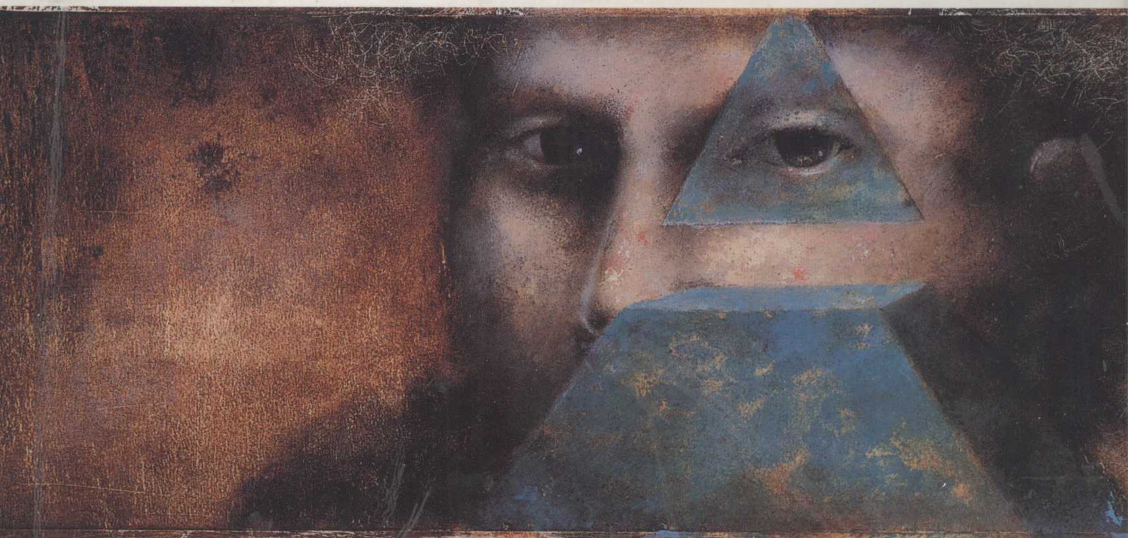
Reinventing the CFO



MOVING FROM FINANCIAL MANAGEMENT TO STRATEGIC MANAGEMENT

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Reinventing the CFO

Moving from Financial Management to Strategic Management

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Foreword

For two decades now, management theorists, consultants, and practitioners all have been looking for ways to reawaken corporate earnings, productivity and overall competitiveness. Despite their best efforts, many undertakings have fallen flat.

Time and time again, when asked why these efforts seem futile, they raise the cry, "The accountants are killing us!"

We in the finance profession have been loath to hear their lament. But we need to open our ears, and open our minds to the possibility of a new relationship between the finance arm of a corporation and the marketing and operations arms.

We can no longer fall back on our old response, "we're only doing our job; being the guardians of the corporation's fiduciary responsibility to our shareholders."

Tom Walther, Hank Johansson, Jack Dunleavy, and Beth Hjelm have done us a real service with their book. They have given us in the finance profession—from multinational CFOs to accounts payable personnel at a one-factory company—a framework with which we can begin transforming ourselves as individuals and transforming our finance organizations into 21st century corporate partners.

The transformation of the Office of the Chief Financial Officer—from a position of being the financial cop to one of being the strategic coordinator of such actions as establishing an appropriate risk profile for a company, developing a worthwhile customer costing process that marketing managers can use, and most of all becoming a full "business" partner within the corporation's executive suite—is complex and frought with danger for those who take it on unprepared.

It is imperative that we in the finance organization realize that this transformation is not just about automating activities, or about reducing steps in our processes, or about reducing personnel. It is about becoming forward looking, rather than backward checking. It is about providing our colleagues in the top level of corporate management with "down-field vision" as they engage in strategic and tactical decision making. Most of all, it is about changing the way each and every individual within a corporation's finance organization thinks about his or her role.

