Straight Talk Book No. 7

Breathing lessons

(How CFOs can thrive under pressure)

A very short quiz

I have full confidence that my organization can consistently produce accurate financial statements in a timely manner.

YES NO

Scoring

If you answered no, put this book away and get to work on the basics. You and your company are facing some serious and unacceptable risks.

If you answered yes, you're ready for ***Breathing Lessons.***

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Breathing lessons

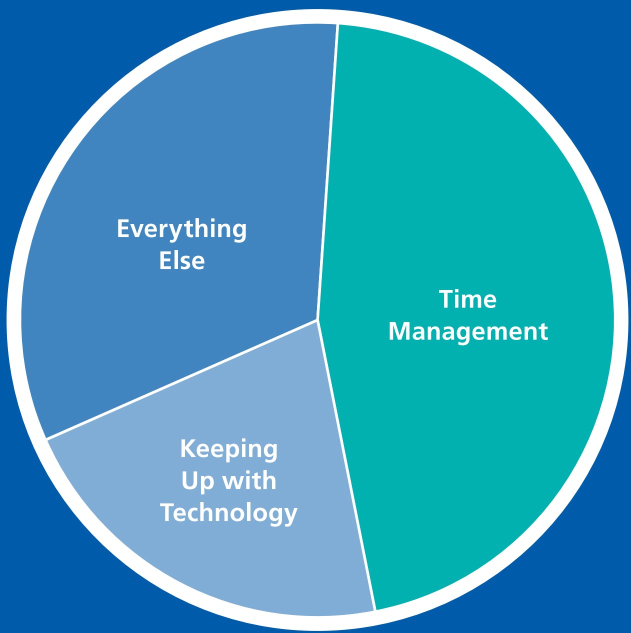
(How CFOs can thrive under pressure)

“The nose of the bulldog has been slanted backwards so that he can breathe without letting go.”

Sir Winston Churchill

Contents

What's the problem?
The biggest challenges facing CFOs today



CFO.com, October 23, 2006

Pushed and pulled

CFOs today find themselves scrambling in more directions than a good bartender on New Year's Eve. And no wonder. Pressures for accountability and performance have never been higher.

The truth is, though, the job itself is getting out of hand. The disintegration of the Chief Operating Officer role has left CFOs with a breathtaking range of new responsibilities, some of which come with the potential for jail terms.

That's probably not what you had in mind when you started your career.

Are there CFOs who still manage to do it all? You bet. They're the ones who decide for themselves what "all" really means. And that's what *Breathing Lessons* is about.

Dial tone

Every finance organization must be able to produce timely, accurate financial statements. Think of this as "dial tone" — the essential, always-on service required to support the business.

Breathing Lessons is for CFOs and finance departments who have already mastered dial tone, who reliably deliver the numbers required for routine financial reporting. Only then are they able to allocate resources to other functions that create more business value.

Sketchy operations in finance pose legal and financial risks that are wholly unacceptable in companies today. They also undermine the credibility of the finance organization itself. Getting your financial house in order is your first and most important job.

Breathing Lesson Number One:
Find out what's in the way of your organization delivering reliable dial tone. And then fix it.

Until your organization can deliver a reliable dial tone, don't spend time working on advanced calling features.

A penny saved is a missed opportunity

Many CFOs have set a good example by implementing operational efficiencies such as shared services centers and consolidated general ledgers that help reduce costs. But many have also had to cut corners, sometimes patching operations together with duct tape and bailing wire.

For example, some finance organizations have legions of analysts armed with spreadsheets — serving as "human middleware" to tie things together. Sure, the books get closed, and financial reports are filed. But is this the most effective way for Finance to create value?

Innovation and improved performance don't happen by accident. They require investment. Now is the time for CFOs to think about reinvesting in their own organizations.

