MEETING THE CHALLENGES
FINANCE DEPARTMENTS FACE

VISIBILITY,
ACCOUNTABILITY,
AND RELIABILITY
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A tepid economy, examples of corporate malfeasance, and recent legislation have added fuel to finance’s continuing drive to improve the validity of numbers and processes, increase the speed at which decisions are made, and drive accountability to metrics and “the numbers.” Corporate governance is in finance’s portfolio. Finance must help executives manage what matters, rather than losing them and leadership momentum in a sea of information.

Finance needs better visibility into the financials at a summary and detail level, confidence in the reliability of the information, and the ability to distribute accountability throughout the organization. It is critical for all users to have a single, reliable, and accurate view for both balances and details of the financials.

Many of a company’s key performance metrics come from finance. Many companies gauge the health of their business by financial metrics alone. The CFO often leads scorecarding or performance management initiatives. The pivotal role of finance in company operations requires that it have easy access to corporate data, turn this data into actionable information, and deliver a consistent financial view of the organization.

However, this is frequently not happening. Data is disconnected, inconsistent, inaccessible, and hidden. Information sharing between finance and other departments is difficult. Key finance-driven processes, such as budgeting, planning, consolidation, and reporting suffer as a result. These processes bog down and consume too many resources. They lack the flexibility to respond to market changes. They lack the timeliness that makes them relevant. They are detached from overall company strategy.

Among their requirements, finance departments need a comprehensive technology solution that enables them to get the data they need and use it effectively.

Cognos addresses three fundamental business challenges facing finance departments:

- Inconsistent budgeting and planning processes
- Delays in reporting and analysis, and
- Driving the business based on intuition.

The three following sections will examine these challenges, looking at both their root causes and symptoms, before discussing how finance can address them.
ADMINISTERING INCONSISTENT BUDGETING AND ONGOING FORECASTING PROCESSES

The budget is the bane of corporate America, said former General Electric CEO Jack Welch. According to a study by consulting firm KPMG, the budgeting process takes up 20-30 percent of managers’ and controllers’ time.

The central problem with these planning processes is that their relevance is not equal to the effort required to produce them.

Addressing this problem requires companies to make the process more efficient while engaging the whole company, and to improve the effectiveness of the results.

More efficient budgeting and planning processes

Planning and budgeting are expressions of a company’s strategy. They are collaborative processes. Spreadsheet-based systems, and other non-integrated or difficult-to-integrate systems used by finance for budgeting and planning typically create these problems:

- Islands of financial data—Client-based (on the desktop) systems mean data is not stored centrally, making dissemination and analysis difficult.
- Insufficient visibility into the planning process—Non-integrated systems where each contributor works independently make it difficult for finance to manage the process and have visibility into who has done the work and who hasn’t.
- Inconsistent assumptions guiding contributors—The files sent for individual input and return to finance are typically not intuitive, and there is no online support system to guide user input. This means people who input data make assumptions that can alter results. Further, administrators face problems maintaining or updating “macros” embedded in the spreadsheets to simplify the planning process for users around the world.
- Lack of financial data integrity underlying the plan—The lack of a central data repository means plan contributors may start with their own version of the numbers, introducing other inconsistencies.
- Re-work and data re-entry—The “siloed” spreadsheet approach doesn’t easily reveal inter-dependencies among budget fields. Finance must identify these and typically re-key them in a master planning document.

Greater effectiveness in budgeting and planning

The effectiveness of budgets and plans is negatively affected by the onerous process to produce them. Market and competitive conditions change more than once per year; businesses need the ability to adapt plans and budgets as frequently as their strategy and market environment requires. However, the resources required to produce a corporate plan make it at best an annual administrative event, rather than a quarterly or even monthly strategic exercise. As a result, the relevance of annual plans decays over time.

“...The result of this ponderous process is that operational-level managers often regard the entire business planning and budgeting process as irrelevant.”

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Factors reducing the effectiveness of budgeting and planning include:

- **Plan ownership is centrally controlled**—Does the department own its plan, or is planning something done to them by finance?

- **Departments see budgets as an administrative task**—Departments should see budgets as the financial expression of their plan to meet the company’s strategic goals.

- **Budgeting is disconnected from strategy**—Effective budgeting should be a closed loop. It starts with goals, then a plan to achieve these goals, then a budget to action the plan. Results of the plan provide metrics to evaluate the goals. Too often, planning starts with a budget and ends with it because the tools are one-dimensional.

