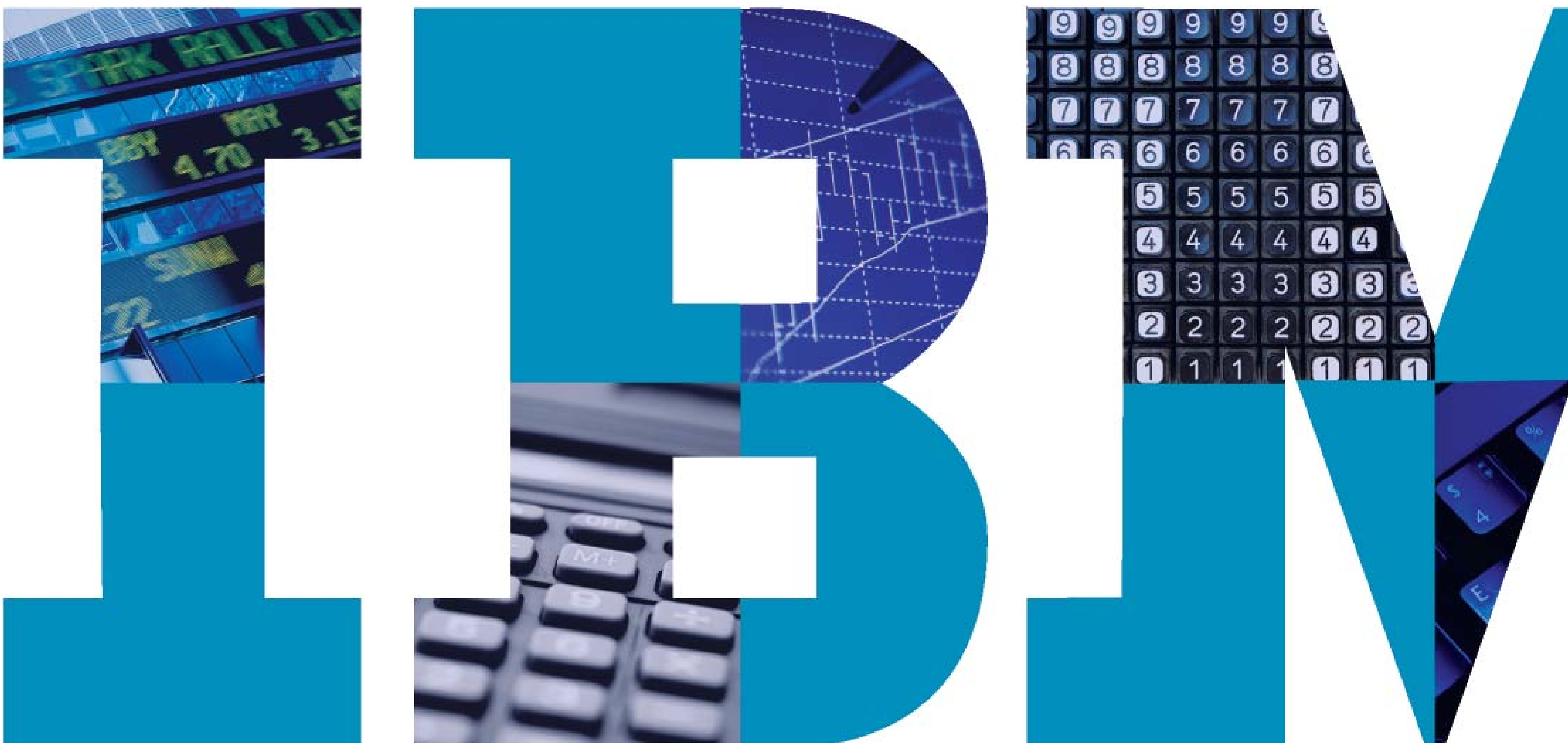
IBM Global Business Services
Public Sector Financial Management
An IBM White Paper

Cost Take-out: The New Top Priority for U.S. Government CFOs

How Chief Financial Officers Can Drive Down Cost in Finance and across the Enterprise



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Introduction

"The most significant threat to our national security is our debt."

– Admiral Michael G. Mullen
Chairman of the Joint Chiefs of Staff
August 2010

One need not be an expert strategist or economist to appreciate the domestic and international pressures on the United States economy. In addition to moving perilously close to reaching our debt ceiling of almost $14.3 trillion this fiscal year, according to budget projections produced by the Congressional Budget Office in January 2010, the federal government will accumulate approximately $8 trillion in *new* debt between 2010 and 2019. These estimates suggest the government is running a structural deficit of between $500 billion to $700 billion each year.[1]

Alarming as these facts are, exposure to numbers that are almost incomprehensible in scale often creates the phenomenon of desensitization to the point of detachment. Whether by design or circumstance, we have become so accustomed to running large deficits with no associated immediate *pain* that we discount the long-term consequences of such a trend. Whereas strategic, policy-level issues are beyond the scope of this paper, suffice it to say that continued spending at such a pace carries with it considerable economic and security concerns.

The goal of this White Paper is to serve as a platform from which to explore a range of possibilities and opportunities available to government CFOs in their quest to operate in a more efficient and effective manner by not only presenting a case for change, but also providing a roadmap for it.

Further, this document should not be interpreted as exclusive to the politically appointed departmental financial leaders who serve with each successive Presidential administration. While they, of course, are ultimately responsible for the financial affairs of their respective organizations, there are numerous agencies and components where the financial leader – the CFO or Deputy CFO, is a member of the highly experienced, skilled, and talented career Senior Executive Service. For the sake of simplicity and consistency, the term CFO will be used throughout this document to encompass all federal senior financial leaders.

[1] *Strategies to Cut Cost and Improve Performance,* IBM Center for the Business of Government, Retrieved from www.businessofgovernment.org

Section 1. The CFO's Role in Cost Take-out

When IBM conducted its Global CFO Survey in 2009, driving out cost was not a high priority for U.S. Government CFOs. In fact, it rated among the *lowest* priorities on the U.S. Government CFO's Agenda – rated lower than by peer CFOs in the private sector and even "rest of world" government CFOs.

