It's Time to Change

CFOS MUST MOVE BEYOND THEIR TRADITIONAL FINANCIAL SCOREKEEPING ROLE AND ALSO DEVELOP LEADERSHIP SKILLS IN STRATEGY AND OPERATIONS IF THEY WANT TO SUCCEED TODAY.

BY ANDREW SPANYI

It has been five years of extreme change for chief financial officers. In fact, few business roles have changed as dramatically during this period. Somewhat suddenly, the classic model, where the CFO acts as chief accountant and technical expert focused narrowly on the firm's financial statements and capital structure, is no longer sufficient. Besieged by complexity, confronted by disruptive innovation and globalization, and challenged by increasingly demanding shareholders, regulatory bodies, and unsteady capital markets, the present-day CFO must have the mind-set and the skill set to look beyond the numbers.

CFOs must develop a special kind of split personality. On one hand, they need to oversee the compliant recording of traditional accounting matters: revenues, earnings, cash flow, capital, and cost structures. On the other, their role is increasingly linked with strategy and operations as well as the related challenges of profitable growth in a progressively more complex business environment.

To succeed today, they concurrently must pass the financial integrity test, communicate clearly and credibly, act in shaping both the formulation and execution of strategy, and become more of a "change agent" than ever before. In essence, they must combine an enduring focus on hard-core accounting, financial reporting, and risk management with a solid grasp of customer-centric value-chain concepts. You can't teach integrity. Either you've got it or you don't. Communication skills can be improved, but it takes time and concerted effort. Yet when CFOs learn to appreciate the value of viewing the business in terms of the activities that cross traditional departmental boundaries to create value, they can become adept at balancing the need for compliance and performance. Call it what you will: The "glue" that can bind the natural tension between the needed extreme conservatism and creativity is process management, value-based management, or simply value-chain concepts.

CHANGING VIEWS ISN'T EASY

It isn't easy for CFOs to change. They have a long history of viewing the business in terms of the organization chart and have become accustomed to representing strategy, budgets, and rewards solely in terms of a departmental model. Although this traditional view continues to have merit in terms of compliance, to be effective in their new role CFOs must supplement this view with a customer-centric, activity-based, value-creation view of the business. This means that, in addition to viewing the business in a departmental context, CFOs also need to develop the means to view it in terms of large business processes such as "order to cash," "procure to pay," "idea to commercial success," and "request to resolution." It's this latter view that lets them act credibly in shaping strategy and become more of a change agent. This process or activity view also enables the CFO to participate on and guide the leadership team in coming to grips with contemporary challenges in areas such as strategy, growth, and compliance. And it helps the CFO move beyond the traditional focus on cost cutting and take a broader strategic view of the business. It's a fortuitous coincidence that the cornerstones of the process- or activity-based view revolve around measurement and governance, two areas of expertise traditionally associated with the CFO role.

In terms of strategy formulation and implementation, the CFO has traditionally been a scorekeeper. Clearly, that's no longer sufficient. The merit of viewing the business in terms of cross-functional activities dates back at least a decade when Michael Porter wrote in the article "What Is Strategy?" in the November-December 1996 issue of *Harvard Business Review* that "Activities are the basics of competitive advantage. Overall advantage or disadvantage results from all of a company's activities, not only a few."

CFOs can evolve beyond their traditional scorekeeping role when they take this message to heart and provide guidance in terms of the measurement discipline and governance of cross-functional activities needed to create value. With respect to measurement guidance, this needs to involve the disciplined monitoring of metrics such as "perfect order delivery" and "responsiveness" along with the traditional focus on revenues, earnings, and cash flow. Then it needs to progress to the correlation of improvement on the set of activity-based metrics to the firm's performance in financial terms. This involves asking some powerful "what if" questions such as, "If we were able to improve our performance in delivering perfect orders by 5%, what positive impact might we realize on revenues and cash flow?"

In terms of guidance on the governance of cross-functional activities, the contemporary CFO needs to become an advocate of the development of accountability for the flow of cross-departmental, value-creating activities or processes such as order fulfillment, new product development, and supply chain. This begins with a shift in measurement practices—a topic traditionally the domain of CFOs. The contemporary CFO would champion the need to measure what's important to customers: What's the percent of "perfect orders" (on time, complete, defect free, with an accurate invoice)? What's our performance in terms of "first-time-right problem resolution" (problem resolved right the first time, no callbacks)? Then the contemporary CFO would advocate reporting and assessing these customer-centric performance measures as an input to the strategy formulation process along with the estimates of traditional measures such as revenue, earnings, and cash flow. This is totally consistent with advocating that strategy and finance are inseparable. As one process-aware CFO said, "Finance is strategy, and strategy is finance."

IT'S A FORTUITOUS COINCIDENCE THAT THE CORNERSTONES OF THE PROCESS- OR ACTIVITY-BASED VIEW REVOLVE AROUND MEASUREMENT AND GOVERNANCE, TWO AREAS OF EXPERTISE TRADITIONALLY ASSOCIATED WITH THE CFO ROLE.

GROWTH IS KEY

The same principles apply to the CFO's role in the area of growth. There are only two ways for a company to grow: organically or through mergers or acquisitions. The activity-based principles of measurement and governance are essential in both instances. In terms of organic growth, successful, sustainable growth demands that a firm measure, improve, and manage its performance with respect to at least two key processes: order fulfillment and new product or service development.

Organic growth can only be achieved through a combination of the following actions:

1. Sell more of existing products/services to the existing customer base.
2. Sell more of existing products/services to a new market segment.
3. Develop and sell new products/services to the existing customer base.
4. Develop and sell new products/services to a new market segment.

