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THE CFO PERSPECTIVE

TRANSFORMING FINANCE INTO A VALUED BUSINESS PARTNER

A White Paper by
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OVERVIEW

Gone are the days when Finance was synonymous only with routine efforts inspiring fear, boredom, or both on the part of business leaders. Today, urgent changes in the business environment require CFOs to drive sustainable value creation in their organizations. Whether prompted by unstable economic conditions, high-stakes mergers and acquisitions, or intense global competition, the entire organization is continuously challenged to "do more with less"—and the CFO is now in prime position to champion the creation of business value from strategy to execution.

Leading CFOs are recognizing this opportunity to shift from internally-focused financial management to activities that produce meaningful insights for improving competitive value and providing direction to the organization. Forward-looking CFOs are retooling Finance to build a solid understanding of business value drivers and to develop a more integrated relationship with customers, operations, and suppliers.

In a recent study, North Highland asked a number of executives who moved from Finance to overall business leadership (CEO, President, COO) for insight on the critical steps they took to successfully transform Finance and their key learnings through the journey. They told us that effective transformation builds through the execution of three underlying practices:

1. **Creating a culture** within Finance that emphasizes innovation and learning
2. **Selectively partnering** with receptive business units and bringing sharp analytics, a genuine desire to learn, and a consultative approach to teaming efforts
3. Expanding the scope of Finance to **drive change** toward a more collaborative and integrated business model for the organization as a whole

HOW DID THEY DO IT?

With careful and rigorous attention to the organization's overall strategy and vision, our leading CFOs revitalized the way Finance supports the business by applying these key transformational practices.

1. Creating a Culture of Innovation & Learning

First and foremost, the leaders recognized the criticality of establishing a Finance organization that fosters innovation and learning. The traditional skills and attributes required for financial work (i.e., knowledge of accounting concepts and systems, the ability to execute financial transactions, or knowledge of how to build financial models) remain important expertise to possess. But in an organization facing today's complex challenges, these skills are not enough.

Today's Finance team needs to take the numbers to the next level—to understand the business impact, deliver a rock-solid analysis of business drivers, and provide an educated outlook on the future. Rather than focusing primarily on traditional processing of corporate transactions, Finance must be able to articulate the risk and uncertainty of the analyses and recommendations they present—scenario-based forecasts, sensitivity analyses, etc. This change includes the need for the CFO to reshape Finance into a business-focused team.

As well, there's an elevated need for the "softer" skills often lacking in traditional Finance organizations—written and verbal communication, ability to influence others, facilitation skills, and sound application of project management concepts and techniques. As Finance takes on an expanded role helping business managers understand the economics of their business, Finance team members must understand the business themselves and be able to communicate effectively.

Our respondents offered specific tactics to effectively establish a learning culture in Finance:

