THE CFO AS STRATEGIST AND CATALYST IN BUILDING A HIGH-PERFORMANCE CULTURE

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Most leaders today agree that building and nurturing a high-performance culture is critical to the success of their organization. Few of their organizations, however, are able to make their vision and business objectives come to life by connecting their front- line operators to the executive team and the board. Meeting and exceeding shareholders' sustainable performance expectations is a challenge shared by the executive team. From financial analytics to decision support, experience shows that the CFO's office must be a catalyst in a high-performance culture. Information is power and today's finance team has the responsibility and the mandate to rapidly generate and analyze financial information to help the business be more competitive.

In this article, I focus on the CFO's challenge of driving a culture of high-performance, and share our consulting practice's learnings from two clients. I also discuss new tools of performance measurement and decision support that today's CFO's can and should apply to leading culture change in their organizations.

The high-performance challenge

Business leaders are asking the finance professionals that support their business decisions to go behind the numbers and spend more time on analytical processes, while simultaneously reducing the effort they spend on transactional processes.

Recent research[1] into information quality (IQ) and finance decision support concluded that the poor quality of information limits decision-making effectiveness. Decision makers are struggling with "multiple versions of the truth" and demanding timely, accurate and transparent management information.

On the process-efficiency side, studies of shared services[2] operations inform us that organizations are achieving, on average, head-count reduction of 20 per cent with shared services; financial processes top the list of most popular processes in shared services centres. Eighty per cent of multi-function shared-services centre leaders are CFO's.

So, while shared-service efficiencies reduce the cost structure, line-of-business leaders are demanding more analysis and decision support[3], enabling the CFO to become a key leader in a high-performance culture. The CFO has the opportunity to be a management innovator, ensuring that the management of the performance of the business and its key performers, the people in the business, gets as much attention as the business itself.

Why is developing a high-performance culture so difficult? What can the CFO do to enable a high-performance culture? To answer these questions, I present the CFO's roles in a new light and illustrate the experiences of actual client challenges.

Four faces of today's CFO4: A new view of the CFO's role

The 'Four Faces of the CFO' is a new view of the CFO's role, one which connects traditional financial accounting to the opportunity for the finance organization to be a key driver of a high-performance culture. Each of the 'faces' is a different role, tasked with solving very unique challenges. In many cases, the CFO has a Finance Leadership Team (FLT) that divides the four roles into discrete responsibilities, but in all cases, the FLT needs to work as an integrated whole, or one "CFO."

Figure 1 – The Four Faces of the CFO

While the Human Resources department is expected to focus on culture initiatives, leading executives have told us that their organization's ability to create and sustain a high-performing culture relies on value-added financial and non-financial data. That means all four of these CFO roles need to firing on all cylinders. As a catalyst, your CFO is concerned about execution at all levels in order to achieve the strategic objectives set out in your business plan. As a strategist, your CFO provides your leadership team with the financial acumen to help set strategic direction. Both of these roles rely on your CFO being both an efficient financial operator, who gets financial transactions processing efficiently, and a controls-focused steward, proving accurate information with appropriate controls to manage risk throughout your business.

Client experiences

Our client experiences with leading CFO's illustrate how your CFO can and must effectively lead a transformation to a high-performance culture. The examples presented in this article highlight the importance of understanding decision-making processes and partnering closely with your Human Resources (HR) professionals to ensure that the people changes are aligned with other HR initiatives.

We recently worked with a CFO at a client, GrowthCo, who really understood the need for a high-performance culture. His multi-business unit organization was performing well in a mature market but needed a new approach to achieving even higher performance. The organization expected above-average growth and the CFO and Finance Leadership Team needed to be ready to support that growth with innovative measurement and decision-support reporting. GrowthCo struggled with multiple "versions of the truth" and a lack of standard performance measures, resulting in management discussions that were all too often spent on reconciling differences in assumptions. Sponsored by the CFO, a project was created to focus on transforming the finance function into a highly-valued partner in the business. The CFO set out to lead a strategic change in the business by establishing and modeling a high-performance culture in finance and then transferring it to the rest of the organization. The HR function was instrumental in helping this CFO manage the change he desired.

At another multi-business unit client, ServeCo, the finance organization also developed a vision of transforming itself into a value-added business partner. The CFO and finance leadership team realized that the finance function struggled with inefficient processes and so the focus was on implementing new information systems to free up their finance professionals' time to focus on a new level of decision support. One of the key benefits identified in the business case was the retention of top-quality finance staff. We also identified a need to upskill existing finance staff.

Following best practices, ServeCo's executive team developed a new consolidated performance management dashboard that included financial and non-financial business performance measures. The challenge ServeCo now faced was to align the corporate-level dashboard with the business-unit, performance-management practices. The CFO has been the key catalyst in meeting this challenge.

