HOW TO BE A *Transformational* CFO

By embracing three fundamental beliefs, a CFO can connect the processes of an organization with the needs of customers.

By Andrew Spanyi

Chief financial officers (CFOs) are particularly well suited to lead a major transformational effort. Yet few do so successfully even though most have a vested role in strategic planning and also determine what the organization measures and monitors. Operational excellence around core financial activities is certainly important—maybe even essential—but it's becoming increasingly insufficient. What are the fundamental values and beliefs that a CFO needs to embrace to succeed with transformation? What are the obstacles that transformational CFOs face, and how can they overcome them? What are some of the best, albeit rare, practices for a CFO to use to lead transformational change?

Basic Beliefs

Sweeping changes need to be built on a solid foundation. There are at least three fundamental beliefs that a transformation-minded CFO needs to embrace to create such a foundation. The first is that the performance of shareholders is served best when an organization performs to fully satisfy the needs of its customers. This requires the CFO to encourage the leadership team to view the business from the "outside-in"—from the customer's perspective. Customers don't care how a company is organized. They only care about what the company provides them: value for money, on-time order delivery, quality, and responsiveness.

The second fundamental belief that a transformational CFO needs to embrace is that organizations are complex social systems and that outstanding performance requires collaboration across traditional departmental boundaries. A systemic view is as important as—and perhaps even more important than—a systematic approach. Transformation invariably requires an approach that marries radical innovation and the discipline of continuous, incremental improvement, and, in most organizations, that requires an unprecedented collaboration across traditional departmental lines.

The third basic belief that's fundamental to transformation is that strategy is executed best through the improvement of the organization's business processes. The corollary to this is that customer requirements should be a principal driver of strategy and that a process view creates insights about the best form of organization design and the related alignment of recognition and reward systems.

These three beliefs are essential to success. And they are in stark contrast to the all-too-common traditional management view that "we're smarter than our customers" and "our overriding responsibility is to produce near-term shareholder returns." Such traditional beliefs stand in the way of customer centricity, adaptability, and agility. Embracing the fundamental beliefs isn't simply rhetoric—it's essential to overcoming some of the major obstacles that a transformation-minded CFO often faces.

Obstacles and How to Mitigate Them

Most CFOs face a number of daunting challenges in the current volatile and globally competitive business environment, including, but not limited to: assuring transparency, visibility, and control; finding ways to adopt different and more flexible financial and capital structures; dealing with an increasingly complex and onerous regulatory environment; and coping with the growing cost of financial talent. Though all CFOs need to deal with these challenges, the transformational CFO is faced with two areas that represent major obstacles to overcome: perception and complexity.

The obstacle of "perception" arises when some members of the leadership team persist in viewing the role of the CFO in a traditional context as the chief counter of beans and the head numbers cruncher. Sometimes this view is predicated on the behavior of a predecessor CFO who emphasized control and an inward focus above all else. The transformation-oriented CFO needs to move beyond being viewed as the master of financial reports and the chief regulatory expert. He or she needs to earn the respect of the entire leadership team in making a contribution to—and even at times leading the discussion on—strategic direction and operational performance.

The obstacle of "complexity" arises as a result of the combination of the increasing proliferation of information technology and improvement methods. It isn't uncommon to have multiple disparate systems running financial and customer-touching applications—creating silos of relevant data. Critical customer data is available to marketing but not to customer service. Key production data is available to manufacturing but not to product development. Corporate consolidations also increase the level of complexity as new processes, systems, and data sources multiply. Similarly, the proliferation and codification of various improvement methods, such as Lean, Six Sigma, and Lean Six Sigma, often result in multiple uncoordinated initiatives operating within the company. Against this backdrop, CFOs also need to cope with standardizing financial procedures and ensuring compliance within a restrictive regulatory environment that includes standards such as the Sarbanes-Oxley Act (SOX), U.S. Generally Accepted Accounting Principles (GAAP), and International Financial Reporting Standards (IFRS).

How can the transformational CFO mitigate these obstacles to earn respect and establish credibility outside the traditional CFO role? He or she needs to:

- Measure what matters to customers,
- Forge essential partnerships, and
- Promote an enterprise view.

