By Thomas G. Canace and Paul Juras, CMA

CFO: From Analyst to Catalyst

"Becoming a business partner sometimes means taking counterintuitive approaches."

"Partnering opens up opportunities to focus on top-line growth rather than just cutting costs through a 'say no' approach."

Do these comments sound familiar? They should because they come from chief financial officers (CFOs) and highlight the importance of transforming their position from overlord of the finance function to strategic decision maker within their organization. Indeed, even textbooks like *Cost Management: A Strategic Emphasis* have begun to address the strategic role of the accounting and finance functions and better reflect the IMA® (Institute of Management Accountants) 2009 definition of management accounting in its Statement on Management Accounting titled *Definition of Management Accounting*, which reads:

"Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy."

Several factors have worked together to broaden the CFO's role in recent years. First and foremost is the gradual phasing out of the chief operating officer (COO) position. According to the Volatility Report 2013 (summer) on executive turnover by Crist|Kolder Associates, which surveyed 668 of America's leading companies, the number of companies with a COO continued to decrease—from 39.1 in 2012 to 36% in 2013—as more and more organizations eliminated the position. This change has altered the relationship between the CEO and CFO, both of whom have jumped into the day-to-day operations to work closely in implementing business strategy. This allows the CFO much more face time with both the CEO, and, importantly, the board of directors. Hence, the CFO role has morphed from analyzing the financial information of the business to also weighing in on the corporate strategy emanating from the boardroom.

Second, the regulatory environment has changed substantially over the past decade, requiring CFOs to possess a greater understanding of the business operations. For instance, Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (SOX) require CEOs and CFOs to certify the quarterly and annual financial statements, so many executives have decided that possessing a deeper, nuts-and-bolts understanding of the business offers them better protection when attesting to the financial results. Moreover, fair-disclosure rules implemented by the Securities & Exchange Commission (SEC) in 2000 under Regulation FD (Fair Disclosure) require broad dissemination of company disclosures of public information. Compliance with Regulation FD has been facilitated by webcasts of a company's earnings calls, which are typically led by both the CEO and CFO. Being front and center with the investor community on a quarterly basis has pushed the CFO from scorecard keeper to key player.

Finally, rapid economic changes have heightened global competition, which means companies must exploit the strategic vision and leadership skills of the CFO to help create and execute business plans.

Unleashing the Strategic Role

Accounting and finance professionals agree that, given the limited number of workdays per month, along with the increased reporting and compliance requirements, becoming a strategic business partner requires broad changes to the operation of the finance function, a point made by Kishore Bhamidipati in the March 2013 *Strategic Finance* article "Productivity Outlook: Poor Visibility and Bad Reporting Ahead" and others. The goal is fewer days spent producing financial information to allow more days for the CFO and finance organization to spend *analyzing* the business results and assisting the front-line managers in strategic decision making. Table 1 reports how companies perform along several key finance dimensions as well as compared to the best-in-class measure.

According to Table 1, the average company spends more than one business week closing its monthly financial statements. In larger organizations, especially, more time is required to coordinate the closing of payables and receivables across various locations, and more time is necessary to feed transaction and ledger data across multiple systems, which likely aren't integrated and therefore don't produce real-time information. As a result, finance professionals may spend half a month just compiling financial information. Add in the one to two quarters a year that firms also spend creating budgets, and there's very little time left for participating in the business's

Table 1: How Well Does Your Finance Team Measure Up?

FINANCE DIMENSION	AVERAGE		WORLD-CLASS
Number of processing locations	>3	→	1
Number of systems processes	2–3		1
Length of closing cycle	6 days	BUSINESS PARTNERING	<2 days
Length of total reporting cycle	12 days		6 days
Time compiling reports	35%–40%		<25%
Length of budget cycle	4–5 months	→	<2 months

Sources: Cedric Read and Hans-Dieter Scheuermann, *The CFO as Business Integrator*, Wiley, 2003;
Thomas Wunder and Jeff Thomson, "Want to Be a More Effective CFO? Ask the Audience!" *Strategic Finance*, January 2006;
Oracle presentation to the St. Louis Chapter of Financial Executives International, *Achieving A World Class Close*, 2010.

The use of rolling outlooks throughout the year provides a natural way to shrink the budget cycle.

strategic decision making. The goal for CFOs and their teams is to improve their performance along these dimensions, thereby creating an organization that becomes more efficient in producing financial reports.

