

Financial Leadership: What's It All About?

BY JEFFREY C. THOMSON

Leading CFOs around the world say they need “it” to bring their teams to the next level in driving business performance within their organizations. Members of the Institute of Management Accountants (IMA®) say they need “it” to advance their careers or those of their management accounting and finance-function staff. What is “it”? “It” is *Financial Leadership*. Much like learning or striving to be a “good” person or a “great” organization, the notion of achieving financial leadership is a reasonable aspiration, but what does it mean exactly?

In this article we’ll explore what financial leadership means in practical terms. My intent is for this to open a discussion and be an engagement in critical thinking, not a clear-cut set of solutions or answers. In fact, one of my premises is that leadership in general isn’t a point-in-time end state—it’s a *continuum* of experiences, skills, and always reaching beyond your current set of belief systems and experiences.

WHAT IS LEADERSHIP?

Let's examine this question from two perspectives: the view of a leading practitioner who clearly achieved leadership status and the view of a prominent author on the topic of leadership.

IMA Chair Emeritus Bill Brower, CMA, CFM, served as group vice president of finance at Johnson & Johnson, one of the world's preeminent corporations, before he retired. Bill has spoken around the world on the topic of *management behaviors and functions vs. leadership behaviors and functions*. At IMA's Second Annual Global Conference in Dubai last May, he provided the "six Cs of leadership credibility" (the six Cs were also presented at another IMA conference by Charles Christy, EVP and CFO of Citizens Banking Corporation). They are:

Conviction—The passion and commitment an individual has toward his/her views or the views of others.

Character—Consistent demonstration of integrity, honesty, respect, and trust. A "table stake" for leadership—a must to be a successful leader. No questions asked.

Care—Demonstration of concern for the personal and professional well-being of others. This includes the notion of "followership." Leadership is about influencing others to follow in terms of strategic direction, critical thinking, passion for success, etc.

Courage—Willingness to stand up for your beliefs, challenge others, admit mistakes, and change your own behaviors when necessary. Willingness to engage in "constructive contention" to professionally challenge or question the status quo or strongly held views.

Composure—Consistent display of appropriate emotional reactions, particularly in tough or crisis situations (includes aforementioned constructive contention skill).

Competence—Proficiency in "hard" technical skills and "soft" human behavioral skills.

The premier author on leadership is John C. Maxwell, who wrote the book *The 21 Irrefutable Laws of Leadership* in 1998 and updated it in 2007. I suggest that you read this book. To whet your appetite, I'll provide you with a brief description of my six favorite "laws" that I learned (and, I hope, applied to some degree) during my years as a practitioner/CFO in telecom, an academic at the college and high school levels, and now as head of research at IMA.

The Law of Influence—This law simply says that, while not everyone has to be *the* leader, they can be *a* leader at some level if they take the view that they have the ability to influence others (subordinates, peers, supervisors, stakeholders).

The Law of Process—Leadership develops daily, not in a day. It's a continuous process, even for those we view as having "made it." As Maxwell says, "As long as a person doesn't know what he/she doesn't know, he/she isn't going to grow."

The Law of Addition—Leaders add value by serving others. As Maxwell says, "The bottom line in leadership isn't how far we advance ourselves but how far we advance others." And "Inexperienced leaders are quick to lead before knowing anything about the people they intend to lead. But mature leaders listen, learn, and then lead."

The Law of Connection—Leaders touch a heart before they ask for a hand. "It's one thing to communicate to people because you believe you have something of value to say. It's another to communicate with people because you believe they have value."

The Law of Empowerment—Only secure leaders give power to others. "Leading well is not about enriching yourself—it's about empowering others."

The Law of the Buy-In—People buy into the leader, then the vision. "The leader finds the dream and then the people. The people find the leader and then the dream."

WHAT DOES THE MARKET SAY?

As a practitioner in the highly combative telecom wars for more than 23 years, I always learned to listen to the voice of "the market." But sometimes the market (customers, members, shareholders, stakeholders, etc.) tends to be shortsighted and focused only on solving the major "pain points" or critical business issues of the day. A market view must always be balanced with a broader look to the future of the business, the future of the profession, etc. Otherwise, for example, how many of the technological advances of our day would have even been considered?