Regardless of the growth strategy that a company develops, it's essential to deliver their products or services on time, complete, and defect free—that's why the order-fulfillment process's performance is crucial. Similarly, it's essential to develop and commercialize new products/services on time and to spec (conforms to market needs)—that's why the new product development process's performance is crucial.

Companies that excel at measuring and managing the performance of the order-fulfillment or order-to-cash process will not only monitor how they are doing in terms of delivering perfect orders, but they will pay attention to customer churn and first-time-right resolution of customer inquiries. CFOs can guide management teams to ask, "How much growth did customer churn cost our business last year? What were the root causes of churn? What could we do to prevent churn?" This is where activity-based thinking comes into play as the most effective means to create greater customer value.

Process- or activity-based principles also apply when it comes to nonorganic growth through mergers or acquisitions. Here the CFO needs to evolve beyond the traditional role of estimating the likely synergies from the merger/acquisition to becoming an advocate for conducting a flawless operational integration of the firms. This begins by taking into account that the reason for the failure of many mergers and acquisitions is the inability of the new entity to perform for and meet the needs of its customers. Again, the CFO can provide guidance in terms of the needed measurement discipline and governance of cross-functional and cross-group activities. This essentially involves the advocacy of an early focus on cross-company integration of business practices in order fulfillment and supply chain to assure that on the first day of merged operations and beyond, customer orders and shipments are taken and delivered flawlessly.

LOOK AT THE PROCESSES

The chance to apply process-based principles to compliance represents a further opportunity, and possibly a necessity, for the contemporary CFO. Current regulations, such as the Sarbanes-Oxley Act (SOX), already require the documentation of process flows and controls within departmental boundaries to assure revenue recognition and balance-sheet integrity. While SOX has served to raise awareness of the process view, simple compliance by mapping activities inside departmental boundaries is suboptimal. It does little to impact operational performance since many improvement opportunities revolve around the cross-departmental or cross-group view of value-added activities. Only when CFOs reframe activities in a cross-functional context does a significant

Table 1: TAKING ACTION

WHAT'S NEEDED	WHAT'S INVOLVED
1. An enterprise view or schematic in a process context and a plan about performing for customers.	◆ Measure what counts to customers. ◆ Define the set of end-to-end business processes. ◆ Build a process management plan to bridge performance gaps such that strategic goals will be met. ◆ Build and deploy a communication plan on which processes need to be improved by how much for the firm to achieve its goals.
2. Advocate that key business processes deliver on agreed strategic goals.	◆ Take action to improve the top-priority processes. ◆ Measure and manage the performance of key end-to-end business processes from the customers' point of view.
3. Advocate that organization design enables end-to-end business process execution.	◆ Make refinements to organization design to align structure, roles, accountabilities, and recognition and reward systems.
4. Deploy information technology based on the value added to end-to-end business process performance.	◆ Invest in IT in accordance with the estimated improvement in process performance.
5. Tightly link the enterprise performance measurement system to budgets and operating reviews.	◆ Include customer-centric metrics in monthly operating reviews. ◆ Express the impact of improving process performance in financial terms.

opportunity exist to leverage investments needed for compliance to actually improve operating performance. Again, what is critical here is the needed measurement, monitoring discipline, and a governance framework for cross-functional activities.

When CFOs begin to look at compliance in the context of large, cross-functional business processes, such as "order to cash" and "procure to pay," the stage is set to identify and implement operational improvements in tandem with tighter controls. Instead of achieving compliance at significantly higher costs—as is common with the traditional approach—the opportunity evolves to do so and concurrently reduce operating expenses.

Also, when CFOs adopt a process-based view of the business in addition to their traditional financial view, other good things begin to happen. Their contribution is valued more highly by people in the operations side of the business, such as division directors and project man-

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agers. Their communications with various internal and external constituencies take on more credibility as they begin to appreciate how the business performs from the customer's point of view. Instead of asking solely about "actual to budget performance," finance professionals would begin to ask questions around how various departments are collaborating to provide customers with value via "perfect orders" and "first-time-right problem resolution." Over time, members of the finance function become viewed as more than scorekeepers on the firm's cost-cutting efforts. Moreover, their ability to assess, decompose, and articulate forecasts improves as does their ability to ask and answer questions such as "Should we make this acquisition?" and "What level of investment should we make in new technology?"

CAN'T DO IT ALONE

Understandably, there is some question as to whether any one individual can concurrently act as chief compliance officer and chief metrics officer and also play an active role in operational transformation. That's why some CFOs are becoming increasingly aware of the need to have strong direct reports in at least two areas. One of these direct reports must have a strong compliance focus, formal training, and experience in hard-core accounting, financial reporting, and risk-management areas and who can assure the CFO that the company's accounting practices are fully in line with current regulatory requirements. The other direct report would have mastered the most current thinking in management accounting and process-based practices to provide the CFO with the means to act on the measurement, monitoring discipline, and the governance framework for critical cross-functional activities. This person would act on behalf of the CFO in measuring, improving, and managing the organization's large business processes such as "order to cash" and "procure to pay." As one CFO said, "I can't overstate the importance of having the right people." Indeed, some CFOs believe that talent selection should actually precede taking action on the measurement and the governance framework.

What's essential for the present-day CFO to develop the right mind-set and the skill set to look beyond the numbers? Table 1 offers some ideas.

The juxtaposition of the process view along with the traditional focus enables CFOs to develop an effective, special kind of split personality. Process management doesn't dominate or replace a business unit focus or the need for a functional focus. Instead, it represents an additional and valuable management practice that emphasizes the way in which a company creates value for customers.

CFOs who choose to develop the needed skill sets in the process view of business as an additional management practice will find themselves better equipped to simultaneously cope with overseeing the compliant recording of traditional accounting matters and assume a more visible and credible role in addressing the challenges of profitable growth in a progressively more complex business environment. ■

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