

The CFO's Role in Achieving Operational Excellence

A report prepared by
CFO Research Services in
collaboration with Accenture

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ABOUT THIS REPORT

We collected 168 responses from senior finance executives from midsize and large companies in the United States, in a wide range of industries:

TITLE

Chief financial officer	38%
Director of finance	21%
VP of finance	14%
Controller	12%
Treasurer	5%
EVP or SVP of finance	4%
CEO, president, or managing director	1%
Other	6%

ANNUAL REVENUE

Less than \$100 million	4%
\$100 million to \$500 million	35%
\$500 million to \$1 billion	15%
\$1 billion to \$2 billion	19%
\$2 billion to \$5 billion	7%
\$5 billion+	20%

INDUSTRY

Auto/Industrial/Manufacturing	14%
Financial services/Real estate/Insurance	11%
Business/Professional services	10%
Wholesale/Retail trade	9%
Health care	9%
Food/Beverages/Consumer packaged goods	8%
Chemicals/Energy/Utilities	8%
Media/Entertainment/Travel/Leisure	5%
Transportation/Warehousing	4%
Public sector/Nonprofit	4%
Hardware/Software/Networking	4%
Construction	4%
Aerospace/Defense	3%
Pharmaceuticals/Biotechnology/Life sciences	2%
Telecommunications	2%
Other	4%

Note: Percentages may not total 100%, due to rounding.

Finance's mandate for operational excellence

Over the past several years, CFO Research Services has documented the expansion of the role of the CFO from a traditional oversight function to that of performance manager. This current study confirms that most finance executives now view themselves comfortably in this broader role, and in particular consider operational improvement as part of the finance mandate. Their mission, as one finance executive tells us, is to “forge relationships with operating managers to provide them the data they need—not what finance thinks they need.”

This survey was conducted as companies continue to grapple with global recession and a worldwide financial crisis. During these difficult times, “getting the operations right” has become even more critical for the business. The current survey shows that, indeed, finance executives are eager to contribute their expertise to help their companies achieve operational excellence—that is, excellence in execution as measured in terms of greater process consistency, lower error rates, higher quality, lower costs, or other metrics that a company considers key to its operating performance.

Virtually all the respondents in this study tell us that they are already involved to some degree in operational excellence initiatives. At the same time, a majority also say that they need to increase their involvement; finance executives believe they can do still more to help their companies achieve operational excellence. And their ability to do so, respondents tell us, hinges on a few key factors:

- Proactively providing targeted, relevant data to operating managers, and helping operating managers understand the financial impacts of the decisions they make
- Good communication and leadership skills
- A supportive working environment, where the corporate culture and C-suite priorities enhance, rather than hinder, finance's work with their counterparts in operations
- An understanding of the business and how it operates that goes beyond “just the numbers”

In a harsh environment, a focus on getting the operations right

Faced with business conditions unlike any they have experienced in their careers, finance executives are taking a hard look at all areas of their companies to get cost structures in line with new economic realities. A large majority of the executives responding to our survey report that their companies have lowered expectations for both revenue (78% of respondents) and profitability (71%). Even with lowered expectations, half of all respondents say that their companies still are having trouble meeting key operating targets. (See Table 1.)

TABLE 1. COMPANIES ARE HAVING DIFFICULTY MEETING OPERATING TARGETS IN THE CURRENT ECONOMIC ENVIRONMENT.

How would you rate your company's performance in meeting key operating targets?

Below operating targets	Meets operating targets	Exceeds operating targets	Company does not set operating targets
49%	32%	19%	1%

