



# Technology Issues for Financial Executives

## 2007 Annual Report Executive Summary

*Ninth annual joint publication of the Committee on Finance & Information Technology of Financial Executives International, Financial Executives Research Foundation and Computer Sciences Corporation*

### Key Findings

This year's results both reinforce a number of themes and priorities that have been evolving over the past several years and introduce some areas of change. This year's key findings include:

#### *Information Integrity*

- “Improving data quality/information integrity,” a new selection choice added to this year's survey, emerged as the most **pervasive** critical technology concern with about 58 percent of respondents considering it to be a critical technology issue. “Information security,” which had held the top position for the past two years, slipped to #4 with about 46 percent rating it as critical. Like previous surveys, there was no single technology issue that commanded a majority or even a high percentage of the votes as the most critical technology concern. In fact, no single issue (Aligning business and IT strategy) commanded more than 14 percent of the votes for the most critical technology issue.
- Most respondents indicate that the lack of information integrity is negatively impacting operations and performance, and about 70 percent plan initiatives in the next year to improve their information integrity.

#### *Corporate Performance Management (CPM) and IT Spending*

- Again this year, the need for better and more timely analytical information to assist decision making and monitor performance (often referred to as Corporate Performance Management [CPM]) continues as an acute need, and most (about 61 percent) plan to invest to improve their analytical information environments.
- The planned spending levels for better analytical and decision support information is up substantially compared to last year, indicating ongoing significant investments to produce decision-quality information and monitor performance. Even with the continued large investments, only about one in 10 reported making significant progress with their top information issue.
- Continuing the pattern of the past several years, IT spending is again expected to increase modestly in the next year, and the financial program/project share of total IT spending is expected to increase somewhat.

#### *Sourcing*

- A substantial number of new or expanded outsourcing and insourcing (shared services) arrangements are planned for next year. Both outsourcing and shared services continued to receive very good grades from the respondents with these arrangements.
- Offshore IT should experience modest growth in the next few years. Offshore IT is starting to close the “satisfaction gap” compared to other forms of outsourcing, as more respondents reported higher satisfaction levels.

### Sarbanes-Oxley

- Sarbanes-Oxley (SOX) has continued to increase the focus on systems integration and on consolidation and reporting, particularly among large publicly-traded companies.
- Twenty-nine percent of publicly-traded companies reported a decrease in the cost of SOX compliance in the past year, while **45 percent reported an increase** with the remainder seeing no change.

### Systems Integration and ERP

- Adopting best of breed applications and developing interfaces is the most common approach to improving functionality and systems integration and has increased its overall lead over the second most common choice by about 5 percentage points.
- Most respondents reported highly fragmented, non-integrated financial systems environments (silos of information), indicating that much work yet needs to be done to simplify and standardize. Most seem to have a long journey ahead to get to the state where the only financial systems differences are driven by differing business requirements of the industries in which they operate.
- Like last year, about one out of three completed IT projects was considered less than successful by senior management.
- Enterprise Resource Planning (ERP) activity continues at about the same pace as reported in the previous survey. About 27 percent have some form of current ERP activity (new implementation in progress, expansion of use to include additional modules, upgrade to a new release), while another 8 percent have new implementations planned in the next year.
- On an overall basis, somewhat fewer than half of the ERP implementations are full suite.
- Only about one in nine makes no modifications to its ERP system during implementation. Only about one in eight implements new package software releases as they become available from the vendor.
- The most common reason for adopting a new release is functionality that is relevant to the respondent's business.

## Demographics

Participation in the ninth annual survey produced another excellent turnout — 653 surveys were received — about a 6 percent response rate of the population surveyed.

Respondent demographics match the overall make-up of the FEI membership in terms of industry, company size, form of ownership, and location of respondent. Consistent with previous surveys, only the responses of the most senior FEI member in each entity were included in the survey results. FERF and CSC also limited the survey population to those currently serving in financial officer roles.

