FINANCE'S PARTNERING ROLE (PART 2)

Breaking Down Boundaries

How finance can help business partnering succeed.

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The finance function must balance business partnering with maintaining the necessary independence in reporting the firm's financial results. To find out how the finance function strikes this balance, we surveyed or interviewed CFOs at 112 *Fortune* 1,000 firms. The aim was to discover how finance units partner with line management in today's climate of increasing concern over the independence of finance in reporting corporate results. We found considerable variation in both the level of partnering and the methods they use.

This is the second installment of our two-part series on business partnering We'll begin by briefly recapping part one, which focused on CFOs' opinions on whether the finance function's need to be independent inhibits its partnering role. Then we'll take a close look at management practices that may promote or hinder partnering and provide guidelines on how senior financial managers can help partnering take root.

CFOs' Opinions on Partnering

In part one of our study, we reported that most CFOs didn't consider partnering a threat to the independence of the finance function. Instead, most felt that a company could achieve a balance between partnering with line management in providing decision support and objectively reporting the firm's financial results and maintaining the needed internal controls. There was general agreement that the Sarbanes-Oxley Act (SOX) had strengthened the firm's internal controls. Furthermore, the majority of finance chiefs said that the level of partnering of the finance unit with line management and other business functions was close to optimal, but some of the CFOs' responses didn't support the presumption that partnering was optimal in most firms. There was considerable variation in the emphasis placed on partnering and the level of awareness of partnering opportunities. Few finance units had clear plans in place for developing partnering relationships within finance or with other business units and functions.

Indicators of Partnering

To investigate the finance function's business partnering practices, we used a survey instrument, the Finance Department Analysis Questionnaire (FDAQ). Various questions examined how the finance function implemented business partnering while maintaining the needed independence from management. The study targeted indicators of partnering and independence, such as the performance measures finance reports, the preparation and training of finance staff members, their physical location and place in the organizational structure, their compensation, and the methods to measure internal customer satisfaction with finance.

Performance Measurement

We asked respondents how companies measure corporate performance because the extent to which the finance function reports nonfinancial measures is an indication of how integrated finance is with the rest of the business.

Table 1: PERFORMANCE REPORTING

Just financial results	(28%)
Financial and nonfinancial results	(72%)

Most business functions measure their performance in nonfinancial terms, such as quality, safety, market share, customer satisfaction, process improvement, employee productivity, etc. The majority of CFOs (64%) indicated that their management reporting system was based solely on the financial accounting system as opposed to being based on a more integrated system tailored to the needs of line management. Designed mainly for financial statement preparation and external reporting, financial accounting systems may be weak in reporting measures of operations that drive financial results. Nearly three out of four respondents indicated that they paid attention to both financial and nonfinancial measures (see Table 1). But most nonfinancial measures came from outside finance and weren't part of finance's management reporting system. The integration of nonfinancial and financial data is essential for finance to partner with other functions.

A relatively small number of firms were using well-known management methods for interrelating financial and nonfinancial measures. For example, 54% of the firms reported using a balanced scorecard system; only 36% reported integrating Economic Value Added (EVA®) into their measurement system; and a much smaller number (less than 15%) reported incorporating Six Sigma. The finance function uses the balanced scorecard, EVA, and Six Sigma to tie operating performance with financial results. Their relatively limited use may indicate a lack of commitment to partnering with line management. One CFO who personally trained nonfinancial executives to understand and use EVA for his company said that the time and patience required to implement EVA discourage companies from using it but that the benefits in understanding the financial impact of operations make it very worthwhile.

Another performance measurement, benchmarking, frequently involves nonfinancial comparison measures. The use of benchmarking indicates a willingness to partner with other firms in sharing best practices and choosing performance measures. Sixty-one percent of CFOs reported benchmarking the performance of the finance unit with the finance function of other firms. Firms that don't benchmark are limited to their own best practices and, since they don't compare their performance, are unable to assess how well they are doing. Panels such as Hackett Benchmarking help firms compare their performance with other firms on various financial and nonfinancial metrics, but benchmarking panels often focus too much on routine transaction activity with an emphasis on efficiency rather than effectiveness and need to pay more attention to areas of partnering and decision support.