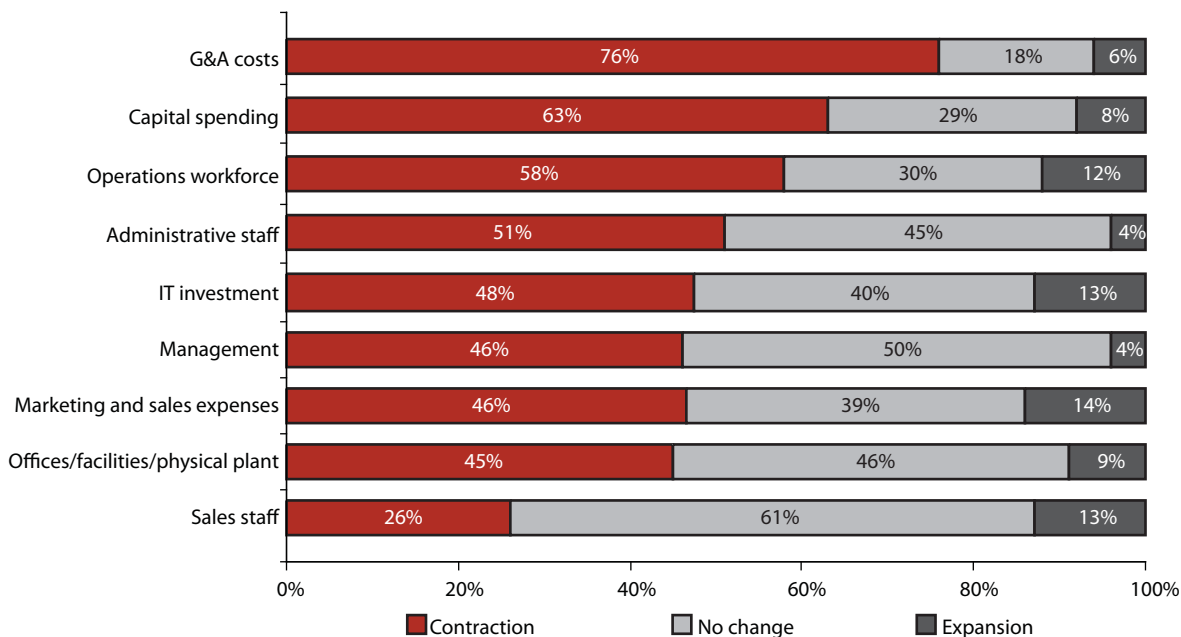
Note: Percentages may not total 100%, due to rounding.

Our respondents see the primary challenges to operating performance as coming from outside the organization. When we asked them to rate the impacts of a range of factors on their companies' ability to meet operating targets, the finance executives in our survey indicated that slowdowns in customer spending and the economy are having the most substantial impacts. The slowdown in the domestic economy is cited by 46% of respondents as having a substantial impact on their companies' ability to meet key operating targets, and 25% (primarily from larger companies) also cite the slowdown in other economies. The slowdown in customer spending is cited as a substantial impact by 41% of respondents. No other factors were seen as having as much of an impact on the ability to meet operating targets.

Finance executives appear to be turning their attention inward to help their companies manage the factors over which they have control—such as operating performance—in response to a harsh external reality that is forcing changes in their businesses. Controlling costs is paramount, with 76% of respondents targeting G&A costs and 63% saying they expect to lower capital spending. (See Figure 1.)

FIGURE 1. FINANCE EXECUTIVES ANTICIPATE A DIFFICULT AND VOLATILE BUSINESS ENVIRONMENT IN THE COMING YEAR.

Are you expecting contractions or expansions in any of the following areas within the next year?



Percentage of respondents
Note: Percentages may not total 100%, due to rounding.

But operating units are also feeling the heat. Nearly six out of ten respondents (58%) expect contractions in their operations workforces within the next year. (See Figure 1.) In a separate question, 58% of respondents also say that monitoring and controlling expenses are among the most important things they can do to help their companies achieve operational excellence.

As one CFO notes, “With the difficult economy, everyone is very receptive to exploring operational improvements.”

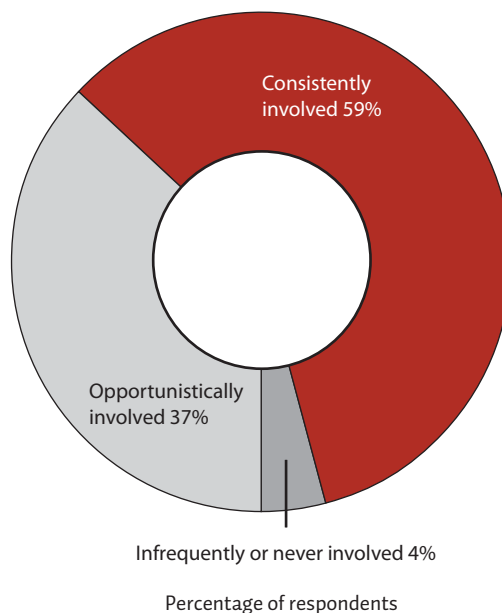
In this environment, getting the operations right is critical to the business. About half of the respondents say they will focus more on operational improvement programs, with 57% accelerating existing improvement programs and 49% starting new ones over the next year. A little more than half (52%) of the companies that are accelerating existing programs also plan to start new ones, underscoring the attention that finance executives are devoting to operations. Finally, 56% of respondents say that their companies will restructure operations in some way over the next year. As one CFO from the wholesale/retail trade notes in an understated fashion, “With the difficult economy, everyone is very receptive to exploring operational improvements.”

