THE CFO PLAYBOOK ON STRATEGY: HOW CFOS LEAD THEIR ORGANIZATIONS TO IMPROVE FINANCIAL PERFORMANCE

March 8, 2018

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SPEAKERS

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1. How would you characterize the evolution of the CFO's role in identifying the primary indicators of a company's financial performance? To what extent are CFOs effective in factoring in overall economic conditions, regulatory requirements, and their companies' expectations when gauging financial performance?

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- The CFO's role has traditionally focused on fundamentals of transactions and compliance
- Constant regulatory and ethical pressures
- Impact of the digital revolution and proliferation of data
- CFOs have been more inclined to think outside the box, as well as seek a clearer understanding of key drivers and factors external to their organizations
- Cultural challenges
- An organization cannot look at its financial performance in isolation from other factors that affect performance

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- CFOs have been reluctant to use external data, such as indicators that reflect economic conditions, because of the frequent tendency of organizations to
  - underestimate the impact of the external environment, and
  - overestimate their control over it.
- The extent to which CFOs are effective in factoring in all relevant information is dependent on
  - their need and desire to think outside the four walls of their organizations, and
  - seek information from sources that can impart significant insight and a competitive edge but that are not directly under their control.

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2. What are warning signs that the financial metrics a company relies on do not fully reflect the company's performance goals?

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- Unbalanced key performance indicators (KPIs)
- Metrics that do not lend themselves to benchmarking and which do not cascade among levels throughout an organization
- Inadequate definitions of targets and processes
- Inability to provide clear explanations of KPIs, drivers, and business rationales
- Disconnection between financial metrics and KPIs

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3. Under what circumstances should a CFO adapt an organization's financial metrics or introduce new metrics to better represent an organization's financial performance?

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- Reorganizations, including changes in leadership
- Acquisitions and consolidations
- Implementation of new technologies
- To achieve an ongoing aim of continuous improvement

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Organizations should establish a champion/challenger system to identify metrics that best represent overall performance.

- As an organization changes over time, some metrics fade in importance and new metrics emerge.
- A metric is useful as long as it corresponds to key indicators of performance the organization aims to manage and therefore measure.

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4. What new types of resources and tools are available to accelerate the timeframe – while improving the accuracy – with which an organization collects and analyzes financial data?

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- Transactional finance, for which robotic process automation is particularly applicable
- Core finance, which focuses on planning and analysis
  - Corporate performance management tools
  - Statistical analysis, which, in turn, produces prescriptive and/or predictive analytics to drive decision making
- Strategic finance, which combines transactional and core finance to support decisions; it lends itself best to simulations and scenario analysis

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- Cloud-based technologies
- Dashboards and data visualization
- Master data governance
- Implementation of new technologies in the context of overall business transformation

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5. Within their organizations, whom should finance teams collaborate with when defining and recalibrating financial performance metrics?

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- Human resources
- Sales and marketing
- Operations and supply chain

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- Marketing – Anticipate new product and service offerings, improve pricing, and prepare for obsolescence of existing products and services
- Operations – Quantify and prioritize initiatives that have the greatest impact on long-term value, as well as anticipate capital investments, which can help reduce borrowing costs and optimize the overall corporate portfolio
- Shared services and back-office functions – Measure and implement improvements in efficiency while anticipating changes in transaction volumes to better align resources to current and future needs

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6. What are the most common errors you have observed as CFOs seek to establish and maintain standards of financial performance? How can CFOs prevent these errors?

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The errors that a finance team can make as it measures financial performance typically include

- disconnecting KPIs from corporate strategy,
- attempting to combine all of an organization's KPIs within a single report,
- relying on the same KPIs as everyone else, and
- rigidly tying KPIs to bonuses.

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Other errors that finance teams often make when they measure financial performance include

- lack of consistency,
- poor communication and lack of ownership,
- focusing on technology first and not processes, and
- focusing on accuracy and precision rather than value and consensus.

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Preventing errors in measuring financial performance requires that CFOs

- establish an ongoing partnership between the finance team and other areas of an organization,
- maintain transparency,
- get buy-in, and
- set targets.

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7. What key points should attendees keep in mind after our discussion?

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- A finance team should be prepared to pose challenging questions to colleagues outside finance to establish a clearer understanding of an organization's performance.
- A finance team should work continuously toward partnering with other areas of the organization rather than focusing only on budgeting and reporting.
- Don't become dependent on metrics and KPIs your organization has relied on in the past; examine what types of metrics and KPIs will better reflect your organization's performance in the future.
- Technology is your friend; leverage it to the fullest extent possible to measure all aspects of your organization's performance.

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QUESTIONS AND ANSWERS

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