U.S. federal agencies instead were busy administering the American Recovery and Reinvestment Act (ARRA) and the Troubled Asset Recovery Program (TARP) to help stabilize our faltering economy, all while simultaneously fighting wars in Iraq and Afghanistan as well as against terrorism throughout the world.

However, the fiscal deficits that resulted from this ramped-up spending, compounded by lower tax revenues from the severe recession, have changed priorities. U.S. budgets are tightening, and that trend is expected to continue for the foreseeable future. Conversations with government CFOs today reflect that change, as they have shifted their attention to driving out cost in support of budget reductions.

There is a reason the first word in Chief Financial Officer is *Chief*. Simply stated, that person is empowered and entrusted per statute with all matters financial of their particular organization. In addition to their numerous statutory duties – and there are many – the overarching responsibility of government CFOs – as stewards of American taxpayer dollars, is to ensure that every dollar entrusted them is spent wisely, judiciously, and prudently.

Whether in crisis or steady-state, they serve as the departmental chief executive's trusted advisor and the organization's fiscal enforcer. They ensure the financials are in order and attest as much to the U.S. Treasury and before the U.S. Congress; they ensure information technology systems are in place to capture and report such data; they develop their people; and when necessary, serve as agents of change.

These definitions, along with the current fiscal challenges and the undisputed fact that the power of the purse resides solely with the Congress, might lead one to conclude that the CFO's hands are tied. Although there are limits to a CFO's authority, significant latitude exists under the law to allow individuals in these positions to exercise a fair degree of influence over their organization – and perhaps even the department.

The impending fiscal storm will most certainly separate those who have taken action to confront the difficult, and at times painful, realities of budgetary pressures from those who, either through denial or hubris, believe they are immune from its reach. As tough as it is to take action in advance of massive operational and personnel cost-containment measures, few organizational realities compare with the sheer agony and consequences of an unprepared entity accepting the broadsword of efficiencies levied against it.

Therefore, it is incumbent upon the CFO to not only move swiftly to identify and address any current deficiencies in the organization but also to implement the best possible proactive measures in anticipation of the unforeseen. By virtue of these explicit and implicit authorities, who better than the CFO to take charge and lead the Cost Take-out effort?

Cost Cutting vs. Cost Take-out

While no clear definition between these two terms exists, one could posit that the main distinction between Cost Cutting and Cost Take-out is that the former is a reactive, across-the-board, and usually indiscriminate imposition of action; the colloquial "salami slice" approach to sharing the burden. Conversely, the latter is – or at least should be – proactive, targeted, and strategic.

On balance, there undoubtedly will be some level of cost cutting in the more traditional sense. This is to be expected, for it is a more "democratic" approach, and thus easily understood and communicated.

Nearly every functional area will have an almost allergic reaction to "contributions" to cost-reduction measures as excessive and jeopardizing of mission or service. Emotional arguments and impassioned pleas, while noble, usually fall short. It is the functional area that is prepared with an objective plan rooted in fact, that has the best chance of surviving the most intact from any "cut drill."

Taking costs out and gaining efficiencies should not be viewed as an exercise in cutting organizational or mission capability. To the contrary, this should be viewed as all about applying fiscal discipline and modern management principles to *increase* operational effectiveness.

For example, providing senior leaders with an automated, near real-time depiction – via a dashboard or other similar tool – of financial data such as spend rates, variances, costs, budget-to-actuals, delinquencies, etc., drawn from authoritative data sources and sorted to the lowest element (with all the attendant analysis), and to then witness the epiphany of what is in the realm of the possible in terms of realignment of resources for effect, can be a memorable experience. Those "sacred cows" become that much less sacred.

It is not hyperbole to suggest that every organization can benefit from continuous improvement, if for nothing else, to keep pace with the modern world it is operating in. Cost Take-out is one such exercise that allows each successive leader to find better ways of executing the responsibilities of the mission entrusted them, and in the process, advance the organization. The attraction and advantage of this is that there is no secret formula or blueprint on how to proceed; it is sufficiently customizable. Of course, it is immensely helpful to compare notes and benchmark with peers in other organizations and with the private sector, academia, and research institutions, and to seek outside counsel for validation and objective support. Certainly not all recommendations will be applicable, comparable, or transferable, but with enough exchange and dialogue, ideas begin to emerge – and through leadership, ideas turn into action.

Whether attempting to streamline the budget and planning process, consolidate financial and accounting operations, or contain cost overruns and improper payments, nothing should be off the table. Yet, actions need not be massive to be effective. Indeed, in the immediate, this can be nothing more than taking concrete measures, however small, to curtail unnecessary spending within one's direct sphere of influence.

Some actions will bear fruit in the present, while others may take longer. With success, demand will grow, and initiatives can be expanded to include implementation of those larger, transformative ones that are of strategic benefit to the institution. Regardless of type, a culture where disciplined, continuous cost management and process improvement becomes inculcated throughout the organization is one where meaningful change has the best chance of taking hold.

Section 2. Improving the Effectiveness of the Finance Organization

Before suggesting changes to the functioning of an enterprise, it would be prudent and advisable for a CFO to ensure his or her own house is in order. Although such a subject can fill volumes, generally speaking, the CFO plays two key roles in this effort: one *internal* and the other *external*.

First is the reduction of those costs directly within the CFO's control, i.e., "the cost of the finance function." CFOs should look to drive down costs in their organizations through process improvement, automation, and changes in the finance organization and staff. At a minimum, achieving this requires a thorough capabilities review; tough, introspective questions; and objective critique: Does the organization possess the tools, technology, skill set, and the relevant training to serve as trusted advisor? If not, is this not also a priority?