Five steps CFO's can take to drive a high-performance culture

Based on our experience, the five steps below present a series of activities that the CFO can and should lead to drive an overall culture of high-performance in your business.

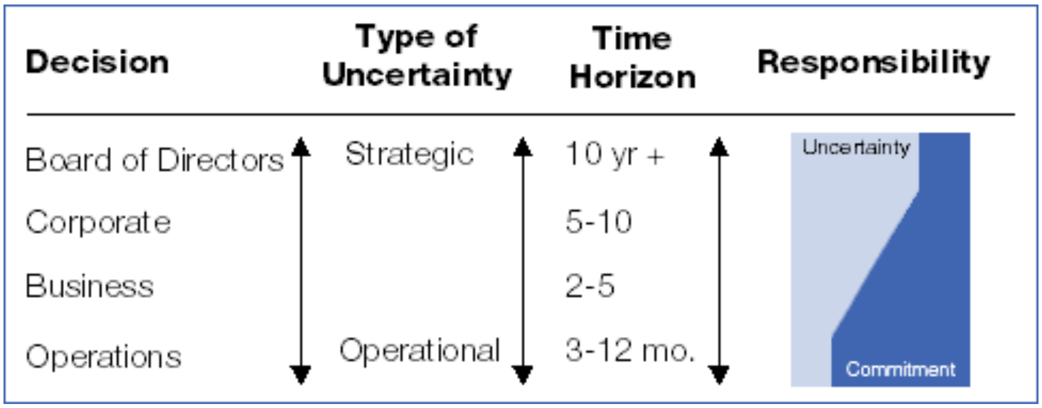
1. Define your performance accountability and decision support framework

Being clear about who is accountable for your key business decisions is not easy, but it is essential to clarify decision-making roles in achieving a high-performance culture. The CFO should be the catalyst.

At GrowthCo, our first step was to clearly understand how decisions were made throughout the business and how accountability for performance was distributed. This performance-accountability framework was critical in defining the key business decisions and in communicating throughout the executive team how finance would support the key business decision makers in the future. We applied Michael Raynor's model of requisite uncertainty found in The Strategy Paradox[5] to establish a clearer accountability model for each of the strategic, investing, financing and operating groups of decisions.

This approach aligned the executive management team's 5-10 year decision-making horizon of strategic decisions down to the operating management's 0-2 year decision-making horizon.

Figure 2: Requisite Uncertainty



Source: M. Raynor, The Strategy Paradox, (Adapted from Jacques, 1979)

Once the performance accountability model was defined, we revisited the finance functions organizational structure to ensure that transactional accounting, financial reporting, treasury, tax and business unit finance groups were appropriately aligned with their business counterparts.

Our key learning from this approach was that while many in the organization may think about long-term strategy, risks and value growth, it is the corporate-level executive team that needs to be held accountable for managing these. The language and expectations of the executive team is strategic, while the language, expectations and focus of the front line managers is operational. As Raynor explains, the performance of front- line managers in the short term is defined as executing to live up to the strategic commitments made by the executive team. This understanding was a fork in the road for GrowthCo's journey to a high-performance culture.

2. Get your customer's point of view

The business is your CFO's primary internal customer. High-performing finance functions provide the business with value added analysis based on financial and non-financial information – and that analysis needs to be demand-driven. Understanding your customer's expectations and needs is an important step.

In order to develop a high-performance culture in GrowthCo, we began by understanding the financial and non-financial performance objectives for the entire organization by business unit. We matched performance objectives to the decision categories and organizational role (e.g. executive team, business unit management, functional management).

When we asked them, we learned from business decision-makers that both transactional efficiency and decision support effectiveness were key components of finance's value to the business. Getting the financial accounting right and on time was considered table stakes to get the "dial-tone" for the business. Since the business units were allocated the finance support costs, they wanted this service at the lowest possible cost. More importantly, management reporting and decision support through advanced analysis of the financial results were deemed to be of high value to the business units in order for them to achieve its growth objectives. The business was prepared to absorb costs that could be connected to better operational planning and ongoing operating decisions.

To make the point again, being an efficient operator and having the effective controls of a steward are baseline expectations of finance. In order to become a valued business partner and an influential leader of high-performance outside of finance, the CFO's office would need to deliver more and so we turned to measuring and reporting more than just the financial accounting-based performance.

3. Measure the economic performance that matters

Getting a baseline for performance and establishing targets is only the beginning of this journey. Beyond generating timely financial information, the CFO should measure the economic, cash-based performance that matters to overall value creation of the business.

At GrowthCo, based on the needs of decision-makers for receiving both financial reports and value added operational analysis, we established baseline performance data to determine where performance gaps existed between current performance and best practices for the industry. We also established a clearer definition of *high performance* as "value created by the business for its shareholders."