Developing effective working relationships with operations

For finance executives, “getting the operations right” has become an important part of their own jobs as well. Survey respondents universally see themselves as closely involved with helping their companies improve operations. Virtually all of the finance executives in this survey—96%—say they are already involved with improving their company’s operating performance. Only seven respondents of the 168 total (4%) report that they are infrequently or never involved. Clearly, finance executives take a broad view of the value finance provides their companies, linking it inextricably to their work with operations.

FIGURE 2. A MAJORITY OF FINANCE EXECUTIVES ARE CONSISTENTLY INVOLVED WITH IMPROVING OPERATING PERFORMANCE, WHILE MOST OF THE REST SAY THAT THEY ARE INVOLVED OPPORTUNISTICALLY.

Given your current responsibilities, how often are you personally involved with improving your company’s operating performance?



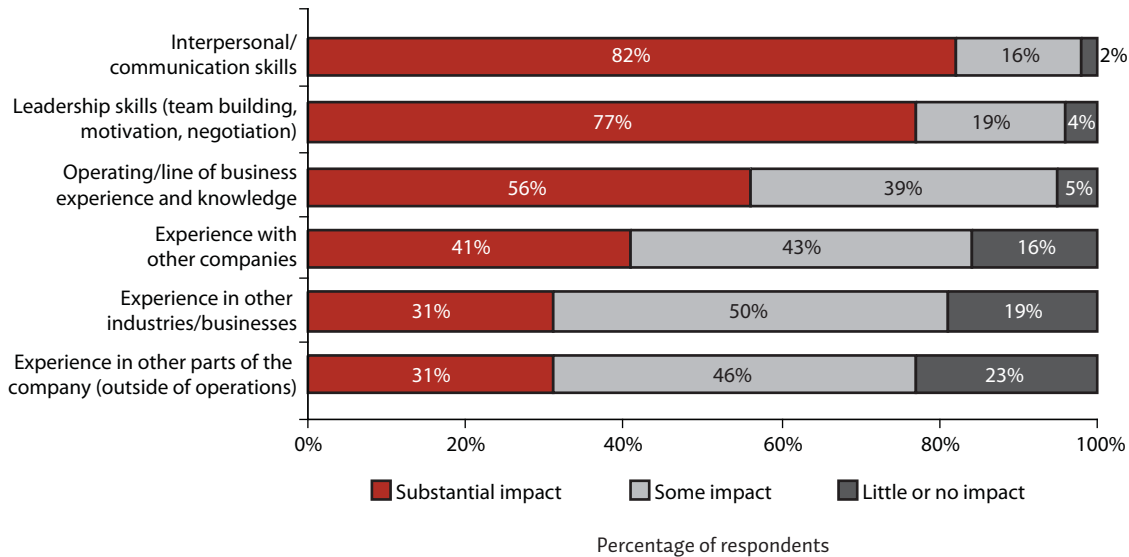
Virtually all of the finance executives in this survey say they are already involved with improving their company’s operating performance.

Respondents to our survey fall into two distinct segments when we look at the level of their involvement. Nearly 6 out of 10 respondents (59%) say they are consistently involved with improving operating performance; another 37% say they are involved opportunistically, for example, on discrete projects. (See Figure 2.)

These two segments—those consistently involved and those opportunistically involved—exhibit telling differences in their responses to how finance works with operations. We asked finance executives to rate the importance of a range of finance activities in helping their companies achieve operating excellence. Much higher percentages of those who report they are consistently involved in operating improve-

FIGURE 3. FINANCE EXECUTIVES BELIEVE THAT COMMUNICATION AND LEADERSHIP SKILLS ARE IMPORTANT FOR THEIR PROFESSIONAL EFFECTIVENESS.

What impact does each of the following have on your professional effectiveness, i.e., your ability to do your job well?



ments see their own work with operations as making an important contribution. In contrast, those who are only opportunistically involved in operating improvements are more likely to relegate responsibility for operational excellence to others, whether those are corporate management or the operations managers themselves.

