Chief Performance Officer
Evolution of the CFO

Finance functions in which many CFOs began their careers would be virtually unrecognisable today. In this new environment, there is an opportunity for CFOs to carve out a new role not only for themselves, but for the finance function as well.

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Introduction

With the increasingly global nature of modern business and continued volatility in the market, the need for real time decision making to drive business performance is critical. Boards seek leaders who can knit together the business strategy and data from multiple sources, and use this to manage overall performance. The Chief Financial Officer (CFO) is well positioned to provide this kind of support. But centralisation has removed finance resources on the ground, where key business decisions are made. This is where control and insight is needed most.

There is an opportunity here for innovative and forward looking CFOs to carve out a new role for themselves and for finance – one which repositions the function to help drive business performance.

Step forward the new Chief Performance Officer

The finance functions in which most CFOs began their careers would be virtually unrecognisable today. Finance has been transformed by automation, offshoring and centralised sourcing. The walk down the corridor to consult with a colleague is now more likely to be an email to an offshore centre. The next stage of this operational evolution will see more and more finance processes taken up by combined business service centres, along with other support functions such as information technology, human resources and administration. If we look forward a few years, what will be left for the CFO to run?

The remit of the finance function is also changing, spending more time providing strategic insight and advice as 'business partners'. The financial crisis brought CFOs and their teams to the forefront of decision making. The challenge ahead is how to sustain this strategic influence now that the corporate focus is moving from survival to growth. What more can CFOs offer to help support decision making and value creation within the business?

"As businesses become more complex – spanning multiple geographies, product portfolios and customer segments – Finance is uniquely positioned to work with the business, to better understand what's driving performance and provide insight on where the future strategic focus should be."

James Burdett, CFO International & Institutional Banking, ANZ

Tougher demands

Increasing global operations and services

The accelerating changes in the finance function are part of a much wider transformation. The strategic horizons of today's businesses are expanding as the focus of growth shifts towards emerging markets. Already extended supply chains, manufacturing and sales operations will become even more dispersed and difficult to run.

The ability to quickly aggregate and analyse performance data from multiple operating territories will be crucial to the effective management of today's global organisations.

It's not just about shareholder return

The way in which both boards and shareholders judge performance is changing to include financial as well as non-financial information in areas such as risk, talent and sustainability.

At the same time, companies have more performance data to help them analyse their businesses. An elaborate array of market research and social media data is adding to information from internal enterprise resource planning, employee management, customer relationship management and supply chain management systems.

The challenge is how to draw all this information and turn it into the meaningful and actionable insights that decision makers and investors expect. These challenges make it harder to measure cost and profitability, let alone whether the company is delivering against strategy and which investments offer the greatest value potential.

The engine of connection

The CFO is best placed to integrate and make sense of all these disparate strands of performance data. They have a bird's eye view of the business, close understanding of investor expectations and mastery of complex analytical processes. That means they can reconcile a range of financial and non-financial indicators and translate them into a clear set of strategic choices for examination and ratification by the board.

CFOs could then identify the stakeholders best able to drive particular aspects of the strategy, determine the most effective financing options, and track performance against targets they can take the lead in communicating the strategy to analysts and investors, and provide the necessary KPIs to support this. 'CFO' is too limited to describe this expanded strategic role. Chief Performance Officer (CPO) would be more apt.

Putting your business on the front foot

In its fourth annual benchmarking report, PwC UK's paper 'Putting your business on the front foot', examines the new demands facing finance functions based on the analysis over than 200 participating leading global companies.[1]

Key insights gathered confirmed that finance is increasing its role in strategic decision making, and with new demands from the business, leaders are or looking to finance to provide the insights to help the business compete locally and globally. With this in mind, the need for clear group level visibility across the operations of the organisation and its markets has never been greater. Decision makers need a consolidated and forward-looking view of performance across markets, products and customers.

Making management information count

Leading finance functions are generally able to report faster, despite greater complexity, allowing more time to analyse performance and interpret the implications the business. They spend 17% less time on data gathering, and 25% more time on analysis. Faster period-end cycle times also allow more time to analyse key financial and non-financial information with leading finance teams reporting results 30-40% faster than typical functions.