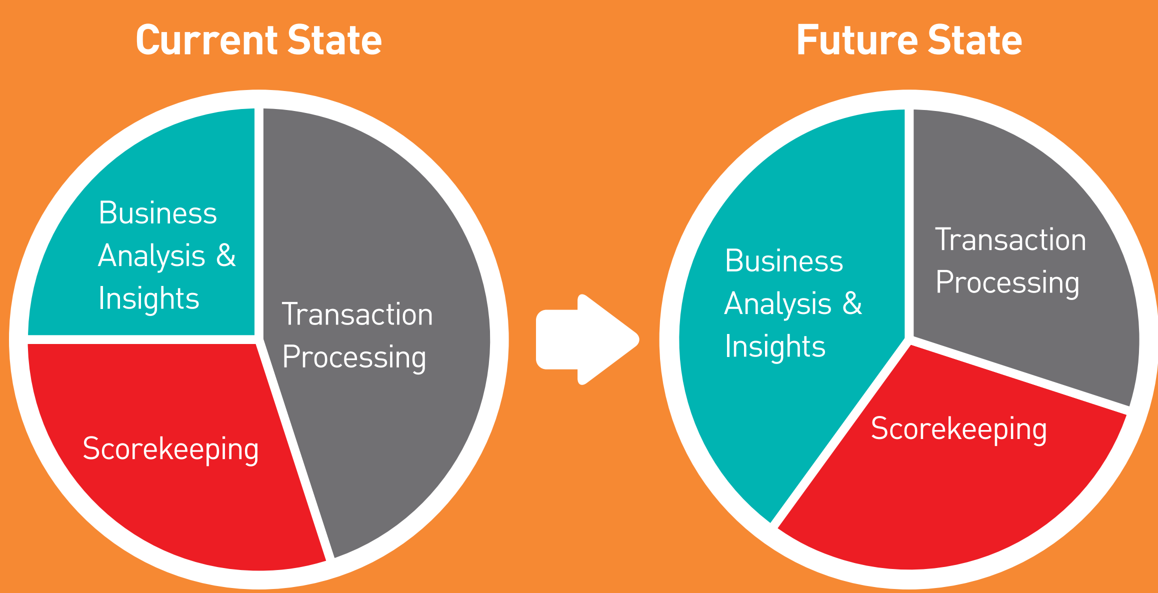
- Focus on getting the right people in the right roles.
- Define the roles in the future finance organization, incorporating both formal and informal relationships and requirements.
- Assess the skills and potential of each individual team member.
- Align the right individuals with the right roles to leverage their backgrounds, potential, and interests. Having the wrong person in the right role, or the right person in the wrong role, can undermine a leader's effort to establish the new culture.
- Encourage the Finance team to work collaboratively with individuals from the business and actively support their team members in cross-functional initiatives. The team must interact with key segments of the organization to build relationships with key players, understand multiple functions and processes, and gain an appreciation for both day-to-day and long-term challenges.
- Establish career progression plans for Finance team members that enable the development of nonfinancial skills such as project management or facilitation.
- Bring in executives from other parts of the organization for periodic knowledge sharing sessions, providing opportunities for Finance team members to build knowledge about other parts of the business.

2. Developing Strategic Partnerships with the Business

As soon as the Finance team includes key team members who have the ability to engage with the rest of the organization, it's time to reach out to the business. Specifically, strategic partnering with the business means identifying the right initiatives around which Finance and other business areas should engage and interact.

It's critical that the CFO enable success for these early teams, and therefore the assignment of Finance individuals to these opportunities must be both thoughtful and strategic. The whole organization is watching Finance's involvement and forming early impressions of the value of Finance in their initiatives. Additionally, Finance team members who have not yet participated in a cross-functional effort are watching closely to assess management's expectations for results, time commitments, etc. The first few opportunities establish perceptions that can make or break Finance's efforts to partner with the business in the future.

Shifting the Role of Finance



"Figure out how each of your colleagues is your customer and how you can serve them better."

— SVP of Finance (CFO) of a North Highland Client

Business leaders in our study offered these tactical insights for building lasting partnerships with their business counterparts:

- Socialize the general idea of deeper Finance involvement with the CEO and other leaders who have worked effectively with Finance in the past. These individuals can offer visible support and provide guidance to Finance as the projects progress. Let them act as partnership "coaches" for Finance.
- Target the business units/process owners who are most likely to support Finance's added involvement and who will provide candid input for maximizing the value of Finance in the project. To secure these individuals' agreement, demonstrate the value that Finance can bring to the business, perhaps by positioning Finance resources as enablers to help the sponsoring business unit achieve its objectives. Finance can take on the role of internal consultant, all the while exploring how to become a more valuable part of the business unit's value chain.
- Start with just a few targeted initiatives in order to learn and build a clear proposition for measuring success. The business unit needs to understand and agree on how this new role for Finance will be communicated, supported, and assessed. Make clear the objectives of the initiatives and the metrics to be applied.
- Invest the time to determine how Finance can partner effectively with each business unit, ultimately building a customized "Customer Strategy" for each. This activity has many initial components, including asking questions, brainstorming how Finance can help deliver each executive's wants/needs, tailoring messages to address individual perspectives, and soliciting feedback. The strategy should communicate how Finance is engaged in changing the business, what Finance's involvement means to the business, and what measures will be used to communicate progress.
- Rotate key Finance personnel through the business units to gain deeper knowledge of the business, challenges, and pain points, as well as to build relationships with business unit leaders and key customers.