“*It is surprising how many executives don’t know exactly how their business units create value…*”

**DELAYS IN ANALYZING FINANCIAL INFORMATION AND COMMUNICATING RESULTS**

Finance can’t access and use data easily, which delays analysis and the dissemination of that analysis in a company.

Data is difficult to access for a number of reasons. Typically, data is stored in enterprise resource planning (ERP) systems. While these are excellent systems for storing data, they are not efficient systems for reporting data. This inefficiency makes running reports slow and hampers the scalability—the number of users you can have—of the reporting system.

While this sluggishness in reporting is due to technology issues rather than human ones, finance wears the blame for being a bottleneck when it comes to reporting and analysis.

The lag in accessing data affects user uptake on reporting systems. Users will not wait for slow-running reports. People will not use reports that are chronically out-of-date.

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Data visibility is affected by non-integrated information systems, such as spreadsheets. Spreadsheet systems make each person an island of report information. Reports may have been written, but the rest of the company is not aware of them. This leads to duplicated effort as each user independently recreates already existing reports. Further, it opens the door to inconsistent data interpretation. Who has the right numbers?

Lack of visibility into where data resides, and data stored in an ineffective manner, means too much time is required to produce standard reports.

Delays in reporting and analysis occur when finance manually manipulates data and reports—especially in spreadsheet-based system—to create ratios and reports. This manual process consumes resources and introduces the possibility of errors and inconsistencies.

Inefficient reporting starves people of the useful and timely data necessary for good decisions. Even if reports and analysis are completed in a timely manner, they do not enable easy exploration of the details underlying financial results. Good corporate governance is based on efficient consolidations, timely reports, and effective analysis.

“*The result is that when companies need to react suddenly, CEOs are sometimes forced to make blind decisions (a.k.a. educated guesses).”*

**DRIVING COMPANY STRATEGY AND PERFORMANCE BASED ON INTUITION**

Few investors, customers, or employees are going to tolerate a company that simply goes on “gut”.

Scorecards, key performance indicators (KPIs), and other performance metrics enable companies to measure the success of their strategy based on results. They translate the company’s strategic plan into measurable elements. In this way, managers know how the business is performing, areas that must be addressed, and opportunities for growth. Popular metrics systems include the Balanced Scorecard of Kaplan and Norton, and Six Sigma, popularized by General Electric. Combinations and hybrids of these and other scorecards or metrics management systems can be found in many companies.

Whatever the system, financial metrics are a key component of scorecarding. One challenge of many scorecarding systems is that finance becomes a bottleneck when it is overloaded with providing metrics throughout the organization. Inadvertently, the department becomes responsible for minding every department’s business. Finance must find a way to delegate responsibility for metrics to the appropriate departments, where the decisions are made that affect the metric directly.

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*Various authors, Business Planning Should Be a Continuous Process That Exploits Flexible Tools, META Group, June 19, 2002*
This problem is exacerbated by several factors:

- **Metrics definition**—Inability to decide what the key performance indicators should be.

- **Availability of contextual information for metrics**—Knowing what KPIs you want, but performance indicators and reports are simply not available. The difficulty assembling data and creating standard reports means KPIs are left untracked.

- **Broad dissemination of information**—If performance reports are created, they are not disseminated widely for use. Each department must see how its operations affect overall financial performance.

- **Metrics without depth**—Users can see a result and whether it is good or bad, but are unable to explore what leads to the metric to address the underlying causes.

- **Inflexible performance indicators**—Scorecarding systems are static rather than responsive. Just as budgets lose relevance over time, manually calculated KPIs are difficult to adapt to changes in markets and shifts in company focus or strategy.
Cognos provides software to address these issues through its integrated software supporting corporate performance management (CPM). With Cognos, you can gain better visibility of your business plans and the budgets that drive them, employee accountability through distributed scorecard metrics, and information reliability through a shared financial framework of data.

Cognos Enterprise Planning software brings together:

- **Planning, budgeting, and forecasting**—Take your organization’s overall strategy and break it down into the activities, decisions, and initiatives necessary to achieve it.

- **Consolidations and financial reporting**—Cut consolidation and reporting cycles to spend more time on in-depth analysis and enable more flexible, dynamic planning.

- **Financial analytics**—Bring together the detailed transaction information for accounts receivable, accounts payable, and general ledger to meet operational financial reporting and analysis needs across the company.