Where to Invest	**What to Expect**
Talent management	*More flexibility, improved capabilities*
Chart of accounts	*Better control over data*
Performance scorecards	*People refocused on doing what matters most*
Business intelligence	*Better insights, smarter decisions, less risk*
Financial close, consolidation and reporting	*Faster, smoother closing*
Budgeting, planning and forecasting	*One dependable version of the "truth"*
Finance merger integration	*Day One readiness*
Tax and treasury	*Higher profits, better compliance*
Benchmarking	*A better view of relative performance*

Breathing Lesson Number Two:
Identify your top three investment opportunities. Build business cases that reflect the value of better information, improved talent retention and less risk.

You know you're not investing enough in finance when:

Your "close calendar" includes weekends
You're delivering tons of reports and ounces of insight
Journal entries are time-stamped at 3 a.m.
You say "chart of accounts" and somebody asks, "Which one?"
Your best people have their résumés out
Middleware refers to your people, not your technology
Everything is IT's fault

Don't try breathing when you're underwater

Some CFOs view more and more responsibilities as a stepping-stone to CEO. But that's mostly wishful thinking. Fewer than half of CFOs who want their next job to be CEO or Chairman actually make it. One reason is because they're burning out. Turnover among Fortune 1000 CFOs has climbed dramatically, with an average tenure of less than three years.* And most of those CFOs are moving out — not up.

The key to success? Do less, not more. Zero in on activities that create real value for the business, and leave the rest to someone else. "Someone else" could be a person who reports to you, or better yet, a person who doesn't.

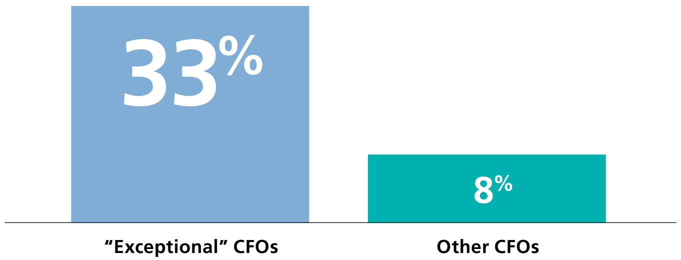
Taking the 'I' out of 'IT'
Half of Fortune 1000 CFOs oversee information technology, and the number is growing. While there's clear logic for making CFOs accountable for information quality, does it really make sense for them to take on technology issues such as help desk support and application development?

Breathing Lesson Number Three:
Break up IT. Focus on the "I." Leave the "T" to the CIO or CTO — where it belongs.

* Improving CFO Personal Effectiveness, Corporate Executive Board, 2005.

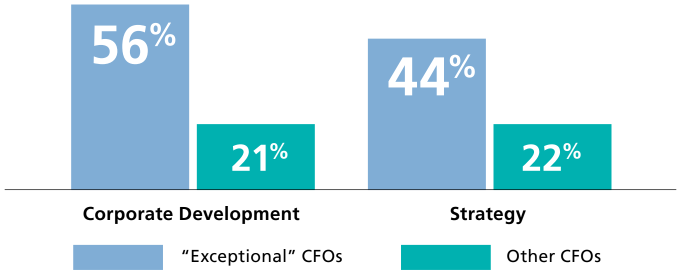
"Exceptional" CFOs are streamlining their responsibilities…

Percentage of Global CFOs Reducing Their Number of Direct Reports



…and are more likely to own activities that impact operations and performance*

Select Non-Finance Activities Reporting to the CFO



Turn that telescope around

Do your managers spend more time arguing over who has the "right" data than they do discussing actual decisions they're supposed to be making? If so, that's a sure sign your decision-support processes are out of whack. A quest for truth is fine if you're Galileo or Socrates, but business people have more important things to do.

Some companies respond by launching a massive effort to clean up data across the enterprise. But in the spirit of less is more, we recommend a more efficient approach, focusing on what really matters.

Start at the end by thinking about actual decisions that need to be made by whom. Then work back to determine what information is required to support each decision, and where that information comes from.

That's how Cisco does it, according to Jonathan Chadwick, vice president of corporate finance and planning. "Finance, while it doesn't actually own the strategy, is responsible for being the institutional memory of the company and offering a framework against which we can present our strategic choices of how we're going to develop as a company. Finance makes sure the right choices are framed up."*

Breathing Lesson Number Four:
Focus on specific decisions that must be made, then work backward to determine what information you need.