Regarding financial leadership, CFOs around the globe are generally concerned that there's a gap between the current state of reality and the aspirations for their CFO teams in helping to drive business performance inside their organizations. Figure 1 shows a simplistic demand and supply perspective regarding the CFO team's current and aspirational performance.

From the *demand* side, the CFO team's stakeholders are driving the CFO team to greater heights because *they* are being driven by the complexities of globalization (e.g., China evolving from state-run to a market economy, convergence of U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS), etc.), increased customer sophistication and expectations (e.g., demand for value-added "bun-

Table 1: CFO Surveys

RESEARCHER	YEAR	STUDY	SAMPLE SIZE
IMA	1994-2008	Various Business Partner Studies	Various
PWC, CFO Research	2005	CFO as Chief Performance Advisor	216
IBM	2005	The Agile CFO	900
KPMG, <i>The Economist</i>	2006	Being the Best...	286
IBM, Wharton, et al.	2008	Balancing Risk and Performance with an Integrated Finance Organization	1,200

dles” of products and services), and the compliance jungle exacerbated by Sarbanes-Oxley legislation for publicly traded U.S. companies (compliance with federal, state, and local laws; vertical industry sector compliance such as the Health Insurance Portability and Accountability Act (HIPAA) in healthcare; organizational compliance with ethics and employee policies, etc.). Stakeholders would like their CFO teams to be more focused on decision support, helping to create wealth, and creating influence at the table as a strategic business partner while still ensuring a clean bill of health for the company financially.

From the *supply* side, the current reality is generally that the CFO team is still too focused on processing transactions, is less focused on creating wealth than on accounting for the wealth (which is the basic expectation—what some studies refer to as “one version of the truth”), and exerts influence but often only as a compliance cop making sure that financial and other rules are followed. The market seems to be saying that a “minimum” expectation is to do an exemplary job in the traditional CFO roles but that there must be a step up to the more strategic business partnering CFO roles.

Numerous CFO surveys by a variety of respectable research organizations also show a gap between the current state of reality and what stakeholders are demanding from their CFO teams. (See Table 1 for a list of the surveys.) What are some of the gap fillers? Improved business processes and further development of people skills on the CFO team, including financial leadership.

Financial leadership isn’t confined to the top person (the CFO and controller)—the *entire* CFO team is expected to bring the organization to the next level of performance in an increasingly complex global marketplace.

WHAT SKILLS ARE NEEDED?

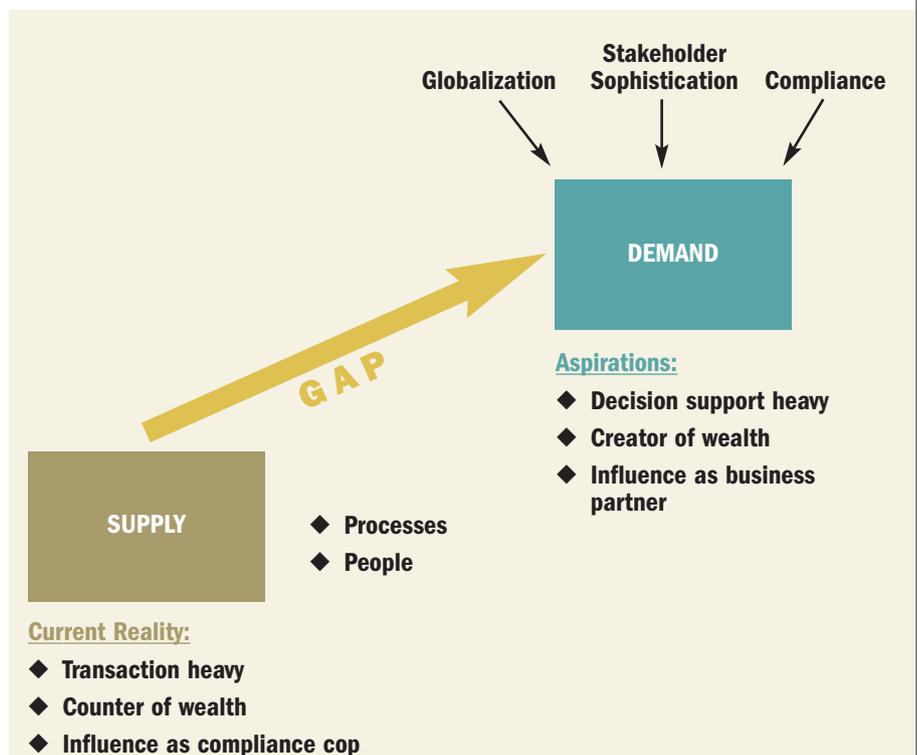
While it’s a challenge to synthesize the views of literally thousands of CFOs

from the surveys in Table 1 related to current priorities, future aspirations, and gaps, the brief summary is that:

