Finance heads need much wider view of IT

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Finance directors and chief financial officers are pivotal in most companies and often have a big role in defining IT strategy, either directly or through their control of corporate budgets.

Traditionally, CFOs have used spreadsheets and other relatively simple software internally to manage repetitive tasks such as payroll, keep track of transactions and to undertake rudimentary business analysis.

“CFOs have used IT to realise efficiency gains for years, keeping the accounts correct, reporting to tax authorities and investors, and managing cash flow,” says Alexander Drobik, managing vice-president of research at Gartner.

He adds: “These are all critical activities that IT has traditionally supported well. Corporate performance management processes, such as planning and forecasting, are examples of IT increasing organisational effectiveness for finance leaders.”

What is less clear – because the technology is less mature – he says, is the opportunities presented by social computing: for example, collaborative investor forums, desktop financial reporting tools that integrate market data and social feeds, as well as the usual “executive” or “special interest group” forums, in this case for CFOs.

Indeed, business and IT consultants argue that finance chiefs need to adopt a much more expansive view of technology if they want to tap its potential, not just to cut costs and improve efficiency, but to make a meaningful contribution to a company’s overall business strategy and growth opportunities.

How, then, can CFOs deliver the strategic insight to help the chief executive, the management team and business unit leaders make better decisions and achieve strategic goals?

Nigel Rayner, a Gartner analyst, says: “From the strategic perspective, most CFOs are woefully inadequate, because they are still trying to deliver these capabilities using Excel spreadsheets.”

Although CFOs want to help their companies increase profitability and cash flow, Mr Rayner argues that very few of them actually have any idea of what drives profitability in their organisations.

But it need not be that way, he says.

“There is a raft of specialised technology applications such as profitability modelling and optimisation that allow them to do just that, and yet only a handful of organisations and CFOs use them.”

So why is that? Sometimes, he says, it is simply because they do not know about the applications that are available and they are happy to use spreadsheets and a team of accountants. Sometimes, it is a cultural issue, a familiarity issue and a skills issue.

“I find when I meet CFOs that if I talk to them about the transaction stuff they know everything about ERP [enterprise resource planning] software because most of them have been through lots of ERP implementations,” says Mr Rayner, “and they will talk to you about what they are doing in that area.

“But when you talk to them about management reporting, understanding the drivers of profitability, forecasting or planning, all they know are spreadsheets because they have always done it that way. They are not aware of how the technology market has developed.”

However, it is a limitation that CFOs are becoming aware of. As Gartner analyst John Van Decker points out in his piece analysing the results of the 2010 Gartner-Financial Executives International (FEI) Technology Study elsewhere in this report, CFOs view profitability management as a top technological constraint.

He and other business analysts do not see this situation changing quickly, because they say most business and finance education does not address these issues.
“It is also a cultural issue, because finance folks tend to be very conservative,” says Mr Rayner. “They are comfortable with what they know, which is spreadsheets, and having an army of spreadsheet jockeys. They are not very good at working with IT and technology in anything other than a very practical sense.”

Gavin Michael, managing director of R&D and Alliances at Accenture, the consulting business, agrees. “The discussion about how finance and IT work together is perennial,” he says.

There are three main areas that should be addressed to make the relationship between the CFO and chief information officer more productive.

First, they need to speak the same language. “CIOs tend to talk in terms of technology, whereas CFOs speak in terms of cost. The CFO is looking for tangible outcomes and many CIOs struggle to articulate that. It’s important for CIOs to take the lead and clearly communicate the business results for any technology investment.”

Second, they need to agree on how to invest savings from IT initiatives. “CIOs should make a business case for reinvesting in IT initiatives now in order to save later. For example, strategically investing in technologies such as virtualisation or cloud computing, could reduce costs and enhance IT performance.”

Third, a consensus must be reached on how to fund broad-based initiatives in the organisation. “CIOs have visibility across the organisation, yet funding is often siloed within specific operating groups. The challenge lies with the CFO learning to think differently about how funding constructs operate within the organisation, which traditionally does not allow broad-based investments to span multiple business units. This may mean allowing funds to be administered centrally to enable cross-company initiatives rather than to specific lines of business.”

But there are other issues as well.

Gartner argues that, typically, when CFOs are faced with the challenge of understanding an important business issue such as profitability management and who are the most profitable customers, they call in consultants or strategic business service providers who then develop customised applications using tools like Microsoft Access.

“That simply perpetuates the problem,” argues Mr Van Decker. Nevertheless, he says that being able to use IT to support more sophisticated business concepts such as activity-based costing – which enables a company to assess the cost of a product or service more accurately – represents “a very big opportunity for companies.”

The CFO can play a key role in instigating this and other initiatives, such as electronic invoicing networks, improving the tracking of key performance metrics and risk indicators.

“Too often, business leaders including CFOs perceive IT as a back-office activity focused on driving efficiency gains, such as standardised business process software, desktops, call-centres, networks, or mobile phone support,” says Mr Drobik.

He adds: “To business leaders, IT should also be about driving effectiveness, competitive advantage and, ultimately, increasing revenue, improving customer loyalty, enhancing product innovation and driving market opportunities.”