Opportunistically involved respondents give the most importance to preparing reports for use by corporate management, with 60% of the segment saying that this activity makes an important contribution to operational excellence. Only 52% of consistently involved respondents rate reports to corporate management as important for operational excellence.

Conversely, those respondents who work with operations more closely and more frequently feel that they can make a more direct impact on improving operations. A little more than 60% of the consistently involved respondents (62%) say that working with business unit management makes an important contribution to operational excellence, whereas only 38% of the opportunistically involved executives agree that their work with the business units makes an important contribution.

Finance executives in the survey point out that finance's effectiveness in helping to improve operating performance goes beyond simply "running the numbers." (See "Finance as 'the bearers of truth,'" page 6.) The ability to work well with others rates high on the list of attributes finance executives think are important, regardless of their level of involvement. Respondents overwhelmingly select interpersonal and communication skills (82%) and leadership skills (77%) as having a substantial impact on their professional effectiveness. (See Figure 3.) Operating/line of business experience and knowledge is selected third, with 56% of respondents saying it has a substantial impact on their ability to do their jobs well.

One of finance's most important jobs is simply to "give the operational managers insight into how their actions translate to dollars," writes a controller from the consumer goods industry.

FINANCE AS "THE BEARERS OF TRUTH"

Finance executives see it as their responsibility to be "the bearers of truth—no matter what that is," in the words of a director of finance at a telecommunications company. To support operational improvement, they work to collect, sort, analyze, and communicate the data that is most insightful and relevant so that operating managers understand the financial implications of what they do. Fully 95% of respondents say that preparing reports for use by business unit managers contributes to their companies' operational excellence; 56% characterize this contribution as important to achieving operational excellence.

In open responses, finance executives underscore the need for operating managers to develop a finance perspective. One respondent—a vice president in a services company—states strongly that finance must "push, push, push on the businesses [and] make sure they understand the implications (short-term and longer-term) of their operational decisions." In working with operations, one of finance's most important jobs is simply to "give the operational managers insight into how their actions translate to dollars," writes a controller from the consumer goods industry.

Finance executives view the failure to grasp financial implications of business decisions as one of the primary obstacles to helping their companies achieve operational excellence. A vice president of finance from the aerospace/defense industry decries the "lack of understanding of operational improvements, and the 'why,' at all levels." Another vice president, this one in the health care industry, explains the value of tying operating decisions to financial impacts: "In the past, operational teams were not held accountable for financial results. New leadership has changed that, which resulted in a significant change in culture and greater involvement." Using consistent and meaningful metrics to measure performance is important for getting everyone on the same page; a controller in the aerospace/defense industry highlights this point when he writes that one barrier to achieving operational excellence at his company is the "competing metrics between manufacturing, engineering, and the program office."

Of course, partnership is by definition a two-way street. Finance executives also recognize that, to be effective in working with opera-

tions, they must demonstrate their own understanding of the business. Several respondents indicate that they must show that they "understand the business and how it works" so that they can "forge relationships with operating managers to provide them the data they need—not what finance thinks they need." They must demonstrate their grasp of all aspects of the business: "Be actively involved in the operating units in order to understand their markets, competition, customers, and supply chain," notes a vice president of finance in the public/nonprofit sector.

To work well with operations, finance executives must actively demonstrate their commitment to that side of the business. A director of finance at a financial services company writes that it is important to "stay involved rather than showing initial interest and enthusiasm and then fading away." A CFO in the manufacturing industry says, simply and directly, that he must "never rest" in his attention to performance improvement.

Overall, finance executives recognize the importance of effective communication in working with operations management. They place the greatest importance on their level of communication with operations management when asked to select the factors that affect their ability to work well with operations. (See Figure 4.) Finance executives describe the need for their communication with operating managers to be "straight to the point," honest, objective, relevant, and usable. Having frequent and meaningful contact with business unit managers can go a long way toward reinforcing the characteristics that finance executives see as important for strengthening their relationships with operating managers—that is, showing their interest in and commitment to operating improvement; understanding the entire business, beyond finance; and providing the information and the insight that help operating managers understand the implications of their actions.