- ◆ The CFO team aspires to move from a primary focus on counting wealth and serving as compliance cop to a more balanced role that includes creating wealth and being influencers of strategy.
- ◆ To some extent, the CFO team is still stuck in the role of transaction processors, and evolving beyond this role requires a whole new set of skill sets.
- ◆ Sourcing these new skill sets is problematic, so they tend to be “home grown,” i.e., developed from within the organization.

Peter Brewer, CPA, professor in the department of

Figure 1: Critical Business Issue: Gap in CFO Team Aspirations



accounting at Miami University in Oxford, Ohio, and a coauthor of one of the leading management accounting undergraduate textbooks, often asks fellow accounting professors, “How often do you use the word ‘leadership’ in your classroom?” More often than not, a vast majority say “rarely if at all,” which implies a lack of leadership training in the undergraduate curriculum devoted to harder skills, such as strategic planning, enterprise risk management, and continuous process improvement, and softer skills, such as negotiation, collaboration, and change management. Yet many affirmative responses are associated with the follow-up question, “Are leadership skills important to employers?” The implication is a gap between the demand for management accountants who can grow into strategic business partners and the current supply of training and education in this area.

Based on the surveys, what are some of the “top of mind” skill sets the CFO team needs in order to achieve the desired/aspirational status as financial leaders and strategic business partners? These skills involve strategic planning, including integration of planning, budgeting, and forecasting; “predictive” analytics, including more advanced forecasting methods, competitive analysis, business intelligence, and data mining; enterprise risk management; financial statement quality assurance; greater integration with IT, including developing on a global basis a G/L that many CFOs referred to as “one version of the truth”; project management to enable the CFO team’s leadership role on cross-functional organizational initiatives; process management for key business processes such as the customer order-to-cash process; and “softer” skills, such as negotiation, collaboration, change management, and communication. From an organizational perspective, that’s what financial leadership is all about.

FOCUSING ON THE INDIVIDUAL

Let’s now shift from an organizational discussion of financial leadership to a more practical, individual, and personal perspective (“What can *I* do to advance my career and *my* organization?”). For context, I’ll provide a work-in-progress definition of management accounting and management accountants from IMA’s Foundation for Applied Research (FAR). FAR took on this challenge because most definitions of management accounting as a profession are out of date and focused almost exclusively on the cost accountant in manufacturing when today the profession is much broader with a global reach. (Note: Although this work-in-progress definition isn’t being formally exposed to IMA members for comment at this

time, I invite any early input. For example, when talking with your nonfinancial colleagues or with friends at a party, how do you describe your work as a management accountant?)

Here’s the work-in-progress definition:

Management Accounting is a professional discipline that helps management in formulating and implementing their organization’s strategy. Management Accountants are an integral part of the management team, working within the organization at many levels: from top-level management to support-level finance and accounting professionals. The Management Accountant applies their knowledge and experience in accounting and financial reporting, budgeting, decision support, risk and performance management, internal control, and cost management.