- Share the knowledge. Financial management is perceived as "complicated" to non-financial managers, and efforts to build financial acumen across the organization and integrate the concepts into daily business practices can be impactful and highly visible. Ultimately, by improving your "customer relationships" with the business, you are creating a brand for Finance that communicates, measures, and highlights the successes in the partnering model.

> "Build a brand for Finance—communicate, measure, be your own cheerleader."
>
> — SVP of Finance (CFO) of a North Highland Client

3. Driving Change to a More Collaborative & Integrated Business Model

With a dynamic Finance organization in place, and some positive partnering experiences "in the bank", the CFO can now turn attention toward establishing more "end-to-end" views of the business—using an approach that champions the customer's perspective, views the business as one long stream of activities, and interprets the external competitive environment in ways that are actionable. A customer's focus is on the ultimate value of the product or service and any interaction with the company—not how many departments contribute to the product or service.

Our research showed that there is no set list a CFO must focus on once the transformation has evolved to this stage. Often, CFOs may start with company-wide processes that Finance owns, such as operational planning and forecasting. Or, Finance may start with a process that has visible and measureable impact on quality or throughput. Because dynamics among company leaders and business pressures will strongly influence the starting place, the following best practices are relevant tactics regardless of the specific initiative:

- As Finance begins to act as a trusted business advisor, the group must establish and routinely apply a filter/litmus test to assess the impact of business change and to ensure that the results are going to help meet the business's goals in a measurable way. Metrics for assessing the value of the business impact should be aligned and cascaded to an overall performance management framework so that the value contribution can be clearly understood and communicated.
- For an end-to-end view to be effective, Finance must understand what drives decisions within each area, with each leader. The focus should be on getting the right information to the right person at the right time so that the right decisions can be made.
- Throughout the stages of the initiative, perform the market analysis and financial analysis necessary to quantify the impact of the business changes on the affected business processes. This analysis requires constant monitoring of business and market changes to reassess value drivers and initiatives.
- Benchmarking is important to establish the baseline for process improvement and can be leveraged across the business. Use Finance as the example in achieving tangible results from process improvements, and extend lessons learned to other process areas or business units.
- Bring in outside thinkers to provide insights and challenge the organization's leaders to take a different view of the world. At the same time, this external perspective must be balanced with the level of organizational change the company can actually support.

> "Benchmarking is important in establishing the baseline for process improvement and can be leveraged across the business. Use Finance as the example..."
>
> — Global Controller of a North Highland Client

POTENTIAL BARRIERS TO A SUCCESSFUL TRANSFORMATION

The success stories about transforming financial organizations are generally few and far between, so a central question remains: If everyone understands and acknowledges the added value that a transformed Finance organization can provide to the bottom line, why is it so hard to implement? And, naturally following that question: **What are the barriers to achieving a successful transformation?**

Our prior CFOs identified over a dozen barriers that could impede a transformational effort with Finance. They fall under three themes: skill, culture, and implementation.

Skill

Potential Barriers	Mitigation Strategies
• Lack of skill to lead a transformational effort • Team difficulty in thinking out of the box as business advisors • Lack of skill/comfort on CFO's part to play the role of innovative leader/partner	• Focus on hiring and training the needed skill, and augment the team with change management support • Challenge team to analyze and interpret the organization's business challenges • Assign CFO ownership of the strategic planning process

Culture

Potential Barriers	Mitigation Strategies
• Finance/CFO business perspective does not lend itself to trust and partnering • Heavy focus on immediate payback versus longer-term benefits of transformation effort • CEO, Board, or Executive Committee wants Finance to play traditional role only	• Finance can leverage product, customer, or supplier analytics to highlight partnering opportunities • Break down the transformational program into smaller projects that show value on their own • Evaluate current performance measurement sytems for behavioral impacts

