO Research Services in collaboration with Concur

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CFO Research Services and Concur developed the hypotheses for this research jointly. At CFO Research Services, Celina Rogers directed the research and wrote the report.

Releasing Resources to Support Growth: The Long-Term Benefits of Finance Transformation is published by CFO Publishing Corp., 253 Summer Street, Boston, MA 02210. Please direct inquiries to Kate Britt at (617) 345-9700, ext. 264 or katebritt@cfo.com.

CFO Research Services is the sponsored research group within CFO Publishing Corporation, which produces *CFO* magazine in the United States, Europe, Asia, China, and India. CFO Publishing is part of The Economist Group.

October 2007

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Introduction

In recent years, finance has worked hard to drive cost, complexity, error, and risk out of its routine business processes. New technology systems for transaction processing and streamlined business processes have often formed the cornerstone of these improvement campaigns. Finance has made gradual, often sustained progress in improving its ability to execute routine transactions through technology and process improvements in recent years.

While more of this work remains to be done, CFO Research Services undertook this study to discover how companies have deployed the savings they've realized so far through their transaction-processing improvement efforts. Our survey of senior finance executives in North America reveals that the finance function has freed time and resources to pursue high-value activities like decision support and financial planning and analysis as a result of transaction-processing automation.

We find that transaction-processing improvements are not only valuable because they help companies reduce cost, error, and risk—they're valuable because they allow finance executives to turn their attention to the high-value activities that advance a critical organizational objective: promoting sustained, profitable growth.

> About this report

In August 2007, CFO Research Services (a unit of CFO Publishing Corp.) conducted a survey among senior finance executives in North America to examine their views on the long-term business benefits of transaction-processing automation, and its impact on resource allocation.

We gathered a total of 179 responses from senior finance executives representing a broad cross-section of company segments:

Annual revenue
- Less than $100 million: 3 percent
- $100 million-$500 million: 36 percent
- $500 million-$1 billion: 14 percent
- $1 billion-$5 billion: 24 percent
- $5 billion+: 22 percent

Title
- Chief financial officer: 35 percent
- EVP or SVP of finance: 3 percent
- VP of finance: 16 percent
- Director of finance: 19 percent
- Controller: 16 percent
- Other (including CEO, president, or managing director): 12 percent

Respondents work for companies in nearly every industry. The manufacturing, financial services, transportation, and wholesale/retail trade industries are particularly well represented.

Our survey of senior finance executives reveals that the finance function has freed time and resources to pursue high-value activities like decision support and financial planning and analysis as a result of transaction-processing automation.

Transaction-processing improvements are valuable because they allow finance to turn its attention to the high-value activities that advance a critical organizational objective: promoting sustained, profitable growth.

Top-line findings

- Many companies have automated back-office transaction processing to a high degree—and most of them have realized the gains they expected from their automation efforts.
- Over the last three years, companies have most often reallocated the resources they've saved through transaction-processing improvements to high-value activities like financial planning and analysis and decision support.
- Correspondingly, finance has become more effective in the last three years at high-value, analytical activities such as financial planning and analysis and decision support—the same areas where companies have invested resources saved through transaction-processing improvements.
- Growth-oriented companies are much more likely than their cost-focused peers to reallocate transaction-processing savings to analytical finance activities.
- Where there is more investment, there is more improvement: growth-oriented companies are much more likely than their cost-focused peers to report that they've become more effective at analytical activities such as decision support and financial planning and analysis.

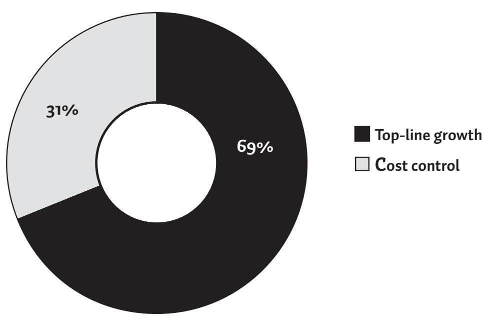
The growth imperative

In an ideal world, companies wouldn't face the choice of compromising cost control to realize top-line growth, nor would they have to sacrifice revenue growth to maintain profitability. In the real world, business strategies often have to compromise one to achieve the other—even as companies seek to strike the ideal balance between aggressive top-line growth and consistent profitability.

In a survey of more than 175 senior finance executves, we asked respondents which objective—top-line growth or cost control—is more closely tied to their companies' business strategies. A solid majority of respondents (69 percent) said their business strategies are more closely tied to top-line growth, while only 31 percent of respondents said their strategies are more closely tied to cost control. (See Figure 1.)