Therefore, the mandate for CFOs and their teams is to move toward the world-class standard shown in Table 1. This will allow them more time to analyze data for decision making and to create and execute business plans to add more value.

Aligning Business Processes

Admittedly, achieving world-class standards is no easy task for many organizations. That said, there are several key considerations that help align business processes to support the CFO's role as strategic business partner. These alignment "levers" fall under three categories: systems processes, financial processes, and organizational processes. Let's examine each one in more detail.

Systems Processes Alignment. The first step for many organizations looking to reduce transaction and reporting cycle times is to perform a critical review of their current systems. The goal is to align the enterprise systems with the tasks being performed by the finance organization and eliminate things that don't demonstrate a clear business need. In the article we mentioned earlier, Kishore Bhamidipati noted that best-of-breed tools might be adopted by various segments of an organization, but if they aren't integrated properly, it's going to take much more time to produce general ledger and financial information each month.

Therefore, aligning systems processes requires (1) producing an inventory of tasks that the organization performs and critically assessing which ones are relevant or add value, (2) understanding the systems architecture for the organization's various transaction cycles, (3) designing the system to efficiently support the relevant tasks and transaction cycles that produce financial information, and (4) considering whether further investments are necessary to support this new alignment.

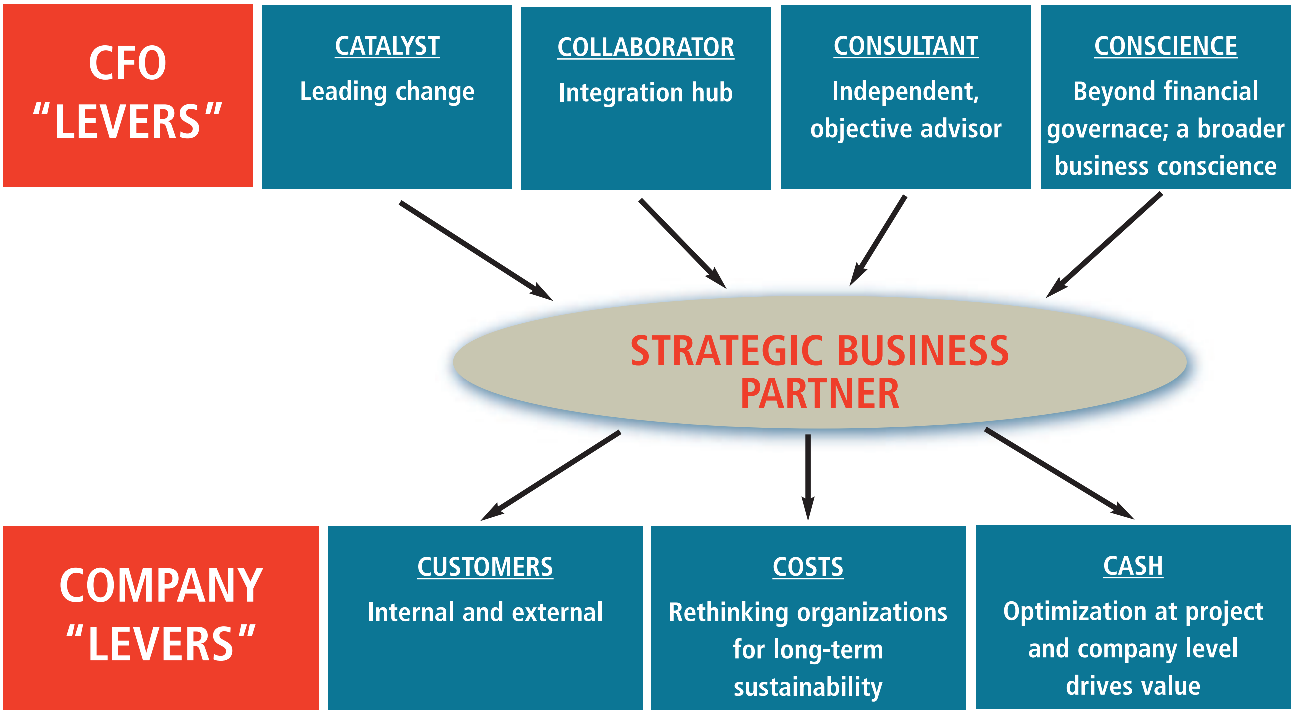
Financial Processes Alignment. CFOs who want to realign their financial processes often have many options. Because business unit organizational structures can be complex and fluid, financial processes can easily become outdated if continuous realignment doesn't remain a priority.