In the end, to help their companies achieve operational excellence, finance executives know they must be more than "just the numbers guy." A planning manager from the manufacturing industry sums it up neatly when he writes that what is most important is the "timeliness of reporting combined with analysis into what the numbers are telling or showing. We can't just publish the numbers—we need to provide insight behind the numbers."

FIGURE 4. MANY FINANCE EXECUTIVES VIEW COMMUNICATION, CULTURE, AND CORPORATE PRIORITIES AS HAVING A POSITIVE EFFECT ON THEIR ABILITY TO WORK WITH OPERATIONS.

In your opinion, how does each of the following issues affect your ability as a finance executive to work well with operations at your company?

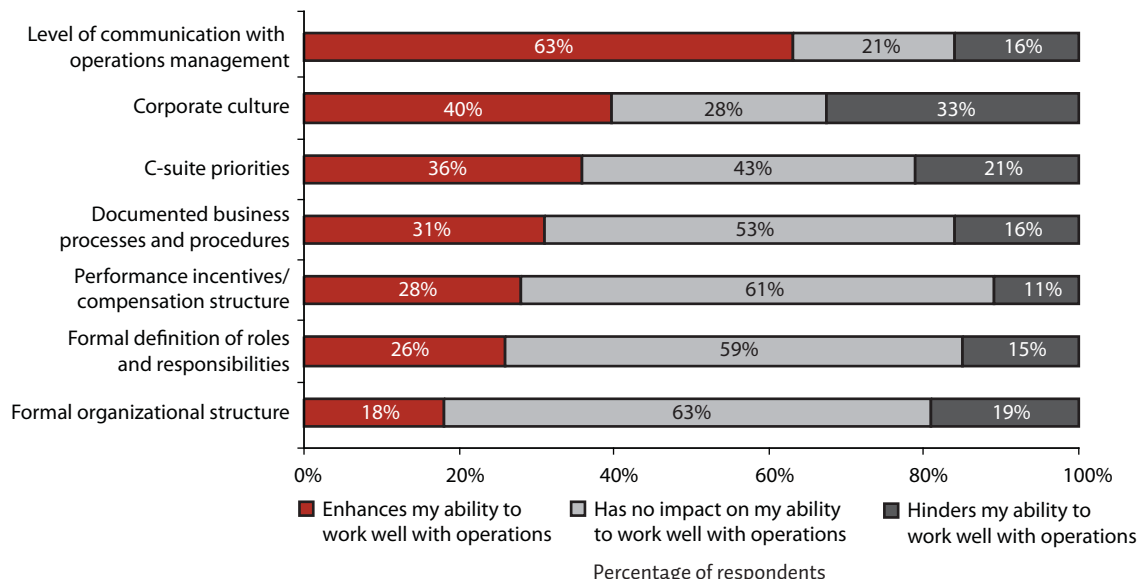
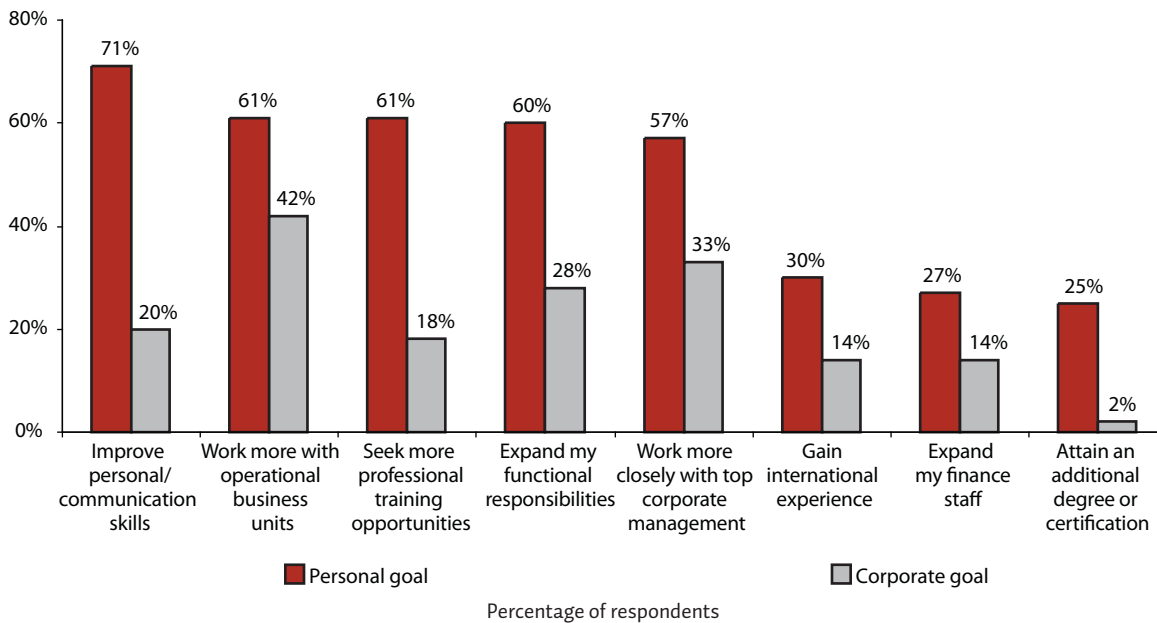


