

Why CFOs Don't Get It

Organizational tensions are locking out finance leaders from playing more transformational roles. Here's how you can put tensions to work.

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Within the past few years, there has been a clarion call for finance professionals to “step up” and play more expansive, transformational roles in business.

The trouble is, finance leaders often lack the mix of organizational insight and intuition that such transformational endeavors demand.

As in architecture, a variety of tensions help organizations to take shape and determine the speed at which a company's leadership vision is realized. Whether these are tensions over leadership, future vision and strategy, or resource allocation, each tugs upon alignments that determine how a company completes its work.

By leveraging such tensions and learning to manage the informal relationships that organizations thrive upon, finance leaders can become the trusted providers of “second opinions” to business leaders up and down the organization. It's a role in which your ability to drive transformation is intertwined with your growing influence. However, to take on such a role first requires that you make a counterintuitive yet critical realization.

TENSION IS A GOOD THING

Tension is one of the most powerful forces that you can use to drive organizational performance. Theresa Wellbourne, the CEO of ePulse, a company founded to provide real-time employee engagement data to leaders, has conducted extensive studies of the relationship between organizational tension and business unit performance.

According to her research, the single biggest predictor of poor organizational performance is when employees are “complacent” or “happy.” The second biggest predictor of poor performance is when employees are “burnt out” or “overwhelmed.” Getting the balance right is essential. Not all tensions are productive — think internal politicking and Machiavellian maneuvering. How do leaders get it right? There are three keys to success: picking the right fights, leveraging informal networks, and developing the business leadership skills to productively work these issues early on.

There are hundreds if not thousands of business books, articles, and research pieces on the topic of building strategic alignment. Alignment is critical, but if you want extraordinary performance, you have to also get the tensions right. For finance, it's all about the plan or budget. If a company's competitive strategy is the war, the resource allocation process is the front line.

How do you balance short-term earnings pressure with the need to fund strategic investments? It's a tough enough problem in financial analytics — trade-offs have to be made between maximizing a finite set of resources in the short term and optimizing a potentially infinite set of resources in the long term. Add the multiple roles that a typical finance organization plays in the process — architect, scorekeeper, and participant — and things can get messy. Handled poorly, the mess can lead to a company's undoing — think Enron and WorldCom. Handled with the right

VIDEO

Now hear Damon Beyer of Katzenbach Partners discuss how companies are harnessing organizational tensions to help transform their businesses. www.bfmag.com (March 2008)

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perspective and focus, certain tensions can unlock performance turnarounds that lead to significant lasting advantage.

FIRST: TUNE ORGANIZATIONAL TENSION

When Doug Conant took the reins at The Campbell Soup Company in 2001, the company was one of the most poorly performing major food companies in the world. With the firm having experienced significant declines in market value over a period of years, the prior management team had tried to deal with the very challenging situation through aggressive cost-cutting measures that had severely compromised the company's ability to compete. As the competitive profile eroded, so too did employee morale.

To deal with the difficult situation, more cost-cutting was undertaken. Marketing spending was cut to the bone, product quality was compromised, virtually all new product innovation was aborted, and head count was reduced ... all with an eye toward maintaining a strong earnings profile. Not surprisingly, despite the focus on boosting earnings to appease investors, short-term outcomes remained troubled even as long-term capabilities were being sacrificed. A once-revered American brand had truly lost its way.

Conant clearly recognized that the fundamental financial tensions in the business needed to be addressed and recruited Bob Schiffrer to join his team as CFO. They charted a course to address the reality of their situation that was designed to be competitive in the near term and superior in the long term.

In the first seven months, together Conant and Schiffrer completely reassessed the situation and began to restock the executive ranks. Over the first few years, the company would tweak its

organizational tensions by creating a broad "tapestry of expectations" so that everyone in the organization could begin to understand their role in helping the company to move forward. The leadership team also began to establish a "mission-driven" mindset and culture designed to inspire associates to do "extraordinary things in the marketplace and the workplace."

Conant and his team developed an intimate understanding of the fundamental causes of the decline but focused on communications from the top that did not lay blame. The focus was all about moving forward. He was candid about the problems that the company was facing, saying that the company couldn't "talk its way out of a situation it had behaved its way into — it simply had to behave its way out of it."

The firm's answer to short-term earnings pressure recognized the reality of the company's ability to compete. Meanwhile, Schiffrer set expectations that short-term results would be "average to above average," while laying the groundwork for superior performance in the long term. It wasn't easy. Investors became anxious with the new strategy and the stock price fell 30 percent to \$20.

Over the next several years, the company began to revitalize its performance profile and regain its credibility. Across a six-year period, the firm was able to move from being the most poorly performing company to being the best-performing company in its peer group. Campbell's is performing extremely well in both the marketplace and the workplace, with employee engagement at a record high. Most important, the future looks even brighter. The combination of rebalancing financial tensions around a simple, short-term, "average to above-average" performance focus while systematically executing against a longer-term mission brought the company out of its decline.

(THE CFO) PERSONALLY BUILT

relationships with the at-risk hubs.