Measure What Matters. Measuring what matters to customers is the foundational tactic for mitigating the obstacles of perception and complexity. It enables the CFO to raise questions around operational performance. By emphasizing metrics such as perfect order delivery (on time, complete, error-free), perfect response to inquiries and complaints (first-time-right, complete, error-free), and variance to promise date for new product or service introduction, the CFO can raise thought-provoking questions that directly strike operational performance and where the resolution of problems demands cross-departmental collaboration. When customers receive perfect orders and responses to inquiries that are right the first time, they not only pay invoices faster (a good thing to keep days' sales outstanding (DSO) on target), but this also helps increase customer loyalty and build revenues. The addition of these metrics to the leadership team's scorecard can offset the imbalance of focusing solely on financial measures of performance, and the ensuing discussion can counter the perception of the traditional CFO role, building the CFO's credibility and shoring up the perception of business acumen.

Forge Essential Partnerships. Forging essential partnerships is another key tactic to use to mitigate the obstacles of perception and complexity. Establishing a close and collaborative relationship with the chief executive officer (CEO) in which the CFO is valued as a trusted advisor is arguably the most important of these partnerships and fundamental to success. The CFO may plan successful transformations, but, invariably, the CEO leads them as the principal spokesperson in communicating the case for change and the arbiter in deciding which members of the leadership team have what it takes to succeed. The partnership with the CEO is necessary, but it may not be sufficient.

Partnerships with key members of the leadership team, especially the chief information officer (CIO) and the senior human resources (HR) executive, also are crucial. A strong and close alliance with the CIO is indispensable. Not only is it difficult to imagine a successful transformation today that doesn't rely heavily on enabling information technology, but the CFO and CIO often have to contend with others seeing them as simply technical experts, and they both need to make sense out of increasing complexity. Accordingly, they should be natural partners. When aligned in their efforts, CFOs and CIOs can forge the enterprise-wide view that's necessary for thinking both strategically and operationally, and they also hold the key to the funds and technology to take action.

A strong alliance with the senior HR executive is similarly important in mitigating the obstacles of perception and complexity for the transformational CFO who believes that the enterprise is a multifaceted social system. Successful transformation efforts begin with a case for change—often based on a perceived threat—and engaging the organization in working together to transform. Launching a transformation must be led, but then the change program needs to be managed. In other words, someone must lead the organization into the idea of a transformation, but the actual work of transformation often involves multiple, complex projects that need to be managed. The alliance between the CFO and the senior HR executive can pay dividends here. This collaboration is important in developing the best organization design and the related alignment of recognition and reward systems. Also, because many transformations require new talent at the leadership team level, this alliance, in concert with the CEO, is critical in making necessary personnel changes.