> Figure 1. On the enterprise level, business strategy is more likely to focus on top-line growth than on cost control.

Is your company's business strategy more closely tied to top-line growth, or to cost control?



Percentage of respondents

The finance function's primary objectives over the last three years are in line with this enterprise-level focus on growth at a majority of companies. We asked survey respondents to rate a variety of finance-department objectives over the last three years. Have companies focused on risk to performance, reducing errors in transactions, freeing up finance staff time, or cutting the cost of the finance function?

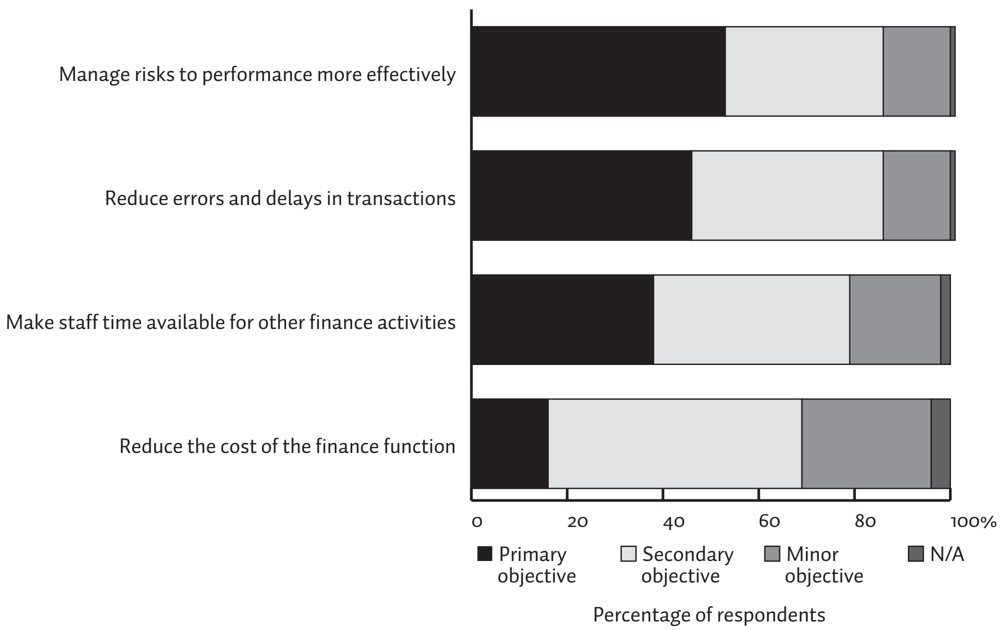
The majority of survey respondents report that the most clearly growth-oriented choice—"managing risks to performance more effectively"—has been a primary objective in finance over the last three years, while only 16 percent of respondents say reducing the cost of the finance function has been a primary objective. (See Figure 2, next page.) These results are consistent with CFO Research Services' findings in other recent studies, in that they suggest that finance departments have been steadily investing in staff, systems, and process improvements in recent years. (If reducing costs is not a primary objective, it stands to reason that many companies have been making thoughtful investments in the finance function over the last three years.)

But the results in this study also suggest the reasons for these investments. Companies have sought not only to reduce errors and delays in transactions (which 46 percent of respondents cite as a primary finance-department objective over the last three years), but also to manage performance risks (which 53 percent of respondents cite as a primary objective). In other words, finance has worked not only to reduce errors and ensure compliance over the last three years, but also to smooth companies' growth paths and ensure that performance objectives are met reliably.

Finance has sought not only to reduce errors and ensure compliance through automation efforts, but also to smooth companies' growth plans and ensure that performance objectives are met reliably.

> Figure 2. Finance-department strategy at many companies supports a broad, enterprise-level emphasis on growth.

Over the last three years, have the following objectives been part of your company's finance-department strategy?

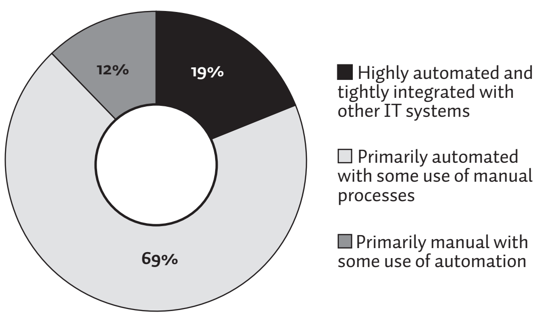


Investment in automation

Routine finance and accounting activities are automated to at least some degree in the vast majority of companies. Eighty-eight percent of respondents to our survey say that routine finance and accounting activities are either "primarily automated with some use of manual processes" (69 percent), or "highly automated and tightly integrated with other IT systems" (19 percent). (See Figure 3.)