Establishing these relationships helped to ensure that most of the key midlevel talent stayed with the company.

TRUST NETWORKS: HOW OUR EXPECTATIONS SHAPE ORGANIZATIONS

Ask any senior leadership team about the fundamental drivers of their ability to work as a group, and you will hear a lot about trust. Trust matters in organizations. Probably more than any other interpersonal attribute, trust defines the type of relationships that people will likely enter into with each other. At a deeper level, trust shapes the development of networks of relationships and underlies the development of the informal organization. But trust has been less clearly understood than it should be, largely because when we think about “trust,” we are really referring to three different types of expectations that we have of others:

Personal trust

Personal trust refers to the faith that we have in someone’s character and integrity and is what we usually mean when we say “trust.” We hope to place a great deal of personal trust in our leaders and expect them to act in accordance with it. Clearly, personal trust is highly valuable to have throughout our organizations. Many finance professionals score high on the personal integrity scale — exactly what you would hope for those who hold the purse strings. However, a strong reputation for integrity may not translate into robust personal trust networks because of the dampening effect of formal roles bounded by oversight, process management, and compliance responsibilities.

Expertise trust

In contrast, someone earns expertise trust based on their abilities within specific subject matter domains. For example, when we fly, we trust the pilot to get us to our destinations safely not because we have been able to get to know him and judge his character, but because he has been acknowledged to be a competent aviator. We trust him with our lives because he holds a license reflecting this competence. As with personal trust, expertise trust is clearly an asset in our organizations, but also as with personal trust, being highly trusted does not necessarily mean that an individual has broad influence, since expertise trust is limited to specific content domains. In fact, the specific functional expertise that it takes to get to the mid-management levels in finance is often not sufficient to succeed at the next level, where business acumen and strategic thinking are critical.

Structural trust

Structural trust is defined by the way someone’s position, role, or organizational affiliation affects their dealings with you. Structural trust is high in the airplane example because our interests in arriving safely are aligned. In organizations, we actually want structural trust to be moderate, not high, to foster constructive debate and divergent viewpoints. All functional organizations have agendas. For example, finance typically drives target-setting and budgets to meet investor expectations. In some respects, however, it’s important for the finance organization be neutral, particularly in creating an agreed-upon common set of P&L numbers that can drive productive debate around future performance.

Since the three kinds of trust can work independently, it’s important to understand an organization’s strength and weakness in each area. (from *The Third Opinion* by Saj-nicole Joni)

SECOND: LEVERAGE THE POWER OF INFORMAL NETWORKS

Knowing where to use tension is critical. Knowing how to work through the tensions is equally important. Our research shows that while tensions are best structured through formal organizational roles, they are best worked through informal organizational networks.

If you as a leader want to raise or lower tensions effectively, you should start by understanding how things really get done in your organization. The answer lies in the power of informal networks — the relationships that exist among people in your

organization.

Of particular interest to finance professionals are trust networks, the subject of the sidebar above. While it’s difficult to define these complex relationships with perfect precision, it’s surprisingly easy to develop useful, highly accurate snapshots of them with an analytical methodology called organizational network analysis (ONA). Simple surveys allow leaders to understand who is connected to whom and how those connections work, e.g., information exchange, guidance, or motivation. The resulting network maps reveal patterns that help leaders to understand where tensions are working and which leaders are critical infor-

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mal "hubs" — brokers of information, influence, and expertise.

Take the case of a highly successful high-tech company whose finance organization was in crisis. The company had seen years of growth in revenues and margins, but had stumbled into a situation that required a financial restatement, generating huge workloads and sapping morale. Work on the restatement stalled efforts to redesign the company's revenue recognition processes to accommodate future growth. The finance team was caught in an extreme variant of the short- vs. long-term tension since the trade-offs were about fixing the "past." Given the stakes, significant conflicts arose between the organization's "old guard" and the "new guard" who had been brought in to create more scalable processes. There was tension everywhere.

Network analysis made the tensions in the informal organization visible and offered insight on a way out. The ONA showed that while the finance organization was respected for its functional excellence, there were significant gaps regarding functional collaboration and business insight. Although the CFO was meaningfully connected and valued in the organization, his leadership team was not, and the effects of the interpersonal tensions between the team rippled throughout subfunctions and -groups.

In fact, some senior leaders were "off the map" of the influence networks. They were neither motivating their teams nor inspiring personal or expertise trust. The key individuals who were connecting and energizing the organization's efforts were one or two levels below the senior team — and many of these critical hubs were at serious risk of leaving from burnout.

Armed with these insights, the CFO took action.

He personally built relationships with the at-risk hubs. Establishing these relationships helped to ensure that most of the key midlevel talent stayed with the company.

The CFO also decided to rebalance priorities. He created opportunities for employees involved in the redesign effort to chip in on the restatement. The initiative gave the restatement team critical capacity and boosted their morale. It also created a stronger finance community united by common goals and interests.

Finally, the CFO changed roles in his formal organization, swapping key responsibilities between the CAO and business finance leader. The new responsibilities better fit their individual abilities, allowing them to repair their reputations and influence. In less than six weeks, the restatement was completed, key leaders were retained, and morale improved dramatically.