Performance measurement is a primary role of the finance function and one of the main ways that finance can form a partnership with other business units and functions. If finance doesn't measure performance in ways that are relevant to business-unit managers and people in other functions, it's unlikely that finance will form effective relationships.

Reporting Relationships

Almost three out of four respondents indicated that financial managers in their firm reported to the CFO or another financial manager, while 24% reported to division or line managers, and 4% reported to another functional manager (see Table 2). Reporting relationships influence both the focus and loyalties of the finance staff. Having more finance people report to division heads and line managers could encourage more partnering, but it might encourage less independence in the reporting of financial results. Some firms had both solid- and dotted-line reporting relationships that might help satisfy both requirements. The firms in this study appeared to want to exercise more corporate control over the finance staff. This may not, however, lead to more reliable reporting of financial results. Available evidence suggests most manipulation of financial data occurs at the corporate level when divisional results are consolidated.

Table 2: REPORTING RELATIONSHIPS
Finance manager (72%)
Line manager (24%)
Other (4%)

Physical Location and Place in the Organizational Structure

The physical location of the finance staff and their place in the organizational structure may partly determine whether they are in a position to partner with line managers and other functions. A finance staff in a separate remote location is unlikely to partner with people in operations. Finance staffs in this study were equally divided between a centralized finance group and decentralized placements in the divisions. Some firms are centralizing their repetitive financial support activities in shared service centers and decentralizing decision-support activities into the business units. The most frequently cited decentralized placements were business-unit, divisional, and plant controllers. Some firms had business-unit CFOs and financial managers. Other firms assigned financial managers to particular functions, such as marketing and R&D controllers. Finance staffs were also members of cross-functional teams. Firms with a process focus placed finance staff members on major operating teams, such as product development, sales, distribution, and supply chain teams. Embedding finance staff members with business-unit managers can encourage partnering and enable them to get involved in operating decisions, but many firms in this study still housed finance staff together in separate finance units.

Training and Development

The training and development of finance staffs can be expected to have a major influence on their ability to partner with line management and other functions. Table 3 shows that most financial managers in this study were trained and developed exclusively for a financial career (75%) as opposed to an interdisciplinary business career (25%).

CFOs, on average, said they gave equal weight to business partnering and independent control in their relationship with line management. The training and development of financial managers in this study indicate there may be a disconnect between the desire to partner with line management and the necessary education to do so. The majority of finance staff members were trained as financial specialists. Some firms made professional certification the focus of their finance training, such as meeting

Table 3: TRAINING OF FINANCE STAFF
Finance only (75%)
Interdisciplinary (25%)

Certified Public Accountant (CPA), Certified Management Accountant (CMA®), and Certified Internal Auditor (CIA) requirements. Such specialized training may reinforce finance as a separate silo. This narrow focus may limit the ability of finance staff members to partner with people in other functional areas.

A number of CFOs emphasized the importance of a strong foundation in finance for any person entering a line-management position. The interviews in this study, however, suggested that financial managers may be better prepared to educate line managers about finance rather than financial managers being educated about what line managers and other functions do and need from them. CPAs, in particular, are well-trained in accounting, the compliance side of their jobs, and internal controls, but they aren't trained as well in the other business functions and how to partner with them. This may make it more difficult for senior financial managers to transition into general management jobs.

A number of the finance units in this study had rotation programs across the finance subdisciplines. They also coordinated special assignments and succession planning to enhance finance staff members' experience and knowledge of finance, which aid partnering across the subfunctions of finance.