Cognos Scorecarding software, Cognos® Metrics Manager, tracks progress towards the milestones marking your corporate plan, while monitoring your day-to-day operational performance.

Employees can see how their decisions and actions affect the overall strategy. They have the information that connects strategic priorities to their own priorities—the basis for their accountability. In this way, scorecarding communicates a common version of what should take priority throughout your organization.

Cognos Enterprise Business Intelligence, through Cognos Series 7 and Analytic Applications, helps companies understand performance easily and quickly. It answers business questions such as:

- How has my days sales outstanding (DSO) been changing over time?

- What is the margin for customers, by region?

- What regions, products, and customers are top contributors to bad debt?

- Which business unit ranks highest when comparing actual, budget, and variance of profit and loss over time?

With these integrated capabilities, Cognos addresses the inconsistent budgeting, delayed reporting, and lack of metrics issues that face finance departments. It makes budgeting and other core financial processes more efficient, speeds up operational reporting, and enables companies to drive performance by aligning strategy and action throughout the organization.
MAKE BUDGETING, PLANNING, AND OTHER CORE FINANCIAL PROCESSES MORE EFFICIENT

Cognos Enterprise Planning Series easily and effectively engages the whole company in budgeting and planning. These activities are not something done to departments; they are something done by them.

Cognos Enterprise Planning Series streamlines planning by allowing contributors from across the enterprise to provide input over the Web, avoiding the disjointed process that results from spreadsheet-based systems. Finance can lead the development of any manner of plan and budget: based on customer profitability, product sales, departmental expenses, manufacturing capacity, capital, and projects. Fields are organized and interconnected accordingly. A user-friendly planning interface helps people outside the finance department contribute by providing existing data and prepared calculations and values. Companies can pursue top-down planning, or start at the departments and move bottom-up. Finance can distribute access to the plans across the company yet still manage the workflow process.

By making it easier for users outside finance, finance simplifies the process of gathering data closer to the point of impact to improve planning and budget relevance. The departments that generate and spend the money are engaged in the process. However, finance stays in control of the budgeting process. The software enables users to enter data, benefiting from their closeness and knowledge of the business, yet within a finance-defined context.

For example, administrators can set thresholds for planning or budget inputs. If salary increases are restricted to no more than five per cent in a given year, the budgeting system will reject any input over the threshold.

With Cognos Enterprise Planning Series, information is collected across the company. Through pre-defined interconnections, information easily rolls up to master plans through the workflow approval process. Department heads never feel out of the budget loop. They can access their plans throughout the cycle to see the impact of changes. This improves buy-in from those ultimately responsible for meeting the numbers.

Once the planning cycle is completed, data is stored in a single database where users can easily access it for reports, and to make changes as the company adapts its strategy and plan in response to market conditions.

Cutting the time spent on planning processes gives you more time for in-depth analysis, or to turn annual planning exercises into rolling forecasts. Cognos Enterprise Planning Series translates the corporate game plan into specific, practical plans that share a common purpose and a common language.

The company now communicates strategy enterprise-wide through its plans, a key step in enabling corporate performance management.
SPEED UP OPERATIONAL REPORTING AND ANALYSIS

Cognos Enterprise Planning Series delivers a verifiable, single view of your financial information, including general ledger, accounts payable, and accounts receivable data. This delivers the reliable and consistent financial information users need to make decisions that improve company performance.

Centralizing data into report-ready formats expedites end-of-period processing. By closing the books faster, finance resources are freed up for higher value business analysis.

Finance can leverage the hundreds of pre-built reports for general ledger, accounts payable, and accounts receivable that come with the software. This removes the burden from finance and the reliance on IT to develop the reports. These pre-built reports are designed to know where to get the data you need and how to present it for easy dissemination across the company. The reports are easily customized to get the necessary information without requiring advanced coding experience. With their connection to the underlying data, the reports enable easy drill-down to further details and analysis.

Report-ready information in a single, known location and pre-built, customizable reports that draw from this data and other sources mean finance is no longer the bottleneck for report distribution. Rather, finance is an enabler for the free flow of information.

This free flow of information, through easy reporting and analysis, lets managers across the company make better and more timely decisions. Knowing where the information is and easily accessing it to make fact-based decisions are requirements for corporate performance management.
Cognos Enterprise Planning Series integrates with Enterprise Scorecarding software as a means to deliver corporate performance management (CPM).