Some companies recently have addressed the length of their closing cycles head-on by moving toward soft-close processes. Rather than perform a full closing cycle each month, these companies opt to do so only at quarter-end months when public financial disclosures may be required; during off-quarter months, their internal financials are generated via system-interfaced transactions only. Performed properly, this procedure should result in more efficient closings without the loss of intelligence about business transactions. Specifically, in off-quarter months CFOs could report system financials to their business partner with an overlay of "pro forma" adjustments for review. This process supports the business partner role by affording an opportunity to discuss impending adjustments, which can in turn improve communication, reduce reporting surprises, and allow the CFO to better understand the business operations.

Moreover, budget cycles can take on a life of their own. As shown in Table 1, they may consume up to five months for many companies, making it an obvious area for improvement. The use of rolling outlooks throughout the year provides a natural way to shrink the budget cycle because the continuous refinement of future outlooks during the year provides the business with a strong baseline for next year's budget. For instance, a company that utilizes a four-quarter rolling outlook process will find that, at the end of the current fiscal year, it has already established next year's budget through the quarterly outlook routine and that the budget has been subjected to critical review throughout the year.

While aligning budget and outlook platforms with financial reporting will save time, it requires an integrated financial report with a single face that matches budget and outlook information line by line with as-reported actuals. This seems trivial, but it's surprising how many budget and outlook systems are maintained on spreadsheets or in systems that don't interface with system-generated statements, meaning things have to be fixed manually. When these platforms aren't well integrated, it's tough for business partners to talk intelligently about the major factors driving variances, and it impedes the finance function from better understanding operational performance.

Figure 1: Leveraging the C-Framework



Organizational Processes Alignment. It's critical for the CFO to determine whether there are more efficient ways to deliver service to the front-line managers that will also allow the finance organization to become a more effective strategic business partner. So another important step in processes realignment is to reconsider the people and positions that deliver the financial information. This may help reduce the time needed to compile financial reports, the number of processing locations, and the closing-cycle time. It's also important to consider how external service providers are being used: Is outsourcing reducing costs and improving service while affording the finance function more opportunities to expand its role as a strategic business partner?

Some companies also attempt to improve the alignment of their organizational processes by rotating their finance professionals through the business units so they can gain a broader understanding of the operations of the company. Yes, this can result in short-term disruptions and learning curves that impede development of the strategic business partner role, but the long-term gain may be a more holistic business sense to aid their partners' decisions. Other companies have created "shadow" finance organizations in which the finance personnel reside within the business unit as a permanent headcount, maintaining a direct reporting relationship to its leader and a dotted-line relationship to the finance/CFO organization. Ideally, this improves the business-partnering relationship between the operating and finance functions, plus it offers the potential benefit of providing the finance staff with a deeper understanding of the business unit by being more involved in its daily operations and decision making.

Making the Transformation

Once the CFO aligns the processes that will *enable* the role of strategic business partner, the next step is understanding *how to become* an effective business partner. Figure 1 provides a tool, the C-framework, that can help smooth the transition.

At the top of the framework, the CFO can become a partner at an individual level along several dimensions (called CFO "levers"). These dimensions serve as inputs. When the CFO uses these levers to act as a strategic business partner, each of the dimensions can impact the company in several ways (company "levers"). These company levers serve as outputs. While the CFO shouldn't be constrained by the levers only, the framework provides a tangible way to consciously think about the importance of the business partner role to the overall organization.

CFO Levers as Inputs. At the individual level, the CFO can improve the business by acting as catalyst, collaborator, consultant, and conscience. First, the CFO acts as *catalyst* by helping introduce and implement new strategies, such as presenting the economic ramifications of a new venture or leading the efforts to integrate a newly acquired company. Second, the CFO can take on the role of *collaborator* by serving as a "hub" to integrate the functional aspects of the business, such as purchasing, sales, human resources, and information technology. Third, the CFO can assume the role of *consultant* by acting as an independent, objective advisor to his or her team of business leaders. Fourth, recent corporate scandals have shown that the CFO must be a *conscience* for the business—not only for the reported financials but also by considering the broader ramifications of company initiatives.

