Can't Count – Won't Count:

The Bottom Line on How Financial Directors Could Be Adding More

- Steve Bernard, May 2014

In every sector, Finance Directors matter. They have a hugely influential position in most organisations, and their skill and prudence is often the difference between survival and ruin during a downturn. However, a lot of Finance Directors are missing opportunities by not evaluating all of the right things, reducing the long term growth.

In this article, we will explore the reality for many finance leaders, the world they occupy and the issues they deal with to uncover what's missing and the importance of this for long term success. We will focus on the x3 biggest hidden levers of financial performance that are not being counted: lost time; hidden people costs; and performance failure.

When we meet people for the first time, one of the questions is habitual: *"So who are your typical clients within an organisation?"* 90% of the time the answer is a main board director, CEO, MD, Business Unit Leader followed closely by an HR Director or Head of L&D. But the truth is the Finance Director (FD) is never far behind. Without their sign off (and here I mean their intuitive and personal commitment), the work will invariably not go as far or deliver the full ROI. So what are FDs' typically asked to focus on?

Day in day out, FDs are measuring, checking and influencing key numbers and performance indicators; they attend a swathe of meetings and review dozens of reports, systems and business cases. Although they are some of the most senior executives, they spend up to 75% of their time in internal meetings, managing data and working with their resources to ensure their confidence in the numbers remains high. Only a small minority spend enough time with customers and visit other functions to create closer understanding & collaboration. The pressure in their environment can be extreme; shareholders and CEOs are a demanding bunch so as an FD you had better be ready with the right data that you can trust. So far so good, so what's the problem?

In our experience, too many FDs are hand cuffed to the day to day status quo and existing ways of working, meaning that they miss some of the fundamental *levers* to financial performance which can get buried or undervalued. We'd like to show you how:

Lost Time: We all know that for financial improvement and other forms of growth, something has to change first. The lifecycle of events typically follow a common path: strategies are discussed; business plans are made; forecasts are created; and decisions are made. Logically they are then implemented over time through projects, and they ripple through the organisation. Simple – right? Wrong! CEOs are a notoriously impatient bunch and did I mention, they HATE surprises! Savings, cost reductions, revenue growth forecasts are *baked in* to budgets and are tracked and measured often within an inch of their lives. When the tracking and governance become the main focus – this can cause real delay to change on the ground.

So what if there was a delay (just supposing), e.g. a key decision was held up because it didn't get the airtime. Very quickly the actual change process can be ignored and the business case benefits do not accrue as quickly as forecast.

An interesting calculation: a typical client we might see = a FTSE 100 Board that is x12 executives strong. The average director salary is ~ £3.3M (1), i.e. Basic Salary, Long Term Incentive Plan (LTIP), Shares, Pension, Medical, Car etc. Using an average of 253 working days (2) this boils down to it costing between £150 – 160K to operate a Board for each working day. On many occasions we see not days but weeks of procrastination or conflict at the top table, preventing change and stopping the resulting benefits from accruing. Just think about your own organisation and the overall ££Size of budget and business plan. The effective is highly cumulative; the larger the organisation, the higher the monetary impact through lost time of senior managers which ripples through in a lack of change in the general workforce. In the worst cases, when a workforce sees a consistent failure to change, they can start to feel directionless, taking even longer to re-motivate them and get them on side when change eventually does come.

So what's going on? It can be far too easy for any Board member to make assumptions about what is agreed and when there is enough momentum to move forward with a plan. Boards can simply avoid conflict and not engage each other in the right strategic conversations. In these cases, the CEO – FD relationship has the opportunity to rescue the situation and really hammer home the case for alignment on what to change. We think there is a big opportunity for FDs to step up to the plate here.