* "Different Paths to One Truth: Finance Brings Value Discipline to Strategy Execution," CFO Research Services in collaboration with Deloitte Consulting LLP, 2006.

1.
A global pharmaceutical company conducted an assessment of its approach to financial reporting. How many reports did the company find it was routinely producing every month?

A 97 B 506 C 1,211 D 5,043 E 8,738

2.
The same company also looked into which routine financial reports were necessary to support ongoing business decisions. How many were required?

A 5 B 28 C 57 D 113 E 200

3.
How much money was the company spending annually on unnecessary reports?

A Nothing C $100,000
B $1,000,000 D $3,250,000

Answers
Question 1: B. 506 Question 2: B. 28 Question 3: D.$3,250,000

Which way are you facing?

It should be clear by now that many CFOs today are stretched to the breaking point. In order to protect your job — and your sanity — you'll need to focus on the things that matter most. Trying to be "world class" in everything usually means being world class at nothing.

Try using the Value Assessment Wheel — you'll find it when you lift the flap on the right. As you work your way around the wheel, ask yourself how your finance organization is performing on each of the value drivers and enablers — and where you most need to see improvements.

But the key is this: Make sure you're not over-investing in areas that can't deliver significant rewards. Because sometimes "good enough" really is good enough.

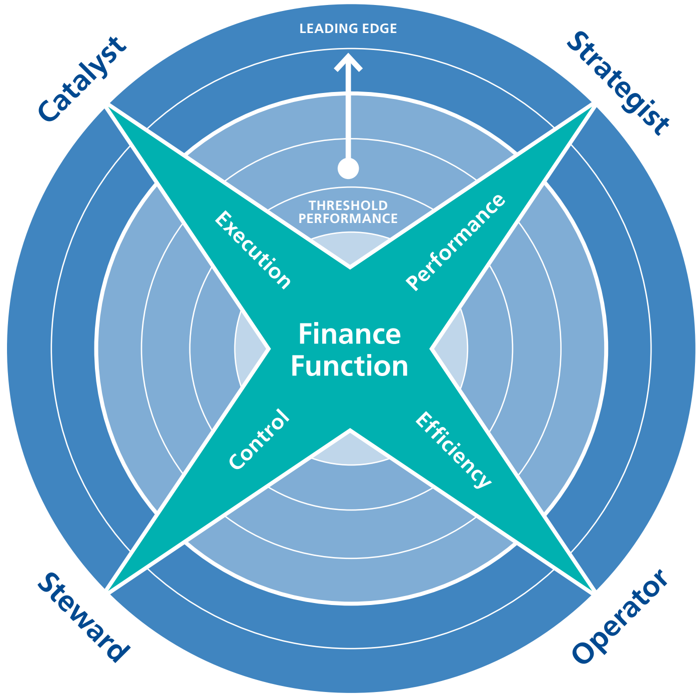
"The catalyst itself cannot be successful without the rest of the components. We view ourselves as being that catalyst inside Cisco."

Jonathan Chadwick, VP of corporate finance and planning at Cisco Systems*

* "Different Paths to One Truth: Finance Brings Value Discipline to Strategy Execution," CFO Research Services in collaboration with Deloitte Consulting LLP, 2006.

Stimulate behaviors across the organization to achieve strategic and financial objectives

Provide financial leadership in determining strategic business direction and align financial strategies



Protect and preserve the assets of the organization

Balance capabilities, costs and service levels to fulfill the finance organization's responsibilities

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Transaction Processing • Process financial transactions efficiently and effectively	**Risk & Capital** • Identify and manage enterprise risks • Ensure access to capital • Optimize capital structure
Close, Consolidate & Report • Capture, summarize, analyze and report financial results and related disclosures to management and external stakeholders	**Regulations & Governance** • Monitor regulations and ensure compliance • Operate and monitor internal controls over financial reporting • Rationalize and manage required governance bodies
Performance & Decisions • Define and monitor enterprise performance metrics • Deliver information needed to make after-tax business decisions	**Strategy & Execution** • Influence corporate strategy through financial insight • Encourage enterprise-wide adoption of strategy • Execute finance strategy