Finance training sometimes included leadership training in group facilitation, interpersonal skills, motivation, written and oral communication, and team building. Offering leadership and behavioral skills training can help finance staffs work more effectively with other people but, by itself, is unlikely to lead to business partnering. Finance staffs need training in other areas of the business. They need to understand the problems managers face in other business units and functions. Some firms built this kind of awareness and understanding among finance staffs by putting them on cross-functional action-learning training teams. Firms assigned business problems to finance staffs and employees from other disciplines, asking them to develop solutions using the group's expertise. In so doing, they learned the perspectives of other disciplines and how they could contribute to solving important business issues.

A few firms had implemented career-development programs where finance staff members rotated outside of finance into line-management positions and other functional areas. This type of development can give the finance staff a fuller understanding of other areas of the business and groom them for general management jobs. In a minority of firms, the finance function surveyed other functions on what finance training and education would be most useful. In some firms, the same training and education that was provided to finance staffs was made available to people in other functions. All of these initiatives can promote greater understanding between finance staffs and people in other functions.

Table 4: PERFORMANCE-BASED PAY

Divisional and corporate results (73%)

Divisional, corporate, and finance results (18%)

Finance results (9%)

We should also note that a number of CFOs in this study were neither CPAs nor persons with specialized financial backgrounds. They were people from other functional disciplines who had rotated through finance earlier in their careers and picked up the needed financial acumen. The companies later recruited them as CFOs because of their general management experience.

Compensation

Linking the compensation of the finance staff to divisional or corporate performance indicates a commitment to partnering. We found most had a pay-for-performance system tied into company or divisional priorities.

As indicated in Table 4, the majority of finance staff members were compensated on divisional and corporate performance (73%) or a combination of divisional, corporate, and the performance of finance (18%). In only a minority of firms was compensation determined solely in finance (9%). A few of the finance functions based some of the compensation on competencies acquired, such as skill, knowledge, and training in different work areas of finance that would allow employees to deputize or fill in for one another. More partnering might be encouraged if these competencies were partly grounded in other business disciplines, such as sales, marketing, operations, research and development, and supply chain management.

Measurement of Internal Customer Satisfaction with Finance

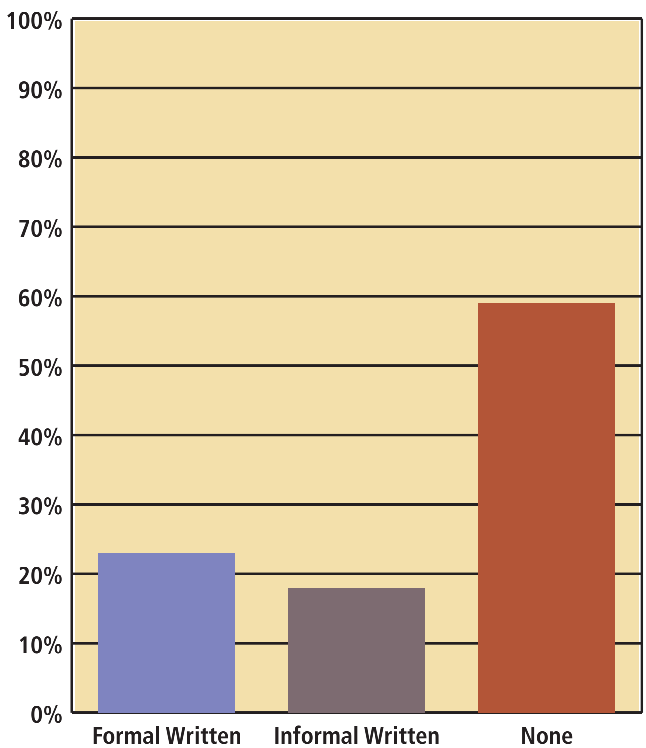
The majority of finance units didn't measure internal customer satisfaction with their performance. Only 41% evaluated internal customer (cross-functional) satisfaction with finance, and just over half of these finance units (23% of the total sample) did a formal evaluation using questionnaires and quantified measures of performance (see Figure 1). This is a surprising finding if finance is committed to partnering with other business units and functions. Less than a quarter of the finance units obtained quantitative performance feedback on a regular basis from other business units and functions.

