Effective Financial Management for International Expansion

March 2012

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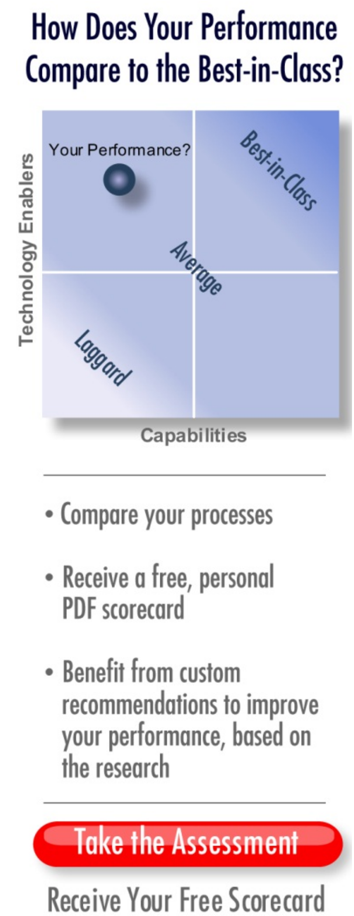
Executive Summary

From December 2011 to January 2012, Aberdeen surveyed 200 companies to understand how their respective financial executives support their international expansion initiatives. The study revealed that CFOs strive to maintain real-time visibility to financial data and information through a strategic mix of process innovation and technology implementation. These financial management initiatives include the effective management of global transactions and risks, among them the streamlining of procure-to-pay and order-to-cash processes, the improvement of financial accounting and reporting, and the improvement of resource management and workforce productivity. These initiatives, in conjunction with tools that enable accurate planning and forecasting, automated financial transactions, and proactive risk management, form the strategy Best-in-Class companies are using to succeed in the global environment.

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations



Best-in-Class Performance

Aberdeen used the following four performance criteria to distinguish Best-in-Class companies:

- 29% improvement in time-to-decision (spending and budgeting) over the past year
- +5% accuracy of actual revenue to budgeted revenue
- -3% accuracy of actual costs to budgeted costs
- +3% overall forecast accuracy for revenue to plan

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics, including:

- 91% more likely than all others to compile reports in multiple languages, and 18% more likely to support multiple currencies
- 49% more likely than all others to establish collaboration across departments and divisions
- Best-in-Class organizations saw a 16% decrease in corporate liability value over the past year compared to a 2% decrease for all others

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Involve more people in the financial management process
- Enable real-time data to achieve agile decision-making
- Provide visibility across geographic boundaries

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Chapter One:
Benchmarking the Best-in-Class

CFOs in charge of assisting their companies' global expansion should appreciate the magnitude of the challenge at hand: getting their entire organization, including remote sites and subsidiaries, to communicate their collective finances effectively to streamline the financial management process. The series of mergers and acquisitions (M&A) that have been taking place in our credit- and debt-stricken economy have made this objective even more difficult. The financial executive must now centralize disparate financial requirements (including those pertaining to buyer-supplier transactions), multiple currencies, processes, and platforms across distributed teams. A centralized financial management platform creates the strategic basis for managing multinational finance departments. If executed properly, this initiative would help ensure business growth and competitive differentiation, while increasing the accuracy of the financial planning, budgeting, and forecasting process.

Fast Facts

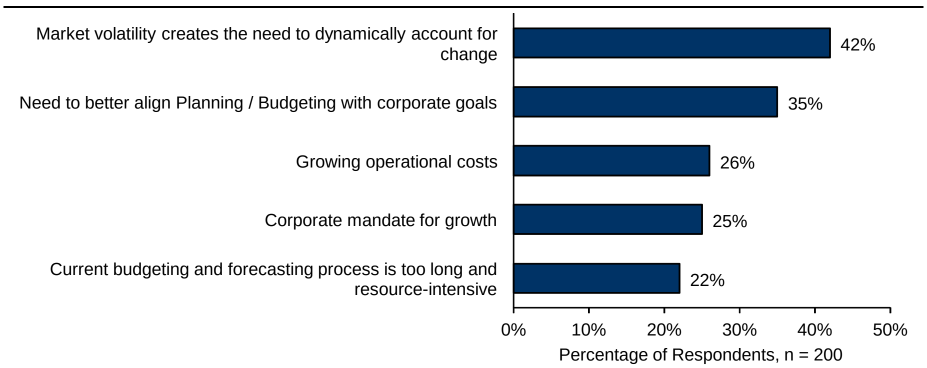
√ 72% of Best-in-Class Companies are looking to standardize their financial management tools and processes across their entire enterprise

√ 67% of Best-in-Class companies are automating financial reporting to reduce errors and costs

Business Context

When asked to select the top pressures influencing their need to factor credit, currency, counterparty, liquidity, and other risks into their financial management processes, 22% of respondents to Aberdeen's 2012 Financial Executive survey, February 2012, indicated that their respective organizations' aggressive global expansion initiatives are driving them to adopt a more proactive approach to risk mitigation. As organizations transcend geographic boundaries, processes grow more complicated, and it becomes difficult for decision makers to fully grasp what is going on in business units they are not physically involved with on a daily basis. This complexity is especially apparent in processes such as financial reporting, regulatory compliance, liquidity management, and planning, budgeting, and forecasting, where accuracy, accountability, and agility are crucial. These operations are essential to the success of the business, which is why the pressures to improve the financial management processes are at the top of mind for finance executives (Figure 1).

Figure 1: Pressures to Improve Financial Management



Source: Aberdeen Group, February 2012

Forty-two percent (42%) of respondents indicated that market volatility creates the need to account for change dynamically. It is impossible to be accurate in the financial management process when dealing with constantly changing conditions. Plans based on old data are useless, so decision-makers must constantly be aware of the factors influencing the business, so that adjustments can be made. Global organizations, with geographically diverse units, are exposed to a vast amount of varying market drivers. Visibility and agility become crucial.

