

A BPM Partners White Paper

Bean Counter to Business Leader: The Changing Role of the CFO

5 strategies for making a measurable difference in your organization

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Executive Summary

The role of the CFO is evolving in the modern corporation, but due to daily pressures to meet financial reporting requirements and deadlines, as well as the myriad other duties of the finance department, there is still a strong pull towards a “chief bean counter” set of responsibilities. There is, however, an opportunity for today’s CFO to broaden the scope of the office and become a true business leader. This is partly owing to new technologies which enable the finance function to drive a performance culture deep into the organization. Beyond implementing the technology, it is then up to the CFO to step into a larger role, and there are five key strategies that can help the CFO to have a significant impact on the direction and success of the business.

In order to have measurable successes, and avoid being bogged down by routine workload or external pressures, focus is critical. The five key focus points for success in the role that we will admirably tag as “CFO Wizard” include:

Improve visibility. In today’s organization, visibility into data is critical for a number of reasons, including transparency, audit-ability, and support for better decision-making. This can be a high impact area.

Create quick wins. There generally are some areas of pain in a business for which solutions exist, and all it takes is some focus to get those solutions implemented. Pick one or more according to the 80/20 rule, where 20% of the effort can yield 80% of the results.

Design the right roadmap. Lay out a vision of where the organization can be in 1, 2, 5, 10 years. Create short, medium, and long term goals that will provide the quick wins as well as inspire the organization towards something larger.

Stay ahead of the curves. Changes in the regulatory environment and the supporting technologies, such as SOX, IFRS, and XBRL, can create havoc. But if you plan for them and incorporate them into your roadmap, you can actually leverage them as agents of change to improve business processes and competitiveness.

Empower the organization. Control what needs to be centrally controlled, but support decision-making at the levels where it can be most effective. By providing the right tools, processes, and information, the CFO can empower the entire organization and leverage the skills, knowledge, creativity, and energy that exist in the talent pool.

Bean Counter to Business Leader

While there have been many flavors of the role over the course of business history, the Chief Financial Officer traditionally has been seen as the head of the accounting department, responsible for adding up the numbers and delivering them to the board of directors and senior management team. The CFO's job was to make sure the numbers were correct, and served up in a timely fashion. They would have to stand up to auditors, analysts, shareholders, and the IRS. Beyond that, he or she had to deal with accountabilities such as governance and compliance, borrowing and repaying debt, mergers and acquisitions – all complex processes, but still typically in the context of managing the mechanics of a process.

Thanks in large part to today's technologies, there is now an opportunity for the CFO – and by extension the Finance department – to take on a value added role. Anyone in any area of a company where automation was introduced will tell you that it does not decrease their workload, but what it does is to enable greater productivity and more value added activities. In the Finance area, when a company moves from manual or disjointed processes for budgeting, consolidation, and forecasting, to an enterprise business performance management solution, the result typically is that (a) numbers are turned around more quickly and (b) because of less time spent crunching numbers, more time is available to actually look at the numbers and digest them. Since Finance is the first group to see the numbers, the CFO in an automated environment is in a better position to add value to the business by providing analysis and presenting what-if scenarios.

Factoring in also the faster pace of business nowadays, where an annual budget is generally useless after a quarter and forecasts may be updated weekly or even daily, the CFO has a front row seat in the business performance arena and provides an early warning system to the business.

Another role for the CFO is as the champion of a performance culture. In order for new performance management technologies to live up to their promise, the organization as a whole, starting from the top, needs to embrace the idea ethic of performance: we set targets, we measure, we judge ourselves by our performance against objectives. The CFO who leads that charge is going to transform the business.

Making a Real Difference: CFO Wizardry

In the legend of King Arthur, his most trusted advisor was Merlin the Magician. According to myth, Merlin was reported to have the ability to see the future and could shape-shift, was known for his sense of humor, was involved in the search for the Holy Grail, was looked to by the king for sage advice, and was expected to perform magic. If you are a CFO, you most likely can relate to Merlin. There many parallels between the CFO role and that of Merlin.