> Figure 3. Routine finance and accounting activities are often automated.

Which of the following best characterizes your company's systems for routine finance and accounting activities?



Percentage of respondents

What combination of processes and technology do companies use to manage their finance and accounting activities? Seventy-three percent of respondents report that their companies currently have standardized ERP systems across business units, and 42 percent say that they have automated procurement systems. Many respondents report that their companies have shared service centers for finance (50 percent), while an almost equal number say their companies have adopted shared service centers for other functions, such as HR and IT (53 percent). Outsourcing is markedly less popular, however—only 18 percent of respondents say their companies have outsourced all or part of their back-office functions. (See Figure 4, next page.)

> In their own words: Improvement as a way of life

We asked respondents to tell us, in their own words, what surprises—good and bad—their companies have encountered in their transaction-processing improvement efforts.

Several respondents noted that the amount of systems training required for staff was greater than anticipated, while, at one company, "training on the front line has been critical to the success of change." Respondents also cited disparate systems and standards, a dearth of IT support, and resistance to change among rank-and-file employees as barriers to automation efforts. "Aligning IT with financial objectives was a laborious and time-consuming process," said one respondent.

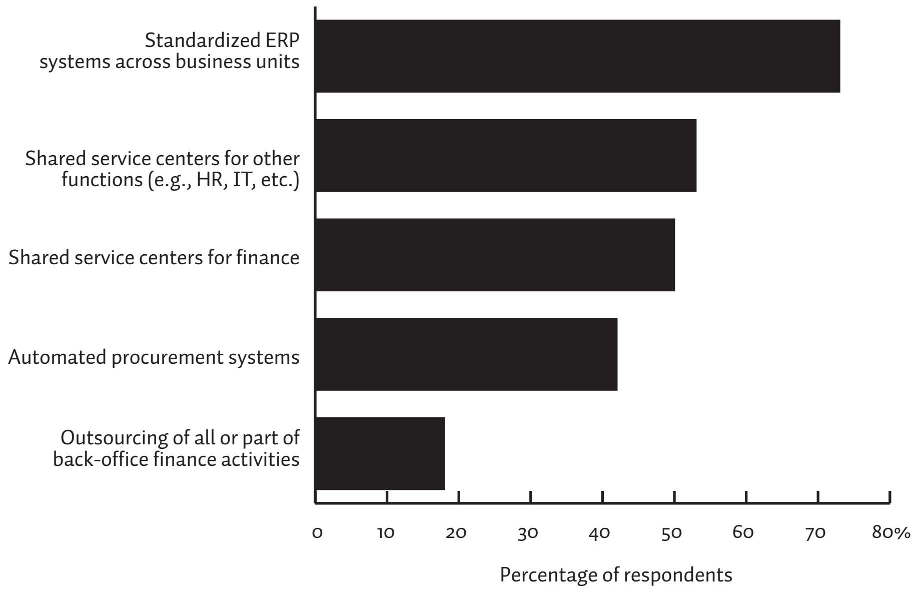
For some companies, difficulties with vendors posed additional barriers. "Although the finance function was prepared and ready for the change to automated processing, often the vendors were not as prepared," commented one respondent. "There were issues with volume of transactions and problems with the vendor systems being down."

Yet, overall, respondents were quick to note the benefits of their efforts, such as faster response time, fewer processing errors, and more powerful reporting capabilities. At one company, "transaction-processing improvements, in terms of invoice imaging and other processing, have dramatically streamlined the A/P process." Many respondents cited the benefits of better short-term planning and improved alignment between finance and broad business objectives. In light of such improvements, one respondent said that his company aims to have transaction-processing improvements become "a way of life, versus [merely] a project."

When choosing among process-improvement priorities, companies have invested most often in improving their internal, core transaction-processing activities. Eighty-three percent of respondents report at least a moderate investment of time, attention, and money in simplifying and streamlining core finance and accounting processes over the last three years, while 71 percent report at least moderate investment in automating finance and accounting with new transaction-processing systems. (See Figure 5, next page.)

> Figure 4. Standardized, often centralized processess and systems underlie administrative activities.

