Gartner

2019-2020 Annual Edition

Top Insights for the C-Suite

How to Excel at Both Strategy and Execution: A Finance Perspective

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How to Excel at Both Strategy and Execution: A Finance Perspective

A Perspective From Mike Harris

Executive Vice President
Research & Advisory, Gartner

Business leaders today face a very challenging business environment marked by significant change, competition, uncertainty — and opportunity.

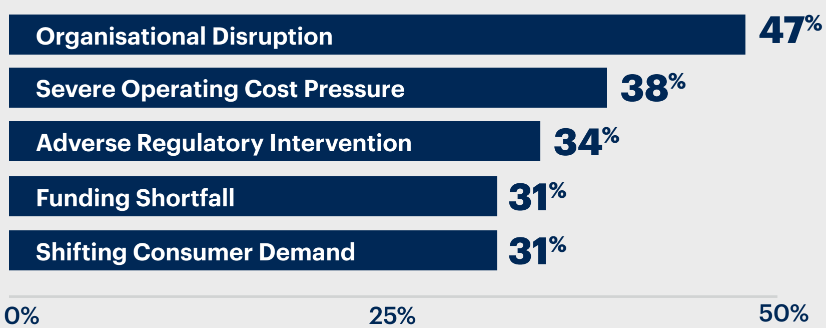
Although many organisations find it hard to accelerate through the kinds of disruptions and mixed signals they face, Gartner research shows that there are ways to position your business to drive through disruption and come out ahead, but it takes concerted action and preparation.

A Perspective From Mike Harris continued

If you are like most business leaders, you would probably prefer not to make big moves until the signals are clearer, or you may look for ways to weather uncertainty — perhaps first leveraging low-hanging tactics like cost-cutting to improve a few performance metrics.

But neither a "wait-and-see" approach nor defensive cost-cutting will power you through adversity — not least because today's current state of uncertainty won't magically disappear.

Types of Disruption Over the Past Four Years
Percentage of Respondents, Multiple Responses Allowed



N=1,070
Q: Has your organisation faced any of these situations in the past four years?
Source: 2020 Gartner CIO Survey

There's little clarity on a range of economic, regulatory, geopolitical and trade issues, and digital disruption has made widespread and multidimensional uncertainty the new normal.

Turns of fortune may be sudden (e.g., enormous security breaches) and can blindside you unexpectedly (e.g., new competition from outside your industry). The g-forces in the turn may be extreme (a non-traditional competitor that does not need to make a profit) and the time to impact short due to digital capabilities (viral anti-brand social media). Turns often coincide, increasing the need to react on different business vectors and requiring a high-performing executive team.

To survive any such turns, organisations must be able to flex as the environment changes. But some progressive business leaders, our research shows, do more than survive; they thrive — by embracing turns as a prime opportunity to seize and sustain a competitive edge.

But winning in the turns in this way requires you to prepare before the turn — whether you are on the executive committee crafting enterprise strategy or leading your function to execute it.

A Perspective From Mike Harris continued

The risk of paralysis is very real, especially if your organisation lacks institutional memory of operating outside of a growth cycle. Many of today's leaders have, for example, only led strategy and operations during times of growth. Fewer than half of current CxOs were functional heads during the 2008-09 financial crisis, and less than 10% were heading the same function in their current company.

Lack of preparation creates business risk. In today's business environment, being right is only half the battle. Companies also need to execute at speed — intensely pursuing strategy with confidence and discipline as the environment changes.