Company Levers as Outputs. Also shown in Figure 1, each dimension of the CFO levers should ultimately impact the customers, costs, and cash of the business (company levers). First, each action at the CFO level should positively impact *customers*—both the internal partners, who rely on information and advice from the CFO, and the external, revenue-generating customers. Second, each CFO lever should help the business achieve a *cost structure* that allows for long-term sustainability. To put it bluntly, no business can live for the present without considering the ramifications for the future. And, finally, the first-tier levers should work toward advancing and benefiting the enterprise value: namely, *cash* optimization.

Table 2: Where the CFOs Came From

INDUSTRY DESCRIPTION	# OF CFOS	% OF TOTAL
Financial and professional services	12	30.0
Building and construction	7	17.5
Real estate development	6	15.0
Not-for-profit	5	12.5
Textiles and apparel	3	7.5
Housewares	2	5.0
Housing	2	5.0
Restaurant and food services	2	5.0
Manufacturing	1	2.5
Total	40	100.0%

What CFOs Are Saying Now

We solicited information from CFOs who recently attended a roundtable on strategic business partnering in Charlotte, N.C. The forum was open only to C-level executives. CFOs were assigned to breakout groups and asked to talk about business partnering, present their findings to the larger audience, and submit notes of their discussion. Forty provided feedback.

These executives largely represented middle-market companies. As shown in Table 2, a wide array of industries were represented, the most frequent being financial and professional services (30%), building and construction (17.5%), real estate development (15%), and not-for-profit (12.5%).

The CFOs were first asked to reflect on the C-framework of strategic business partnering. Specifically, they discussed ways in which use of the four CFO levers has enabled their finance organization to become a better business partner to impact their business from the perspective of the three company levers. They talked about how the transition to business partner has enabled (or could enable) their finance organization to rethink its focus on *costs*, shape a renewed focus on both internal and external *customers*, and elevate the importance of *cash* optimization at the project and company levels to drive business value.

In addition, they were asked to provide insights about how their financial processes have evolved in recent years to enable their role as business partner. These discussions elicited specific examples. Here's some of what they reported:

Costs. Any discussion of costs typically focuses on cost *cutting*. But that's begining to change. Specifically, CFOs commented that by understanding the operations better as a business partner, they can focus on how to improve the *top line* rather than saying "no" through cost cutting. In fact, one CFO noted that becoming a business partner helps ensure his team acts as an objective advisor to the business, injecting logic without letting emotions get in the way. Importantly, CFOs who espoused this philosophy admitted that they're now better equipped to view their partners' costs as investments rather than expenses by linking spending to revenue growth.

They also discussed how they've learned to sometimes take counterintuitive approaches to costs. As one commented, giving raises or bonuses to employees may be a

Some CFOs routinely visit their customers' sites to better understand how they can deliver goods and services to them more effectively.

heavy cost burden to bear during difficult economic times, but when viewed as a positive long-term investment, it may be easier to justify. For instance, employees may do all the right things, positioning the company for long-term growth, but economic forces may limit current results. In this case, it's important to recognize the connection between current effort and latent results in explicitly rewarding and motivating employees.

Moreover, by better understanding the operational complexities of the business, CFOs can add value by working collaboratively with the purchasing organization to better manage vendor relationships and long-term costs to ensure that the procurement of goods/services and the associated contract provisions fit the company's overall strategy. Other CFOs who participated in the roundtable took a broad view of the role of partner, mentioning that since the finance organization manages functions such as payables, it's also necessary to collaborate with vendors to ensure a productive long-term relationship.

Customers. CFOs addressed the importance of getting out of the office and visiting their customers to experience their business needs and goals through their eyes. Some CFOs mentioned that they (or their division CFOs) routinely accompany business unit leaders on visits to their customers' sites to better understand how they can deliver goods and services to them more effectively. Other CFOs discussed the ways in which they can lead change in managing customer relationships by acting as "consultants" to the customers—in particular by helping them better understand pricing implications. Because CFOs are uniquely qualified to discuss the economic, risk, and financial models of their business, they can improve communications and long-term relationships with customers.

Cash Optimization. Discussions about cash addressed the broader "business conscience" of the company. Some CFOs commented that operating in a distinct finance function without immersion into the operating unit as a partner inhibits the ability to see how the company's cash can be used to help communities where their products are sold. A prime example of doing this the right way is Starbucks, which connects customers with different service projects on a local level, such as cleaning up parks, doing light construction, serving meals, and volunteering at food banks.