Few firms these days place much reliance on informal feedback and comments as a means of evaluating external customer satisfaction. The research on external customer satisfaction shows most customers don't complain even when they have a right to do so. Customer complaints are the tip of the iceberg of customer dissatisfaction. Companies that value their customers solicit regular quantitative feedback to assess whether their performance is improving.

Finance has plenty of experience in evaluating the performance of other functions, especially in budget reviews and variance reporting. Finance usually tracks a large number of measures of firm performance, including many internal measures within finance, such as the cost of capital, the effective tax rate, and the days' sales outstanding. Clearly, other means of evaluating the contributions of finance exist, but management shouldn't underestimate an internal customer evaluation if the goal is to encourage partnering. Adding a formal review can help build linkages with other functions and allow other units to provide sanctioned feedback without worrying about the repercussions. At the very least, as one respondent indicated, "It makes finance aware of who its internal customers are."

One company's CFO said his department did "internal-customer-of-finance" surveys twice a year to assess how well the finance function was doing as well as learn which areas needed improvement. Business units had the choice of filling out a questionnaire, doing a telephone interview, or meeting in person with members of the finance unit. Some finance functions included the board of directors in their internal customer evaluation. Getting formal feedback from the board on the performance of the finance function would seem to be a progressive step. It allows board members to provide their perceptions on the finance function's level of independence and whether or not the finance function was providing the needed information and insight on how to improve the firm's financial performance.

Figure 1: Assessment of Internal Customer Satisfaction



Prescriptions for Partnering

The term "business partnering" is readily understood by senior financial managers, but it may be more of a slogan than a reality in many firms. There is little agreement on what business partnering is, with whom it should be done, and the methods that can be used.

None of the finance units in this study had formal partnering plans, few offered specific training in business partnering, and fewer still made any attempt to measure it.

Ten action steps may help finance units formalize business partnering (see Table 5).

1. Make Partnering a Priority

Finance must make partnering a top management priority and a measurable objective. This requires recognition of its importance and a commitment to partnering at the top-management level. It necessitates the buy-in of both the CEO and CFO because there won't be any commitment lower down without it. Partnering takes leadership and motivation at different levels of the finance organization. The finance staff often experiences difficulty gaining access and being taken seriously by people in other units. It's much easier for the finance staff to perform routine accounting and finance work in isolation. The CFO and subfunction department heads must demonstrate partnering, encourage department members to engage in it, and clear the way for it to happen by negotiating and easing access with the management of other functions.

2. Expose Finance to Other Disciplines

The finance staff needs cross-functional education and training. Most finance staff members ascend a narrow career stovepipe, so how can they be expected to assist people in other disciplines when they are trained as specialists? Those on the accounting side of the house frequently don't understand the treasury side, let alone other business disciplines. Very few will work in disciplines outside finance. Business education is of limited help. Most MBA programs, for example, have only one interdisciplinary course, the capstone business strategy course. The finance staff needs more exposure to cross-functional business problems, such as the action-learning assignments some firms in the survey use.

Assignment to cross-functional learning teams enable the finance staff to work on real company problems with people from other disciplines. This can promote understanding of other functions' concerns and how finance can contribute to jointly agreed solutions. Such assignments build confidence and help finance members establish connections with people in other departments.

Taking this a step further, cross-functional career paths need to be mapped out for high-potential managers. Ultimately, there's no more effective learning experience than working in the shoes of people in other departments. This can be on a short-term basis or as temporary shadow assignments to help finance people understand other functions' work routines and perspectives on business issues. Again, the contact can help break down barriers and build connections.