The lessons from this case can be applied well beyond crisis situations. Informal networks are one of the keys to getting the most out of the tensions you want.

THIRD: EXPAND LEADERSHIP CAPACITY

How do you find and nurture the next generation of finance leaders who can systematically build trust networks and effectively harness productive tension?

Two competing priorities emerge — deep, specialized expertise critical to functional excellence and influence with business leaders built on interpersonal skills and business insight.

Conventional wisdom will tell you that this kind of professional development takes time. But you might be surprised by how quickly it can happen when you borrow a page from the training practices of strategy consulting firms.

Several years ago, the CFO of a global pharmaceutical company announced his intent to accelerate development of business acumen in the middle of the finance organization. Finance directors were perceived as analytic resources, not "trusted business advisors." The goal was to significantly shorten the 15-year development path to vice president.

Leveraging training models used by strategy consultants, the company created a weeklong leadership intervention focused on critical thinking and business problem-solving. Led by senior finance leaders and outside facilitators, the session hinged on solving a complex, real-life business case that had multiple possible "right" answers.

The pressure was intense. Participants had to work with their peers, some of whom they competed with for promotions. The program was equally focused on problem-solving skills and interpersonal skills. Participants worked together in small teams and gave each other intense developmental feedback along the way. This accelerated learning during the session and created a peer network through which aspiring leaders continue to support each other's development.

The results were dramatic. Significant numbers of participant promotions soon ensued. One VP of finance commented, "The progress these people have made to change from 'number crunchers' into true thought partners to the business — in just a week — is simply astounding." Moreover, the peer community continues to be a strong source of informal "help" to growing leaders as they strive to get up to speed quickly and take on successively larger roles with greater responsibilities.

HOW TO GET STARTED

Some of these concepts can be provocative. The belief that companies can "align" their way out of difficult circumstances is all too common. And informal organization networks can seem nebulous, inscrutable, and daunting. The good news is that our recommendations are not difficult to follow. It is typically possible to identify opportunities to focus on key tensions and better leverage your informal organization with relative ease and minimal investment.

Start by considering your answers to these questions:

■ **Would you characterize** the people in your organization as (a) satisfied and content or (b) under pressure to perform but energized?

■ **Do your leaders view the budget pressure** to balance short-term earnings with long-term investments in growth as (a) a zero-sum game that strains relationships, sub-optimizes investments, and drains morale, or (b) a tough but energizing arena in which the organization has the opportunity to develop its best financial talent?

■ **Are your midlevel leaders** known more for their (a) attention to numerical detail and analytical prowess or (b) business acumen?

■ **When reviewing performance data**, do you spend more time debating (a) responsibility for past performance or (b) opportunities for future performance?

■ **Do your leaders tend to influence decisions** based on demonstrated (a) functional expertise or (b) personal influence with business leaders?

If your answer was “a” two or more times, you likely are not realizing the full power of productive tensions and your informal organization. So, what can you do about it? Here are some ideas:

QUICK AND EASY INTERVENTIONS

■ **Get a pulse on where the current tensions are:** Ask around. What are your people concerned about? What issues take up the most time in meetings? Which are motivating better performance?

■ **Identify your likely hubs:** Ask a cross-section of your people questions such as, “Whom do you like to work with when you’re up against a tough project?” Talk to the people cited in those responses, then talk to the people they cite. The names that keep popping up are probably your hubs.

■ **Emphasize business problem-solving:** Recognize your best “business partners.” Tell their stories and promote based on business leadership and technical expertise.

DEEPER INTERVENTIONS

■ **Create systematic assessment of tension:** Explicitly

review your organization’s strategy to determine where to pull alignment hard and where to use tension to uncover the best path forward. These reviews should map current tensions against their ability to enhance or hinder execution on your most important strategies. Such study is invaluable for focusing management time and priority on the few tensions that drive actual results and eliminating legacy tensions that slow things down.

■ **Conduct an ONA:** A baseline snapshot of the informal organization is invaluable. There are several firms who can execute the analysis and, more critically, help you to interpret and respond to the results.

■ **Foster peer communities of evolving leaders**, and focus them on growing their critical thinking skills on issues that cross organizational boundaries: Such communities reinforce the skills imparted through training and coaching and multiply their effects over time.

Whether you stop at “quick and easy” or invest in more systemic solutions, the insights from our research are clear. The ability to focus on the right fights, leverage informal networks, and develop leaders with the business acumen to sustain and expand these efforts is highly learnable. And the solutions reinforce and build upon themselves.

Time spent on harnessing tension can have a significant payoff in your organization’s ability to handle complexity. In the process, you can substantially advance finance’s ability to guide the short- and long-term trade-offs so pivotal for today’s public companies. You will then be able to use tensions as a powerful driver of business performance and realize the full potential of the finance organization in your enterprise. ☐

WHAT ARE YOUR PEOPLE CONCERNED ABOUT? What issues take up the most time in meetings? Which are motivating better performance?

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