Scorecarding performs two important functions for finance as it relates to CPM. It provides the means to articulate the corporate mission into a set of key metrics that deliver on the strategy. This links strategy downward from the boardroom to the shop floor. Second, it provides the means for front-line managers to focus on what matters to the business each day by addressing those metrics that are problematic. This links actions upward from the shop floor to the boardroom.

Like its out-of-the box reports, Cognos Enterprise Planning Series comes with pre-built, role-based key performance indicators for administrators to choose from and customize. This jump-starts finance on its scorecarding initiative.

The proven scalability of Cognos Enterprise Planning Series enables distribution to hundreds—even thousands—across the organization. Scorecards can be disseminated over the Web for easy access by as many users as required. The proven scalability of Cognos software enables as wide a distribution as necessary.

Cognos scorecarding metrics interconnect through pre-built information pathways. Users can see how one metric affects another. Further, they can drill down on an indicator to analyze the detail behind it. This makes the metric—and the aspect of company strategy it measures—completely visible to the user. In this way, the metrics help managers focus on what matters and take appropriate action. Financial and other departmental managers can see the numbers for which they are accountable.

Cognos scorecarding is dynamic and flexible. Changes in the market may require a change in strategy, and hence a change in the metrics that measure progress against that strategy. Administrators can adapt the metrics of the scorecarding system accordingly and have updates automatically cascade through the system with pre-built interconnections among indicators.

Scorecarding expresses strategy in measurable terms. In this way, it communicates what must be done, and how the company is progressing, to all employees. This focus and this communication is key to corporate performance management.
Corporate Performance Management (CPM) describes the methodologies, metrics, processes, and systems that monitor and manage an enterprise’s performance. Since finance plays a key role in establishing these CPM metrics and processes for their companies, finance is often the place to start for CPM initiatives.

Enterprises that effectively deploy CPM solutions will outperform their industry peers, says the industry analysts, Gartner. CPM aligns company strategy with action. It depends on three interlinked capabilities.

*Enterprise Planning* turns corporate goals into concrete plans and budgets that communicate a common purpose throughout your organization. *Enterprise Scorecarding* tracks performance against your strategic plans, and monitors the key metrics of your day-to-day operations. *Enterprise Business Intelligence* turns your data into meaningful reports and analysis to make better decisions.

Only Cognos delivers these three integrated capabilities for your CPM initiative. Choose one vendor with confidence, knowing the entire range of CPM is available as your requirements evolve.

With a foundation for CPM initiated through the finance department, and with the spread of goal-oriented budgets and plans, financial information, and metrics across the organization—other departments can contribute to and benefit from enterprise-wide CPM.
KEY FEATURES OF COGNOS SOLUTION FOR FINANCE

Cognos delivers these standard features required by finance departments:

- All core financial processes in one: planning, budgeting, forecasting, consolidations, reporting
- Integrated and unified data source for a “single version of the truth”
- Pre-packaged financial process functionality, supporting GAAP, IAS, other regional reporting requirements, currency translations, inter-company eliminations, etc.
- Adaptable to any scorecarding methodology
- Proven scalability to grow with user demand
- Excel functionality
- Zero-footprint Web architecture and functionality

Competitive differentiators of the Cognos solution for finance include:

- Sophisticated modeling to accelerate the development of business models and assess risk
- Hundreds of pre-built financial reports and KPIs delivered out-of-the-box
- Pre-built pathways connecting information and scorecards based on corporate role
- Easy integration of financial and non-financial reports and metrics through additional pre-built applications
- Workflow management to track the entire planning process and see the status of every participant
- Fast time to deploy and time to results
- Integration with the end-to-end business intelligence capabilities of Cognos, such as alerts and notification software and a full suite of analytic applications
- Balances and details across general ledger, accounts payable, and accounts receivable
- Single vendor, integrated solution
- Supported by the industry’s most award-winning service organization

ABOUT COGNOS

Cognos is the world leader in business intelligence and enterprise planning software. Our solutions for corporate performance management let organizations drive performance with planning and budgeting, monitor it with scorecarding, and understand it with enterprise business intelligence reporting and analysis. Cognos is the only vendor to support all of these key management activities in a complete, integrated solution.

Founded in 1969, Cognos today serves more than 22,000 customers in over 135 countries. Cognos enterprise business intelligence solutions and services are also available from more than 3,000 worldwide partners and resellers.