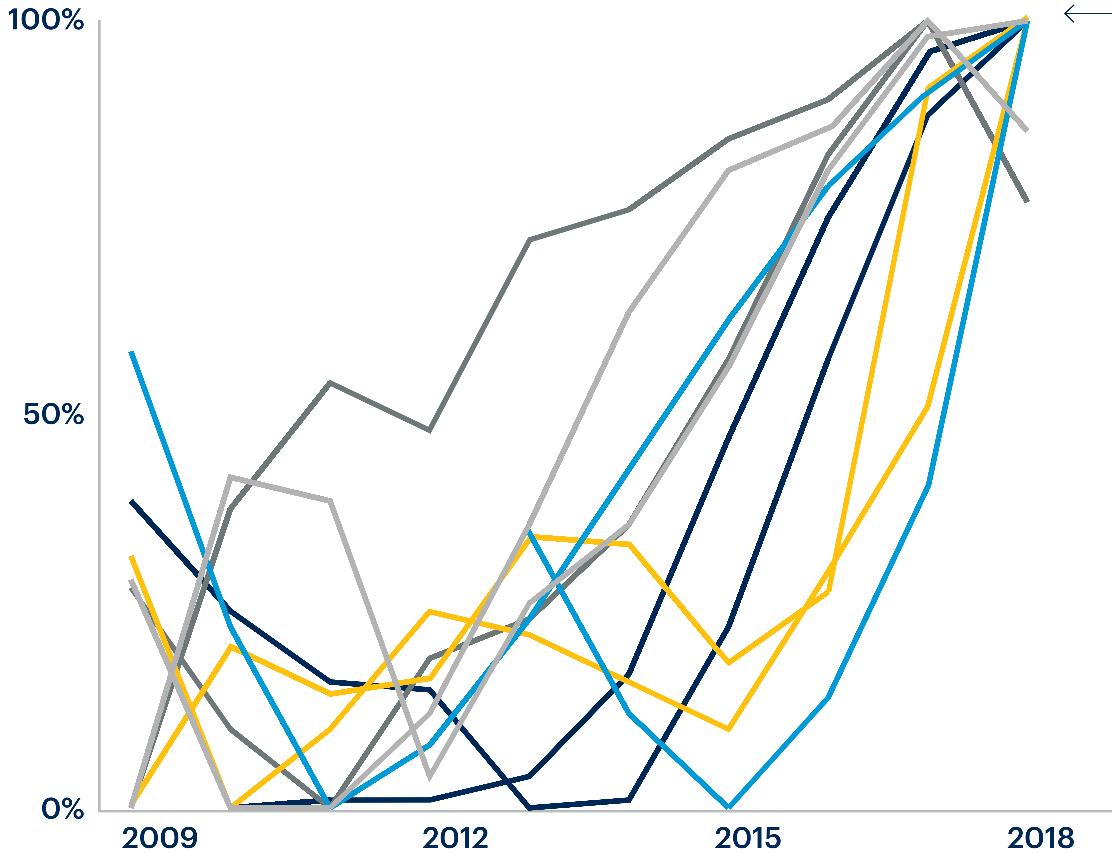
This e-book delivers insights from Gartner research in 2019, featuring data and findings from proprietary surveys and engagements. It highlights the actions that progressive functional leaders are taking to improve their execution and drive forward the organisation's objectives, especially through disruptive turns and uncertainty.

These practice-specific insights tackle the very real changes that functional leaders face in their own areas of the organisation — from the lack of critical skills and capabilities to evaluating risks and speaking data as a second language — as well as their imperative to execute against the enterprise objectives.

Best regards,

Uncertain Business Conditions Seen in Unprecedented Market Trends

Trend lines across major indexes



This is the first time since the Great Recession that these trends have converged at post-recovery highs.

Business Transformation
- Business model transformation
- M&A transactions

Competition
- Entrepreneurship health index
- Top-player dominance

Economic Uncertainty
- Economic policy uncertainty
- Probability of recession

Employee Power in the Labour Market
- Employment rate
- Employee disengagement index

Capital Inefficiency
- Corporate debt new issues
- Corporate capital inefficiency

Scaled from 0% to 100%, and where 0% is the minimum while 100% is the maximum rolling three-year average reached since 2009. Trends are based on well-known indexes and reported benchmarks and both public and proprietary data.