3. Locate Finance Near Units It Serves

The finance function needs to be embedded in the firm's operating structure. If finance is considered a separate staff-support function housed together in a building remote from the main business, it will be difficult for finance to build close relationships with other units and functions. Finance personnel need to be physically close to the units they serve and slotted into the organizational structure under operating management. Many firms in the survey established finance positions with the different operating units (divisional head of finance, divisional financial analyst) and business functions (e.g., plant controller, marketing controller).

In addition, the finance staff was embedded in the operating structure on cross-functional teams that

Table 5: GUIDELINES FOR PARTNERING

1. Make Partnering a Top Management Priority and a Measurable Objective
2. Establish Cross-Functional Education and Training
3. Embed Finance in the Operating Structure of the Firm
4. Identify Partnering Interfaces within Finance and with Other Business Functions
5. Evaluate Each Relationship for the Right Level of Partnering and Independence
6. Select Metrics with Line Management for Measuring Line Performance
7. Develop and Interpret Performance Reports with Line Management
8. Formally Assess Internal Customer Satisfaction with the Subfunctions of Finance
9. Link Compensation of Finance Staff to Line Results
10. Benchmark Partnering Practices and Measures with Other Firms

worked together on key business issues, such as new product introductions, sales, distribution, and supply chain management. When finance is ingrained in the fabric of the firm, the problems of access and legitimacy play less of a part. Finance has a seat at the table.

4. Identify Partnering Interfaces

The finance subfunctions need to identify partnering interfaces both within finance and with other business functions. A surprising finding from the survey was that few of the finance subfunctions had identified other units and functions with which they had ongoing relationships. How can firms improve these interfaces if little attention is given to the units (both inside and outside finance) with which the different functions interact? Finance needs to pay careful attention to its internal customers.

5. Determine Needed Relationships

The CFO and the finance department heads must decide the type of relationship that the finance subfunctions should have with each other and with other functions. This should include consideration of the need for independence and internal controls as well as plans for partnering with other functions.

6. Monitor Critical Nonfinancial Measures

Finance must select metrics with line management that measure operating performance. Finance's most recognized role is providing performance information to other functions. Many standard financial measures tracked by finance are of little value to people in operations. Line management and other business functions need timely, nonfinancial measures that they can closely associate with their work. Finance needs to assess the impact of these operating measures on the financial results of the firm.

7. Discuss Relevant Reports with Management

Finance should develop and interpret performance reports with line management. The line managers and other functions who are supposed to read and use the reports sent out by finance need to have agreed on the content and format. Many CFOs in this study wanted their finance staff to spend less time preparing reports and additional time outside the department discussing reports with line management. These meetings will be more valuable if the reports are relevant to management and if finance operates more as an ally assisting management in understanding these reports and less as an adversary judging their performance.

8. Measure Internal Customer Satisfaction

Firms need to formally assess internal customer satisfaction with the subfunctions of finance. It's hard to imagine how finance can improve its partnering relationships without obtaining performance feedback from its internal customers. The majority of finance units in this study obtained no performance feedback (qualitative or quantitative) from the departments that they interacted with.

9. Link Finance Compensation to Units They Serve

At least part of most finance personnel's compensation should be based on the performance of the units they serve because "people do what gets rewarded." Firms should compensate the finance staff for partnering with other units and functions and improving these other units' performance. One exception to this may be internal audit, which should be rewarded for objectively auditing performance rather than trying to improve it.

10. Benchmark Partnering Practices

Compare partnering practices and measures with other firms. This study has demonstrated the diversity of practice in partnering. Much can be learned from sharing and benchmarking practices with other firms. But these comparisons shouldn't be limited to finance. Other functions' partnering practices can be instructive and may be worth adopting as well.

Strengthening Finance's Relationships

This two-part report has looked at the partnering practices of the finance units of *Fortune* 1,000 firms. CFOs underestimate the challenges of inculcating and defusing business partnering throughout the finance organization. Some finance functions are front runners in partnering and are adopting more innovative methods; others are laggards. Finance units can strengthen their relationships with other business functions by adopting the best practices of leading firms that have been noted in this study. **SF**

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