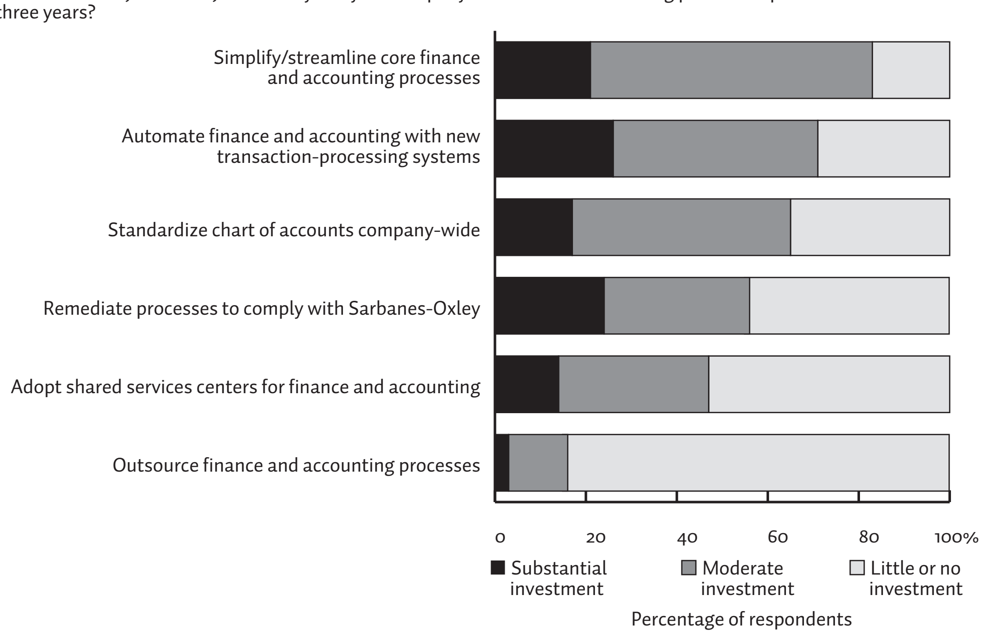
Which, if any, of the following systems does your company currently have in place?



(Note: Respondents were allowed to choose more than one answer choice.)

> Figure 5. When choosing among process-improvement priorities, companies have invested most often in improving internal, core transaction-processing activities.

How much time, attention, and money has your company invested in the following process-improvement activities over the last three years?



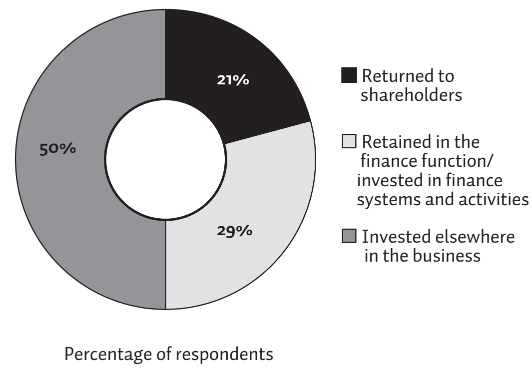
Savings and improvement through automation

Have these investments in back-office improvement borne fruit? In general, yes: most companies have realized the improvements in head count, cost reduction, and operating performance that they expected from their back-office automation efforts. (See Figure 6, below.) These results reflect the discipline and care with which finance approaches these investments. These results may also reflect finance departments' experience—after years of both pursuing IT projects and guiding IT investment decisions—in calibrating expectations to align with reasonably likely outcomes. Respondents were most likely to report pleasant surprises due to automation—that is, "greater than expected savings and improvement" from automation efforts—in their companies' operating performance metrics. But these results may also belie the vast amount of time and effort that finance departments have poured into making automation efforts successful.

Where have the savings realized through back-office improvements ended up? A solid majority of respondents (79 percent) report that money saved through transaction-processing improvements over the last three years has usually been re-invested in the business, rather than returned to shareholders. Twenty-nine percent of all respondents say that these savings have usually been retained in finance, while 50 percent say that savings have usually been invested elsewhere in the business. (See Figure 7, right.)

> Figure 7. Savings from transaction-processing improvements are usually re-invested in the business—but companies invest these savings most often in business areas outside of finance.