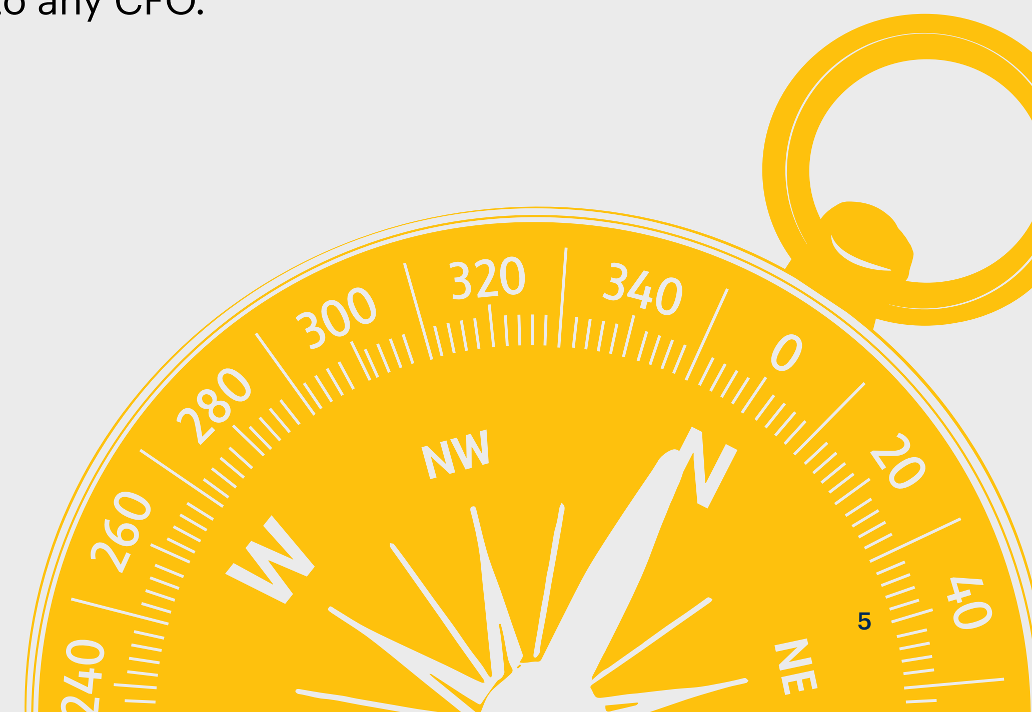
Source: Gartner

What finance leaders should know

CFOs are challenged today to structure costs to drive a specific competitive strategy, manage costs relative to external benchmarks and investor pressure, and act on cost-related risks and opportunities stemming from the business cycle — all while under pressure from investors to control costs and from business leaders to fund growth opportunities in uncertain times.

Certain companies have generated extraordinary returns for their organisations by succeeding at this balancing act, and achieving what Gartner calls “efficient growth.” In this and other areas, learning from the unconventional ways and unique approaches of industry leaders can offer a competitive edge to any CFO.

Bryan Kurey
Practice Vice President
Gartner Research & Advisory



Finance

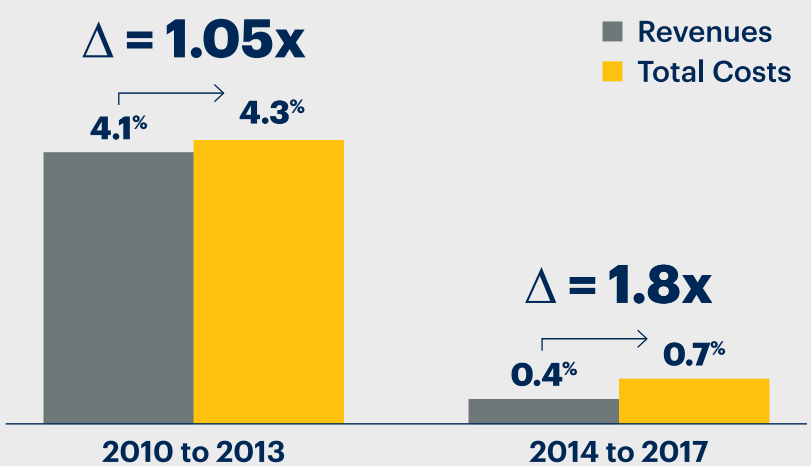
Translate growth into sustained profitability

CHALLENGE

CFOs need to structure costs for efficient growth

CFOs have long been the primary architects of the organisation's cost structure, but the task of controlling costs has become even more complex and strategically significant. Overall cost growth continues to outpace revenue, making it difficult to translate long-term growth bets into sustained profitability — especially while navigating highly disruptive digital transformation and mixed macroeconomic signals.