FIGURE 5. A LARGE MAJORITY OF FINANCE EXECUTIVES EXPRESS A DESIRE TO IMPROVE THEIR PERSONAL AND COMMUNICATION SKILLS IN ORDER TO ADVANCE THEIR CAREERS.

Which of the following are personal goals for advancing your career? Which are corporate goals or requirements for your position?



Respondents overwhelmingly select interpersonal, communication, and leadership skills as having a substantial impact on their professional effectiveness.

Respondents emphasize the importance of developing relationship skills for advancing their own careers as well. When asked to select personal goals, by far the most respondents (71%) choose improving personal/communication skills. (See Figure 5.) Working more with operational business units follows, with 61% of respondents selecting that as a personal goal. Clearly, finance executives recognize the importance of strengthening their working relationships with others as a key element for their success, as well as an area in which they can do more to improve.

Part of effective communication may be the rigor with which it is pursued, and finance executives who are more involved with improving operations indicate that they communicate with operations managers more frequently. A little more than 70% of respondents consistently involved with operations report that their level of communication with operations management enhances

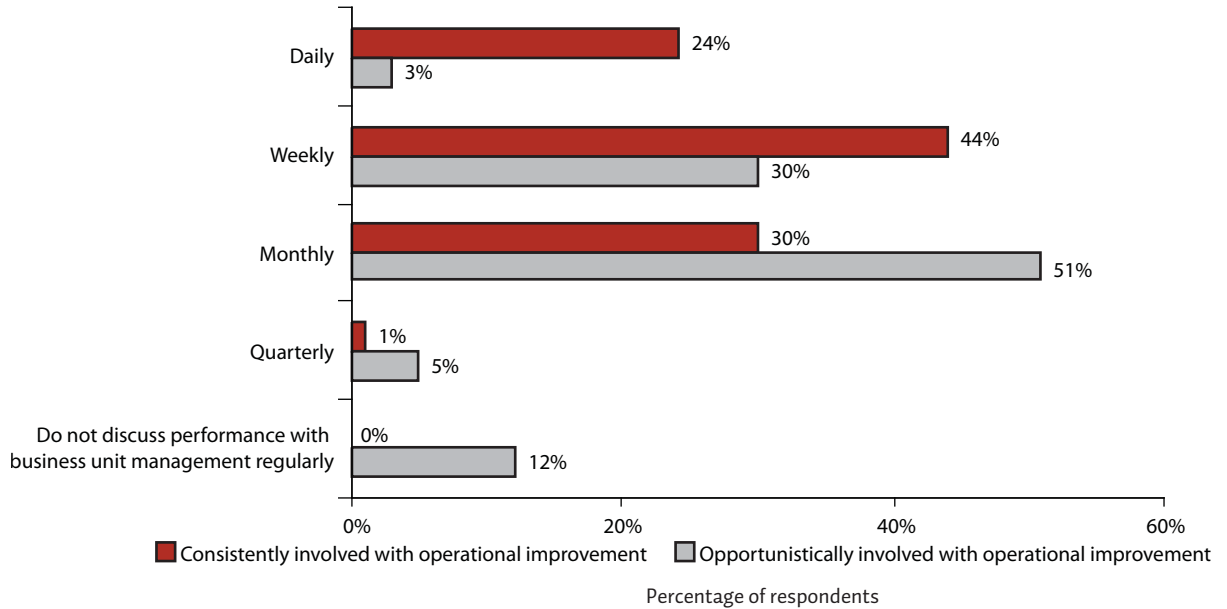
their ability to work well with operations, compared with slightly more than half (53%) of the opportunistically involved respondents. Almost the same number of consistently involved respondents (68%) report that they discuss performance issues with business unit management either daily (24%) or weekly (44%). (See Figure 6.) Only one-third of the opportunistically involved respondents (33%) say they talk to their business unit managers about performance this frequently (3% daily and 30% weekly).