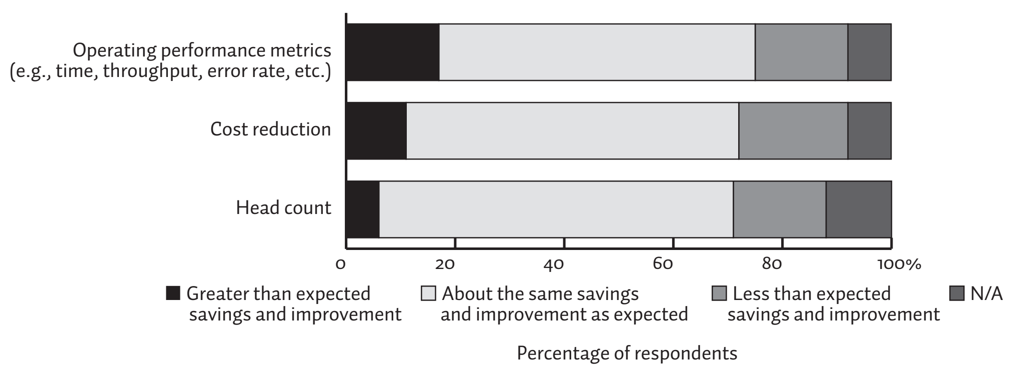
In general, how has your company reallocated cost savings from improvements in transaction processing over the last three years?



Do these results mean that finance hasn't directly benefited from its own improvement initiatives? Not necessarily. Because cash is fungible, savings in one area—like transaction processing—translate to greater available resources for the company to achieve all of its objectives. When companies save money, in other words, they create more options and sidestep some decisions they would otherwise be forced to make. Should the company pay a special dividend to its equity stakeholders? Or should it invest in a project, in finance or elsewhere? Increased savings mean an increased opportunity to do both.

> Figure 6. Most companies have realized the gains they expected from back-office automation efforts.

Have the savings and improvements that your company has realized in the following areas, due to automation of back-office processes, been more than expected, less than expected, or about what your company expected?



Investing for growth

When savings from transaction-processing improvements are retained in the finance department, survey results show that companies often re-deploy resources toward a wide array of analytical finance activities. In our survey, respondents most often say that funds saved through transaction-processing improvement efforts are directed toward decision support/business analysis, financial planning and analysis, and special projects such as M&A and "identifying growth opportunities." (See Figure 8.)

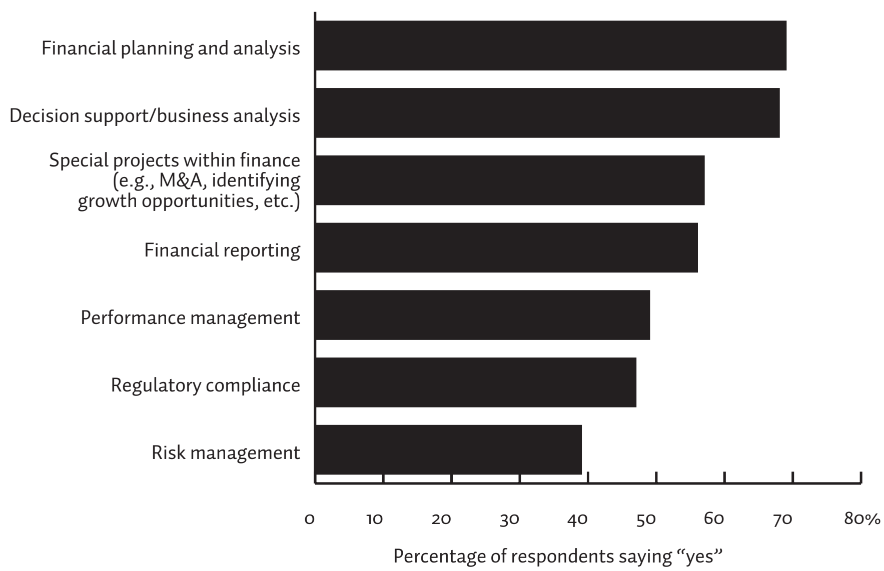
Once companies are confident that the highly mechanical, repetitive work of transaction processing is proceeding efficiently, reliably, and free of error, they are then able to reallocate resources from the most repetitive, mechanical tasks in finance toward the analytical activities that support growth.

Survey respondents report that their companies are more effective than they were three years ago in the very areas where they have most frequently invested the resources they've saved through transaction-processing improvements.

The result? Finance departments become more effective at growth-oriented, analytical activities. Survey respondents report that their companies are more effective than they were three years ago in the very areas where they have most frequently invested the resources saved through transaction-processing improvements. In particular, companies report more effective decision support/business analysis, and financial planning and analysis, as well as more effective financial reporting.* (See Figure 9, next page.)