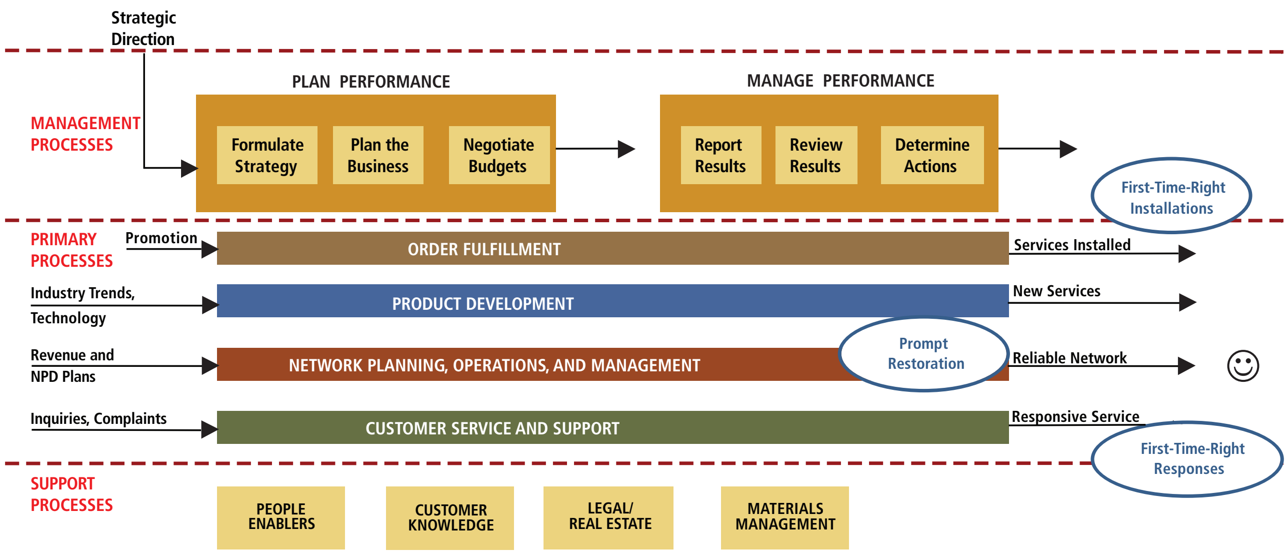
Promote an Enterprise View. Measuring what matters to customers and forging essential alliances set the stage for taking an enterprise view of the organization, which is the third tactic to use to overcome the obstacles of perception and complexity. The transformational CFO can facilitate the development of a schematic of the enterprise that's accompanied by a story of what the company wants to accomplish, taking into account performance for customers, key business processes, and the technology that enables performance. Here it's important to ask, not tell. This means asking questions about the current and desired level of performance needed to create customer value. The questions should provoke thought and move the leadership team toward a shared understanding of the scope of the organizational challenge and the need for collaboration. When the CFO asks questions such as "What's the impact of late raw material purchases on our on-time delivery performance?" and "What's our success rate in responding to requests for proposal on time, and how does this translate into revenue?" the ensuing discussion can highlight the need for collaboration across departmental boundaries. Transformation is a team sport, but most leadership teams simply don't practice. That is, they don't discuss how different departments need to work together for value creation in any regular and disciplined way. They don't work diligently on reducing jargon and assuring clear communication on major issues. When the CFO takes the initiative to be a catalyst for such enterprise-view conversations, it builds his/her credibility and can also serve to define and possibly reduce complexity by bringing into focus the need for collaborative decision making and surfacing the need for transparency in how data is captured and managed.

Once the transformational CFO takes action on measuring what matters to customers, forging key partnerships, and encouraging an enterprise view of performance, the stage is set to engage in the best practices needed to make a successful transformational change.

Rare Best Practices

There are a number of best—and rare—practices that transformational CFOs perform. Some were covered in the tactics to overcome obstacles, and there are other important ones that only a small percentage of CFOs carry out. These practices include, but aren't limited to, measuring what matters to customers, forging key alliances,

Figure 1: *RCC Enterprise Process Model*



emphasizing an enterprise view, acting as a catalyst for the leadership team to form a shared vision, crafting a compelling case for change, assuring early or quick wins, emphasizing pacing, and taking steps to institutionalize change. The sequence in which these practices are performed matters, as the following example illustrates.

The Regional Communications Company (RCC) had enjoyed a long period of growth. Yet Jim, the CFO at RCC, was concerned about the gradual flattening of the company's revenues and profits during the past few years. Two decades ago, RCC had begun as a cable TV entertainment company and over the years had added services such as high-speed Internet and digital telephone. Because of the history of regular increases in revenues and profits, members of senior management had become comfortable, maybe even complacent, in their departmental roles. Jim felt that what was needed was nothing less than a transformation in how RCC conducted business. But where was the burning platform? Since he was a customer, too, he knew that customers demanded (and deserved to receive):

- On-time, complete, and error-free installations of new and enhanced service.
- Prompt, first-time-right responses to inquiries and complaints.
- Reliable service (i.e., no network disruptions or, at the least, prompt restoration of service in the case of disruption).