## Top Financial Management Issues

“Data quality/information integrity,” a new choice added to this year’s survey, was rated as the most **pervasive** critical **technology** issue with about 58 percent of respondents rating it as a critical concern. Data quality/information integrity is fundamental for effective and efficient business operations, from transaction processing to management and external reporting to decision support. Without data quality/information integrity, workers, managers and executives question the information that underpins their work activities. “Information security,” which had held the top spot for the prior two surveys, slipped to the number four position, with 46 percent rating it as a critical technology issue.

A relatively new question added to the survey last year adds an interesting perspective to critical technology issues. We asked each respondent to identify the most critical issue from those that they viewed as critical. What we learned is that the top technology issue is quite diverse across respondents. In fact, there is no majority answer or one single answer that stands out from the others in terms of share of

respondents. Aligning business and IT strategy was the most frequently cited #1 critical technology issue, but it only received 14 percent of the votes, while a few others received 10 percent or more. This suggests that while there is a fair level of agreement on which issues are critical, there is little agreement on the top issue since it is very organization specific.

The top **information** issues areas cited by CFOs repeated the same themes that have been voiced for the past several years — the need to leverage analytical information to monitor and improve business performance (CPM) and drive shareholder value. Similar to last year, only a small minority, about 10 percent, indicated that they had made substantial progress with their top information need. The good news is that the majority of CFOs plan to address their analytical information needs. About 61 percent plan to invest in improving their analytical environment, and the level of the planned investments in analytical information is up substantially compared to last year. Although we would expect rather large investments since the areas that they cite are their top areas of need, the size of many of these investments is still quite surprising. As an example, among respondents from organizations with over \$5 billion in revenue, the average planned investment is about \$23 million, with several planning to spend over \$100 million and one planning to spend \$200 million. This clearly indicates that CFOs are taking their analytical information need seriously. While commercial off-the-shelf (COTS) software products for CPM have improved substantially over the past several years, there is still room for improvement in some areas. As we have noted in previous reports, “measuring product and customer profitability” has ranked either #1 or #2 each year over the nine-year history of this survey, but it is lower down on the list of planned investment areas. We believe that this is an example of where the current COTS market is not addressing this need very well. CFOs want to avoid custom solutions if at all possible. We believe that when CFOs talk about measuring product and customer profitability, they don’t mean gross profit analysis but rather “economic profit” that includes all of the factors that impact revenue and all of the factors involved in delivering the product/service and in servicing the customer.

## Information Technology Strategies

As noted in previous reports, it’s very difficult to reach normative conclusions about IT spending. Generally, there is significant variability in IT spending levels within each of the 30 industries included in the survey. In most cases, one standard deviation in spending is a substantially larger percentage than either the mean or the median spending in each industry, making it very difficult to judge what is normal. In any case, the real questions are whether IT is well-managed, what support it is providing to daily business operations, and what return IT spending is yielding, rather than the level of IT spending. Looking forward, IT spending should increase somewhat in the next year, continuing a trend of modest increases in spending. On an overall basis, financially-oriented IT programs/projects will get their share of the increased IT spending, and nearly one in four respondents expects finance to get a greater share of IT spending. While most will maintain or increase overall IT spending levels, about 15 percent plan to reduce spending in the next year.

Return on IT investment remains an issue for many. Perceived returns vary substantially across the respondent base. On the positive side of the ledger, about three in five report medium returns or better, suggesting that this group believes their investments are adding to shareholder value. The remainder report low, negative or unknown returns. This outcome is nothing new since it is relatively consistent with earlier surveys. Given the wide variance in the responses regarding return on IT investment, two years ago we added a new question to learn what percentage of IT projects were viewed as successful by members of senior management and how this might vary across entities. Last year, across the respondent base, about 67 percent of the projects were considered successful. A repeat of that question this year produced an identical project success rate, and, interestingly, the success rate was virtually the same across all company sizes. Another surprising outcome continues to be the variability in project success rates. On one extreme, a number of respondents reported project success rates in excess of 90 percent, while a number reported success rates of less than 30 percent. This is probably also a factor behind why “project management” is continually cited as one of the top improvement needs for IT organizations.