To make this transformation happen requires from those who lead finance organizations a host of management and "people" skills many of us did not receive as part of our education or training, as well as traditional finance and accounting skills. It requires, in many instances, that we work against our natural strengths, for which we self-selected the finance field and for which we have been rewarded and promoted for a generation or more. It requires firmness of resolve and a healthy dose of impatience, tempered with humanity for both those who simply cannot perform in the new world and for those who are making huge changes in their own behavior in order to do so.

I am fortunate to have spent a number of years as a colleague of the author's at Coopers & Lybrand, and I and my clients profited mightily from their thoughtfulness and their expertise when undertaking the kinds of transformations they describe here. I am especially fortunate that when I left C&L to take my present position I was able to take a pre-publication copy of this manuscript with me.

This book is serving me and my colleagues as a blueprint for change as we enter the arduous task of making over our OCFO in order to help our company compete, excel, and lead in the 21st century. I'm sure it can do the same for you and your colleagues, both within your finance organization and within other disciplines with which you need to become a business partner in the future.

Read and take the message to heart. Remember, the future is here today, and it belongs to those brave enough to reach out and grasp it.

Michael Glinsky
Chief Financial Officer, U.S. West

Acknowledgments

Yes, we are accountants! Even after completing this manuscript that deals with the challenges facing Finance and Accounting organizations around the world, we are still accountants at heart. We have seen this profession change dramatically over the last decade, not only as practitioners ourselves but in our clients. And as the changes our clients are addressing have emerged, we, too, have gotten a "wake–up call" to change our own activities and develop a coherent framework that addresses the changes which we have observed.

While there are four names on the cover of this book, there are in fact many individuals who have been instrumental in the development of the Office of the CFO framework as well as in its application to client organizations around the world. For more than three years we have hosted CFO Forums in numerous cities where more than 300 CFOs from many different industries come together to discuss their rapidly changing roles and responsibilities. The rich dialogue and active participation in these CFO Forums has provided us with an invaluable learning experience.

Three of our former colleagues were instrumental as we began to work on these issues. Jeff Liss, Bob Lage, and Steve Wood helped define the early foundation for the Office of the CFO framework as the supporting methodologies and tools. We miss them and their intellectual contributions. Throughout the last four years, we were pushed and prodded by several key clients and academics. Most notably among these are Bernie Ragland of AT&T and Lex Roulston of Johnson &

Johnson, who have been a constant source of challenge to our ideas making sure that we avoid "going native" by thinking too traditionally. John Shank and Vijay Govindarajan of the Amos Tuck School at Dartmouth College and Tom Huff from the Wharton Executive Education program have listened to and challenged even our most outlandish theories.

Within Coopers & Lybrand there are far too many people to thank individually. The partners and the staff of the Information/Communications Industry practice pushed us to actually put pen to paper and acted as dedicated reviewers, especially Andy Zimmerman. The staff of the Financial Management and Business Analysis consulting practice were participants in many of the client engagements which shaped this book. Bob Janson has unsparingly lent us his expertise in how to change organizations and worked with our CFO clients as they struggle to affect transformational change. In addition, many others Coopers & Lybrand partners enthusiastically supported us and helped us introduce these concepts to their clients.

We cannot understate the value of Jon Zonderman in completing this effort. He listened to our musings and input and succeeded in pulling everything together into a coherent whole.

And finally, our thanks to all of our families, who have withstood not only the many long years of out of town assignments and late night report deadlines in service to our clients, but who also supported us throughout the ups and downs of getting this manuscript completed. Without their patience, support, and understanding none of this would have been possible.

To all of the above, we express our deepest gratitude.

Tom Walther
Hank Johansson
Jack Dunleavy
Beth Hjelm

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A New Agenda for the Office of the CFO

Once upon a time all checks were green. All phones were black. Demand far outstripped supply and the United States owned the lion's share of the world's markets and productive capacity. Labor was expensive and materials cheap.

Management systems were designed to reflect this environment, with emphasis on mass production, throughput, labor productivity, and control. The financial systems and processes which were developed for the "modern" corporation worked beautifully and had a similar complexion.

- They were historical in nature.
- They were approval oriented.
- They were paper-based.
- They had centralized, compliance-based controls.