RCC's systems weren't designed to capture any of these three important customer-facing metrics, so Jim tasked one of his financial analysts with collecting representative, random samples for each. The analyst's data indicated that there was ample room for improvement in each area. RCC's current performance in installing new service on time and error free was particularly troubling as this statistic was estimated at 89%. In other words, one out of 10 new customers had reason to be dissatisfied with their first experience with RCC. Jim discussed the results with John, RCC's CEO. Together they resolved to launch a major transformation to accelerate profitable growth by emphasizing the quality of service to customers. Jim presented the data on the three selected customer-facing metrics to the senior leadership team (SLT) at the next weekly operating review meeting within the context of an enterprise-view schematic (Figure 1). Jim understood that it was important to shift conversation from a departmental level to a value-creating workflow or business process context. Because the only picture that RCC had of its business was the organization chart, the development of this enterprise-view schematic in the context of value-creating business processes was an important tool. The discussion around this new schematic illustrated the need for customer service, field operations, and network operations to work together in delivering on-time new installations. It also illustrated the need for network engineering, network operations, and field operations to collaborate in restoring disruptions to service. Moreover, the review of current performance levels in areas such as on-time installations, prompt restoration of service disruptions, and first-time-right responses to customer inquiries revealed to the entire senior leadership team that there was ample opportunity for improvement.

At the end of this discussion, the SLT agreed that prompt action was needed on at least three critical business processes:

- ◆ Order fulfillment (from order to installation),
- ◆ Customer inquiry (from inquiry/complaint to resolution), and
- ◆ Outage restoration (from outage to restoration of service).

The CEO then called on everyone in the room to make a personal commitment to improving performance for customers and achieving a new, aggressive revenue and profit forecast.

Jim next met with the CEO and the vice president of HR to develop the company-wide communication plan for the transformation based on the tagline of Operational Excellence (OE) and the dual platforms of a return to growth and total customer service. They intuitively understood that while the top line and bottom line were important to the SLT, it was equally important to engage the entire organization by calling on employees' pride in their work and linking it to customer satisfaction. It was this combination of messages that created a compelling case for change.

RCC launched the OE program with fanfare. A major process reengineering effort was initiated on the three top-priority, critical business processes. Concurrently, the reengineering teams were tasked with rapidly identifying quick wins for early implementation. Each team uncovered policy issues, such as improved communication of planned outages for network repairs, and other easy-to-implement fixes, such as a fine-tuning of the interactive voice response (IVR) system, that were used to demonstrate progress and folded into the communication plan to maintain excitement and momentum.

The CFO's strong relationship with the CIO was instrumental in automating the collection of data on the three key customer-facing metrics. These metrics became part of the SLT scorecard and focused attention on what matters to customers. The Finance/IT collaboration also facilitated several of the early wins, such as the prompt refinement of the IVR system and the development of greater transparency on service disruption data that was easily accessible by both field operations and network operations. Visible operational improvement was evident within six months into the Operational Excellence program as performance in responding to customer inquiries right the first time improved as did the organization's ability to carry out new installations on time.

A Quick Recap

Measuring what matters to customers, forging key alliances, emphasizing an enterprise view, acting as a catalyst for the leadership team to form a shared vision, crafting and broadly communicating a compelling case for change, assuring quick wins to maintain momentum, emphasizing pacing (the organization should be aware of its capacity to absorb change), and taking steps to institutionalize change are some of the best practices that the transformational CFO can put into action. Though there are many pitfalls along the way, such as failing to align the initiative with strategy, not involving the right people in the right way, and failing to install the needed reporting systems, the single most important pitfall to avoid is to cloak a downsizing effort in the guise of transformation. Shareholders and employees alike will see through that immediately, and the effort will be compromised from the outset.

The set of fundamental beliefs around performing for customers, an enterprise view of the organization as a complex social system, and the central role of cross-departmental business processes form the foundation for a CFO to act as the principal catalyst in transformation. These beliefs and specific tactics, such as measuring what matters to customers, taking an enterprise view, and forging essential partnerships, equip the transformational CFO to help overcome the obstacles of perception and complexity. Without an intimate relationship with the CEO and full executive office, even the most capable CFO will struggle. By definition, organizational transformation must involve the entire business. Accordingly, a high level of trust is essential, and this can be built best through collaboration across traditional organizational boundaries. The transformational CFO can become the primary advocate in building the right performance-based culture. Business gurus have said that "in the end, results are what matter," yet the journey may be as important as the destination. **SF**

Andrew Spanyi is the author of three books emphasizing the importance of cross-functional collaboration and a customer-oriented, process focus: More for Less: The Power of Process Management, Business Process Management Is a Team Sport: Play It to Win! *and* Operational Leadership. *Andrew invites readers to contact him for practical guidance related to their specific situation. You can reach him at www.spanyi.com or andrew@spanyi.com.*