Operating a lean finance organization not only saves money but also bolsters the CFO's authority and expertise to lead, by example, cost-cutting initiatives across the organization. We view this leadership as the second role of the CFO. As Cost Take-out is both a function of finance and a priority of the enterprise, CFOs must embrace their equally important role as leaders of change. From the identification of potential opportunities to measuring results, no other functional area is better equipped to serve in this capacity. Yet, as important as this latter point is, our CFO Study disclosed that government CFOs rated themselves as less empowered to drive enterprise-wide cost reduction than their private-sector counterparts.

Impressively, the federal government has made steady progress in streamlining financial operations since passage of the CFO Act more than 20 years ago. Evidence of this exists in the form of more standardized financial data and processes, a reduced number of financial systems, and increased use of shared services, both within an agency and government-wide. However, much work remains. It is no surprise that many agencies still rely upon inefficient processes and too many financial systems. As such, they have not fully capitalized on the economies of scale available through centralized processing. Additional savings can be achieved through an increased focus on process improvement, technology, and optimization of the finance organization. Significant savings can be achieved depending on the existing maturity level of an agency and the scope and scale of transformation. Table 1 (next page) presents opportunities for improvement and savings potential that exist in many finance organizations.

Table 1. Finance Savings Result from Improvements in Process, Technology, Operating Model and People

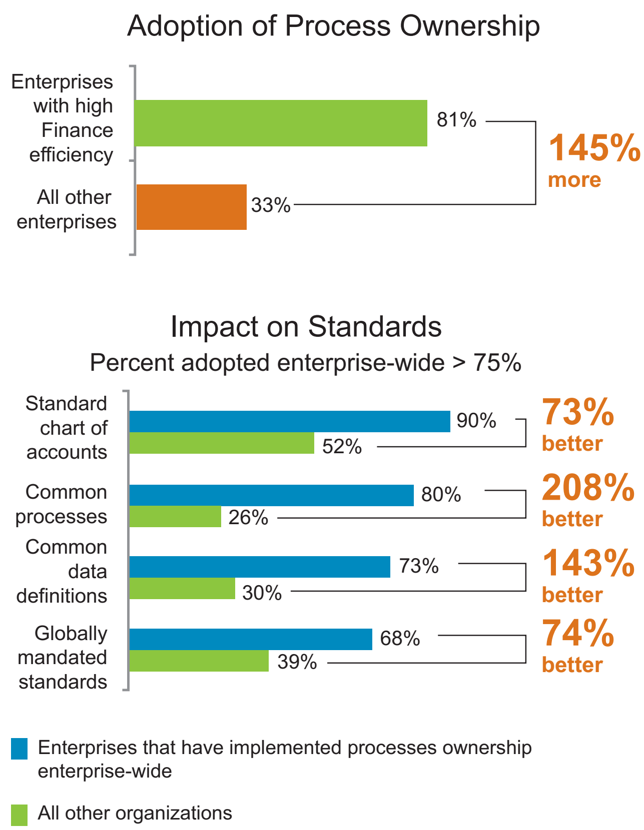
	Areas for Improvement	Savings / Benefits Realized
Process and Technology	■ Use external benchmarks to set improvement goals ■ Eliminate redundant work steps, streamline remaining work ■ Automate manual processes ■ Use self service technology ■ Standardize data definitions and processes enterprise-wide ■ Optimize infrastructure ■ Move to cloud	■ Up to 50 percent process efficiency improvement ■ Up to 50 percent headcount reduction ■ Up to 48 percent reduction in audit fees ■ Up to 70 percent reduction in number of applications and associated costs
Operating Model and People	■ Move work to lower cost geographic areas ■ Establish shared service centers to realize economies of scale ■ Focus on core processes – evaluate outsourcing others ■ Move resources to higher value work to drive efficiency and effectiveness across the organization ■ Improve measurement and monitoring of processes ■ Implement continuous improvement methods	■ Up to 20 percent reduction in total Finance function costs ■ Up to 60 percent reduction in transaction processing cost ■ More time spent on analytics, less on transaction cost ■ Reduced risk of institutional knowledge loss

Source: *Journey to a Value Integrator,* IBM Institute for Business Value. February, 2011.
Retrieved from www-935.ibm.com/services/us/gbs/thoughtleadership/ibv-journey-to-new-value-integrator.html

In addition to improved efficiency, transformation of the finance function is driven by the need to improve finance effectiveness. As recently as 2010, IBM's Global CFO Study revealed that, on average, Finance departments continue to spend nearly 50 percent of their time on essential but low value-added transactional activities, such as paying bills, processing expense reimbursement, and booking journal entries manually, as opposed to higher value-added analytics and decision-support activities that could help improve efficiency and effectiveness enterprise-wide.

So, what is the key to successful finance transformation? IBM analyzed finance organizations and transformation in its 2010 Global CFO Study. The 2010 Study included surveys of more than 1,900 senior finance leaders worldwide, including 166 government finance leaders. In this study, we identified those finance organizations that outperformed others and analyzed the accelerators that enabled their financial success. The one aspect of successful transformation that stood out as more impactful than any other was process ownership.

Figure 1: Enterprises that Establish Process Ownership are far More Likely to Achieve the Standards that Enable Finance Efficiency



Source: IBM Institute for Business Value, The Global CFO Study 2010
www-935.ibm.com/services/us/gbs/bus/html/gbs-2010cfostudy.html

Organizations with more efficient finance operations were found to have assigned enterprise-wide process ownership nearly 2.5 times more frequently than organizations with less-efficient finance operations. It stands to reason then that establishing a *single* process owner and arming him or her with the authority or to enforce standards can effectively influence adoption and implementation of common processes, which consequently leads to streamlining finance processes.

As to the best place to start transformation efforts, IBM did a deep dive into 15 organizations that had undergone successful finance transformation. The results are published in our February, 2011 study *Journey to a Value Integrator*. The study revealed that, while the CFO must ultimately address all change levers (i.e., process, technology, operating model and people) to fully optimize their finance function, the majority of the case study participants started by addressing technology or a combination of technology and process.