Global Revenues and Total Cost Growth
Median Compounded Annual Growth Rates, S&P Global 1200



Source: Gartner

In stronger and more certain economic times, investors tend to focus on costs indirectly through the lens of growth — and are willing to view cost increases as investments. But when macroeconomic and other uncertainties grow, their focus shifts rapidly to the bottom line.

If company growth stalls or economic activity slows, investors eye the bottom line intently, and CFOs and senior management push to demonstrate they are protecting shareholder returns by targeting costs — often arbitrarily. Stewarding resources against the business cycle is only part of the challenge. CFOs must also manage a company's cost structure relative to its industry competition to translate their long-term growth bets into sustained profitability.

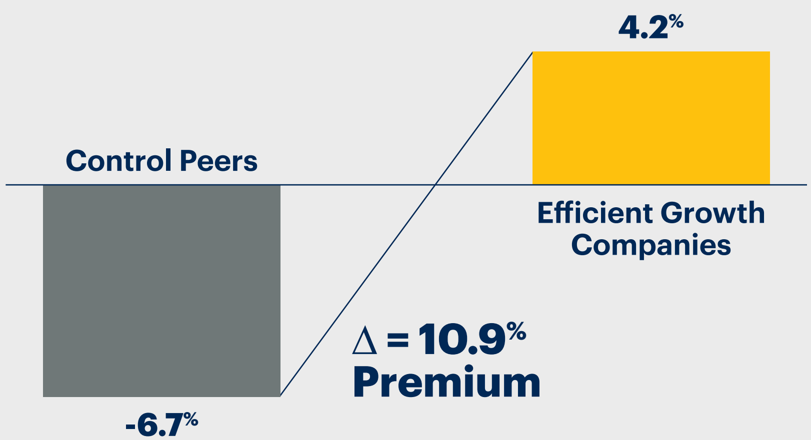
PAIN POINT

Cost issues reduce top-line growth and opportunity

Many CFOs react to cost pressure and uncertain times by trying to protect shareholder returns with knee-jerk cost cuts — e.g., reducing head count, switching to lower-quality inputs, or delaying capital and innovation investments. These types of initiatives may assuage senior management but they often destroy value and eliminate the very resources needed to achieve long-term goals.

Operating Cost Productivity

Average EBIT CAGR — Revenue CAGR (2010–2017)



Source: Gartner

The organisation handicaps itself, and finds it difficult to find and fund transformational innovation, develop breakthroughs, pursue large M&A deals, invest in new markets (even if they don't yet exist) and pursue other bold strategies designed to ensure business growth.

Since the financial crisis, just 5% of the largest global companies have achieved successive years of cost productivity while at the same time achieving long-term revenue growth and short-term growth and margin expansion — a combination we call "efficient growth." The operating cost productivity of companies that don't achieve efficient growth is almost 11 percentage points lower than those that do — creating a crushing underperformance in profitability.

GARTNER SOLUTION

Pursue scale, not scope, in the cost structure

CFOs of efficient growth companies don't merely dare to be adequate in managing overhead costs. They restructure the cost base to drive efficient growth.

More specifically, these CFOs build scale in the cost structure with focused growth bets, simple product and service lines, and dense operational and customer footprints — which together drive higher operating leverage from a focused fixed cost base.

These CFOs institutionalise the realisation that all growth is not created equal. What looks attractive from a top-line perspective can erode competitive advantage in some cases and entrench an advantage in others. They also work to avoid scope "creep" that occurs when business leaders — perhaps pursuing short-term targets or diversification plans — favour new growth ideas that add scope and erode operating margins.

Efficient growth companies structure costs differently. Compared to similar-size competitors, they:

24% **Structure product and service lines into 24% fewer segments**

18% **Invest in 18% fewer industries**

20% **Derive 20% more revenue from their largest geographic segments**

Source: Gartner

Finance

Create decision-ready management reporting

CHALLENGE

Performance data lacks insight

Over the past three years, the share of analytics spend in the finance budget has increased by half. Despite that increased investment, 54% of finance organisations still struggle to provide data and reports stakeholders can rely on to inform their decisions.