Additionally, in multi-national organizations it is more likely for business units that are far away from headquarters to lose track of corporate objectives. These issues are important to keep in mind when devising plans. When business units are in alignment, their plans fit with the chosen direction for the organization. Conversely, it is also important for executives in the corporate offices to have visibility into the operations at outside business units to make sure that objectives are being followed.

Two pressures in the financial management processes are somewhat in conflict with each other. Globalization can lead to organizational growth. Organizational growth can in turn lead to growing costs. Both these pressures impact the process and lead to a need for more control.

Lastly, 22% of respondents indicated that the current budgeting and forecasting process is too long and resource-intensive. If this is difficult for even small organizations, that difficulty is compounded in large, geographically dispersed organizations. Again, speed and agility are essential to succeed in these processes; these are the attributes Best-in-Class organizations are seeking to improve.

"We have a very detailed budgeting process and monitor al deviations from it."

~ CFO, Large International, Cigar Manufacturer

The Maturity Class Framework

Aberdeen used four key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations (Table 1). These metrics were selected to identify companies with more accurate financial planning, budgeting, and forecasting, which is a telling indicator of effective financial management. This is supported by the fact that top performers were able to bring in 5% more revenue through streamlined financial transactions with customers than they had previously budgeted.

Fast Fact

√ Best-in-Class organizations saw a 16% decrease in corporate liability value over the past year compared to a 2% decrease for all others

Aberdeen also measured the improvement these organizations made in year-over-year in decision-making times. Fast decisions are important in volatile markets, where there is a high likelihood of change, and agile decision-making is essential. The need for rapid decision-making is compounded for globalizing companies, in which geographic boundaries can hinder quick decisions, and managers need to account for more business units with varying market conditions.

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Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	▪ 29% improvement in time-to-decision (spending and budgeting) over the past year ▪ +5% accuracy of actual revenue to budgeted revenue ▪ -3% accuracy of actual costs to budgeted costs ▪ +3% overall forecast accuracy for revenue to plan
Industry Average: Middle 50% of aggregate performance scorers	▪ 6% improvement in time-to-decision (spending and budgeting) over the past year ▪ +2% accuracy of actual revenue to budgeted revenue ▪ -2% accuracy of actual costs to budgeted costs ▪ Even overall forecast accuracy for revenue to plan
Laggard: Bottom 30% of aggregate performance scorers	▪ 2% improvement in time-to-decision (spending and budgeting) over the past year ▪ -16% accuracy of actual revenue to budgeted revenue ▪ +8% accuracy of actual costs to budgeted costs ▪ -12% overall forecast accuracy for revenue to plan

Source: Aberdeen Group, February 2012

The Best-in-Class PACE Model

Effective financial management in globalizing organizations requires a combination of strategic actions, organizational capabilities, and enabling technologies that are summarized in Table 2.

Table 2: The Best-in-Class PACE Framework

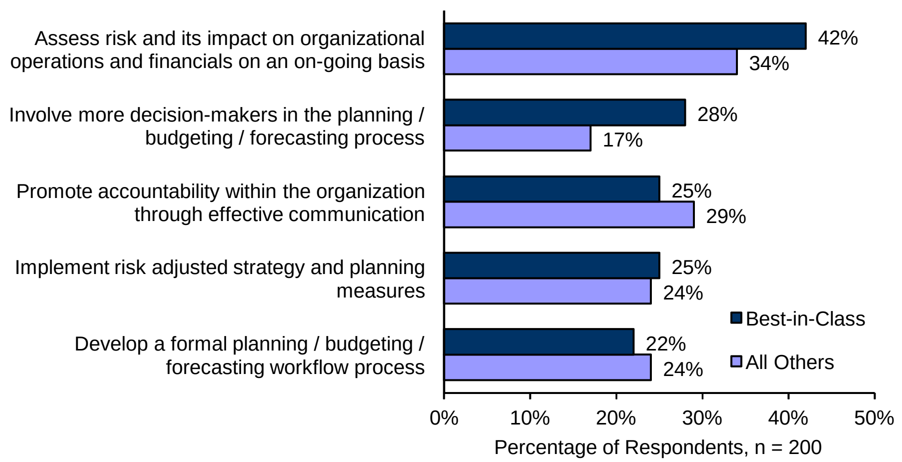
Pressures	Actions	Capabilities	Enablers
▪ Market volatility creates the need to dynamically account for change	▪ Assess risk and its impact on organizational operations and financials on an on-going basis ▪ Involve more decision-makers in the planning / budgeting / forecasting process	▪ Ability to incorporate business drivers into the on-going forecasting process ▪ Established enterprise-wide collaboration across departments / divisions ▪ Able to drill down to successive levels of detail from summaries ▪ Ability to support multiple currencies ▪ Ability to generate reports in multiple languages	▪ Financial reporting and consolidation application ▪ Planning / budgeting / forecasting application ▪ Corporate / Enterprise Performance Management application ▪ Enterprise BI platform ▪ Predictive analytics ▪ Profitability and cost management solutions ▪ Governance, Risk, and Compliance (GRC) solutions ▪ Financial Management solutions

Source: Aberdeen Group, February 2012

Best-in-Class Strategies

To address the pressures listed above, Best-in-Class organizations enact a group of strategies that improve their ability to manage financials and plan, budget, and forecast (Figure 2). Aberdeen often finds little difference between the strategies of Best-in-Class organizations and all others; what really matters is how effectively organizations carry out these strategies.

Figure 2: Strategic Actions of the Best-in-Class



Source: Aberdeen Group, February 2012

Forty-two percent (42%) of the Best-in-Class asses risk and its impact on organizational operations and financials on an ongoing basis. These organizations have realized that its extremely important to be constantly aware of conditions impacting volatile markets, and to account for their potential results in all plans. This must be done for all business units, since, for example, risk factors may be very different for a business unit in the United States than for one in Southeast Asia. Further, 25% of Best-in-Class organizations have implemented risk adjusted strategy and planning measures to ensure that risk is factored in, in hopes of providing the most accurate plans, budgets, and forecast as possible.