> Figure 8. Companies most often reallocate resources saved through transaction-processing improvements to growth-oriented, analytical activities like financial planning and analysis, and decision support.

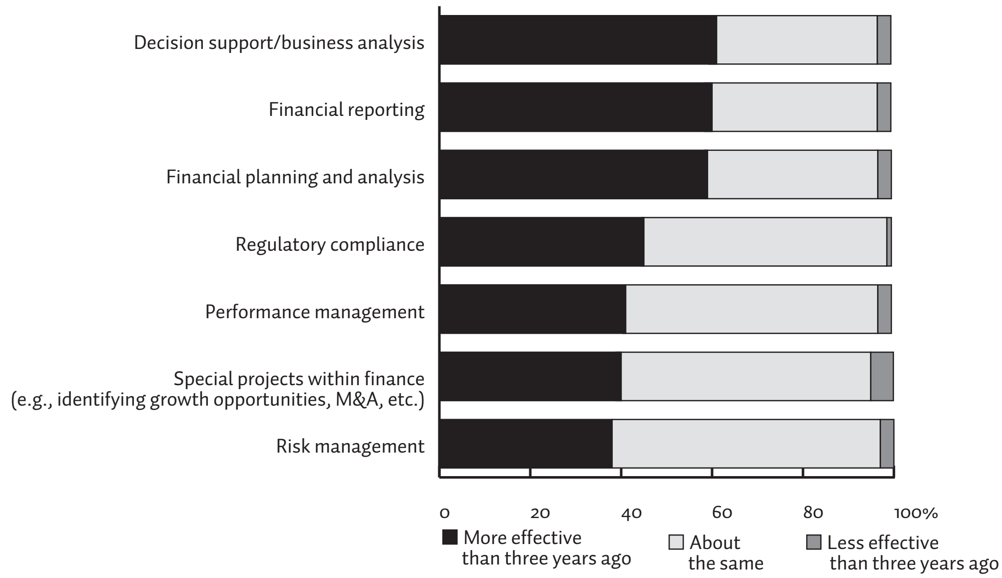
As a result of transaction-processing improvement efforts in the last three years, has your company reallocated finance resources (including time, money, and attention) to the following activities?



* Why didn't companies realize the same level of improvement in special finance projects, such as M&A? The answer may lie, in part, with the nature of the "special projects" category. Since special projects are, by definition, ad hoc—that is, they arise in response to very particular company needs that are, in turn, tied to changing business conditions and market circumstances—they may be less amenable to systematic improvement than finance activities that are relevant to all circumstances.

> Figure 9. Companies have become more effective in the areas where they've invested savings realized through transaction-processing improvement efforts.

How effective is your finance function at the following activities, compared with three years ago?



Although the majority of finance executives we surveyed cite top-line growth as the primary objective of their companies' business strategies, many executives report a combination of barriers to their companies' efforts to pursue the high-value, analytical finance activities that are most likely to support growth. The most frequently cited barrier was "other competing priorities in finance" (44 percent), and "difficulty integrating disparate IT systems" (41 percent). Time, attention, and resources are always limited, and IT integration is a recurring challenge for finance executives seeking to pursue high-level, analytical finance activities. But 37 percent of respondents also cite "pressure to produce results quickly" as a frequent barrier, indicating that impatience can pose a substantial threat to these efforts. Particularly in the context of many competing demands, a measured approach to these activities—taking into account possible setbacks and managing organizational expectations for their outcomes—seems to be in order.

Thirty-seven percent of respondents cite "pressure to produce results quickly" as a frequent barrier to their companies' efforts to pursue the high-value finance activities that are most likely to support growth.

Reallocating savings effectively

Which companies have made the best use of the savings they've realized through transaction-processing improvements—those whose business strategies focus on cost control, or those whose strategies focus on top-line growth?

It would make sense that finance executives whose companies are focused mostly on cost control would get the most from their transaction-processing improvement efforts. The most common rationale for making these changes is to reduce risk and error, and—of course—to reduce costs. Survey results confirm these expectations: companies focused on cost control are more likely to invest in process-improvement activities than their growth-focused counterparts—and they're more likely to realize greater-than-expected savings from back-office automation efforts. Thirty-two percent of cost-focused companies have made substantial investments in automating finance and accounting with new transaction-processing systems over the last three years; only 24 percent of growth-focused companies say the same. At the same time, 18 percent of cost-focused companies realized greater-than-expected savings from their back-office automation efforts, compared with only eight percent of growth-focused companies.