The level of formal IT planning is up on this survey compared to the previous survey, 42 percent versus 37 percent previously. We suspect that the level of formal planning hasn't changed but rather that the results reflect differences in the survey population. As we have commented in previous reports, the level of formal planning is surprisingly low given the scale of the IT investments that most entities are making. This may be a partial explanation for the variability in return on IT investment and the project success (and failure) rates discussed earlier. In a new topical area added this year related to IT governance, most, about 56 percent, reported that they have formal governance programs that were largely internally developed. The report card on the impact of governance was only moderately positive. Interestingly, fewer than half of the respondents that have a formal IT planning process review the results with their board of directors.

Similar to last year, about half of the respondents consider IT a core competency, implying that the remainder aren't particularly happy about their IT performance and are open to alternatives such as outsourcing and/or offshore to improve the price/value relationship of IT for their entities. Interestingly, a somewhat larger percentage of CEOs, about 64 percent, consider IT a potential source of competitive advantage, suggesting that many of the entities where IT is critical to developing/sustaining competitive advantage are being limited by the performance of their IT organizations.

All forms of outsourcing and insourcing (shared services) are expected to continue to grow, with some areas likely to see substantial increases. As reported previously, payroll and IT are the two most frequently outsourced areas, with 57 percent and 27 percent, respectively, reporting current outsourcing arrangements. Payroll outsourcing dominates among smaller entities, while IT is the most common area among larger entities. IT outsourcing is the area with the most planned outsourcing activity. Overall, about 13 percent of respondents plan to outsource some portion of their IT in the next year, including about 20 percent of the organizations with over \$1 billion in revenues. We suspect that one of the drivers of the continued movement toward outsourcing is the consistently high overall ratings that outsourcing has received from those that have done it. Again this year, about 85 percent of respondents rated their outsourcing arrangements as successful.

The direct use of offshore providers of IT services continues to increase, but at a relatively modest rate among respondents, and the amount of offshore IT support is still relatively low in absolute terms. Among this year's respondents, only 5 percent indicated that they planned to enter into an initial offshore IT relationship of some type, and among those with existing offshore IT relationships, about one out of three planned to increase their use somewhat, while the remainder planned no changes. About 70 percent of the respondents indicated that they are not using any offshore IT providers. We will continue to track and report on the penetration of offshore IT providers in future surveys. Last year we mentioned the potential "Achilles heal" of offshore IT: lower levels of satisfaction with offshore services compared to traditional IT outsourcing. While it is too early to say definitively that offshore IT performance has improved, this year's results suggest that this may be the case. While still below traditional IT outsourcing, the proportion of "highly satisfied" increased from about 12 percent last year to about 25 percent this year.

Like outsourcing, insourcing (shared services) continues to experience steady adoption rates, with all industries showing new shared services arrangements planned in the next year. The top areas for outsourcing are also the top areas for shared services arrangements. While outsourcing and shared services have similar overall success rates, the "degree of success" is somewhat higher in shared services arrangements. About 49 percent of shared services arrangements are viewed as "highly successful" versus about 38 percent of outsourcing arrangements.

Information security continues as an area of significant concern for financial officers, with a growing percentage of internal and external audits evaluating the level of security and the potential risks. Only about one in five CFOs is "highly satisfied" with their security programs, implying that the rest see varying levels of improvement required. This concern is not a surprise when one considers the potential for business interruption and/or the negative market consequences if confidential information is compromised. About one out of 14 respondents, an improvement from last year's one out of 10, reported a major business interruption as the result of some type of cyber intrusion.

## Technology Applications

Each year, a growing proportion of respondents report being constrained in their ability to develop or acquire new applications. This year somewhat over half, 52 percent, reported being constrained in their discretionary IT spending. The reasons cited are varied, but what is at the core for most is the impact of continued earnings pressure. The same earnings pressure that causes projects to be deferred or cancelled has caused the hollowing out of internal business and IT resources and has limited the discretionary dollars available for these projects (after required spending on existing infrastructure and applications). Many are faced with the daunting paradox of not being able to afford to make the IT investments necessary to improve business performance, while the performance improvement expectations of shareholders require the investments.