Next, 28% of the Best-in-Class involve more decision-makers in the planning, budgeting, and forecasting processes. Global organizations have more people whose actions impact the business; these people must be involved to ensure that plans are informed as possible. Also, these people must be made accountable for the ultimate success or failure of the plan. With their livelihood or job-status on the line, employees are much more likely to do everything they can to achieve goals. Those at the top of the organization must communicate this need effectively, and make the organization function as a cohesive unit, no matter how distributed it may be.

Lastly, 34% of Laggards are planning to develop a formal planning, budgeting, and forecasting workflow process. Compare this to only 22% of the Best-in-Class. This is less of a priority in top performing organizations because it is

"The use of planning and budgeting software drives hiring and firing decisions, expansion plans, and timing of new initiatives that cost money up front but will pay off long term."

~ Director, Small Manufacturer

Fast Facts

Respondents were asked to indicate the top two challenges hindering them in their quest to execute their strategic actions:

√ **53%** We have difficulty aligning operational execution with financial planning, budgeting, and forecasting

√ **35%** Our current IT infrastructure lacks advanced capabilities to support risk management initiatives

√ **33%** Our current budget does not allow proper dedication of staff and solutions for supporting risk management initiatives

√ **30%** Ineffective communication between executive management and staff on financial and operational initiatives something that the organization already has a good handle on. Defined processes help ensure the process goes more smoothly, is aligned with corporate best practices, and produces superior results.

Of course, enacting strategies is never as easy as it seems. Some challenges making it difficult for globalizing organizations to execute on these strategies (see sidebar). These challenges fall into two main categories. The first is ineffective communication and organization. Fifty-three percent (53%) of respondents believe it is difficult to align performance with financial management. Thirty percent (30%) also feel there is insufficient communication between executive management and staff on financial and operational initiatives. Multi-national organizations must find a way to communicate effectively with disparate business units, align initiatives, give visibility to more employees, and become a more cohesive organization.

The other main concern involves risk. Budgets do not often include provisions to support risk initiatives from an IT or staffing perspective. As noted above, risk has a compounded effect on geographically distributed organizations. The analysis below will demonstrate the benefits of implementing capabilities to support these strategies and combat pressures.

Aberdeen Insights — Using Financial Management to Integrate Distributed Teams Into Planning, Budgeting, and Forecasting

With an organization consisting of many distributed teams, the challenge of managing financial operations, risk, and compliance becomes greater than it does for organizations that are more centrally managed. In light of these challenges, these distributed teams are often left on their own to select best-of-breed financial management solutions that map best to their own business processes. This leaves aspects of financial planning and consolidation an arduous feat at the corporate level. What companies must realize is that all finances, whether transactional (procure-to-pay or order-to-cash) or back-office accounting (financial reporting), impact visibility to current cash positions and working capital. Having a unified platform, or streamlined connectivity between multiple platforms can greatly increase the accuracy of financial planning, budgeting, and forecasting.

The lack of a unified financial management platform, or connectivity between multiple platforms can lead to several issues. First, from a technology interoperability perspective, custom financial software and integration requires greater resources at higher costs. Manual attempts to share and access financial information and data amongst disparate financial systems leads to unwanted business disruptions. This contributes

Continued.

Aberdeen Insights — Using Financial Management to Integrate Distributed Teams Into Planning, Budgeting, and Forecasting

further to cost. Having a solution that can address both transactional and back-office accounting requirements enables the use of common data for both purposes.

For example, a batch of raw material was procured from Supplier X. The buyer issues a purchase order for the material, ensures proper approval workflow for the invoice received from Supplier X, and submits the proper payment. That payment is then tracked as a debit in the buyer's accounting systems, and is reflected in the operational cost line item in the financial report. This report then gives the executives some idea of cash flow, cash-in-hand, and working capital. This data in is then mapped to operational requirements in terms of planning, budgeting, and forecasting.

The benefits of streamlining this end-to-end financial process may seem obvious, but truth is that many companies are still managing each of these segments separately. This implies a manual transition (data re-entry) in between these financial processes, leading to a greater potential for numerical errors. The resulting impact on planning, budgeting, and forecasting accuracy may be significant. This problem becomes quite real for organizations spanning across various geographies, time-zones, and currency jurisdictions. It is, therefore, recommended that multinational organizations, or those aiming to globalize, be proactive in their stance in unifying their financial management systems through effective connectivity, or in seeking a common platform that is standardized across the entire enterprise.

In the next chapter, we will see what the top performers are doing to achieve these gains.

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Chapter Two: Benchmarking Requirements for Success

As organizations expand to an increasing number of geographic locations, they are attempting to predict and mitigate the financial stresses of volatile markets. Accurate planning allows organizations to prevent mistakes, react properly, and make informed decisions aligned with corporate objectives. Effective financial management involves a combination of strategic business capabilities and technologies.

Fast Facts

√ 42% of Best-in-Class organizations can perform a trial close on an ad hoc basis compared to 17% of all others

√ 33% of Best-in-Class organizations have a risk and compliance aware culture to ensure accountability and alignment to organizational objectives compared to 25% of all others

Case Study — Laser Technology, Inc.

Laser Technology, Inc. is a pioneer in the reflectorless pulse laser measurement market. Based in Centennial, CO, the company began working with the US government over 24 years ago to design lasers measuring the distance between airplanes. Today the organization is a leading designer and manufacturer of pulsed laser technology providing solutions such as speed enforcement (LIDAR), crash investigation, consumer laser range finders, and more, for a variety of industries from law enforcement to mining.

As an organization with sales operations throughout the world, Laser Technology is familiar with the problems facing organizations attempting to budget, forecast, and plan across geographic regions. Daniel Sise, Jr., Director of Business Development, provides insight into the problems that the organization faces, along with some of the future solutions for their customers' measuring needs. His job is to make projections that will drive the future profitability of the business with the development of new innovative products.