Shared Services

IBM's Global CFO Study also revealed that Shared Services is a critical component of successful finance transformation. Our survey results found that efficient finance organizations are 69 percent more likely to use alternative delivery models – such as shared services, centers of excellence, and outsourcing – than lower performing finance organizations. These results are consistent with four government case studies from the British government that suggest 20 - 30 percent savings are achievable by moving to a shared services platform.[2]

Several years ago and closer to home, the Assistant Secretary of the U.S. Air Force for Financial Management and Comptroller (the Air Force CFO), drafted a Strategic Plan that set in motion, via a methodical, structured, and disciplined manner, initiatives designed to streamline and modernize the financial management organization. Among these initiatives was the establishment of a Cost and Economics Center of Expertise (CoE); a Shared Services Center; the elimination of costly, but no longer necessary information technology systems; and a nearly 75 percent revision of the financial management curriculum to focus on decision-support methodologies as opposed to purely transactional processing techniques.

Even at a time of supplemental war funding, personnel pressures, recapitalization of an over-utilized aircraft fleet, and other strategic imperatives were headed toward a collision course with the department's "tooth-to-tail" ratio. It was only a matter of time before each functional area would have to "contribute" to its share of the burden.

The Air Force Financial Service Center (AFFSC) was established to consolidate back-office support functions from approximately 90 globally dispersed locations to *one*. Its mission was twofold: 1) to process travel-related claims, and 2) by leveraging advances in technology, telephony, and the internet, to also serve as the single point of contact for all pay-related inquiries, accessible 24/7, by Airmen deployed the world over. It is estimated that establishment of the AFFSC will have saved the taxpayer over $200 million. The total time from final plan approval to the ribbon-cut-

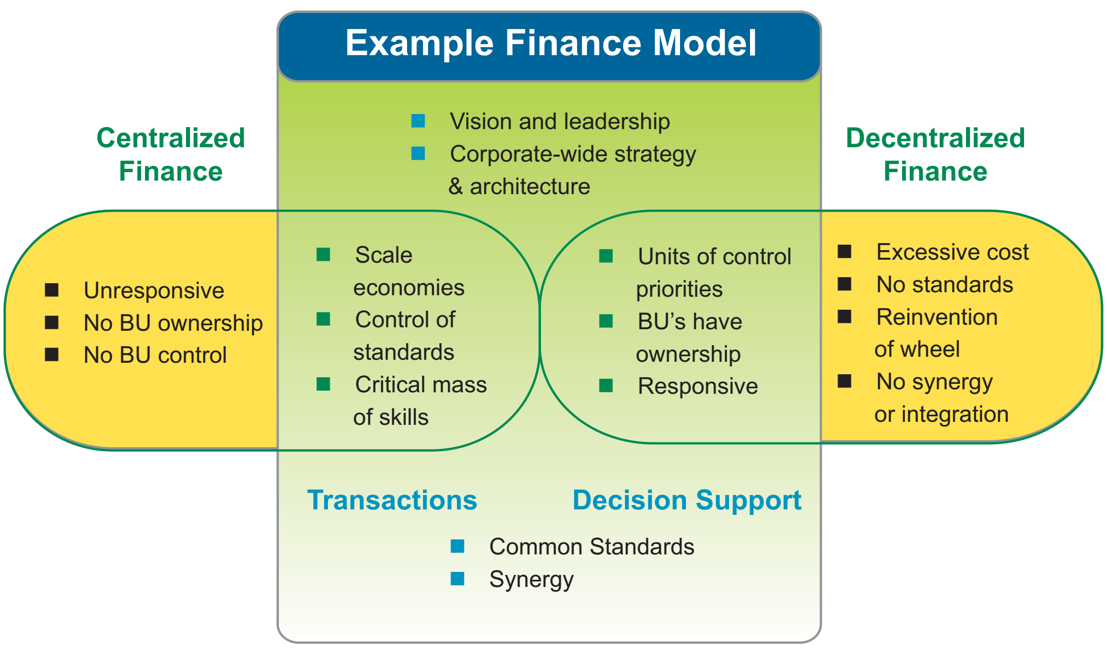
2 *Strategies to Cut Cost and Improve Performance,* IBM Center for the Business of Government, undated. Retrieved from www.businessofgovernment.org.

ting ceremony spanned 17 months; a rather impressive accomplishment by most any standard.[3]

While other examples of similar consolidation certainly abound, there is no *one-size-fits-all* model. Accordingly, government CFOs should assess their financial operations to determine which functions should be decentralized and which could be centralized. Generally speaking, a decentralized model places performance responsibility with the respective program area or geography, but can produce inefficiencies as each unit develops and deploys independent processes and staffs. The centralized model delivers economies of scale, but removes ownership from the program areas and can be unresponsive to business dynamics.

Given the fact there is no single construct that fits all organizations, we present a sample framework in Figure 2 that extracts and integrates the best of centralized and decentralized financial management operations, with transactional activities centralized and decision support decentralized but tied together by a common vision and strategy. This framework captures the efficiencies and control of centralization through global management of common processes, systems and staffs in support of transactional activities (i.e., accounting entries, standard reports), and the responsiveness of decentralization through local decision support.

Figure 2: Example finance model captures the Benefits of Centralization/Use of Shared Services for Transactions and Decentralization of Decision Support



[3] *Air Force to Transform Financial Services and Financial Service Center Opens Doors at Ellsworth,* U.S. Air Force Public Affairs. Retrieved from www.af.mil/news/story.asp?id=123067822.

Even though there is no standard framework that fits all business models, the potential savings resulting from migration to shared services across an enterprise are clear. The savings when the consolidation is government-wide are even greater.