The survey does not show whether better communication with operations leads to closer involvement with them, or whether closer involvement leads to better communication. In reality, it is likely that communication and involvement with operations are related in a mutually reinforcing loop. Good communication is always important for building good working relationships, and when finance executives view their working relationships with operations as important, they are more likely to actively pursue better communication.

The amount of support finance executives receive from their companies—formally and informally—has an impact on how finance works with operations.

FIGURE 6. FINANCE EXECUTIVES WHO ARE CONSISTENTLY INVOLVED WITH OPERATIONAL IMPROVEMENT HAVE MORE FREQUENT COMMUNICATIONS WITH THEIR COUNTERPARTS IN OPERATIONS.

How frequently do you discuss performance issues with business unit management?



But the amount of support finance executives receive from their companies—formally and informally—also has an impact on how finance works with operations. Those who are consistently involved with operational improvement are more likely than their opportunistically involved peers to say that their corporate culture and C-suite priorities enhance, rather than hinder, their ability to work with operations. About 47% of consistently involved respondents cite corporate culture as an enhancement to working with operations, compared with only a third (33%) of opportunistically involved respondents.

Similarly, 42% of consistently involved respondents say that C-suite priorities enhance their ability to work with operations. Only 29% of opportunistically involved respondents make the same claim. The type of company a finance executive works for can influence the role that finance plays, as finance executives are able to take better advantage of corporate support to pursue personal goals of closer involvement with operations.

Recognizing the need to do more

Even with an already high level of involvement, many finance executives believe they could be doing more to help their companies improve operating performance. In total, 55% of all respondents express a desire to be more involved with improving their company's operating performance (see Table 2), while 61% say that working more with operations is a personal goal (see Figure 5, page 7).

Even when they are consistently involved, finance executives are not content with the status quo when the ultimate goal is performance improvement. Among those who are already consistently involved with operational improvement, large numbers aspire to increase their involvement (41%; see Table 2), and almost half (48%) say that working more with operations is a personal goal.

TABLE 2. FINANCE EXECUTIVES BELIEVE THEY CAN AND SHOULD DO EVEN MORE TO HELP THEIR COMPANIES MEET OPERATING TARGETS.

To achieve your personal professional goals, how involved do you think you should be with improving your company's operating performance?

	Total respondents	Involved with operations "consistently"	Involved with operations "opportunistically"
More involved	55%	41%	75%
No change in involvement	45%	59%	25%

However, those who are less frequently involved certainly feel that the gap between their involvement and their aspirations is larger. Fully three-quarters (75%; see Table 2) of the finance executives who say they are only opportunistically involved with improving operating performance believe that they need to be more involved in order to achieve personal professional goals.

“More than just the numbers guy”

For several years, CFO Research Services has documented the growing tendency of finance executives to view performance improvement as part of their mandate. The current study confirms that many finance executives fully embrace the important role that finance plays in helping their companies achieve operational excellence. Nearly all the respondents in this study say they are involved with improving operating performance to some degree, whether consistently or opportunistically.

The close involvement of finance executives in improving operating performance is evidenced by the frequency with which they communicate with business unit management, as well as by the importance they place on a range of finance activities for achieving operational excellence. A majority of respondents say that knowledge of operations has a substantial impact on their ability to do their own jobs well, and even more view increasing their involvement with operational business units as important for advancing their careers.

As the economy continues to founder, finance executives are likely to take an even keener interest in helping their companies improve operating performance. Almost half of the respondents in this survey expect that their companies will have difficulty meeting key operating targets in the coming year. Many say that their companies will be restructuring operations, accelerating existing improvement programs, and starting new ones in an attempt to meet performance goals.

In this challenging environment, many finance executives show an eagerness to step up to the plate. Most say that they can and should increase their involvement with improving operating performance; even those who already are heavily involved say they can do still more. In their own words, finance executives say they need to be “more than just the numbers guy.” They are on a mission to understand the entire business—“markets, competition, customers, and supply chain,” as one respondent writes—and improve their communication and leadership skills, so that they can help their counterparts in operations understand the impact operating decisions have on the success of the business and provide them with the information and insights that will have the most impact on the company.