According to Sise, Laser Technology is a product driven company. As a result, the company is very centralized and takes a top-down budgeting approach. As Laser grows, this can become a problem, because the organization will not necessarily have the same amount of insight as in previous years to each unit in the organization. Budgeting becomes a cultural issue: the way to secure budget is to work harder to express needs and projections to the top of the organization. Communication becomes a factor as project prioritization seems to always be changing and the employees are not always aware of new priorities. Also, Laser Technology is in a field where advancements by competitors can have a big effect on the success of the business. As such customer input is essential.

Laser Technology has used several tactics to combat these pressures. First, the organization has implemented an end-to-end business solution that has helped decision-makers gain real-time visibility into the business to adjust plans, budgets, and forecasts. The organization has provided management with smartphones and tablets to help them interact with the data wherever and whenever they are. (Continued.)

Case Study — Laser Technology, Inc.

The company has also involved the extended enterprise in their planning processes. This starts with gathering competitive intelligence. The organization put out a survey to its entire market. With a 20% response rate, the company learned that its customers would still buy its traffic safety products if they were made with polymers rather than extruded aluminum. This allowed the organization to drive projections, sales, and ultimately, better profitability. The company plans to extend its social media monitoring to assist in product development and get a better pulse on customers' needs and projected sales and profitability.

As an organization that deals in many different geographies, Laser Technology has done a good job of providing decision-makers with the information they need to devise plans, budgets, and forecasts. By expanding its outreach to the extended enterprise and fostering communication throughout the organization, the company can continue to drive accurate plans, budgets, and forecasts.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute daily operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Ability to re-forecast as market conditions change		
	69%	57%	44%
	Ability to incorporate business drivers into the on-going forecasting process		
	56%	37%	20%
	Line managers trained in the use of analytical methods and tools		
	29%	20%	17%

	Best-in-Class	Average	Laggards
Organization	Established enterprise-wide collaboration across departments / divisions		
	55%	42%	27%
	Mid to senior level managers accountable for delivering against the budget are involved in the financial planning and budgeting process		
	77%	62%	58%
Knowledge	Ability to integrate and align sales forecasts with overall business revenue and cost forecasts		
	76%	64%	51%
	Integrated accounting platforms to ensure real-time visibility into cash positions		
	42%	32%	17%
	Internal events (i.e. contract fluctuations, missed schedules, lost orders) can trigger an alert to adjust forecasts		
	55%	38%	26%
Technology	Ability to generate reports in multiple languages		
	25%	13%	9%
	Ability to support multiple currencies		
	45%	40%	33%
Performance	Able to perform multi-dimensional reporting with roll-ups		
	68%	41%	33%
	Share analytical data with the extended enterprise (customers, suppliers, resellers, etc.)		
	32%	15%	9%

Source: Aberdeen Group, February 2012

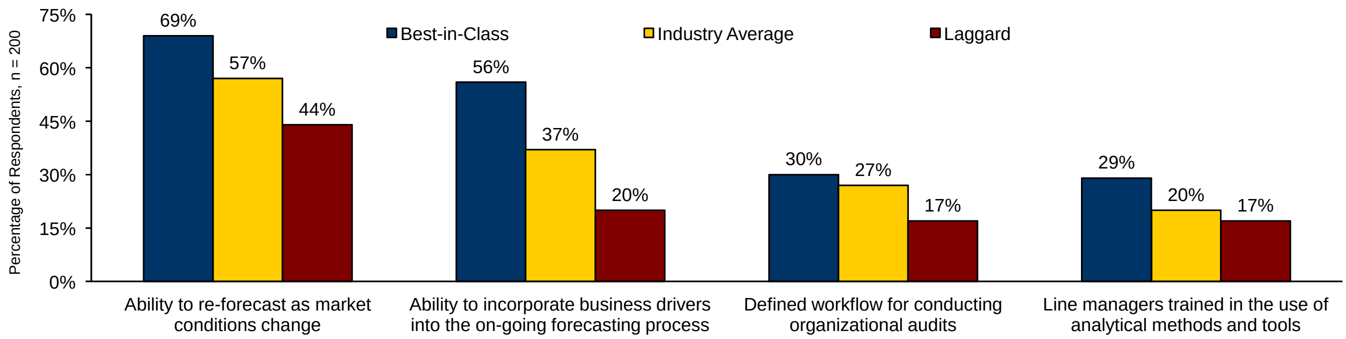
Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen analyzed how Best-in-Class companies leverage a range of solutions and strategies across the scope of process, organization, knowledge management, technology, and performance monitoring to enhance financial management activities globally. By learning how these leaders execute these strategies to produce business capabilities, other organizations can guide themselves towards success.

Process

Effective financial management requires defined processes to ensure that all possible angles are considered and steps are not missed (Figure 3). For the organization to know where it's going, it must first know where it's been. Best-in-Class organizations are 25% more likely than all others to have a defined workflow for organizational audits. From there, decision-makers can begin to devise their plans. The people closest to day-to-day business must be involved in these planning processes. Therefore, they should be armed with the tools they need to stay informed. Best-in-Class organizations are one and a half times as likely to train line managers in the use of analytical methods and tools.

Figure 3: Process Improvements



Source: Aberdeen Group, February 2012

Furthermore, as decision-makers finalize their plans, they need to incorporate current market drivers into the forecasting process. Best-in-Class organizations are 81% more likely than all others to have this capability. By using technology to gain visibility into market pressures, global organizations get a more realistic plan.

"Technology increased the ability to collect and contextualize data for planning action."