For example, when the federal government consolidated 26 payroll systems to four, the Environmental Protection Agency reduced payroll costs from $270 to $90 per employee, saving $3.2 million each year; the Department of Health and Human Services reduced costs from $259 to $90 per employee, saving $11 million each year. Likewise, when the government consolidated travel systems, the Department of Labor reduced its costs from $60 to $20 per travel voucher and reduced processing time from about 7 to about 3 days.[4]

Although this White Paper focuses on cost savings, it is noteworthy that greater efficiency in finance operations often achieves more than just cost savings. Our 2010 Global CFO Study revealed that efficient finance organizations typically excel across the CFO agenda over peer organizations, including areas such as strengthened controls and developing people. In the private sector, where financial measures are more readily available, our CFO Study revealed that enterprises supported by more efficient finance organizations tended to outperform other enterprises in areas such as revenue growth (+11 percent), earnings growth (7x higher), and return on invested capital (+12 percent).

High-performing enterprises typically are supported by high-performing finance organizations. This makes sense; CFOs with more efficient finance operations are less distracted by the day-to-day tactical tasks of finance, enabling more time to be spent on business insight and decision support. It is important for CFOs to consider these enterprise-wide benefits in building the business case for finance transformation.

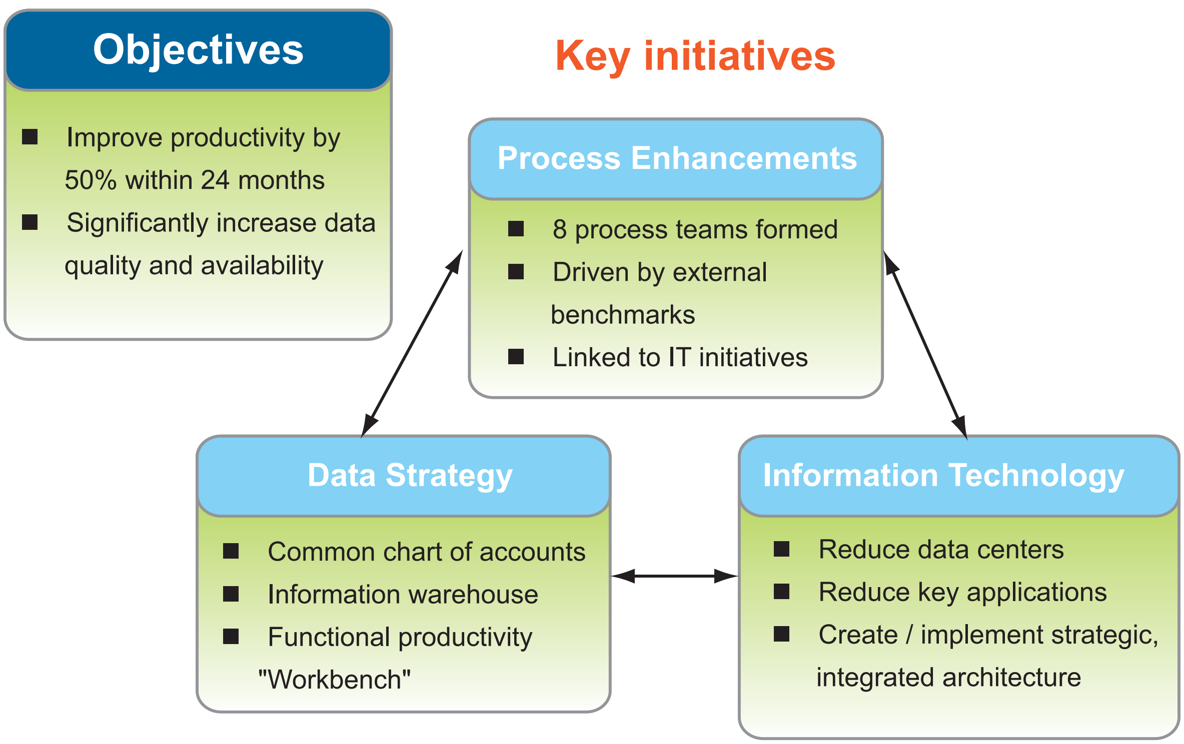
While government CFOs obviously have no profit-driven “bottom line” to contend with, one could argue their pressures are no less great for public money is a public trust, and it is their responsibility to ensure it is utilized in the most efficient and effective manner as possible.

4 *Strategies to Cut Cost and Improve Performance,* IBM Center for the Business of Government, undated. Retrieved from www.businessofgovernment.org

Case Study: IBMs Finance Transformation

IBM has transformed its own finance function with the goals of improving productivity and effectiveness. As reflected in Figure 3, after defining the major objectives, IBM took a three-prong approach for its Finance Transformation.

Figure 3: IBM's Three-Prong Approach to Finance Transformation



While IBM's finance transformation is an ongoing process, improvements have included finance cost reduction of over 40 percent.

Beyond cost-saving initiatives within their own finance organizations, CFOs need to provide better analytics to support insightful analysis of programs and operations, examining cost, output and outcome information so that less-efficient and wasteful programs are identified and either improved or eliminated. The important role that analytics can have in assessing programs and operations is discussed in the next section.

Section 3. The Importance of Analytics

From the smallest local business to the largest enterprise, timely, reliable, and accurate data should be the foundation of any sound decision and often may very well serve as the differentiator between success and failure. The axiom of "what gets measured, gets managed" is particularly relevant in our 24/7 information-rich age of tighter decision cycles, asymmetric threats, and fiscal results, where speed, accuracy, and transparency are all but necessary for sound governance.

If finance organizations intend to play a role in supporting, let alone leading, enterprise-wide cost reduction, at a minimum, they must sharpen their analytical skills. IBM, in collaboration with the MIT Sloan Management Review, performed a study of analytics that included a survey of nearly 3,000 executive managers and analysts. The results are provided in the October, 2010 report *Analytics: The New Path to Value (Analytics Study)*.