Since Western businesses began operating on these principles—around the 1920s—the world has changed dramatically. Most of that change has occurred in the last quarter of this century. The relative economic peace and tranquility that persisted through the 1960s has been shattered. Spiraling inflation and volatile interest rates began in the 1970s, as did the onset of true global competition. Since the late 1970s, there have been three economic recessions. Total government debt in the industrialized world has soared, cutting government flexibility in controlling economic activity through fiscal policy.

The pace of world economic change accelerated in the 1980s and early 1990s. Socialism collapsed. The United States economy has become increasingly deregulated, and Western European economies have moved to privatize former state-run services. There are new industrializing economies emerging from the ranks of the less-developed nations every year. Western multinationals have been buffeted by increasing globalization and the need to "think global and act local," to use the phrase of Percy Barnevik, chairman of the global engineering company Asea Brown Boveri. Over the same period, the electronic age has made operating truly global companies possible. Orders, payments, and capital move around the world at the speed of light through fiber-optic phone lines. Securities and currency trading are 24-hour operations.

Operating a large industrial, service, or financial services businesses is a nerve-racking way to go through life. The truth is simple, as James Brian Quinn argues in his book, *The Intelligent Enterprise:*

> If you can't focus and become the best in the world at what you do, making it very difficult for your competition to follow, your future cannot be insured!

Companies have tried to focus in a number of ways. They have engaged in balance sheet restructuring and planned downsizing. They have sought short-term solutions in cost-cutting efforts, much of which has focused on reducing people and bringing on board new technologies. At a deeper, more long-term level, they have engaged the philosophies of total quality management, with its ideas of problem solving and continuous improvement; just-in-time, which focuses on reducing cycle time and producing only what is necessary when it is needed; and more recently business process reengineering, which focuses on team-based process redesign and innovation.

All of these members of what we call the *process-oriented family* of management tools have as a strong focus the customer dimension, an external view. As companies have become more sophisticated in their use of these process-oriented tools, we believe a disconnect between operations and accounting is emerging. The reason is simple. While these philosophies have taken root on the operating side of businesses, the finance and accounting functions, which have traditionally been command-and-control oriented and internally focused, have remained largely in a functional silo. The transition to a process and knowledge-based orientation which has occurred in operations has been slower in finance. But now a new concept of the CFO is emerging around the globe.

Business process reengineering (BPR) categorizes accounting and finance as support processes, thereby relegating them to a position subservient to core processes. In the search for value-added processes to redesign or reengineer, BPR practitioners often find accounting and finance lacking—non-value adding—and ripe for outsourcing or elimination largely because they view accounting and finance as a bastion of paperwork and compliance. Unless CFOs and those who work for them accept the notion of value-added analysis, and redefine their roles around value-adding activities, they can look forward to more outsourcing, more elimination. Figure 1-1 shows how financial processes must be deeply integrated within the business's core processes, while others should be eliminated, redesigned, or moved into a shared-service model.

Until the mid-1980s, there had been no fundamental change in corporate finance and accounting since the 1920s and 30s. They were driven by principles of cost and management accounting developed in the 1920s as a way of imposing control on the operations designed through scientific management. And even the changes had been the first major changes in accounting principles since the invention of double-entry bookkeeping in 1497. The SEC Act of 1933 added rigor to accounting and forced accountants at public corporations to answer to two masters: the internal master of cost accounting and the external master of mandatory SEC reporting. The advent of mainframe computing in the 1960s added to corporate accounting headaches as much as it alleviated them. While computers certainly helped with record keeping, their ability to generate data by the pound led to increased number chasing. Management accounting, budgeting, planning, and responsibility accounting drove decision making yet they often resulted in counterproductive behavior. Complexity became fashionable.

Since the late 1980s, a quiet revolution has been building in corporate finance and accounting. More and more, companies are looking to their financial experts to act as business partners with operations managers and to dramatically reduce accounting and finance costs. However, changes in finance and accounting are still a generation behind operations management efforts that took root in the 1980s and running hard just to keep in place.