The performance data in management and other internal reports (financial, operational, customer, macro and other driver data) is integrated by most finance functions into a centralised, finance-governed report. This "single source of truth" (SSOT) may be accurate, but it is not fit for decision making.

What makes data decision-ready? Performance data used by the business is:

1. Multidimensional (financial + operational + external and business driver data)
2. A combination of raw data, reports and analysis
3. Always on, accessible with varying frequency
4. Drawn from sources with varying levels of data quality

The misalignment between finance-reported data and performance data used by the business increases the likelihood of different interpretations and introduces inconsistency in decision making.

The vast majority of organisations are in the early stages of data management maturity, struggling with this misalignment. The challenge for finance, then, is how to incorporate a broader set of performance data into its reporting — even (and perhaps especially) when that data diverges from reported financials.

18% **Only 18% of business decision makers believe the data in management reports, other internal reports and business intelligence tools is decision-ready.**

22% **Only 22% of finance leaders report that their company's performance data is decision-ready.**

Source: 2019 Gartner Data Management Model

PAIN POINT

"Single source of truth" stymies decision making

SSOT inherently focuses on accuracy as an overriding objective for performance data, resulting in poor returns on investment for data-quality initiatives. It forces finance to govern all reported data to SSOT standards, even when the data is fundamentally unsuited for that level of treatment — and yet belongs in the equation to make decisions. Business leaders also end up going outside the data in management reports to supplement the lagging and incomplete SSOT data they receive.

The costs of having data that is not decision-ready are high. For one thing, time is lost. Analysis by financial planning & analysis (FP&A) teams can be delayed by as many as 10 to 15 days per dashboard as they waste time trying to find the right data, ascertain its underlying definition and organise it for analysis.

And because the data views are limited (since SSOT can't absorb data from a distributed network), business leaders often don't even see the complete impact of imperfect performance data, so their suggested data quality improvements aren't targeted to areas with the greatest economic costs.

What happens when business leaders get an incomplete picture of the costs of faulty data

Sales

Sees missed sales opportunities

Does not see service delays

Marketing

Sees missed marketing outreach

Does not see time spent reformatting data

Customer Service

Sees customer service support costs

Does not see duplicated expenses

Source: Gartner

GARTNER SOLUTION

Pursue sufficient versions of the truth

As performance data grows in volume, variety and velocity, finance must adapt to the notion that data can be imperfect and still valuable for analytics and decision making — as long as the costs of these imperfections are understood. Accordingly, Gartner found that organisations using a "sufficient versions of the truth" strategy are far more effective at producing decision-ready data.

In the "sufficient versions" approach, finance makes informed trade-offs between the cost of bad data and the effort of additional data governance to enable ownership to reside with distributed data owners. The approach features localised data governance and prioritises data improvement efforts that align to business value drivers. It yields a 41% greater contribution to decision readiness of performance data than SSOT.

Organisations with decision-ready performance data:

Almost **3x** improvement in operational decision quality

4.8x more likely to terminate poorly performing projects

5.3x more likely to quickly invest in new opportunities

3.6x as likely to find opportunities to take out unnecessary costs

Source: 2019 Gartner Data Management Model

The Gartner Expert View

"It feels intuitively correct to pursue growth by expanding scope — new products, new markets, new adjacencies — because executives are hard-wired to believe that diversification is good. However, it is almost always a recipe for under-performance."

Jason Boldt
Director, Research

"The idea that we don't need a draconian governance system (i.e., single source of truth) over the enterprise's performance data is under-appreciated by many finance leaders. Finance needs to bring a value-driver lens to data management."

Randeep Rathindran
VP, Team Manager

Moving From Insight to Action

Gartner for Finance Leaders

Discover how Gartner supports CFOs

Gartner for Finance Leaders is the definitive research and advisory resource for finance decision makers. Gartner equips CFOs and their teams to transform their function across a range of key areas, including finance function management, financial data and analytics, and shared service function management.

In addition, Gartner's unique blend of insights, advice and tools support the success of finance leaders with:

- Peer-powered insights to test the untried
- Benchmarks and diagnostics to navigate risk
- Credible, candid advice for riding the wave of technology change
- Practical frameworks, tools and templates to make progress fast

Learn more

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Strategic Research on Business Performance Management Transformation
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