The Analytics Study reveals top-performing organizations approach business operations differently than do their peers. Specifically, they put analytics to use in the widest possible range of decisions, large and small. They are twice as likely to use analytics to guide future strategies, and twice as likely to use insights to guide day-to-day operations. They make decisions based on rigorous analysis at more than double the rate of lower performers, and as such have the greatest opportunity of meeting their goals.

The correlation between performance and analytics-driven management has important implications for federal agencies, particularly during a time of declining budgets when tough decisions need to be made.

In the IBM 2010 CFO Study, however, U.S. Government CFOs reported greater dissatisfaction with their organizations' analytical capabilities than both private-sector CFOs and rest-of-world government CFOs.

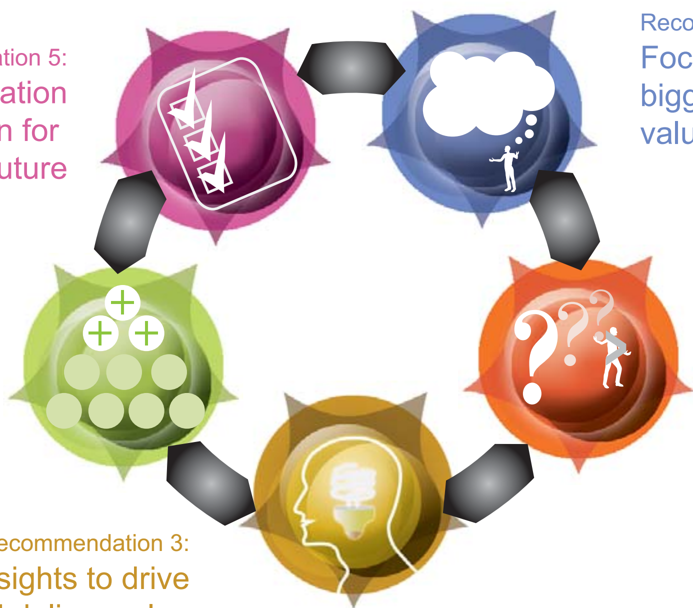
The questions then become what are the challenges in improving analytics and how do you overcome them? Despite popular opinion, getting the data right is not the top challenge organizations face when adopting analytics. Only about one out of five of respondents in the Analytics Study cited concern with data quality or ineffective data governance as a primary obstacle. The adoption barriers organizations face most are related to management and culture rather than to data and technology.

Indeed, the leading obstacle to widespread analytics adoption is *lack of understanding of how to use analytics to improve the business*, according to almost four of ten respondents in the Analytics Study. More than one in three respondents cited *lack of management bandwidth due to competing priorities*. Although the Analytics Study was global, it's a safe bet that these obstacles sound familiar to U.S. Government CFOs.

Regarding organizational obstacles, in fairness, most bureaucratic inertia and cultural resistance within institutions is borne not solely out of fear of change, or parochialism, but rather from unpleasant experiences with initiatives implemented absent careful planning, communication, repetitive testing and proof of concept.

So, how should CFOs proceed in improving analytical capabilities? The Analytics Study provides five recommendations.

Figure 4: *New Path to Value* is a Five-point Approach to Operationalizing Analytics



Recommendation 1: Focus on the biggest and highest value opportunities. Does attacking the biggest challenge carry the biggest risk of failure? Paradoxically, no, because big problems command attention and incite action. Analytics aligned to a significant organizational challenge makes it easier to overcome a wide range of obstacles. In the Analytics Study, respondents cited many challenges, and none can be discounted or minimized; executive sponsorship of analytics projects, data quality and access, governance, skills and culture all matter and need to be addressed in time, but when overtaken by the momentum of a single big idea and potentially game-changing insight, obstacles like these get swept up in the wake of change rather than drowning.

Recommendation 2: Within each opportunity, start with questions, not data. Traditionally, organizations are tempted to start by gathering all available data before beginning their analytics. Too often this leads to an all-encompassing focus on data management – collecting, cleansing and converting data – with little time, energy or resources to understand its potential uses. The actions taken might not be the most valuable ones. Instead, organizations should implement analytics by first defining the insights and questions needed to meet the specific business objective and then to identify those pieces of data needed for answers.

Recommendation 3: Embed insights to drive actions and deliver value. New methods and tools to embed information into business processes are making insights more understandable and actionable. Respondents in the Analytics Study identified trend analysis, forecasting and standardized reporting as the most important tools they use today. However, they also identified tools that will have greater value in 24 months, including:

- Data visualization, such as dashboards and scorecards
- Simulations and scenario development
- Analytics applied within business processes
- Advanced statistical techniques, such as regression analysis, discrete choice modeling and mathematical optimization

Organizations expect the value from these emerging technologies to soar, making it possible for data-driven insights to be embedded into processes and used at all levels of the organization. Innovative use of this type of information layering increasingly will help organizations consume and act upon insights derived through complex analytics.

Recommendation 4: Keep existing capabilities while adding new ones. When executives first realize their need for analytics, they tend to turn to those close to them for answers. Over time, these point-of-need resources come together in local line-of-business units to enable sharing of insights. Ultimately, centralized units emerge to bring a shared enterprise perspective – governance, tools, methods – and specialized expertise. As executives use analytics more frequently to inform day-to-day decisions and actions, this increasing demand for insights keeps resources at each level engaged, expanding analytic capabilities even as activities are shifted for efficiencies.

"When the Deputy Secretary starts using the data, it drives requirements everywhere"

– U.S. Federal CFO

Recommendation 5: Use an information agenda to plan for the future. Big data are getting bigger. Six out of ten respondents said the organization has more data than it knows how to use effectively. All this data must be molded into an information foundation that is integrated, consistent and trustworthy – the leading data priorities cited by the analytics survey respondents. Every phase of implementation needs to align the data foundation to an overall information agenda that accelerates the organization's ability to share and deliver trusted information across all application and processes. Only with an information agenda is it possible to establish information as a strategic asset for the organization.