Performance failure: When performance measurement is boiled down simply to sales, revenue or any other single monetary number, it is dangerous. Most organisations know how to squeeze cost to improve a headline number. Underlying performance can often suffer badly but not show in the numbers immediately. Aside from capital expenditure projects, change initiatives can fall apart and simply not deliver performance improvement for a variety of reasons: they can lack or lose sponsorship; there may be no appetite for investment in the change process itself (it's supposed to just magically happen); or it can fall from the priority list without the downgrade being signposted. The thirst for chasing the one *golden number* can lead to a litany of hidden problems eating real performance like a Pac-Man in a food court after an enforced diet. Educated blue and white collar workers need to be motivated. When they are not, research shows that subtle sabotage of initiatives is more common than managers care to admit (3) (what are termed deviant behaviours). This ignorance of the need to engage can translate into people withholding information, increased risk, mistakes, increased re-working, longer process steps and ultimately project failures. Where large amounts of capital are being spent or big promises made about benefit cases, the numbers associated with performance failure are sizeable. Where FDs collaboratively ask for a balanced and honest assessment of performance they often get a true picture of the risks and likely scenarios. When organisations simple cast them as the *wicked stepmother role* to police the *golden number*, the performance picture quickly gets fuzzy and there is a cost.

Hidden People Costs: Arguably HR professionals might best understand headcount, FTE numbers, pay settlements and the like. But it is the FD community who are missing some rich, if less publicised people costs that are just as critical.

Stress is a real and growing epidemic. While we won't deal with definitions of it here, where there is stress there are increased incidences

1.http://www.bbc.co.uk/news/business-24983178
2. http://www.work-day.co.uk/workingdays_holidays_2014.htm
3.http://business.kingston.ac.uk/sites/default/files/Emotional%20or%20Transactional%20Engagement%20CIPD%202012.pdf

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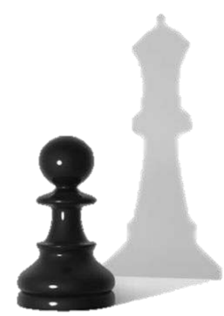
of sickness and poor performance. Sickness, a lack of engagement, or a poor working environment of any kind will *eventually* show up in the numbers too (felt as direct cost or see Performance failure above). Equally when good talent walks out of the door it is costly and the loss of experience at critical times can be fatal. A number often way down the list is the cost of recruitment; organisations that have a poor reputation or employee proposition will typically pay more and expend more effort to get good people. If they are really unlucky they will end up simply recruiting people motivated purely by the money – we'd say good luck with that!

I'm not sure I'd bet on FDs as a community being the ones to say "people are our biggest asset". They might instead refer to them as the biggest cost! Well here's another perspective we'd encourage FDs and HRDs to discuss – research also shows that poorly engaged people will literally *sit on their hands* (say nothing) rather than hand over *innovative* or *game changing* ideas to real business problems. The bottom line is that organisations with a lack of trust and collaboration take much longer to achieve things and deliver less. In the poorest examples, a negative culture of controls & measures can pervade, i.e. trust and engagement is low, so performance is poor; managers apply more pressure and measurements, often being more prescriptive and allowing less freedom of thought which in turn perpetuates low engagement and performance and typically a high turnover.

But why pick on the poor old FD Community – surely it is not their fault? Quite right, it is much more complex than that. However our work tells us FDs can be game changers if organisations use them in the right way and give them the freedom:

- FDs are often in the most influential positions but can fail to make the access to key decision makers count
- Their personal behaviours speak volumes to the overall organisation's real culture. Too often their focus is on outcome numbers alone, but those numbers are measuring the short term and missing other vital performance metrics
- Too much focus and time is spent on measurement and not the change process
- FDs' questions and behaviours can drive a disaggregated picture, forcing colleagues further apart, particularly when the agenda is dominated by *gap closure* and *cost challenge* (cost focus not the derived benefits).
- FDs' can be the kill off innovative thinking. Unless there is a shared accountability for it, they are too often encouraged to reduce debates to a single answer or number by using well-trodden arguments instead of setting up genuine risk – reward and change debates.



There is so much untapped potential in terms of real impact that Finance leaders can exert on their organisations. The manner in which FDs are led, how they are managed and the culture of the business heavily dictates the real outcomes against these x3 levers. However it is the leadership traits of the FDs that we are appealing to: to challenge the status quo; to read the organisational context; to create wider conversations that are designed to create value by counting the right things more holistically. Not their domain? It's worth remembering the career path of a typical FD often leads them to sit in the big chair.

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