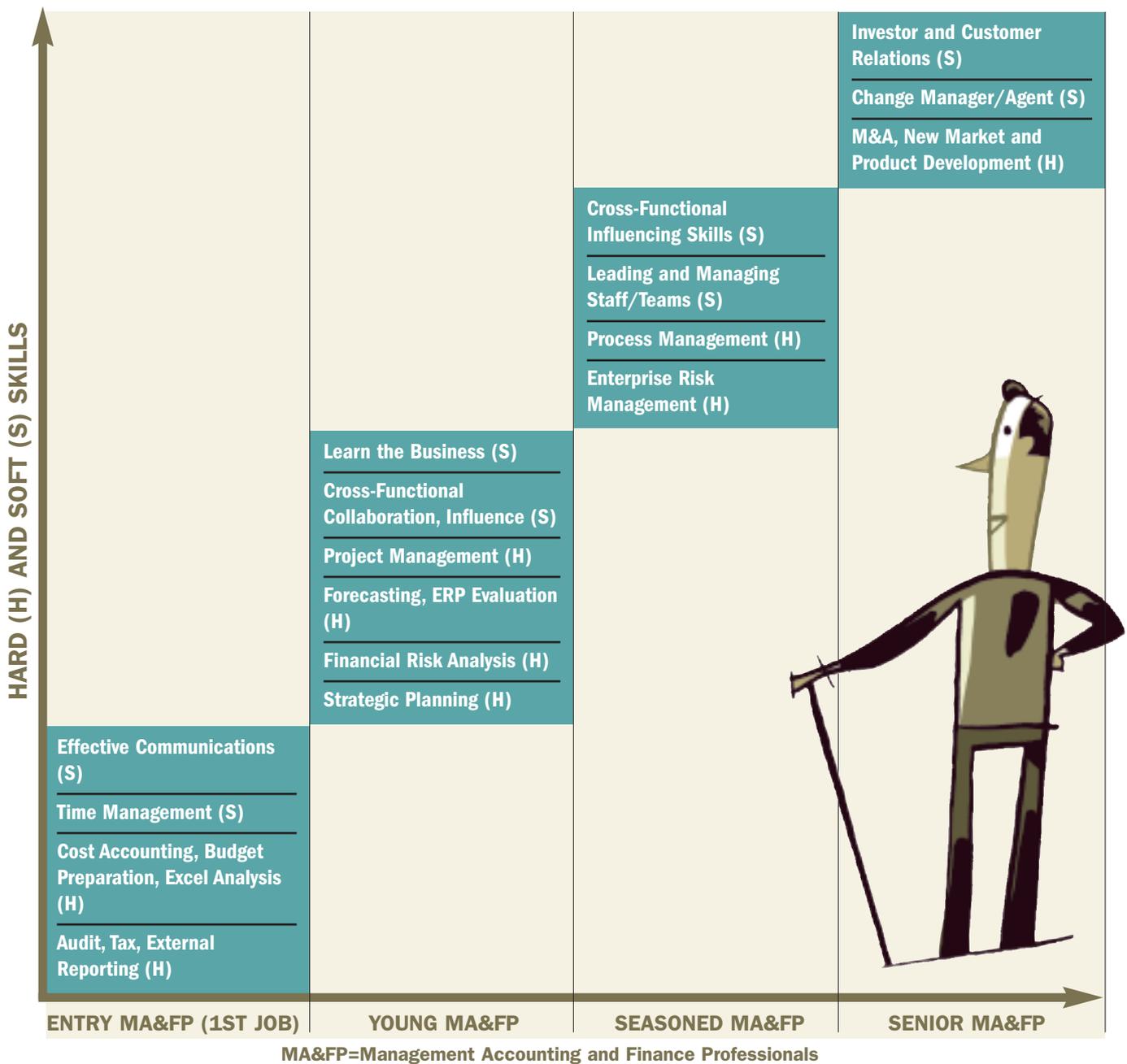
With this work-in-progress definition in mind, let’s summarize at a high level what has been discussed or inferred so far on the topic of financial leadership.

1. Recall the Law of Influence from John Maxwell’s book *The 21 Irrefutable Laws of Leadership*. Leadership doesn’t have to come only from the top person—the CEO, CFO, or controller. Every management accountant and finance-function employee, regardless of their level in the organization’s hierarchy, has the opportunity to exert influence whether they are processing transactions such as accounts payable or receivables, closing the books, preparing budgets, or helping the organization formulate its strategy.

Influence could take the form of a process improvement to save the organization money while maintaining at least the same level of effectiveness. It could take the form of an idea to improve handoffs to operational partners on cross-functional teams. It could take the form of a proposal to cut down on the budget preparation cycle time. As Maxwell says, “The true measure of leadership is influence—nothing more, nothing less.” Scott Adams, the creator of the “Dilbert” comic strip, says, “You don’t have to be a ‘person of influence’ to be influential. In fact, the most influential people in my life are probably not even aware of the things they’ve taught me.”