More information on the Analytics Study and the five recommendations summarized herein are available at www-935.ibm.com/services/us/gbs/thoughtleadership/ibv-embedding-analytics.html.

Cost Savings and Efficiencies that Result from Effective Use of Analytics can be Significant. For Example[5]:

- IBM developed a model for the U.S. Social Security Administration (SSA) to use in the continuing disability benefit review process, saving $1 billion over five years. The SSA model can process disability applications in less than one second, based solely on application data, and will help SSA achieve its goal of paying benefits to obviously disabled applicants within 20 days, reducing average claims-processing times and improving service quality to disabled individuals.
- IBM analytics created a first-of-its-kind integrated reporting system for California's Alameda County Social Services to consolidate into one place client benefits and activities data, which has saved $11 million in taxpayer dollars through identification of fraud (in minutes instead of months), elimination of duplicative work, and the ability to spot service gaps and problems before they happen.
- IBM teamed with the North Carolina Department of Health and Human Services to identify fraud and abuse cases associated with Improper Payments of Medicaid claims within its system of some two million users. Through the application of analytics and advanced mathematical modeling, it is estimated the state recouped approximately $37 million in the program's first year, easily offsetting its investment several times over.
- IBM developed analytics for the State of New York, which the State's tax department uses to rapidly evaluate tax refund requests while funds are still in hand and thereby reduce improper payments. Over the last six years, New York has denied $1.2 billion in improper tax refunds even taking into account successful appeals.

Section 4. The CFO's Role in Enterprise-wide Cost Reduction

In every large organization – whether corporate entity or government agency – it is safe to speculate that dozens, to hundreds or even thousands, of information systems exist to support decision making. Given this, it is equally safe to say that interconnectivity at the machine-to-machine level is at best, uneven. As a result, leaders must often rely on time-consuming and labor-intensive processes to obtain information that should be readily available. Numerous competing priorities and "the lack of management bandwidth" as discussed in Section 3, often lead to insufficient attention in integrating data structures, particularly across functions.

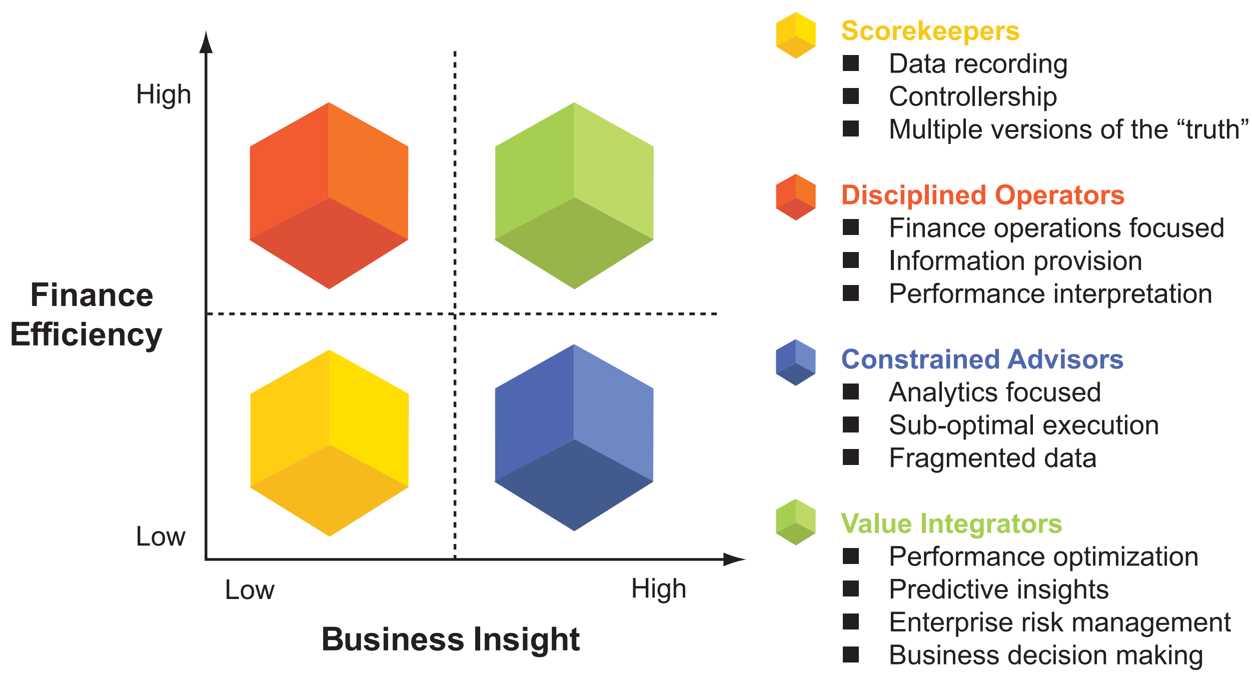
While the ideal solution requires an enterprise focus and strong commitment by departmental leadership, a compelling case can be made that, beyond cutting costs within finance, CFOs must also take a leading role in driving down costs throughout the agency by:

- Identifying cost-reduction opportunities regardless of function
- Building business cases to prioritize opportunities for implementation
- Measuring results to ensure investments deliver promised returns

Not surprisingly, results from IBM's 2010 CFO Study support this premise. That Study, comprising 1,900 CFOs, resulted in the identification of four distinct profiles of financial organization: *Scorekeeper, Constrained Advisor, Disciplined Operator* and *Value Integrator.* Without delving into the specifics, of the four, the term Value Integrator was reflective of CFO's representing the highest level of financial effectiveness across the entire spectrum of CFO activities.

5 *One Trillion Reasons,* Retrieved from The Technology CEO Council, www.techceocouncil.org/

Figure 5: One group of Finance Organizations, Value Integrators, Excel at Two Capabilities that are Ranking Capabilities Strongly Associated with Outperformance



Source: *IBM Institute for Business Value,* The Global CFO Study 2010.