But growth-focused companies tend to reallocate savings from transaction-processing improvements very differently from their cost-reduction-focused peers. Growth-oriented companies are more likely to retain savings from transaction-processing improvement in finance—35 percent of growth-focused companies say that money saved through transaction-processing improvements has usually been retained in the finance function, compared with only 15 percent of their cost-focused peers. Growth-focused companies are also more interested in freeing staff time for higher-order finance activities when they undertake back-office improvement efforts. Forty-two percent of growth-focused companies say making staff time available for other finance activities has been a primary finance-department strategy over the last three years, compared with only 29 percent of cost-focused companies.

Growth-oriented companies are much more likely than cost-focused companies to reallocate the resources they've saved through transaction-processing improvements to high-value, highly analytical finance activities.

Growth-oriented companies also invest the savings they retain in finance very differently from their cost-focused peers. Growth-oriented companies are much more likely than cost-focused companies to reallocate the resources they've saved through transaction-processing improvements to high-value, highly analytical finance activities. Seventy-four percent of growth-focused companies say they've reallocated savings realized through transaction-processing improvements to decision support, compared with only 55 percent of their cost-focused counterparts. At the same time, 72 percent of growth-focused companies say they've reallocated savings to financial planning and analysis—compared with only 63 percent of their cost-focused peers. (See Table, next page.)

> Cost-control-focused companies vs. growth-focused companies: building the segments

In an effort to better understand companies' decision making when reallocating resources saved through transaction-processing improvements, we asked all respondents to identify the objective that is most closely tied to their companies' business strategies: top-line growth, or cost control.

We used respondents' answers to this question to build two segments:

Business strategy is focused on. . .
Top-line growth: 69 percent (123 responses)
Cost control: 31 percent (56 responses)

Analysis and comparison of the collective responses from each of these segments form the basis of this section of the report.

> Table. Growth-oriented companies are much more likely than their cost-focused peers to reallocate transaction-processing savings to high-value, highly analytical finance activities.

Transaction-processing savings reallocated to:	Growth-oriented companies	Cost-focused companies	Difference
Decision support/ business analysis	74%	55%	+19% points
Performance management	53%	38%	+15% points
Special projects in finance (including M&A)	61%	48%	+13% points
Financial planning and analysis	72%	63%	+9% points

Percentage of each segment reallocating savings to each analytical finance activity

Perhaps as a result of their higher levels of investment in high-value, analytical finance activities, growth-oriented companies are much more likely to have become more effective at these activities in the last three years than their cost-focused peers.

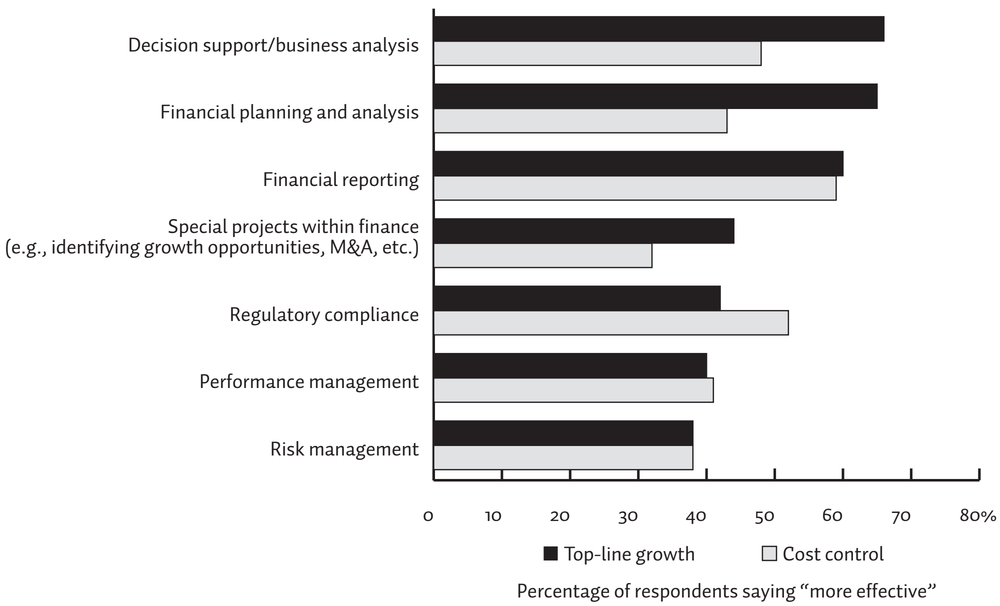
Perhaps as a result of their higher levels of investment in high-value, analytical finance activities, growth-oriented companies are more likely to have become more effective at these activities in the last three years than their cost-focused peers. Sixty-six percent of respondents from growth-focused companies say their finance functions have become more effective at decision support than they were three years ago—only 48 percent of cost-focused companies say the same. (See Figure 10, next page.)