In addition, CFOs pointed out that optimizing the quote-to-cash cycle requires both internal and external collaboration. (The quote-to-cash cycle refers to the business processes involved with creating a quote for a prospective customer, order management, demand-driven production scheduling, invoicing, and cash receipt.) Because many aspects of the cycle are financial, CFOs believe they can drive the changes needed to ensure cash optimization. In this sense, the CFO can act as a hub among various partners, providing accounting, financial, and economic advice to the sales organization to assist in pricing decisions, as well as set payment terms with vendors and manage customer collections.

A Massive Restructuring

In addition to addressing the levers of the C-framework, CFOs shared their experiences about how their financial processes have needed to change to support their role as business partner. These discussions largely centered on the common themes of budgeting, systems, and organizational dynamics.

First, participants mentioned how restructuring their budget processes has cut crucial workdays out of the budget cycle. In particular, CFOs pointed out that providing rolling quarterly forecasts has served a dual goal of making the budget process more efficient and giving leaders a better handle on the pulse of the business.

Second, they commented about the importance of revamping the closing process by moving toward a virtual close to reduce processing time each month. This greater efficiency provides finance staff with more time to support their business partners in value-added strategic roles. One CFO explained that reducing manual intervention in his organization's monthly close gave his division CFOs time to help business unit heads redesign their organizational structures. The trickle-down effect, he said, improved the company's financial results.

Third, CFOs addressed the importance of investing in real-time systems, such as enterprise resource planning (ERP) systems, to replace legacy systems. These systems can improve communication within various facets of the organization, regardless of physical location, while also avoiding the inefficiencies of lagged information, which drives up closing and reporting times.

As you can see, the roundtable and breakout discussions were extremely productive and resulted in tangible examples of how the CFO participants influenced change within their organizations to support their own transformation toward a strategic role. A CFO's Checklist for 2014 summarizes several major themes that emerged from these discussions.

What's Next?

As we've emphasized, the role of the CFO has been elevated in recent years. As financial steward of the enterprise, the CFO is well positioned—and therefore relied on—to act as a bridge between the CEO and the board of directors in promoting corporate governance. This transforming role has required a shift in focus from the production of financial information to a strategic vision that emanates from the financials. Most executives would agree that there aren't enough hours in the day, and many CFOs wish they could do a better job of allocating their time. We hope the real-world actions our roundtable participants have taken will set them—and you and your organization—on the right path.

By focusing on the necessary process changes, CFOs will take the first step for the finance organization in creating hours, days, and even weeks to build enhanced intelligence into the business. Then the conscious use of a tool such as the C-framework will help these CFOs evolve their role from analyst to catalyst and earn their rightful place as a highly valued strategic business partner. **SF**

Thomas G. Canace, Ph.D., is an assistant professor of accounting at Wake Forest University in Winston-Salem, N.C. Tom is a member of IMA's Piedmont Triad Chapter. You can reach him at (336) 758-5904 or canacetg@wfu.edu.

Paul Juras, CMA, Ph.D., is a professor of accountancy at Babson College in Babson Park, Mass., where he holds the title of chair, Accounting and Law Division. Paul is a member of IMA's Charlotte Chapter and IMA's Global Board of Directors. You can reach him at (781) 239-3948 or pjuras@babson.edu.

A CFO's Checklist for 2014

INVEST IN SYSTEMS/PROCESSES

- ✔ Critically review current systems
- ✔ Minimize and integrate systems
- ✔ Close systems before month-end and only require manual accrual adjustments at quarter-end; discuss "pro forma" adjustments with partners to better understand business
- ✔ Implement online application of financial reporting and analysis tools to facilitate variance analysis

CHANGE CFO/FINANCE STAFF MIND-SET

- ✔ Revamp budget processes; ensure link between strategy/budget/outlook
- ✔ Move from budgeting to rolling outlooks
- ✔ "We" (finance) aren't the outsiders but are insiders helping to run the business
- ✔ View costs as investment in the strategy; focus on how to improve top line rather than just cutting costs

MAKE NEEDED ORGANIZATIONAL CHANGES

- ✔ Develop cross-training in finance staff
- ✔ Consider shadow organizations to breed deep-rooted business knowledge
- ✔ Consider outsourcing to free up internal staff to become strategic advisors
- ✔ Foster involvement in organizational design

INCREASE MARKET AWARENESS

- ✔ Meet with customers to understand customer perspective
- ✔ Use business models to help customers understand the economics of the business perspective
- ✔ Ensure vendor relationships fit with strategy
- ✔ Develop awareness of regulations affecting business/reporting to lead risk management efforts