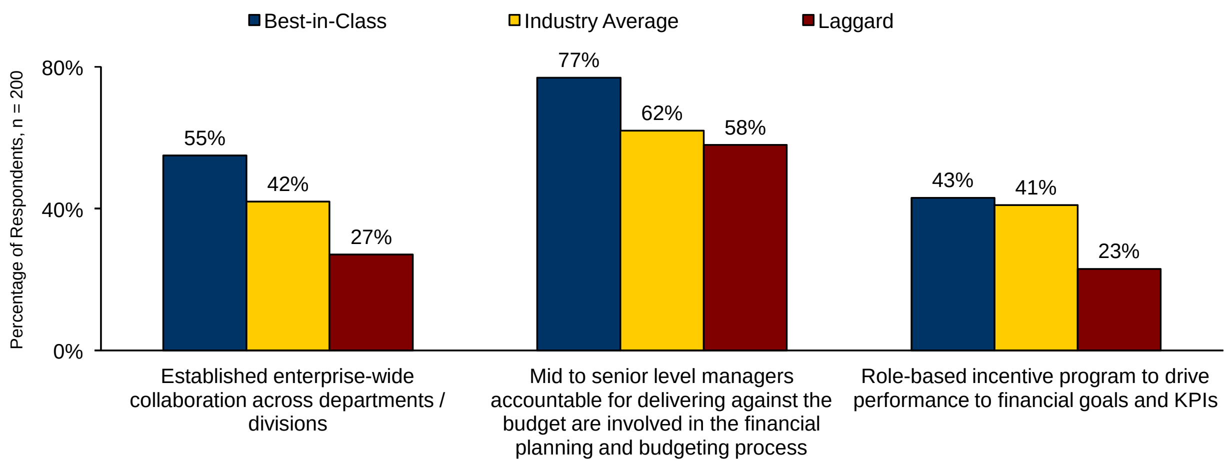
~ EVP , Midsize Media Company

In volatile markets, the likelihood that forecasts, plans, and budgets will be aligned to real world data decreases over time. A forecast based on old data is useless, because managers may be driving towards goals that are no longer feasible. Therefore, it becomes important to reforecast as market conditions change. Sixty-nine percent (69%) of the Best-in-Class have this ability. By taking this step, organizations ensure that forecasts do not become unattainable, and give people in the corporate office a realistic view of what they can expect.

Organization

Getting an entire global organization on the same page requires committing to organizational initiatives and standards. The same level of attention must be paid to all plans to ensure organization-wide accuracy. This process starts with enhanced communication (Figure 4). Best-in-Class organizations are almost one and a half times as likely as all others to establish enterprise-wide collaboration across departments and divisions. This ensures that managers are aware of the goings on in units across geographic boundaries, and allows for a more holistic and accurate view of the overall business.

Figure 4: Organization-wide Collaboration and Involvement



Source: Aberdeen Group, February 2012

It is also important that everyone with insight into the day-to-day operations of business units is involved in the planning, budgeting, and forecasting processes. Seventy-seven percent (77%) of Best-in-Class organizations involve mid to senior level managers who are accountable for delivering against the budget in the financial planning and budgeting process. Best-in-Class organizations are also 23% more likely than all others to have role-based incentive programs to drive performance. Combining the two means that these organizations involve more people with higher stakes in the process, leading to greater accuracy and achievement of financial goals.

Knowledge Management

As mentioned above, when organizations globalize it becomes difficult for those in charge to keep track of what is going on in the business units for which they are responsible. Visibility into operations is crucial to effective planning, budgeting and forecasting. It is also essential for reporting. Best-in-Class organizations are 56% more likely than all others to have integrated accounting platforms to ensure real time visibility into cash positions (Figure 5). Knowing exactly where the organizations stands from a cash position allows decision-makers to plan and forecast more effectively, because they have a firm idea of the organization's ability to make investments.

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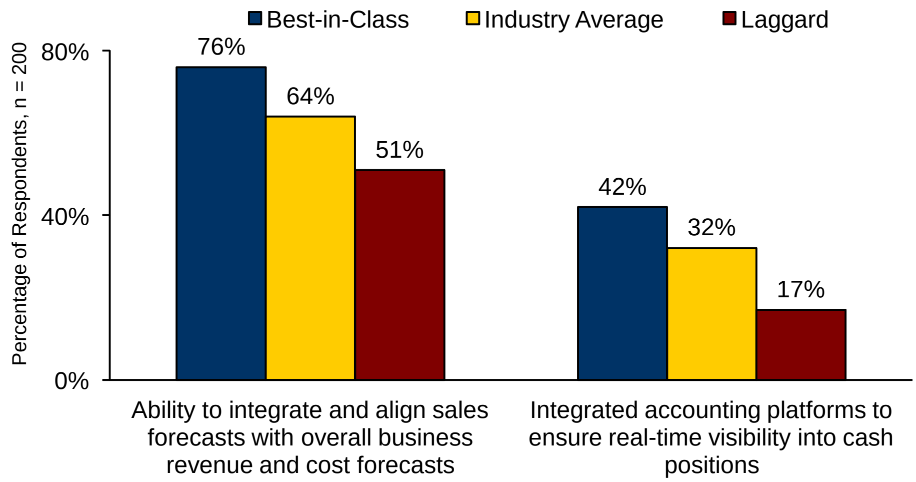
Figure 5: Integrating Other Parts of the Business