2. CEOs and other key organizational stakeholders are “telling” the CFO team that there are *minimum* expectations that earn someone the *right* to simply be *at* the table (vs. exerting influence over key decisions made in the organization). These minimum expectations, which used to be the standard fare for the full range of the CFO’s job, include exemplary transaction processing, book close, compliance, internal controls, etc. They tend to be the more “mundane,” historically focused finance activities—

Figure 2: Financial Leadership—An Illustrative Continuum



those that “keep the lights on” and keep the organization solvent and in full compliance with the law. Yet key stakeholders are telling the *entire* CFO team that they need to step up to the challenge of being business partners to earn the *right to influence* critical business decisions. This stepping up includes understanding the business; involvement in areas such as strategic planning, enterprise risk management (ERM), and decision support; and the ability to influence key internal and external stakeholders via communications, negotiation, and collaboration skills.

3. Finally, financial leadership is implied in the work-

in-progress definition of management accounting and management accountants. Some of you might ask, “What does the ‘average’ management accountant have to do with formulating or implementing the organization’s strategy?” With respect to formulating strategy, it may be true that, especially in larger organizations, only the more senior-level finance professionals are actually involved in creating or formulating the organization’s strategy. But shouldn’t management accountants who aren’t at the senior level aspire to this as they work their way up the ladder and/or increase their scope of influence? Addition-

ILLUSTRATION: BRYAN PETERSON/WWW.DRAW-BOY.COM

Table 2: Financial Leadership Continuum Framework

ACTIVITY	ENTRY MA&FP (1ST Job)*	YOUNG MA&FP	SEASONED MA&FP	SENIOR MA&FP
Scope	Learn your job— “find your desk”	Learn the business	Move into operations	Run a business
Interfaces	Self/boss	Cross-functional/ internal teams	External interfaces	Investor relations, customer relationships
Analysis	Cost and budget; audit, tax, external reporting	Strategic plan, financial risk, profit analysis	Enterprise risk, supply chain, etc.	M&A, new market/ product development
Process	Individual contributor	Project manager	Process manager	Change manager/agent
Analytics/IT	Excel, data acquisition and analysis	Forecasting, ERP evaluation; financial applications	Business Intelligence, data mining	Integrated CFO/IT governance

* MA&FP = Management Accounting and Finance Professionals

ally, in order for the organization’s strategy to be successful, management accountants at *every* level need to understand how their everyday work activities contribute to strategy execution and how they can improve that contribution with process improvements, new ideas, etc.

A CONTINUUM

Leadership, including financial leadership, isn’t a fixed-point-in-time set of behaviors, let alone an end state. Leadership really is a continuum, an opportunity to continually grow and improve your ability to influence others for the greater good. Not every management accountant has to be *the* leader, but the demands of the market seem to be suggesting that, at some level and at some point(s) in time, the management accountant does need to be *a* leader.

An illustrative financial leadership continuum framework is provided in Figure 2 and Table 2. In Figure 2, the vertical scale represents a variety of “hard” skills (e.g., more technical skills such as financial reporting, budgeting, etc.) and “soft” skills (e.g., more “human interaction” skills such as communications, collaboration, and negotiation). The horizontal scale represents sample phases of a management accounting and finance professional’s career (e.g., entry-level job, young professional capturing the next two to three jobs, etc., potentially moving into the more senior-level finance jobs over time). The expectation is that the hard and soft skills will increase in complexity, scale, and scope—the “step up” depicted.

For example, in Table 2 (interfaces row), entry-level employees may tend to interface most often with their boss and a few peers. In the next phase of their career, they will get involved more in cross-functional projects

(e.g., managing business cases) and ultimately, as a senior finance professional, interface with outside stakeholders such as customers, investment analysts, etc. In another example from Table 2 (analysis row), the entry-level finance professional may get involved with book close, transaction processing, and/or budget work, evolving over time to more complex and forward-looking activities such as strategic planning, merger-and-acquisition (M&A) work, risk management, decision analytics, etc.