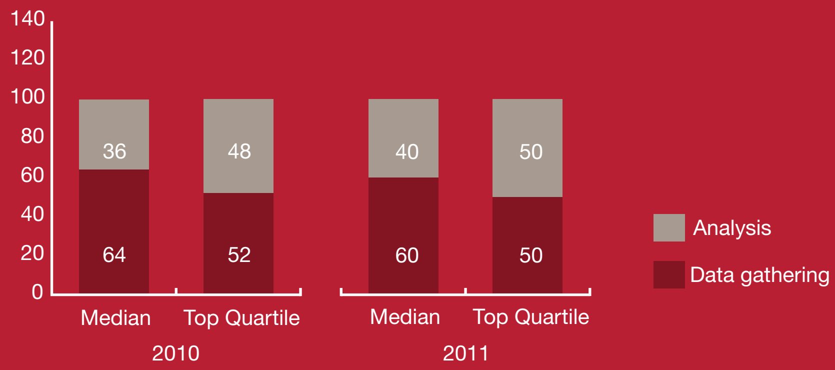
Better performing finance teams are applying a 'relevance filter' to build reporting solutions on management information that counts. This allows finance to focus resources on the information that is genuinely useful and cut back on any wasted effort. 47% of participants carry out regular reviews of business information needs. These participants also generate a third of the standard reports produced by the average company. More than 50% of these reports are automated, compared with around 30% among average performers.

Shortcomings in reporting applications are frequently blamed for the problems with management information. But the overriding issue tends to be the gaps and inconsistencies in the underlying data – technology can't deliver without the data to support it. While 50% of participants have a data warehouse in place, only 11% have applied the standard taxonomy required for true comparability across the business. To develop sustainable solutions to reporting problems and make the most of existing technology infrastructure, you need an integrated approach to data, systems and processes. Getting the data right is the first key step.

Finance teams who regularly review the integrity and relevance of their MI only produce around a **third** *of the standard reports of those that don't.*

Leading finance teams report management results **30-40%** *faster than typical functions.*

Figure 1 – Percentage of time spent on data gathering versus analysis



Source: PwC finance benchmark data

1. PwC's 'Putting your business on the front foot', finance effectiveness benchmarking study draws on benchmark of more than 200 companies, including an in-depth comparative assessment of the finance functions of 72 companies with operations around the world, which were carried out between January and December 2011

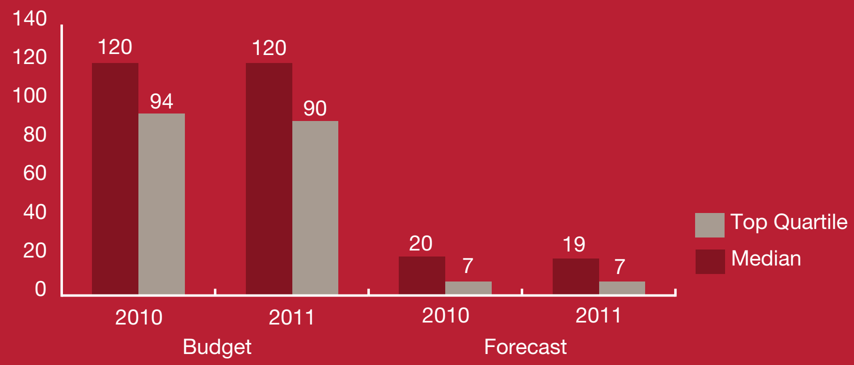
Planning ahead with confidence

Most organisations are comfortable forecasting in stable environments. New business realities are anything but stable, leading to decreased accuracy in forecasts and reduced confidence in planning outputs. While 80% of benchmark participants rely on the accuracy of their forecasts, only 45% believe they're materially correct. At 120 elapsed days for budgets and 19 days for forecasts, typical cycle times are also far too long to have much validity in today's fluctuating conditions.