Source: Aberdeen Group, February 2012

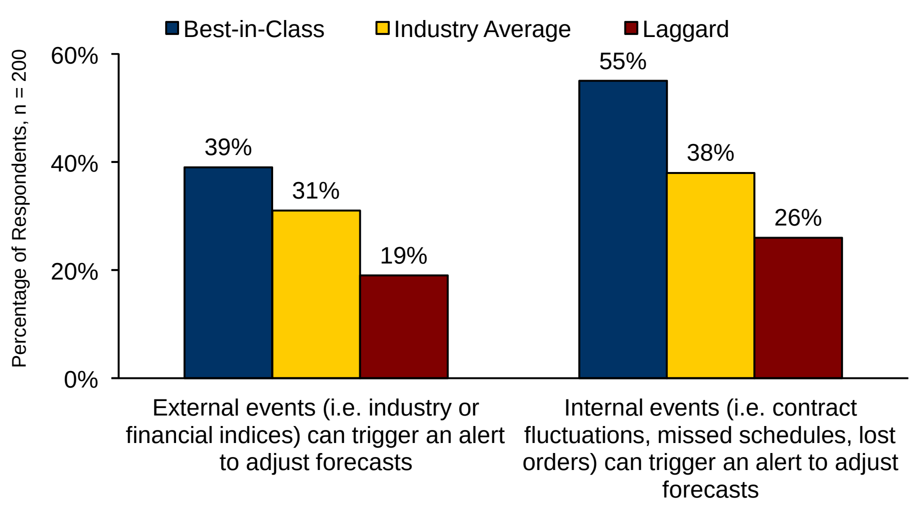
In a global organization with many moving parts, it is essential to take a holistic view of the business when devising plans. Divisions that may work separately can still have a significant impact on one another. Seventy-six percent (76%) of the Best-in-Class can integrate and align sales forecasts with overall business revenue and cost forecasts. This allows decision-makers further insight into the amount of cash that may be on hand in the future, facilitating smart investments.

"With visibility on new market driver changes and scenarios we have helped business functions and regional business units to respond to change much faster."

~VP of Sales , Midsize Media Company

Enhanced visibility is useless if the data is old or inaccurate. Best-in-Class organizations are more likely to receive automatic alerts based on both internal and external events (Figure 6). This allows managers to adjust forecasts and be more agile in decision-making. This is essential in today's 24x7 business world.

Figure 6: Alerts Aid Agile Decision-making



Source: Aberdeen Group, February 2012

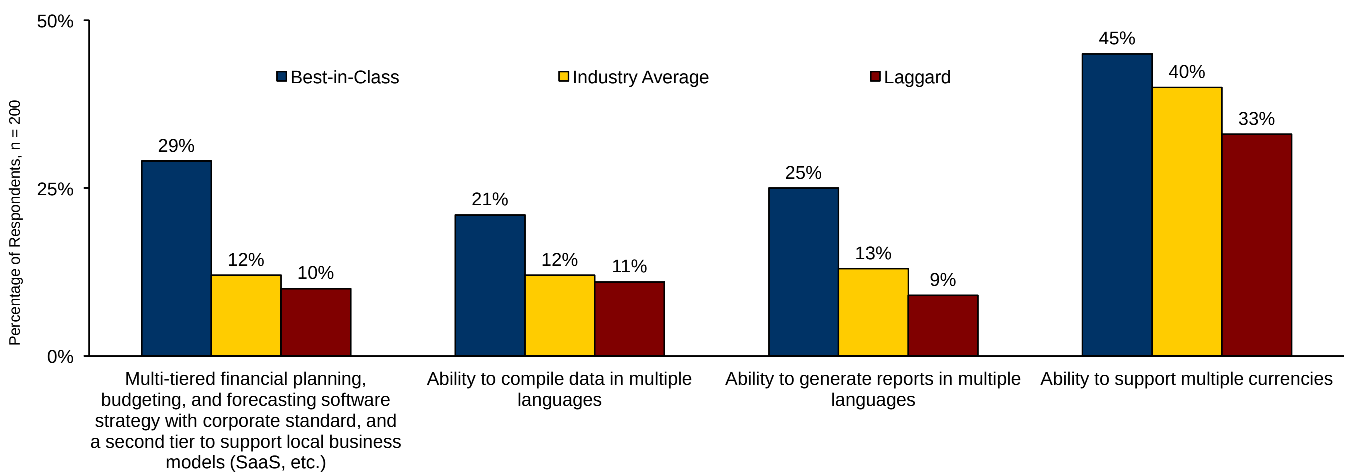
Technology

Technology can enhance a global organization's ability to plan, budget, and forecast as well as manage financials (Figure 7). First, localization issues must be dealt with when operating in countries with diverse cultures. Both language and currency differences must be accommodated. Forty-five percent (45%) of the Best-in-Class have the ability to support multiple currencies. This ensures that exchange rates are accounted for, and there are no surprises when final performance or plans are tallied. Furthermore, employees that deal with data must be able to both digest and interact with it in order to devise informed plans. Best-in-Class organizations far outrank all others in these capabilities. They are 91% more likely than all others to have the ability to compile data in multiple languages, and over twice as likely to be able to generate reports in multiple languages. This fosters communication between units, and leads to more robust plans.

"Technology enables management to more clearly see the effects of their strategies and plans."

~ VP of Sales, Midsize Financial Services

Figure 7: Using Technology to Conduct Business Globally



Source: Aberdeen Group, February 2012

Best-in-Class organizations are also 142% more likely than all others to have a multi-tiered financial planning, budgeting, and software strategy. This means that individual business units can use software tailored to their needs that can integrate with the corporate standard. For example, a business unit in Shanghai may use a cloud-based software package with only the functionality that is needed by that unit, while integrating with the corporate office's more robust solution. This saves the organization money, and helps them get up and running more quickly while still allowing for enhanced communication.

Of course, Best-in-Class organizations are using a wide range of software in the financial management process (Table 4). The key to using these tools effectively is to use the real-time visibility they provide to make quicker and more informed decision-making. For this reason, 64% of the Best-in Class have implemented Enterprise Performance Management. As this report has demonstrated risk data should be considered when devising plans. For this, Best-in-Class organizations are more likely to use software such as risk management tools. Predictive Analytics and other Business Intelligence tools can use risk management data to give decision-makers a better idea of what may happen in the future. Finally, dedicated financial management applications facilitate and structure those processes, which is why Best-in-Class organization are almost 50% more likely than all others to use such applications.