IMPROVING AS A FINANCIAL LEADER

Now maybe you’re asking, “How can I improve as a financial leader, regardless of where I am on the career continuum?”

IMA has several resources available to members in the area of financial leadership/business partner, including articles, Annual Conference topics, webcasts, and research. For research, visit the IMA website at www.imanet.org. In the upper left corner, click on “Research Center of Excellence,” and then find the “Leadership Strategies and Ethics” research practice for relevant articles and research.

Since 1994, IMA has launched a steady stream of research in the area of understanding and addressing the gap between what corporate America *wants* from management accountants and the education and training *supplied* by the education system. This research was conducted by the late Gary Siegel, CPA, professor from DePaul University; James Sorensen, CPA, professor from the University of Denver; and Sandra Richtermeyer, CMA, CPA, professor from Xavier University. It includes *What Corporate America Wants in Entry-Level Accountants*.

Table 3: IMA Primary Research: How to Become a Business Partner

How management accountants can prepare for the change to business partner:

- ◆ Build the foundation
- ◆ Develop excellent interpersonal skills
- ◆ Develop informal communications with people across the organization
- ◆ Understand the business
- ◆ Educate the organization

Transitioning strategies for the business partner:

- ◆ Show value-added analysis
- ◆ Gain trust
- ◆ Give high-quality advice that promotes solutions
- ◆ Help the “financially challenged” understand the information
- ◆ Understand the needs of decision makers
- ◆ Promote the value of financial advice

tants (1994); *Practice Analysis of Management Accounting* (1996); *Counting More, Counting Less: Transformations in the Management Accounting Profession* (1999); *How to Become a Business Partner* (2002); and, more recently, *Impact of SOX on Business Partners* (final stages). Table 3 contains some helpful hints, based on the 2002 business partner research, on how management accountants can prepare themselves to be successful business partners. (You can read the related *Strategic Finance* articles, “Are You a Business Partner?” (September 2003) and “Becoming a Business Partner” (October 2003), in the Leadership Strategies and Ethics research practice noted above.)

Another way to learn about financial leadership is from the leaders themselves, whether it’s informally or in a more formal relationship such as mentoring. Patrick Stroh, CMA, president of Consumer Health Products at UnitedHealth Group, is a *Strategic Finance* author and Annual Conference speaker, primarily in the area of enterprise risk management. He says, “I like to say that I ‘cut my teeth’ in the finance organization. But it was the development of an ERM skill set which was the springboard to getting into critical leadership roles in the ERM area and the organization’s multiple business units. Do not be passive in seeking out these critical new skill sets. Also, actively seeking out mentors and coaches and establishing a professional network are keys to leadership and career success.”

Paula Riemer, CMA, CPA, senior financial analyst at the Martin-Brower Company, LLC, is on IMA’s new Young Professionals Committee. In advancing her career, she has been focused on evolving both hard skills (such as strategic planning, forecasting, project and process management) and soft skills (such as conflict resolution, time management, and cross-functional collaborative skills). Riemer explains: “Staying on top of the skills and experiences required to be a successful financial leader is

our professional responsibility as management accountants. We must seek out professional development opportunities to expand and enhance our existing skill sets as we progress through the various stages of our careers. In addition to evolving hard and soft skills, we must learn the operations of the business in order to effectively communicate and understand key issues facing our companies, industries, and business partners.” Riemer recently attended a seminar for young professionals in her local area on “Preparing to Lead,” which focused on leadership, intergenerational communication, building and maintaining professional networks, meeting savvy, etc.

In his article, “Redefining Management Accounting,” which appeared in the March 2008 issue of *Strategic Finance*, Peter Brewer presents a new framework for management accounting that includes leadership as one of the four core pillars of the profession. As I noted earlier, Brewer maintains that, while financial leadership has become a “prerequisite” critical core competency for the management accounting and finance professional, relatively little is being done in the undergraduate accounting curriculum to satisfy this organizational demand.

IT’S UP TO YOU

The answer to the question “What’s financial leadership all about?” is really up to you. With leadership being defined as the ability to influence people, decisions, and outcomes, you have the ability to step out and be a financial leader in your own right even if you aren’t *the* financial leader at this stage of your career. Your organization’s stakeholders expect nothing less of you and the CFO team in driving business performance ■

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