THE CFO's JOURNEY

BECOMING THE BOARDROOM'S VALUE INTEGRATOR

By Sandy Khanna

The input of the Chief Financial Officer has become an essential tenet in boardroom decision making. As their responsibilities mount, how can CFOs ensure they are equipped with the right skills and knowledge to continue to be the fact-based voice of reason for their organisations?

Who is most instrumental in helping CEOs and boards make high-impact decisions – the choices and tradeoffs that build or destroy enterprise value and provide competitive edge? That answer, more often than not, is the CFO.

For CFOs, boardroom-level strategy is now as much a focus as the balance sheet. It no longer suffices to excel at core finance activities. CFOs – and their organisations – must and can help make their enterprises smarter by contributing to more sweeping, strategic concerns such as pricing models, supply chain policies and production levels.

Based on input from more than 1,900 CFOs and senior finance leaders worldwide, the **2010 IBM Global CFO Study** identified one group of finance organisations - called 'value integrators' - which consistently outperforms its peers. These are not just more effective; their organisations also perform better financially.

Their secret? Driving a combination of two key capabilities across their organisations: finance efficiency and business insight. Although study results show that each capability provides important benefits, the highest performers excel at both. These 'value integrators' demonstrate the highest effectiveness across the entire CFO agenda. In particular, they excel at two capabilities:

1. Finance efficiency brought about by process and data consistency, which helps unlock the power of analytics
2. Business insight to drive enterprise performance

THE CHANGING ROLE OF THE CFO

The modern CFO is expected to be both strategist and controller, focusing on growth and cost control. They are expected to spot and

Value integrators excel at driving both finance efficiency and business insight

COMMUNITY COMMENT

Ian Tyler
CEO
Balfour Beatty

"The first thing I always look for in a chief financial officer is their ability not to be a chief financial officer. Crises tend to focus on immediate effects and there's a tendency to ask who on the board takes responsibility for the perceived risks? The idea that there has to be a focus on the defensive nature of the organisation and somehow that this is quintessentially the role of the CFO is somewhat a caricature view of the role. The last thing you need is individuals with singular agendas. Rather, you need a management team that is aligned, integrated and maximising the totality of knowledge in that team. The more you fragment it the less effective it will be. "

COMMUNITY COMMENT

Alan Bannatyne
Group Finance Director
Robert Walters

"There are both commercial and balance sheet issues that a CFO needs to influence and shape with the senior members of the business. Post credit crisis, there was an inevitable shift of emphasis to cost cutting, however, planning the strategy to maximise and capitalise on the growth opportunities for the next cycle starts early in the downturn phase. The board's perception of the role will be dependent on the CFOs individual ability to deliver on the core functions, communicate strongly, limit surprises and add commercial insight. At the end of the day the CFO needs to be multi-faceted and capable of turning financial information into something commercially comprehensive."

COMMUNITY COMMENT

Jim Wilkinson
CFO
Sportingbet plc

"The CFO is the custodian of the assets of a company, its recorder of past events and the cautionary voice on the board. However the role also requires the CFO to be the partner of the CEO in driving the company forward through all the levers that are available, including marketing, corporate activity and investment. This makes the CFO job particularly complicated and they have to be aware of which aspect of the role to emphasise at which time."

capitalise on opportunities for innovation, in order to gain competitive advantage.

The recent economic environment has meant that CFOs have needed to make sure the fundamentals are in place in order to focus on the bigger picture. Companies must be able to maintain effective day-to-day operations and, particularly in the current market, a robust finance function is key. Predictable cashflow supported by effective cash management will be the foundation, balanced with careful risk mitigation, proper funding for core business activities and cautious management of overheads.

As pressures have intensified for CFOs, new possibilities have also arisen – notably to reshape the mission of the finance organisation and to streamline and re-order parts of the business in need of retooling. Taking advantage of outsourcing opportunities with reliable partners is one way to balance back office demands with the need for more strategic thinking about future growth. It's a question of freeing up management from the transactional day-to-day tasks and letting them focus on things that they really need to be doing.

At the same time, the pace at which your organisation can recognise the need for change and then make it happen will have a direct impact on the success or failure of your business. In this sense, external assessment can help to blow some of the cobwebs away and find possible cost efficiencies that might otherwise be missed.

Based on our experience with clients across many industries, we have identified three imperatives for thriving in today's market:

- Optimise your company's position within its ecosystem to differentiate and create sustainable performance improvement among all your stakeholders.
- Develop forward-looking insight in order to anticipate and respond to future events.
- Create operational dexterity to institute business controls and streamline your enterprise, making it sufficiently agile and speedy to take advantage of rapidly emerging opportunities.

BEYOND TRANSACTIONAL ACTIVITIES

Finance leaders intuitively understand that standards can increase efficiency, but few have implemented them throughout the organisation. By studying companies with high finance efficiency, the 2010 IBM Global CFO Study found that companies using an alternative delivery model were able to accelerate adoption of process consistency and data standards. These alternatives include an enterprise-wide internal shared services model or an enterprise-wide business process outsourcing (BPO) approach.

On further analysis of the group using an alternative delivery model, we found the organisations that used enterprise-wide BPO models had higher adoption of process and data standards. The reason for this is BPO can more quickly enable finance process consolidation and optimisation, both of which are key to building the foundation for acceleration of standards adoption – which, in turn, can be correlated to better financial performance.