Deconstructed, Value Integrators create value through cross-functional integration enabled by standardization and analytics. They excel at building coalitions and assimilating technology, process and data, thereby enabling effective partnerships across the organization with a focus on enterprise value. With all deference to Maslow, this represents the "self-actualization" of finance. No doubt this journey is an aspirational one for many, but a rewarding one for those who have attained it.

Regardless of label, credit belongs to financial leaders who overcome constraints and organizational silos to work – preferably in a collaborative manner – with their peers to obtain the results necessary for that department or agency to accomplish its mission. The CFO is not expected to be an expert in technology, sciences, engineering, energy, etc. However, he or she should possess enough insight of the enterprise to make recommendations in accordance with its stated objectives.

Toward that end, a useful reference point for CFOs in identifying enterprise-wide cost-cutting opportunities is the IBM Center for the Business of Government's recent report "Strategies to Cut Cost and Improve Performance." This report addresses a number of opportunities for agencies to cut costs in government operations, which taken together, could generate billions of dollars in savings, including:

- Consolidate IT infrastructure
- Streamline government supply chains
- Reduce energy usage
- Move to shared services for mission-support activities
- Apply business analytics to reduce improper payments
- Reduce field operations' footprint and move to electronic self-service
- Monetize the government's assets

1. Consolidate Information Technology (IT) Infrastructure. Significant savings – often in the range of 20 - 30 percent can be realized if Departments and Agencies adopt proven methods, tools and technologies to reduce the overall costs of IT.

2. Streamline Government Supply Chains. By leveraging strategic sourcing and other commercial best practices in their supply chains, the Government can generate efficiencies of 10 - 20 percent.

3. Reduce Energy Use. There are a range of ways Departments and Agencies can reduce energy-related expenditures, such as using smarter technology to reduce energy consumption for fleets and buildings, consolidating call centers and data centers, and using collaboration tools to reduce travel costs. Taken together, these initiatives have the potential to reduce costs by 10 - 20 percent, while also enhancing the sustainability of federal operations.

4. Move to Shared Services for Mission-Support Activities. By shifting IT, finance, legal, human resources, and procurement operations to Shared Services, Departments and Agencies have the potential to generate savings in the range of 20 - 30 percent, while also improving the efficiency of business processes and enhancing agency performance.

5. Apply Advanced Business Analytics to Reduce Improper Payments. Drawing on the power of advanced analytics, IBM can help Departments and Agencies reduce improper payments by 40 percent and be responsive to OMB's request.

6. Reduce Field Operations Footprint and Move to Electronic Self-Service. By moving as many touch points to electronic platforms as possible and rationalizing their field operations' footprint, Departments and Agencies can significantly reduce costs and improve citizens' experience.

7. Monetize the Government's Asset. Departments and Agencies have a large inventory of assets that could be producing revenue. "Mining" the balance sheet by examining concessions agreements and other opportunities may generate significant revenues.

More information on strategies to cut costs in each of these areas can be found at www.businessofgovernment.org/report/strategies-cut-costs-and-improve-performance.

Conclusion

This White Paper presents the case for Cost Take-out as being in the realm of the doable for government CFOs. It raises provocative questions such as:

- Where does one begin?
- Are cost savings truly attainable?
- Do comparable examples exist in government?
- Is my organization ready?
- What is expected of the CFO?

In an unconstrained environment, we might have the luxury of both time and resources to ponder transformational initiatives at a more leisurely pace. Unfortunately, the current crisis and fiscal imperative leaves little room for either.

Rare is the occasion where a single, major transformative opportunity presents itself for the taking. More often than not, the discovery process entails a healthy combination of vision, realism and commitment. Targets and goals are meaningless if they are not supported at the highest levels, or if they are not anchored in a sound plan, and if talented and experienced persons are not empowered to offer suggestions or implement policies needed to attain said objectives.

Not too long ago, IBM, a global powerhouse known the world over, was facing such a *transformative opportunity*, albeit on less-than-agreeable terms. Frankly speaking, the company was on the brink of extinction. Beginning with massive consolidations and significant cost reductions, drastic – some would say draconian – measures were taken to save the company. The result has been a transformed organization once again enjoying market dominance. That journey has by no means been an easy one. It began, however, with one simple decision: to act.

Figure 6: How IBM Can Assist Federal Agencies Identify Opportunities for Cost Savings and Enable Results through an Action Plan

IBM's Strategic Cost Savings Insight

- Confirms focus areas and identifies key areas to explore
- Provides insight on specific cost savings areas and analytic use cases that align with Departmental / Agency goals
- Creates roadmap with next steps and a list of strategic initiatives to save costs

Source: *One Trillion Reasons,* The Technology CEO Council, www.techceocouncil.org/

IBM applies experience gained from its own transformation to help government agencies take out costs within their organizations. Depicted in Figure 6 is an approach we have found successful that, in a relatively short period of time but a quite disciplined manner, analyzes, prioritizes and provides insights that can lead to the creation of a roadmap specific to one's organization. Our methodology is rooted in deep industry and technical expertise that is designed to develop an actionable plan for laying the foundation for reducing costs while maintaining a high level of service to all stakeholders. Chief among the benefits derived from such a service is a better understanding of cost savings and performance improvements within the context of today's fiscal challenges.

Finally, the examples and case studies contained herein were provided merely to illustrate what is possible when all team members are pulling together toward a common objective, for sound fiscal management is the priority and responsibility of every financial professional – from the most junior analyst to the CFO.

About IBM's Global Business Services

IBM's Global Business Services (GBS) is the leading provider of technology and business consulting services to public and private-sector organizations. A component of GBS, IBM's Public Sector Financial Management Practice helps governments develop financial management strategy, improve financial processes and systems, manage risk and strengthen controls, reduce improper payments, provide better cost and performance insight, and improve operating efficiency and effectiveness.

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