Top performing finance teams are taking just seven days to produce their forecasts, concentrating on the key business drivers (top down) rather than spending time building them bottom up. Overburdening the financial planning process with excessively detailed customer and product level data reduces flexibility, increases planning cycle times and impacts the ability to make timely commercial decisions. Leading finance teams are employing lean and agile budget and forecasting processes, combined with an appropriate forecast horizon, often five quarter rolling forecasts.

80% of participants say the accuracy of their forecasts is critical to the running of the business, but only 45% believe the outputs are reliable.

Figure 2 – Budgeting and forecasting cycle (days)



Source: PwC finance benchmark data

A new breed of finance professional

Changes to the structure and demands placed on finance teams are transforming career paths and core capabilities needed by finance professionals. Their more prominent role in business management is leading to a move away from basic processing and control, towards greater involvement in development and execution of corporate and business strategies. The skills they need to perform their front line business partnering roles are evolving rapidly.

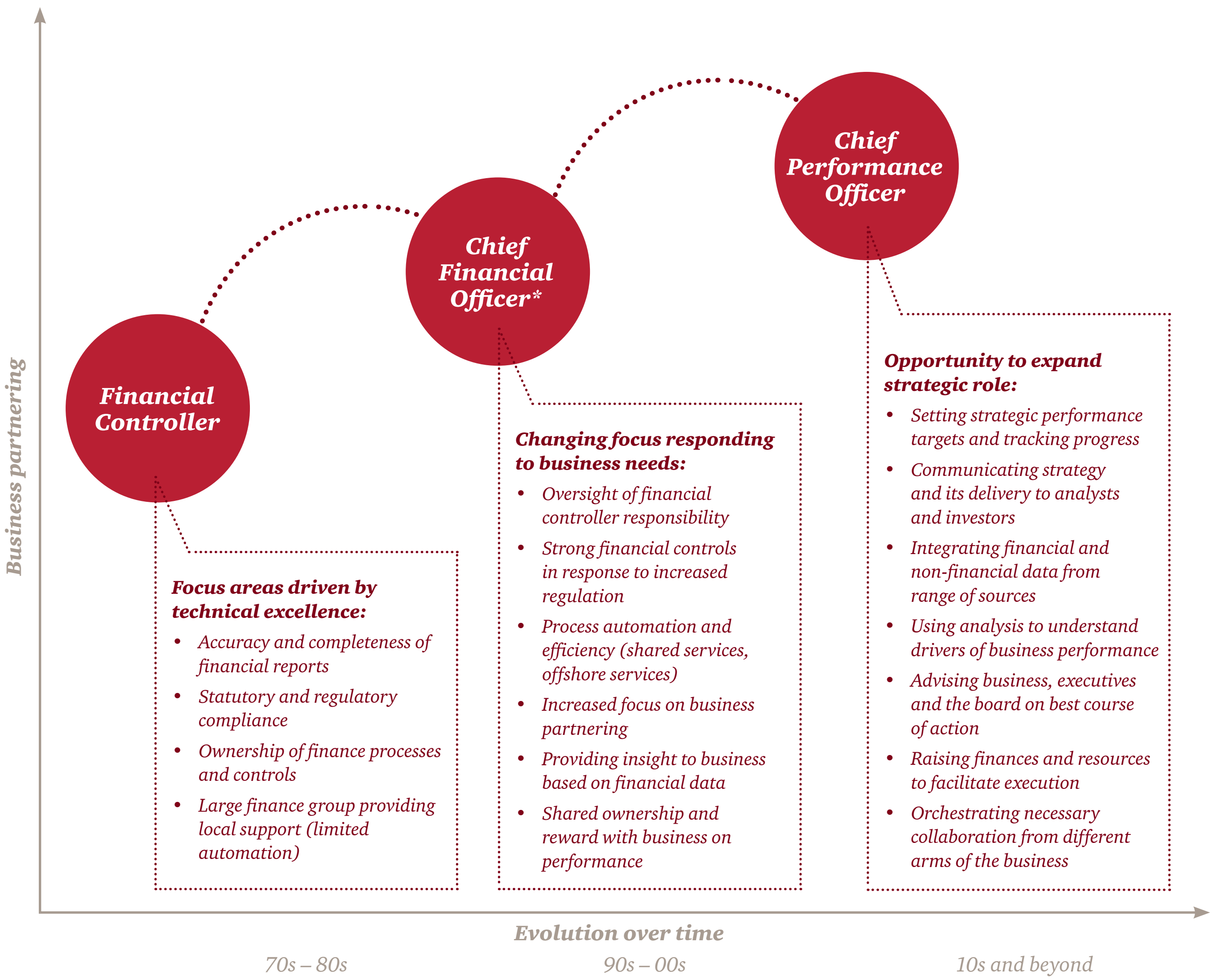
Finance is an important part of the focus on talent because people strategies need to be clearly aligned with overall business objectives. The challenge is how to recruit and retain the right combination of competencies. Top performing finance teams are taking a more forward looking approach to talent management, using clear and consistent criteria to help nurture the right skills, competencies and behaviours for key future roles. Leaders are also developing clearly defined career paths to senior positions, which are helping to strengthen the talent pipeline and encourage greater retention. Succession plans are in place for more than 90% of key finance roles in the top performing teams, compared to around 40% among the average performers.