This relationship holds true with other high-value finance activities: 65 percent of growth-focused companies say their finance departments are more effective at financial planning and analysis than they were three years ago, compared with only 43 percent of cost-focused companies. And 44 percent of growth-focused companies say their finance function has become more effective at executing special projects; only 32 percent of cost-focused companies say the same.

Companies are most likely to have become more effective at the activities in which they've most frequently invested—the high-value activities like decision support that have been the greatest beneficiaries of transaction-processing savings.

> Figure 10. Growth-oriented companies are much more likely to have become more effective at high-value finance activities in the last three years than their cost-focused peers.

How effective is your finance function at the following activities, compared with three years ago?



Conclusion

Promoting top-line growth is the primary focus of most companies' business strategies, say the finance executives who participated in this study. Reduction of risk, error—and, of course, cost—is a clear rationale for back-office automation and other transaction-processing improvement efforts. The results of this study show that these efforts can also help finance promote growth, by freeing up resources—time, attention, and money—that can be reallocated to the high-value, analytical finance activities that support growth.

Companies that see themselves as focused on top-line growth are less likely than their cost-control-focused peers to undertake transaction-processing improvement efforts—and they are less effective at extracting savings from those efforts. But when they do undertake transaction-processing improvements, growth-focused companies are more likely to re-invest their savings in the finance function—and more likely to direct investment toward high-value, analytical activities like decision support and financial planning and analysis.

The results of this study show that process-improvement efforts can help finance promote growth, by freeing up resources—time, attention, and money—that can be reallocated to the high-value, analytical finance activities that support growth.

And where there is investment, there is improvement: across the entire population of respondents, companies are most likely to have become more effective at activities in which they've been most likely to invest—again, high-value activities like decision support and financial planning and analysis have been the greatest beneficiaries of transaction-processing savings.

But where there is more investment, there is also more improvement. Growth-oriented companies—which are much more likely than their cost-focused peers to invest their transaction-processing savings in high-value finance activities—are also much more likely to report that they've become more effective at those activities. Are these growth-focused companies simply following the adage, "You have to spend money to make money?" Perhaps. But this study shows that many companies investing for growth are saving that money first, through transaction-processing improvements. Improvements in back-office processing are, in other words, creating opportunities for companies to achieve their critical growth objectives—and, at the same time, preserve the bottom line.

Enabling Business Growth Through Simplified Financial Processes

Many financial executives struggle with the need to balance time consuming, but necessary administrative processing of payments and expenses, with the need to provide insightful financial information and strategy to the organization. With limited resources, it can be difficult to get past the day-to-day finance operations and into the increasingly important strategic finance role.

This research answers two key questions Concur raised regarding the value in improving financial processes: are financial organizations seeing the results they expected from these financial processing improvements projects, and how have they reallocated their financial resources?

The results of this research study are persuasive. The majority of companies that have implemented automated process improvement projects are experiencing significant improvements in their finance function. Many of these companies are experiencing better-than-expected results and are reducing costs, errors, and risk as they improve their internal processes.

Even more compelling, growth-focused companies are reallocating their financial resources into high-value strategic initiatives. Companies that have completed these process improvements report that in the last three years, they have become more effective at improving decision support, enhancing financial planning and analysis, and executing special projects.

This research makes a strong case for automating and outsourcing non-core transactional processing to enable the financial role to evolve into a key strategic function for growth-oriented organizations.

About Concur

Concur is the world's leading provider of on-demand Employee Spend Management Services. Concur enables organizations to globally control costs by automating the processes they use to manage employee spending. Concur's end-to-end solutions seamlessly unite on-line travel booking with automated expense reporting, streamline meeting management and optimize the process of managing vendor payments, employee check requests and direct reimbursements. Organizations of all sizes trust Concur to help them control spend before it occurs while eliminating paper and optimizing supplier relations.

Concurs unified approach to managing employee spend delivers a 360 degree view into all employee expenses, helping companies globally enforce policies and monitor vendor compliance, while delivering unprecedented control and valuable insight. Concur's suite of on-demand services reach millions of employees around the world – streamlining business processes, reducing operating costs, improving internal controls and providing enhanced visibility and actionable expense analysis.

More information about Concur
is available at www.Concur.com