Trusted Advisor. One of the most coveted roles for a CFO is his/her relationship with the CEO, Board of Directors and other key executives. This critical role cannot be undermined as a result of other activities in the Office of Finance.

Sorcerer. The CEO has sent you on a quest for the Holy Grail of profitability, and expects that, regardless of the data coming in from the field, you will somehow magically produce reports on demand that show performance in line with analyst expectations.

Prophet. You are expected to predict the future. The only thing that you can say with absolute certainty is that you will face uncertainty. So absent perfect knowledge of the future, your job is to figure out how to have planning and forecasting processes that work, aligned with robust enterprise systems rather than spreadsheets.

Governor. In any company, and especially if you are public, it is ever more important that investors can have confidence in the accuracy and validity of the reported results. You are the appointed one in charge of ensuring good governance through visibility, transparency, and accountability.

Shape Shifter. The challenges that lie ahead are many. In addition to the day-to-day demands of the business and the market, there are always new regulatory requirements such as Sarbanes-Oxley, IFRS, and whatever the current economic crisis produces, and new technical challenges, such as XBRL. You need to be able to seamlessly shift from the roles listed above back to CFO, Regulatory Expert, and the Master of Reports.

Focusing for Maximum Impact

To fulfill both the expectations and the exciting possibilities of this expanding role for the CFO will require focus. In a job that involves massive volumes of data, complex systems, management of people, and daily crises, it is easy to get bogged down in detail or spend all your time fighting fires or reacting to board requests. To create something new and different that will make a difference for your organization will take focus, and we suggest that your focus should be on the actions that will have the most impact. In fact when in doubt about where to focus, a good rule of thumb is to consider where you can have the most impact. Here are five suggested areas for focus to help your company and your career:

- Improve visibility
- Create quick wins
- Design the right roadmap
- Stay ahead of the curves
- Empower the organization

We will examine each of these focus areas.

Improve Visibility

Visibility into data means that managers and decision makers can better understand the business. While more volume of data does not necessarily mean better data, having more depth and the ability to drill down and intelligently navigate through the data stack to find root causes does provide a basis for better decisions.

The more people in the organization who have access to good data that is relevant to their roles, the better the quality of the decisions you will reap. Part of increasing data visibility is giving more people access to the data, which means having a platform that can extend across the organization and that is adopted by business users.

User adoption is vital to the success of a system, and the key to adoption is providing value and ease of use to the users. A system that provides reporting and analysis tools that empower managers will be used, providing it is easy to learn and use. Such a system should allow managers the flexibility to get the data they need and want, rather than just pushing canned corporate reports out to them. If the system provides self-service access, then IT can be freed from the mechanical task of generating reports and can devote its time to higher value activity such as improving data quality through data cleansing, integrating source systems, and synchronizing data structures.

Another important aspect of visibility into the data is that it supports requirements for transparency and audit-ability. Visibility means that you can drill down on a number to understand where it comes from. This allows auditors to do their job efficiently and can mean that your staff does not spend a month running around trying to find supporting documentation during an audit. This is also the kind of transparency that gives confidence to investors and gives your firm a reputation for solid and reliable financials.

This doesn't mean that you have to overhaul your entire data warehouse overnight and embark on a massive visibility project. Take small opportunistic steps first, looking for the measures that will make a noticeable difference. In general it makes sense to follow the 80/20 rule, and focus on the area that will provide 80% of the result with 20% of the effort.

Just remember that improving visibility into your company's data can translate into visibility for the CFO whose wizardry made it possible. Analysts, investors, and board members will soon take note.

Create Quick Wins

Remember that we are talking about focus, getting the "biggest bang for the buck." Again, the 80/20 is a good rule of thumb. Pick the low-hanging fruit first. How? Look for the sharpest business pains. Where are the constraints to productivity, profit and growth? Where can you find an edge over the competition in terms of financial performance? What business processes are not keeping pace with the speed of your business or the marketplace? Where will an investment in better systems provide maximum return?