Leading finance teams are taking a more forward looking approach to talent management, with an average of 30% more people in their talent pool compared with typical performers.

"Finance is best placed to drive business growth through information and insight. We stand at the crossroads of strategic thinking, financial data, sales data, market data and are uniquely positioned to leverage all of that richness in enhancing the performance of the enterprise."
Alison Harrop, CFO Australia Post

In many ways the emergence of the CPO is the natural progression from the business partner role of CFOs today (see Figure 3). Some CFOs are already taking on elements of the CPO role.

Figure 3 – The evolution of the CFO



* Our focus is on the evolution of the traditional control responsibilities of the CFO and finance function. Today's CFO has responsibilities that are much broader than this.

CEO in waiting

The CEO will continue to set the vision for the company, while the CPO has the remit in determining how this vision can be realised. With much of the finance process work managed by multi-function service centres, the CPO is likely to have a much smaller department than today's CFO. But crucial experience at the helm of the business means that CPOs have a better chance of becoming the next CEO. The standing and influence of the professionals in their team would increase accordingly.

Professionals working within the CPO function would need to combine business understanding, analytical acumen and the ability to communicate and engage on an equal footing with boards, executives and business leaders. CPOs may not necessarily need formal financial qualifications, and there is likely to be considerable interchange in personnel between the CPO function and frontline of the business. But finance skills will still provide a valuable foundation for aspiring CPOs. Finance training will ideally embrace some of the broader skills required by CPOs and their teams.

"In a world with real time information at everyone's finger tips, a key focus for today's CFO is to decipher and publish internally the information that drives the right behaviours in a business. In today's global environment, doing this quickly is critical."

Michael Da Gama Pinto, CFO, Swisse Wellness Pty Ltd

Opening doors

The traditional finance department is passing into history as a huge part of its operational remit is subsumed into a more integrated approach to business service delivery. However, as one door closes, another opens.

Today's organisations are crying out for someone who can help them to make sense of the performance, potential and strategic direction of multiple new market ventures and ever more extended supply, manufacturing and sales chains.

CFOs are faced with a huge opportunity. They can choose to build on the foundations of the business partner role and re-invent themselves as the strategic advisor to the board. The CPO role will require well-developed business understanding and engagement skills, as well as sharp analytical insights. These skills can also help catapult more CFOs into the role of CEO, providing a huge boost to the status of finance professionals, and the role of the function itself.

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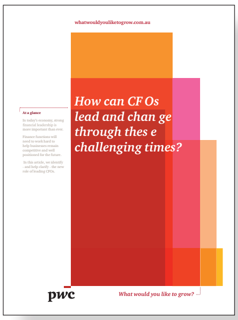
Further reading



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