Systems integration continues as an important issue for most, with Sarbanes-Oxley adding to the pressure to achieve greater levels of integration. The greater the number of non-integrated applications, the greater the difficulty the organization has in demonstrating and sustaining an acceptable level of control. Among public companies, Sarbanes-Oxley has substantially increased the focus on both systems integration and on consolidation and reporting, particularly among large entities. To date, IT has done little to reduce the cost of compliance. In fact, only a small proportion of respondents experienced any reduction in the cost of compliance over the past year, and one could argue that the cost is going the other way. Among publicly-traded companies, 45 percent reported an increase in the cost of compliance in the past year, while 29 percent reported a decrease, and the remainder reported no change.

While systems integration is a pervasive issue, there isn't a majority approach to addressing the issue. There are three approaches that have substantial followings: "Adopt best-of-breed applications and develop interfaces" has the largest share across almost all company sizes and improved its lead over the other choices in the past year; "Discontinue all disparate systems, implement a single new integrated system" comes in second and sees its share increase somewhat with company size; and "Build new interfaces between existing systems" comes in third and has its greatest appeal among smaller companies. The financial systems environments of most respondents remain highly fragmented, resulting in non-integrated silos of information. In the most extreme cases, some respondents had as many (or more) different financial systems environments as they had business units. In all but a few cases, the number of different financial systems environments couldn't be explained by the differences in requirements of the number of industries that they served.

As indicated earlier, "information integrity," a new subject area added to this year's survey, was cited as the most pervasive technology issue. Only about one in five CFOs reported being highly satisfied with their information integrity. They feel the pain on an ongoing basis in the finance organization working to produce reliable results and believe that the lack of information integrity is a drag on the business, negatively impacting performance and increasing cost levels. On the positive side of the ledger, about 70 percent of respondents plan to undertake programs in the next year that are focused on improving their information integrity.

ERP activity continues at about the same pace as reported in our previous survey. About 20 percent of the respondents have either a new implementation planned in the next year or a new implementation in progress, while about 15 percent are either upgrading to a new release or expanding their ERP use to include additional modules. The proportion of full suite implementations is down somewhat among this year's respondents to about 47 percent. About half of the completed ERP projects experienced schedule and cost overruns, but about three out of four were still considered successful. Modifications to the ERP system continue to be an issue, with nearly half of the respondents reporting either moderate or significant modifications (and only one out of nine making no modifications). Few adopt new releases of package software as it becomes available from the vendor. Most adopt new releases when there is relevant new functionality available in the release.

## Managing the IT Function

Little has changed here from our previous report. The CFO continues to be the most common reporting relationship for the CIO in organizations up to about \$1 billion in revenue. In the \$1 to \$5 billion size range, the CEO and CFO are about equally likely to have IT, while in organizations larger than \$5 billion, the CEO is the more likely reporting relationship. Repeating an outcome that we saw for the first time last year, a portion of the CFOs are suggesting changes to the IT reporting relationships, with a fairly sizeable group of CFOs, about 7 percent of the survey population, desiring to take on that responsibility.

When a new CIO is needed, smaller companies are much more likely to go outside to find the replacement (about 60 – 65 percent come from outside), while the largest companies, those with over \$5 billion in revenue, go outside only about half of the time.

Little has changed related to the use of chargebacks. Chargebacks become more likely as organization size increases (probably in part because the shared costs of IT span more than one reporting entity), and the sophistication of the methods also increases with organization size. Where chargebacks are used, about a third view the impact on technology investment decisions and technology adoption as somewhat positive, but most believe chargebacks are neutral in terms of their impact.

Most financial officers are moderately positive about their IT organization's ability to keep abreast of the latest technology developments. However, consistent with previous surveys, these same financial officers also cite fundamentals as the areas of greatest IT weakness. The most frequently cited IT weaknesses were project management, understanding the relationship between business and technology, and communication with the business community. These areas suggest a gap between technology knowledge and the ability to execute.



EXPERIENCE. RESULTS.