Finance executives are likely to take an even keener interest in helping their companies improve operating performance.

Sponsor's perspective

This research confirms what Accenture has seen in our own proprietary High Performance Business research and our client work: that CFOs and senior financial professionals can be critical to the success of operational excellence initiatives. Accenture defines operational excellence as being achieved when a set of strategies is integrated with excellence in execution so that new sources of growth, optimized processes, and balanced costs are delivered with minimal complexity, maximum speed, and effective change management.

Interestingly, in the early stages of our conversations with clients about strategic priorities and operational excellence projects, we often find that the dialogue is primarily with companies' CEOs and COOs. We sometimes even begin working together before the CFO becomes involved in operational excellence initiatives. This approach runs counter to our belief that CFOs can contribute significantly to the project scope definition and goal setting. In fact, we believe that the CFO's role in operational excellence initiatives should be that of influencing leadership and helping determine the approach that will deliver results in 6 to 12 months.

We've seen CFOs be very successful as leaders in operational excellence. One CFO with whom we worked brought about substantial improvements to his organization. The leadership behaviors he exhibited were:

- Possessing business acumen and looking at the big picture, as well as financials.
- Identifying one key metric for the project.
- Structuring and leading team discussions around this one metric.
- Being an open communicator.
- Charging people with tasks, first giving them the context in which their tasks fit, and then giving them the latitude to develop their own action plans and recommendations.
- Listening openly to his team members' findings, drawing implications, and then acting.

To help senior financial professionals drive—and actually lead—operational excellence initiatives, we offer several observations based on our experience. Specifically, we suggest that CFOs and other senior financial professionals:

- **Shift from providing information about what has happened in the past to focusing on what should happen in the future.** Financial results are inherently backward-looking, and while they provide information about effects, they don't directly impact the future and bring about positive change. CFOs can contribute by championing operational excellence initiatives versus doing analysis and waiting until the numbers "prove" the impact, perhaps a year down the road. Keep in mind the adage that vision drives architecture, architecture drives behaviors, behaviors drive operating metrics, and operating metrics drive financial metrics. As one financial professional wrote in an open-response question in this survey, the most important thing CFOs can do to impact operational excellence is to "provide information and analysis of operational metrics; help craft improvement goals; and influence and direct focus toward operational targets that add bottom-line value."
- **Seize the opportunity to be "bearers of truth" on multiple fronts.** The research report references CFOs' desire to be bearers of truth, that is, reporting the impact of operations on the company's financials. We'd like to expand the definition of this beyond the reactive reporting of cost implications. We encourage CFOs to actually be bearers of truth in helping shape the vision, the architecture, and the behaviors that will make their companies stronger, or as one financial professional stated in his response, "set a clear vision, define concrete goals, monitor progress, and proactively communicate performance." To truly lead, CFOs should be shaping the behaviors today and establishing the tracking for tomorrow to know when success has been achieved.

■ **Work to understand operations and to make recommendations from a position of knowledge.** CFOs responding to the survey noted the great importance of frequent communication with their operations counterparts. Beyond that, we suggest seeking opportunities to get hands-on experience with operational excellence programs, such as going on operational site visits. CFOs who get out of the office and closer to the front line can experience first-hand whether or not the changes being made can impact the company positively.

■ **Be “value-centric” in evaluating potential investments.** Understand that payback and risk factors vary between capital and operating investments, but both can lead to improved performance. While an expensive machine with a projected two-year payback may seem to be the more defensible investment, the operational excellence program may actually have a greater impact and faster payback.

■ **Attend to the company culture, even after financial targets are met.** The respondents to this survey noted how important culture is, specifically to their involvement in operational excellence initiatives. We believe that operational excellence programs should be crafted so that the overall culture of the company improves even after hard savings targets are reached. According to one respondent, the most important thing CFOs can do to impact operational excellence is to remember “what gets measured gets done; make sure that the areas of improvement are measured and visible to all and then, once improved, dig down another level and continue.” This takes strong leadership from all, including CFOs.

CFOs bring an invaluable perspective to strategic planning and prioritization of company initiatives, an impact that extends far beyond “the numbers.” In times of uncertainty, this impact is all the more crucial and beneficial.

To learn more about the Accenture Process & Innovation Performance service line, please contact:

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