



## Finance Drives Performance Everywhere

*Finance Executives at Mid-Market Companies are Stepping up to the Plate*

by Eric Krell

### Executive Summary

Why has business performance management attached itself to the finance function in recent years? The reasons – efficiency gains, the infusion of business technology on the past decade and corporate finance’s unique cross-organization perspective -- are threefold. They are also widely applicable as large-company CFOs are not the only ones with performance management at or near the top of their to-do lists. Mid-market CFOs, new research shows, are also expected to lead and manage their organization’s performance.

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A study released earlier this month by the Conference Board contained a familiar-sounding mandate for corporate finance functions, with one significant wrinkle.

The study, "[How CFOs Carve Out Time for What Counts Most](#)" includes the following results of a poll that asked CFOs to rate their top three priorities for 2005-2006:

- 1) Financial strategy/strategic shareholder value management;
- 2) Performance management;
- 3) Corporate restructuring/cost reduction; and
- 4) Sarbanes-Oxley compliance/governance.

That sounds about right, until one reads the fine print: the CFOs that participated in the survey all work for companies with less than \$1 billion in annual revenue. The challenge for mid-market CFOs, the paper’s author Howard Munson notes, “is to carve out time for the critical tasks that go directly to the bottom line and create shareholder value.”

That sounds extremely similar to the challenges CFOs at large enterprises face. In a 2004 presentation at a Financial Executives International (FEI) conference, recently departed Microsoft CFO John Connors laid out his priorities for 2005. “Deliver performance management” topped the list, followed by “improve business intelligence.”

### Corporate Finance Drives Performance Management

Corporate finance is driving performance management, regardless of whether the function resides in a Fortune 100 firm or in a \$200 million company. Earlier this year, Accenture set out to identify the core competencies of top finance functions. The ensuing study, which was based on interviews with 40 global



CFOs that Accenture's finance and performance management practice defines as leaders, identifies four leading practices. Top finance functions:

- 1) Invest in business performance management tools that help executives make better decisions about resource allocation;
- 2) Implement technologies such as enterprise resource planning systems that improve basic finance operations, such as revenue reporting and management;
- 3) Promote policies and practices that ensure effective cash investment; and
- 4) Take an enterprise-wide view of risk management.

"The ability to consistently drive insight about improving business performance is one of the most important leadership responsibilities for finance executives," notes Accenture's Michael Sutcliffe, who leads his firm's finance and performance management practice. "It is also one of the most difficult responsibilities to achieve on an operational basis. Success in creating both business analytics and performance management capabilities requires finance executives to move beyond the boundaries of their organizations to influence the systems, decisions, and actions across the enterprise. To make the job even more challenging, the range of tools and techniques to collect, organize, understand, and communicate information regarding industry, competitive position, enterprise performance, and specific initiatives presents a continually changing landscape."

### **Why Performance Management is a Top Priority**

There it is again: performance management. So why has this capability attached itself to corporate finance functions of all sizes? There are three reasons. First, corporate finance, with its "across-the-business" perspective is uniquely positioned to drive performance. Second, a critical mass of highly sophisticated business technology, the kind finance executives can use to accelerate and strengthen performance management capabilities, has poured into organizations of all sizes in the past decade. Third, the majority of corporate finance functions of all sizes have already made their departments and companies run as efficiently as possible, or nearly so.

"The bigger question is: How does finance add the most value in your organization?" asks Richard T. Roth, chief research officer for Atlanta-based best-practice research organization The Hackett Group.

Some finance functions add value – *some* value, anyway – by deploying traditional methods to wring cost from the function. Most companies have greatly lowered the cost of finance over the past dozen years.

For the median company in The Hackett Group's benchmarking database, the function's cost as a percentage of corporate revenue decreased by 44 percent between 1992 and 2004. Median companies now spend about 1.08 percent of their revenue on finance, according to Hackett. Yet the average company has seen little, if any, net cost reduction in the past two years. For many businesses,



transforming finance via efficiency measures appears to have reached a point of diminishing returns. The gains from additional changes may be too small to pay for the effort.

### **How Finance Adds Value**

Leading corporate finance functions, as The Conference Board and Accenture conclude, strive to add value by developing better forecasting, analysis and planning capabilities.

"I think the way finance adds value has fundamentally changed in the last 10 years," Roth says. "A lot of companies have taken out the low-hanging fruit, either through centralization or automation. I think finance executives need to step back a bit and reassess each of the different ways that they can add value."

When they do, they're likely to see that the best way to becoming a "strategic activist," [Booz Allen Hamilton's term](#) that describes CFOs who have graduated beyond true business partner, involves decision support, analysis, planning and performance management. Finance must offer its insights at crucial points in the organization in a way that helps bolster the current and future value of the business.

To boost current value, the function must comply with regulatory reporting requirements, identify and avoid economic shocks that could knock the company off its moorings, and process transactions as accurately and efficiently as possible. To improve an organization's future value, Sutcliff notes, the finance function must excel at the intangibles: budgeting and forecasting, scenario planning, and analyzing the organization's capital structure to identify return on investments.

### **Shareholder Demands Are Growing**

Shareholders are sending a clear message to finance executives: *Tell me you have a good process to make investment decisions and a better process to manage the investments so that you're getting the returns you expected. Convince me that you're doing that in a manner that fairly balances the impact between the income statement and the balance sheet over time so that you create the most economic value with the least risk possible for me as an investor. Show me that you can help the management team in the business unit, which is working with customers and growing geographies, to make better financial decisions about the future growth of the business.*



Finance executives seem to be receiving the message loudly and clearly. When finance executives and managers who participated in *Business Finance's* [2005 Career and Compensation](#) were asked to identify the single most important driver of their current compensation, they responded as follows:

Business and financial reporting/analysis/forecasting:	38 percent
Creating shareholder value:	20 percent
Accounting/auditing:	11 percent
Strategic planning:	10 percent
Corporate governance/regulatory compliance:	8 percent
Managing/measuring information technology:	8 percent
Managing/developing people:	6 percent

*About the Author... For the past seven years, Eric Krell has covered the BPM space for Business Finance magazine and several other business publications. He regularly interviews leading CFOs, Finance Directors, Controllers, Analysts and Consultants about BPM best practices.*