Implementation

Potential Barriers	Mitigation Strategies
• No clear strategy articulation for the enterprise • Overly aggressive change agenda • Heavy focus on transactional support and not on analytics	• Use Enterprise Performance Management (EPM) framework to clearly articulate strategy and implementation actions • Consider sourcing options for transactional support, and move in-house staff to analysis and analytics • Introduce strategic analyses into leadership meetings laying the foundation for strategy articulation

GETTING STARTED WITH FINANCE TRANSFORMATION

After standard, day-to-day accounting transaction and control processes are functioning effectively, answers to a few key questions can guide the transformation of Finance to a value-creating entity:

- What is Finance's primary role now, and what should it be in the future?
- Is the entire team involved and knowledgeable about the business?
- What are the key issues and challenges currently facing the organization and industry as a whole?

The responses to these questions will surface the degree of attitude and skill change needed as well as the corresponding vision required to support Finance in driving maximum business value. Specifically, this includes:

Creating the Vision

The transformation of Finance to a provider of value creation involves major change including:

- Developing new skills
- Adopting new structures
- Implementing redesigned processes
- Embracing new technologies
- Changing the culture of Finance

To effect this change, the CFO must accomplish several key tasks: articulate a clear vision that defines a compelling reason to change, and communicate that need to the entire organization; work with the CEO to create a compelling change mandate, otherwise known as the "Burning Platform"; and make clear the fact that the status quo will be more uncomfortable than the desired new state.

The vision should be developed in the context of the company's value chain and key issues that affect its industry. The vision must highlight the organizational culture that needs to be in place, as well as what behaviors are expected. Linking the Finance vision to the company vision and the CEO's agenda is imperative. Engage the CEO in this process and clearly outline his/her expectations for Finance's role in company strategy and execution.

Many CFOs assume they are covering the right items with the CEO. More often than not they are missing critical new items because they haven't asked a simple question: "What role do you want Finance to play in the future direction of our company?" Don't underestimate the power of a basic, open-ended question to lead to meaningful insights.

Articulating the Vision

The CFO and Finance team should think through and align the key elements of a Finance vision and work with the CEO to articulate the "story" of what Finance will look like in three years. When looking back at the end of the three years, those key elements will be the factors that made Finance successful in helping the company achieve its objectives.

The vision needs to focus on increasing the strategic partnership with the company's operational areas and defining those key areas where Finance leads the business. As an example the vision should:

- Define needs of internal customers
- Develop competencies that can add value to the business
- Address the "what" and "how" that tie key initiatives to overall goals
- Integrate the organization's required behavior with the attitudes and values that must drive those behaviors
- Clearly define the measure of performance against which the organization's success will be evaluated

CONCLUSION

The ability to adapt to an ever-changing landscape of business events such as the recent decline in credit markets or the impact of escalating energy costs is becoming a critical differentiator among competitors. CFOs who can effectively move their teams to respond to these business events will ultimately transform the impact they have on the company overall. Transforming Finance into an innovative and proactive business partner can be the difference in making the leap from a company that remains stagnant and suffers the consequences to one that successfully adapts to change and leads the charge to weather the challenges of a volatile corporate landscape.

> "Get the CEO on board; without that understanding and visible agreement on why change is needed, the effort will be subject to undermining from the top."
>
> — Business Unit / Division President of a North Highland Client

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Nancy has worked with a variety of U.S. and Canadian for-profit and non-profit organizations on initiatives encompassing customer-focused and operational process analysis and redesign, financial analysis and financial process reengineering, management reporting, and program management. Prior to joining North Highland, Nancy held multiple positions in the financial services industry with AIG Agency Auto, Deloitte Consulting, and Barnett Bank. Nancy earned an MBA from the University of North Florida and a B.S. in Business Administration from the University of North Carolina at Chapel Hill.

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Of what value is a great solution that's not fully understood and embraced by those invested in it? As far as we're concerned—not much. That's why we don't jam our work with pages of obscure data and industry jargon. We are concise and to the point, seeking clarity in all communication. Yet all of our work is informed by our broad and deep expertise in industry best practices.

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