## Computer Sciences Corporation

### Consulting Group

Computer Sciences Corporation  
200 Park Avenue, 32nd Floor  
New York NY 10166  
212.251.6098

For more information on the report, contact:

Jerry Boltin, Senior Partner  
630.472.1246  
gboltin@csc.com

### About CSC

Computer Sciences Corporation helps clients achieve strategic goals and profit from the use of information technology.

With the broadest range of capabilities, CSC offers clients the solutions they need to manage complexity, focus on core businesses, collaborate with partners and clients, and improve operations.

CSC makes a special point of understanding its clients and provides experts with real-world experience to work with them. CSC is vendor-independent, delivering solutions that best meet each client's unique requirements.

For more than 45 years, clients in industries and governments worldwide have trusted CSC with their business process and information systems outsourcing, systems integration and consulting needs.

The company trades on the New York Stock Exchange under the symbol "CSC."

Copyright © 2007 Computer Sciences Corporation

Los Angeles, California

All rights reserved. No part of this publication may be reproduced by any means without written permission from Computer Sciences Corporation.

Printed in U.S.A.



## Financial Executives International (FEI)

200 Campus Drive  
BOX 674  
Florham Park, NJ 07932-0674  
973.765.1000  
www.fei.org

### About Financial Executives International (FEI) and its Committee on Finance & Information Technology

FEI is the professional association of choice for senior-level financial executives. FEI's membership comprises 15,000 financial executives in the highest echelon of corporate finance: CFOs, VPs of Finance, Treasurers and Controllers. They represent companies of all sizes, both public and private, crossing all industries. FEI has for 70 years been a powerful advocate for its members, speaking vigorously on behalf of the profession before regulatory and legislative bodies. FEI enhances member professional development through peer networking, career planning services, conferences, publications, and special reports and research. Members participate in the activities of 84 chapters, 73 of which are in the United States and 11 in Canada. FEI's Web site, [www.fei.org](http://www.fei.org), offers deep informational resources and numerous opportunities for networking, professional development and career management.

The Committee on Finance & Information Technology (CFIT) addresses the needs and interests of financial executives as strategic leaders, as they strive to realize measurable and sustainable performance improvements while maintaining financial control. These needs and interests include the development and application of information technology, systems, and other methodologies affecting the management of business functions, such as corporate performance management (CPM), sourcing, and IT governance, through research, surveys, advocacy, conference content, and newsletters. CFIT's priorities will be driven by key trends in information technology as identified by the Committee.



## Financial Executives Research Foundation, Inc.

200 Campus Drive  
Florham Park, NJ 07932  
973.765.1000  
www.fei.org

### About Financial Executives Research Foundation (FERF)

Since 1944, FERF has been an independent source of practical information, service and expertise for senior financial executives. FERF is primarily supported by voluntary, tax-deductible contributions from corporations, FEI chapters and individuals.

FERF's mission is to meet the needs of the financial management professional by identifying, developing and distributing timely research in a variety of ways. FERF provides a wide range of research-driven content through published research studies, articles in *Financial Executive* magazine, electronic newsletters and the FEI Web site, among other formats.

The views set forth in this publication are those of the authors and do not necessarily represent those of the Financial Executives Research Foundation Board as a whole, individual trustees, employees or the members of the Advisory Committee. Financial Executives Research Foundation shall be held harmless against any claims, demands, suits, damages, injuries, costs or expenses of any kind or nature whatsoever except such liabilities as may result solely from misconduct or improper performance by the Foundation or any of its representatives.

This and more than 80 other Research Foundation publications can be ordered by logging onto <http://www.ferf.org>

Copyright © 2007 by Financial Executives Research Foundation, Inc.

All rights reserved. No part of this publication may be reproduced in any form or by any means without written permission from the publisher.

International Standard Book Number 1-933130-55-5

Printed in the United States of America

First Printing

Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by Financial Executives Research Foundation, Inc. provided that an appropriate fee is paid to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923. Fee inquiries can be directed to Copyright Clearance Center at 978-750-8400. For further information please check Copyright Clearance Center online at: <http://www.copyright.com>.