The answers will be different for different companies, but here are some areas to consider. We already talked about data visibility, and that can be one area where a modest investment can yield high value to the business. Certainly improving planning and forecasting capabilities is a high-impact opportunity for many companies. Having the right tools and processes – in which plans can be revised and forecasts updated on a regular basis – can make the business more agile and responsive to changing market realities, potentially preventing huge losses if indicators are bad or capitalizing on opportunities that the current trends are suggesting.

Design the Right Roadmap

As the saying goes, if you don't know where you're going, you'll never get there. An accurate roadmap can help in several ways. First, it helps in making day to day decisions, by making it easy to eliminate choices that are not in line with your future direction. Be sure that the decisions you make now are consistent with your roadmap, and are not simply short term solutions that will become limitations further down the road. Working towards a goal can inspire your team, and the company at large. Be sure to create a goal that is worthy of you, your team, and your company. Anything less will not serve as inspiration, for you or others.

This does not mean that you should sit in your office for months developing a roadmap before you take actions. Go ahead and start on the quick wins – especially ones where investment is modest – while you create your roadmap in parallel.

Be sure to design a phased roadmap that has concrete, measurable short, medium, and long term goals. For one thing, this gives you the opportunity to show that you are delivering on your promises. It gives you credibility and creates confidence that you are on track to achieve the long term plan.

Fortunately, you generally don't need to re-invent the wheel. Seek out the best practices in your industry. Talk to your peers. Explore technologies. Most of the problems you face have been faced by others, and solutions generally exist. Just find the best ones for your needs.

Stay Ahead of the Curves in Technology and Regulations

Regulations, of course, can change overnight, and it sometimes seems as if technology does the same. But in truth there is generally plenty of warning and ramp-up time for both. The problem is that many companies wait until the last minute and then scramble to adapt. When a change is on the horizon, begin to take steps to prepare and factor that in to your roadmap. Two of the big changes coming round the bend include IFRS and XBRL.

IFRS

Over 12,000 companies worldwide have already adopted the International Financial Reporting Standards (IFRS), and U.S. public companies soon will be required to convert to IFRS, including converting two prior years of financials. The IFRS changeover will require a number of changes to financial reporting systems, including:

- New accounts
- Alternate or additional roll-ups
- New level of detail in certain areas
- Revised calculations
- Multi-GAAP reporting and reconciliation
- Audit-ability and transparency

Companies whose financial systems lack flexibility and are difficult to change clearly will have a major headache to face, such as those whose systems are based on spreadsheets, custom coding, or departmental systems. To be in the best position for the transition to IFRS, now might be the time to finally implement a true enterprise business performance management (BPM) system, putting the company on a unified platform for consolidation and reporting. An enterprise BPM system has the benefit that changes can be made one time in the central data structure and those changes then flow through all reports and input templates company-wide.

In many companies there may be departmental BPM silos, or BPM systems being used in a limited way. Perhaps planning at corporate is done in the BPM system, but the overseas facilities still do their own thing and just send in a spreadsheet which is re-keyed into the system at HQ. Or the BPM solution is used for budgeting but is not being used up to its full potential for rolling forecasts. This is an area where a wave of the wand could make a big difference. A centralized platform for consolidation, planning, budgeting, and forecasting, means that the metadata structure needs to be updated in just one place, not in 20 different systems or on 100 different spreadsheets.

When you know a change is coming, it is never too soon to build that into the roadmap so that the transition can be smooth and orderly, and decisions can be made strategically, rather than in haste to meet a deadline. Also consider in your roadmap that your business process decisions likely will need to be supported by IT decisions. If you are going to need support from outside your own department, be sure to involve all necessary parties so that the plan does not meet roadblocks at a critical juncture in the future.