The performance assessment also required applying new ways of thinking. To adequately compare the value created by the business units to external industry peers, financial accounting data needed to be supplemented with economic (cash-based) performance measures, such as economic profit (EP). The CFO had the CEO's full support for making EP a focus of their performance management.

What we learned during this phase was that even though the business had measured and was rewarded on economic profit in the past, what was missing was a deep understanding of how non-financial process measures flowed up to financial accounting measures and then to economic (cash) measures of value.

With a strong dialogue with business leaders and a clearer understanding of performance at the different levels of the organization, the CFO was now well on the way to becoming a *strategist*, able to influence and enable the business more effectively.

4. Partner with HR to develop a capabilities plan.

The Human Resources (HR) group is an important partner for the CFO in building any high-performance organization. The HR function brings expertise to establishing the organizational structure, role profiles and skills-based training programs to bridge gaps in current skill levels. HR also helps to manage change and deliver communications plans to ensure that senior management's performance expectations are reinforced in day-to-day coaching and mentoring opportunities.

At ServeCo, a new performance management was in the process of being implemented and the finance function realized that a key ingredient to getting the most from the new toolkits was an upskilling of the finance staff. A business performance-management Centre of Excellence (BPM COE) was determined to be the catalyst in signaling this skills transformation. The BPM COE would lead by acquiring vital new decision-support skills and be tasked with serving the rest of the business.

At GrowthCo, the HR group played an important role in defining a clearer set of roles along with skills requirements and skills-based training. HR has been invaluable in establishing learning paths and embedding the skills requirements into updated role descriptions.

5. Celebrate your high-performance moments

Celebrating high-performance is an important element in reinforcing the behaviours that you desire. The CFO should proactively identify opportunities to communicate that the transformation to high performance is moving in the right direction.

At GrowthCo, as the finance function transformed itself from a relatively inefficient and overstructured group to a high-performing value-added partner, we learned that even small wins needed to be celebrated early and often. Not only did the finance organization need to know it was headed in the right direction, but the business leaders who sponsored the investment in high-performing finance needed to see tangible results. New decision support skills demanded by the business were generating some positive results and these needed to be highlighted. Celebrating these quick wins as tangible examples of the finance transformation in progress was instrumental to continued buy-in from the business.

Innovating performance management: A road map for the high-performing CFO

As we work with CFO's to establish systems and processes that enable a culture of high performance, we've realized that a road map is needed to help guide the development of a high-performing finance function that acts as a catalyst in the organization's value creation. This road map can be the basis of a maturity model tool that helps establish a baseline for where you are today and a clear route to getting there.

The model I propose has four stages, and these four stages build upon the performance of each previous stage. Our experience informs us that it is difficult to skip a stage and that transforming from a premature state to a highly mature state can take years of effort.

I have defined the four stages of a high-performing Finance Function as being: laggard, follower, competitor, and innovator.

The laggard CFO's finance function focuses on performance management through historical results. The follower's finance function supplements historical orientation with short term future views. The competitor's approach is more proactive than the follower and includes forward-looking decision support. Finally, the innovator CFO is an integrator, delivering both historical assessments of performance and future-oriented business modeling and planning.

As a CFO, how can you assess whether your finance organization is on the right track? Which of your four finance office roles need more attention to get them firing on all cylinders?

As an executive team, how can you tell if your CFO is enabling your business to create, measure and monitor the creation of shareholder value expected by your shareholders? Is your CFO your driver of a high-performing culture in your business?

Table 2: Four Stages of a High-Performing Finance Function

	Laggard	**Follower**	**Competitor**
Objectives	• Become an effective steward • Focus on the financial operations • Producing inward facing financials • Limited communications of performance	• Effective steward • Efficient operator • Reactive financial advisor • Limited future focus	• Effective steward • Efficient operator • Influential strategist • Frequent performance communications • Forward-looking
Time Horizon Focus	• Historic	• Short-term future	• Mid-term future
Business Partner Role and Influence	• Invisible • Low influence	• Reactive • Limited influence	• Highly influential • Proactive HR partner

Capabilities	• Routine single year financial accounting	• Financial accounting supplemented with limited operational knowledge	• Multi-year historic financial performance analysis • Forward looking planning based on operational value drivers
Measures	• Tangible financial measures	• Financial accounting measures • Semi-financial performance measures	• Financial Accounting measures • Economic (cash-based) measures

It can be many months and years before the full benefits of a transformation to a high-performance culture are realized. We have, however, witnessed the tangible benefits of the CFO's leadership, building stronger relationships through more effective performance management and clearer performance expectations. In true transformations, the finance function is an information-driven catalyst and strategist that delivers the highest value decision support and drives business unit performance.

The lessons we've learned in building a high-performance organization include having patience for real change and transformation. We also learned that the CFO, who is at the heart of financial and non-financial performance management, can and should be a leading agent of change and that the finance function can be a leading group in stimulating high-performance throughout the business.

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