Data from the study also demonstrates how BPO allows finance organisations to shift their focus away from transactional activities to more effectively execute the broader enterprise agenda – which is precisely what many CFOs are trying to do. We found that the average time spent on transactional activities by all survey participants was still about 50 per cent.

By analysing IBM outsourcing clients that chose an enterprise-wide approach to BPO, we found a large shift away from transactional activities. The retained organisations of these clients spend over 70 per cent of their time on control/risk and decision support activities. In other words, more of their time is spent on higher-value, more strategic activities.

WHAT IS DRIVING THESE RESULTS?

Service providers have made significant investments in formal methodologies, skills, tools, best practice process models and most recently, integrated analytics. This, combined with the maturity and increasing acceptance of BPO, strongly contributes to companies achieving better performance than an internal shared services model.

Fundamentally, each organisation determines the finance delivery model configuration that will work best in its individual situation. When deciding which functions will be provided internally through 'centres of excellence' or externally through outsourcing, companies should consider the level of control and flexibility offered by each alternative as well as the business outcomes each enables, not just its potential to reduce cost.

For such a fundamental shift in business operations, CFOs will need to be assured that they are working with a partner that understands the pressure points in an outsourcing project. While the benefits of reduced costs are well rehearsed, the assurance gained from working with such an experienced blue chip partner is less so.

THE FUTURE FOR CFOS

CEOs want businesses run on data-driven decisions. They want scenarios and simulations that provide immediate guidance on the best actions to take when disruptions occur. The economic turmoil of the last few years provided an opportunity for organisations that are able to move quickly enough to take advantage. CFOs no longer crunch numbers: the enlargement of their role, and the skill required to perform it, require financial and business insights that go beyond spreadsheets and quarterly results. They frame the data they gather in broader market, industry, and competitive contexts. They are at the centre of driving world-class, results-oriented business insight for their CEOs and their enterprises.

During the downturn, CFOs and their Finance organisations were forced to address urgent challenges in a volatile environment. As part of this, they were drawn into higher-level boardroom discussions and strategic decisions and, as a result, gained far more influence at the enterprise level.

As CFOs become 'value integrators' for their enterprises, they have determined how to sustain business outcomes even during periods of market instability by excelling in both Finance efficiency and business insight. Shifting focus from transactional activities to higher value-added activities offers CFOs the opportunity to more effectively support the broader enterprise agenda and deliver performance improvement beyond finance.

COMMUNITY COMMENT

Ian Durant
Chairman
Capital & Counties Properties plc

CFOs need to be prepared for the behavioural challenges of board and peer group politics and assisted to develop the skills to prepare impactful board reports and external IR presentations. All CFOs should have had some insolvency/directorial responsibilities development. Team building skills are essential; and possibly it's recognition that the route to senior CFO should include an operational responsibilities and strategic development not just financial immersion."

COMMUNITY COMMENT

Gayle Hares
CFO General Business Europe
IBM

"Beyond the numbers, CFO's need to identify the options available and work with the board to help it understand the impacts of these options, then develop a strategy to make the desired options a success. It's about developing a mission in partnership with the board, putting that mission into practice, often when the inputs to that strategy are changing on a daily basis, and being able to communicate this effectively and simply to the team."

COMMUNITY COMMENT

Bernard Cragg
Criticaleye Associate and Senior Independent Director
Mothercare plc

"The role of the CFO, especially in the small to mid caps, has become much more focused on the issue of working capital and liquidity. Boards spend much more time on this issue because they have to. The CFO is critical in managing the banks and this has become a much more difficult activity. Whatever anybody says, the banks have become unreliable business partners and seek to gauge their corporate customers wherever they can. Having a CFO that is focused on managing the working capital, the forecasts and the banking relationships is completely essential."

THE NETWORK OF LEADERS
CRITICALEYE

BECOMING A VALUE INTEGRATOR

Additional research on 15 high performing enterprises from the CFO study suggests some transformations are required of the modern CFO:

- **Different catalysts, common objectives** – Each company had a specific reason to invest in transformation that related to one of four categories: crisis/survival, growth/globalisation, entity restructure or new leadership. At the same time, they all shared common objectives for change, demonstrating a balance between operational and strategic goals.
- **A playbook for finance transformation** – The study participants' consistency in approach - and success - suggests their experiences can serve as a playbook for others to follow. The enterprises consistently applied five transformation enablers that span the areas of technology, process, operating model, data and analytics, with technology the most common starting point.
- **Success equals people and culture** – The journey itself changed the fabric and culture of the workforce to sustain the transformation over time. In both the planning and implementation phases of the transformation, some unique 'people and culture' factors played a vital role in driving success.

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Sandy Khanna is Vice President in IBM's Global Process Services (GPS) unit, specialising in the outsourcing of business processes to our network of world class delivery centres. As part of the EMEA Leadership Team, he is responsible for developing IBM's solutions offerings portfolio and for leading its Business Development activities across Europe. He also manages its linkages with analysts and third party advisors. Prior to this, Sandy created and lead GPS Finance and Administration BPO Practice across Europe, having been one of the founder members of PricewaterhouseCoopers BPO business in 1996.

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