Table 4: Technology Used to Manage Financials Globally

	Best-in-Class	All Others
Governance, risk, and compliance solutions	16%	11%
Risk management tools	17%	10%
Profitability and cost management solutions	45%	34%
Financial modeling solutions	44%	27%
Enterprise Performance Management	41%	21%
Planning / budgeting / forecasting application	64%	41%
Financial reporting and consolidation application	70%	47%
Query and reporting tools	75%	56%
Enterprise BI platform	42%	27%
Predictive analytics	16%	10%

Source: Aberdeen Group, February 2012

Performance Management

Adjusting plans on the fly requires constant visibility into market drivers and current organizational performance. This starts with taking a holistic view of the business. Best-in-Class organizations are 79% more likely than all others to be able to perform multi-dimensional reporting with roll-ups (Figure 8). Of course, as mentioned above, all individual business units must be considered equally when devising plans, budgets, and forecasts. Therefore, 62% of the Best-in-Class can drill down from summaries to successive levels of detail. This gives them a better view of what is going on in those businesses across geographic boundaries.

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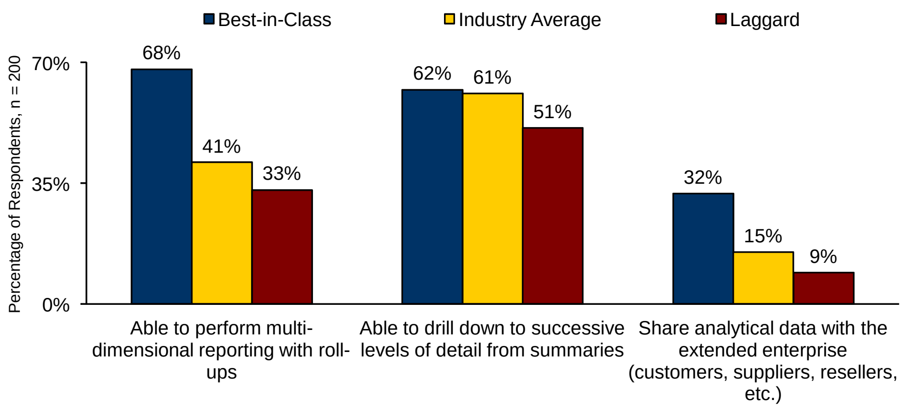
Figure 8: Gaining Insight into Performance



Source: Aberdeen Group, February 2012

Many more factors need to be considered when devising plans, budgets, and forecasts than what is simply going on in the business itself. All available data should be considered. Best-in-Class organizations are almost 2.5 times as likely as all others to share analytical data with the extended enterprise. Fifty-two percent (52%) of the Best-in-Class share strategic reports (e.g., budgets and forecasts), compared to 37% of all others. The performance of extended enterprise members such as suppliers can have a huge effect on the performance of the organization, and must be embedded into forecasts.

Fast Facts

With whom does the Best-in Class share analytical information?

√ **37%** Suppliers, vs. 21% for all others

√ **26%** Customers, vs. 20% for all others

√ **23%** Reseller, vs. 10% for all others

√ **14%** Regulators, vs. 12% for all others

Aberdeen Insights — Effective Financial Visibility Enables Better Planning and Allocation of Working Capital

The current economic condition and the financial crisis have triggered a paradigm shift in how companies operate. In a marketplace plagued with liquidity shortages, market volatility, and increased counterparty risks, stakeholders are demanding more transparent, timely, and accurate information about corporate funding requirements and cash flow.

Liquidity management has become a priority at all levels of the organization. Many companies are faced with the challenge of sustaining business momentum while finding a more efficient operating model. Enhancing financial functions, such as accounts receivable (A/R) and accounts payable (A/P) to uncover pockets of financial strategic value has become a top strategy. Companies are using technology to streamline operations and reduce the risks of credit default or late payments, while improving the visibility and predictability of cash inflows and outflows.

To ensure effective access to cash, organizations are focusing on an open line of communication between the financial departments. These departments should establish an effective way to communicate their cash flow status. When executives know the amount of cash currently in hand at any given time, they can make informed decisions about whether to re-invest the money into company operations, improve their working capital, or look at investment institutions to grow the asset.

Chapter Three: Required Actions

Whether a company is trying to move its performance in financial management from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Fast Facts

√ 88% of the Best-in-Class are able to track performance against budget compared to 83% of all others

√ 42% of the Best-in-Class systematically monitor key risk indicators compared to 25% of all others

Laggard Steps to Success

- **Incorporate all business drivers into the ongoing forecasting process.** For plans to be realistic, every possible angle and its potential to impact the business must be considered. This includes every employee, the overall goals of the business, market factors, competitors, and more. Best-in-Class organizations are over 2.25 times as likely as Laggards to have the ability to incorporate business drivers into forecasting processes.
- **Collaborate more often between departments and divisions.** Again, everyone with a stake in the game must be involved in the financial management process. In geographically dispersed organizations, communications between business units and departments becomes even more difficult. The impact one unit might have on another could get lost in the shuffle, and not be accounted for when devising plans. Since Best-in-Class companies at over 100% more likely than to have cross-departmental communication they are more likely to have more robust plans and can manage financials more accordingly.
- **Report multi-dimensionally.** Executives must have a holistic view of the business. They also need to know what is going on in individual business units, and understand how those units factor into the whole. Only 33% of Laggards can perform multi-dimensional reporting with roll-ups, compared to 68% of the Best-in-Class.

Industry Average Steps to Success

- **Share data with the extended enterprise.** Everything that can impact ultimate performance needs to be accounted for when managing financials. Comprehensive knowledge is essential for effective planning, budgeting, and forecasting. Best-in-Class organizations share analytical data with a variety of people outside of the organization, including suppliers, customers, and resellers. Since only 15% of the Industry Average share data with the extended enterprise, a large majority of these companies are not arming themselves with the most accurate data.
- **Alert decision-makers to events that impact the business.** In today's 24x7 business world, decisions need to be made as quickly as possible. Fast reactions depend on data that reflects the

current state of the business. Accurate data also lets organizations reforecast effectively. Basing financial statements and forecasts on old data is useless and may lead to mistakes. Thirty-one percent (31%) of the Industry Average arm decision-makers with alerts based on external events (e.g. industry or financial indices), and 38% are receive alerts based on internal events (e.g. contract fluctuations).