Sure, many CFOs are talking about changes that are required. But they need to do better in their actions; they need to bring their financial and accounting activities into line with the way they are operating their business. They need to help finance and accounting personnel adjust their roles and responsibilities to be value-adders, not merely number cops. And the way to do that is to reconstruct what is still often referred to as "the accounting function" into a true office of the chief financial officer. That's what this book is about. Over the last decade we have conducted a number of studies and worked with companies at the lead-

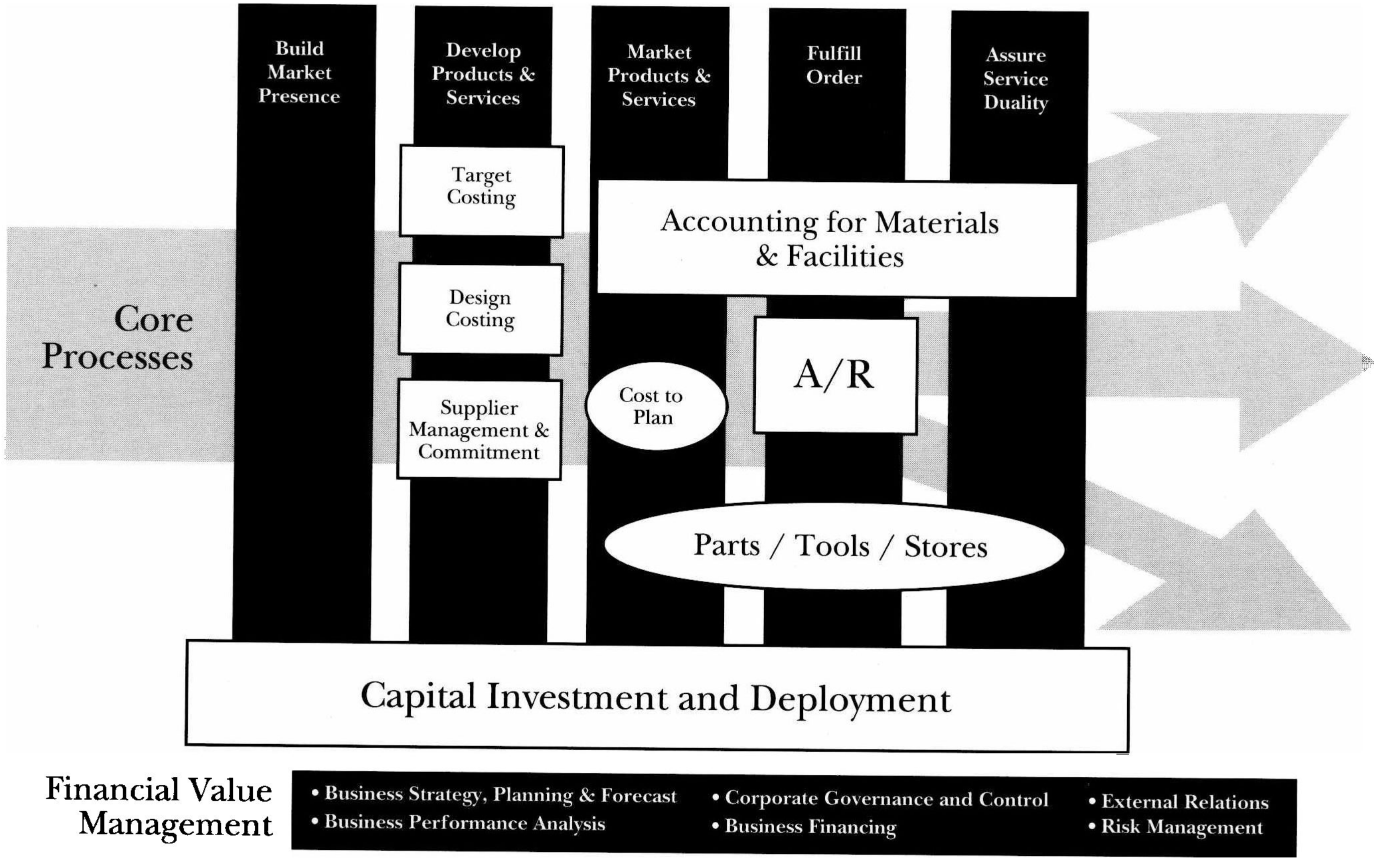

Figure 1-1. Financial processes are deeply embedded in core business processes; they are not stand-alone activities.

ing edge in transforming their financial operations. We have pieced together standards of excellence into a mosaic that we call the OCFO, the office of the chief financial officer.