XBRL

eXtensible Business Reporting Language, or XBRL, provides a way of coding financial documents such that key data and commentary can be easily found and compared. Depending on company size, and whether they are reporting using GAAP or IFRS, public companies in the US will be required to incorporate XBRL into their financial statements between now and 2011. XBRL isn't only about transparency and consistency in external reporting, however. Once a company has tagged their financials to support XBRL, finding data will be faster and easier, whether it is the SEC or the CEO that wants it. Still, XBRL encoding is an added requirement that can potentially be a huge burden on already stressed finance staff at period end.

To stay ahead of the curve, it would be wise to find ways to automate the XBRL tagging. BPM software vendors, naturally, are aware of the need for XBRL support, so solutions are available. A solution that automates XBRL can actually make reporting easier, since once information is tagged in the system, it then will be fed automatically into your reporting package. In one sense the XBRL requirement can be a blessing in disguise, as it can provide the trigger and justification to upgrade financial reporting systems that may have been in need of upgrading anyway.

Empower the Organization

Your biggest opportunity to impact the organization is not by casting powerful spells all by yourself. As a leader, your challenge is to empower the organization. In the final analysis, you have to trust your managers and business users to be able to do their jobs. Most likely, you have very capable people who, if given the tools and information they need to do their jobs effectively, will help to make the company a success. As CFO, you can have a huge impact on performance by distributing information to support decision-making at all levels of the organization.

Any company has a blend of centralized control and decentralization. Ideally you will control what needs to be centrally controlled, and decentralize decisions that are best made at regional or departmental levels. For example, you probably want a common chart of accounts so that you can meet your reporting needs. But you will never be able to anticipate every report that will be of value to a manager, so it's best to give managers the tools to design and create the reports they need. You may provide targets for operational or financial goals, but most often your plant managers or sales managers, dispatchers or geeks, will be best equipped to figure out how to attain the targets for their areas.

You are in a unique position to be able to lead your company forward. By providing tools, providing data, and fostering a culture that supports performance, as CFO you can transform a company. But you can't do it alone. Leading change requires collaboration across departments and geographies. You will need to bring others on board – the senior executive team, department heads, IT, key business users. It is especially critical to have top executive support for any major initiative if it is to succeed. You will need to convince, negotiate, inspire, and – not to be forgotten – listen closely to the needs and concerns that you hear and adapt your plans as necessary so that all constituencies are served. If that sounds like the role of a wizard, well, there's a reason for that.

Conclusions and Next Steps

There is an opportunity, thanks to precedent in the business culture and enabling technologies, for today's CFO to move beyond the chief bean counter role to that of business leader and agent of change – the CFO Wizard. Happily, what's good for the company is also good for the CFO's career.

The CFO Wizard's Vision. The path to becoming a CFO Wizard is first to develop a mindset that transcends the traditional myopic view of the role. They may have hired you to count the beans, monitor the cash flow, manage the investments, validate the financials, and so on, and these are important functions that will always be the role of Finance. But if you can hold out a bigger vision and show people how to get there, no one is going to complain, and everyone wants to be part of a successful undertaking. And, if you empower the company to be more productive, generate more revenue, and better manage costs, things like cash flow and debt ratios tend to take care of themselves.

Choosing your battles. The CFO can look like a wizard by seeking out the high impact areas and making a difference in those areas. So the first step is to identify the opportunities -- the pain points, the cumbersome processes, the antiquated systems – and then find a way to solve the problem. Give it some thought, ask questions, learn best practices, and look for the right technologies. Remember that you are implementing a solution, not a technology for its own sake.

Planning for success. To lead the organization down the road to success will require a good roadmap. Set short term goals that will enable you to register early successes and build confidence, medium term goals that address the business pains and begin the process of culture change, and long term goals that, when the vision is realized, will mark your company as a model business – one that demonstrates a culture of performance.

Once you have accomplished all of this, you can claim your place in Camelot.