- **Integrate accounting platforms.** Visibility into cash positions is essential to investing effectively. The ability to invest and the knowledge about potential investments impacts the ability to attain goals and forecast effectively. Best-in-Class organizations are 31% more likely than the Industry Average to have integrated accounting platforms, leading to their ability to incorporate this data.

Best-in-Class Steps to Success

- **Train line managers in the use of analytical tools and methods.** Since everyone needs to be involved in the planning, budgeting, and forecasting process, it is logical that those involved should have access to the most useful tools in projection performance. Still, only 29% of the Best-in-Class are training line managers in the use of these tools. Training will enhance line managers' ability to incorporate projections in plans, budgets, and forecasts.
- **Compile and report data in multiple languages.** Communication in an unfamiliar language is extremely difficult. In multi-national organizations, this problem must be addressed to foster collaboration between business units. While they outweigh all others by a factor of two in their ability to compile and generate reports in multiple languages, less than a quarter of the Best-in-Class have these abilities.
- **Establish a workflow for organizational audits.** Standardizing and enforcing processes ensures that best practices are followed and crucial steps are not missed. A clear view of the organizations financial standing is essential to reporting and devising plans, budgets, and forecasts. These assessments must be made thoroughly before moving forward. Only 30% of the Best-in-Class have a defined workflow for organizational audits.

Aberdeen Insights — Summary

CFOs of globalizing companies are seeking to improve their strategies in risk-impact assessment, stakeholder accountability, and financial management standardization. Key objectives of these initiatives include enabling better financial planning, budgeting, and forecasting; increasing transparency amongst subsidiaries and business units; and streamlining international financial management processes. Embedding active risk management in the planning process lets stakeholders meet budgeting and forecasting targets with viable contingency plans. In a dynamic business environment, organizations with the ability to conduct "what if" scenarios and assign mitigation strategies can better position themselves against competition. Real-time financial information and data may be beneficial to decision-making, but decision-execution is the key. Assigning and promoting stakeholder accountability closes the gap between time-to-decision and time-to-execution. For organizations that operate in distributed teams, the ability to centralize parties' financial information, whether transactional or accounting, is critical. This centralization process can be achieved using a common financial management platform, or multiple financial solutions that allow the use of common data, with the objective of reducing errors and shortening the decision cycle.

Appendix A:
Research Methodology

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

√ The degree to which the planning, budgeting, and forecasting process is formalized and automated

√ Current and planned use of technology

√ The ability to perform "what if" scenarios

√ The ability to track actual performance against budget / forecasting, complete with dimensional reporting and appropriate drill-down to detail

√ The level of collaboration and coordination during the planning and budgeting process

√ The factors involved in and the frequency of re-forecasts

The study aimed to identify emerging best practices for managing the budget cycle, forecasting, and financial planning and to provide a framework for corporate executives can assess the financial planning and budgeting for their own enterprises.

Between January and February 2012, Aberdeen examined the use, the experiences, and the intentions of 200 companies practicing effective financial management in a diverse set of industries. The online survey was supplemented with interviews with select survey respondents, gathering additional information on financial management strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* he research sample included respondents with the following job titles: C-Level (27%), EVP / SVP / VP /GM (21%), Director (14%), Manager (22%), Staff (4%) and other (12%).
- *Department / function:* The research sample included respondents from all departments and functions including finance / administration (22%), IT (4%), corporate management (20%), business development (15%), and operations (10%).
- *Industry:* The research sample included respondents from a wide range of industries lead by financial services (11%), IT consulting and services (18%), software (12%), industrial product manufacturing (5%) and consumer packaged goods (5%).
- *Geography:* The majority of respondents (58%) were from North America. Remaining respondents were from the Asia-Pacific region (11%), South America (2%) and Europe, Middle East, and Africa (29%).
- *Company size:* Seventeen percent (17%) of respondents were from large enterprises (annual revenues above US $1 billion); 36% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 47% of respondents were from small businesses (annual revenues of $50 million or less).
- *Headcount:* Thirty-two percent (32%) of respondents were from large enterprises (headcount greater than 1,000 employees); 30% were from midsize enterprises (headcount between 100 and 999 employees); and 38% of respondents were from small businesses (headcount between 1 and 99 employees).

Table 5: The PACE Framework Key

Overview
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows: **Pressures —** external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) **Actions —** the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy) **Capabilities —** the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing) **Enablers —** the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: Aberdeen Group, March 2012

Table 6: The Competitive Framework Key

Overview	
The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance: **Best-in-Class (20%) —** Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance. **Industry Average (50%) —** Practices that represent the average or norm, and result in average industry performance. **Laggards (30%) —** Practices that are significantly behind the average of the industry, and result in below average performance.	In the following categories: **Process —** What is the scope of process standardization? What is the efficiency and effectiveness of this process? **Organization —** How is your company currently organized to manage and optimize this particular process? **Knowledge —** What visibility do you have into key data and intelligence required to manage this process? **Technology —** What level of automation have you used to support this process? How is this automation integrated and aligned? **Performance —** What do you measure? How frequently? What's your actual performance?

Source: Aberdeen Group, March 2012

Table 7: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.

Source: Aberdeen Group, March 2012

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Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- Financial Planning for Multinational Companies: Understanding How CFOs Are Driving Global Expansion Today; January 2012
- Mitigating Currency Risks in Global Financial Transactions; January 2012
- ERP's Impact on Finance Executives: Visibility Leads to Stability; October 2011
- The Finance Employee's Approach to Managing Enterprise Risk and Change; August 2011
- Performance Management for Finance Executives: Driving Performance with Insight; July 2011
- Financial Planning, Budgeting, & Forecasting in the New Economy; February 2011

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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