Our experience with clients, benchmarking studies, the Financial Executives Research Foundation (FERF), academia, and our own Coopers & Lybrand CFO Forums indicate that:

- Expectations of the OCFO are high and ever increasing.
- The role of the CFO is changing dramatically.
- Business skills as well as traditional financial expertise are required not just by the CFO, but by all professionals within the OCFO.

While the CFO and those in the finance and accounting office were often thought of as number crunchers, budget drivers, data gatherers, and corporate cops, a new concept of the OCFO is developing based on expunging these old values and defining a new set of core competencies that define how the accounting and finance function performs, which include:

- Strong analytic focus on the business's drivers of success and operational strategies
- Controls achieved through process design
- Deep knowledge of the business
- Flexibility and a broad business perspective
- Clarity in communication

These core competencies relate to the OCFO's role as a provider of strategic analysis and appropriate measures, the source of *relevant* information and controls, and the keeper of effective and efficient processes and transaction systems. It's crucial to stress the importance of designing better processes and transaction systems than most corporations have today. A CFO who is slave to weak financial and operational systems and unintegrated processes will not have a controlled business. The CFO certainly will not have time to get out and do the important business of adding value to the company's operations.

A major study C&L conducted in 1989 showed that most CFOs were still spending 75 to 80 percent of their time on fiduciary issues, essentially outside reporting. Leading-edge CFOs were only spending about 25 to 30 percent of their time on fiduciary issues. But we believe the vision for the OCFO in the twenty-first century ought to be an office that spends only between 10 to 20 percent of its time on fiduciary issues. The rest of its time should be spent partnering with business operations executives in value-adding decision making for the business.

CFO magazine reported similarly gloomy results in 1993. It found that 66 percent of financial staff effort is spent on transactions, 18 percent on controls, 11 percent on decision support, and 5 percent on management. CFOs conclude from this that only about 20 percent of their office's effort is spent on value-adding activities.

CEOs can no longer look to increase the bottom line through cost cutting. They must now shift gears and look to grow the top line. Corporate finance and accounting can and should play an important role in meeting that goal. For the office of the CFO, the key is changing its image within the company: from negative to positive, from control that always says "no" to a partner that says "let's get it done." To do this the OCFO must stop being a victim of the transactions it processes and enrich the job content of its personnel by relegating decision making to the personnel that have the most direct contact with customers. The issue is "how?"

Figure 1-2 shows how the work of the OCFO overlaps the work of three other key business areas—the CEO and the executive team, operations, and marketing. Aligning the work of the OCFO to the work of these other corporate players is the key to partnering and adding value. There are many boundary areas where finance must interact effectively with other key business partners to provide value to the company. None of these areas is the exclusive domain of one discipline. Partnering is accomplished most successfully if it is approached as a team effort.

The CFO's New Agenda

The new agenda has five components, each of which is discussed in its own chapter. In our final chapter, we discuss the organizational issues that need to be dealt with in changing the OCFO itself. The five components are:

1. Partnering and integrating finance into the business
2. Strategy
3. Management control
4. Cost management
5. Processes and systems

Thinking of the OCFO's role in this way is totally new. Figure 1-3 shows a more traditional way of looking at the OCFO's role. This might be called the OCFO house. Within this house reside all of the activities, tasks, and responsibilities found in a traditional office of the CFO. There is an implied hierarchy. Unfortunately, this hierarchy is incompatible

Figure 1-2. Being a partner means aligning finance with other players.

with modern realities. You might want to refer back to this graphic as you read on, noticing how we take seemingly disparate elements and weave them into what we believe are more logical groupings.

Partnering and Integration

There is no predetermined template for organizational integration. However, there are some common questions that must be asked and answered.