Systems & Information • Support enterprise-wide financial applications and upgrades • Rationalize and manage system data governance	**Policy & Process** • Influence process development, management and enforcement • Facilitate policy adoption
Finance Organization • Identify and execute organization structure design • Manage roles and responsibilities	**Talent & People** • Define and monitor talent roadmap through training, deployment and performance management • Supply staff with education necessary to meet responsibilities

Step on the gas

Ask most people why cars have brakes and they'll say, "So you can slow down." But the real reason is so you can go faster and still be in control.

CFOs understand this better than anyone. They know that taking risks is essential for profitable growth. Yet they often find themselves as the people with their feet on the brakes, outlining all the reasons to avoid certain risks. Which is why the strongest CFOs are retaking the high ground and becoming advocates for good decisions, not just safe ones.

One way to do this is by giving business leaders a means to evaluate the risks associated with the opportunities they're facing. The first step is distinguishing between rewarded and unrewarded risk.

Unrewarded risks are things like regulatory compliance, where there's nothing to be gained from taking the risk. For example, risks relating to the integrity of financial statements and compliance with laws and regulations.

Rewarded risks — like acquisitions or new product development — are where value gets created.

How do you take your foot off the brake and become a risk-intelligent CFO?

Consider these simple steps:

- *Get clear about what's a rewarded risk and what's not.*
- *Make sure your leadership team understands your organization's risk profile.*
- *Focus the organization on its key risks and how to best manage them.*

Breathing Lesson Number Five:
Avoid risk and you'll also avoid reward.

I couldn't repair your brakes so I made your horn louder.

Take time for tax

If sales people are the rock stars of top-line revenue, then tax people are the rock stars of the bottom line — and that's usually the line that matters most.

Tax departments can create millions in profit when they have time to do the right kinds of planning. Yet in many organizations, that potential often goes untapped.

That's because business leaders make decisions every day without regard for tax implications. Information systems are designed without the ability to track tax-related details. And the result is untold millions in lost earnings. For example, up to 40% of the increased profits generated from global supply chain improvements could be consumed by taxes.

What can CFOs do to squeeze the most value from tax? Make sure your tax people are spending more time with the business. Raising awareness of potential tax benefits. Helping build after-tax business cases. And participating in any major decision that has tax implications (which is just about all of them).

Of course that's easier said than done. Some tax specialists just aren't comfortable carrying the tax flag out into the organization. They're also super busy.

To be on the safe side, take a more active role in getting your tax people involved in the business. Don't just encourage them to participate in major business decisions — bring them along when you go to important meetings.

Breathing Lesson Number Six:
Get your tax folks involved with the business at the front end of major decisions. Use after-tax dollars to evaluate every business case.

Drive the bottom line
Smart companies use tax-aligned operations to amplify shareholder value. That usually means incorporating structural tax planning into major initiatives, especially supply-chain projects that span jurisdictions with wide-ranging tax rates. The performance improvements can be tremendous.

	Structural tax rate	After tax return
With structural tax planning	20%	$981,651,000
Without structural tax planning	35%	$471,188,000
Benefit from structural planning		$510,463,000

If you love them, set them free

The talent crunch in finance is real — and it's here to stay. Which helps explain why some managers work so hard to keep their trained people right where they are.

Unfortunately, that loving embrace can quickly become a death grip that stunts personal development and creates stagnation. And it can also have the unintended consequence of forcing the best people to move out so they can move up.

That's one reason companies such as Lockheed strive to move people around inside their organization. According to Mike Gabaly, director of investor relations, this approach provides management with real confidence and comfort. "I'm going to hire this individual from another area of the corporation and not have to worry about his or her learning curve. I won't have to worry if the employee comes from aeronautics, IT, or electronics. They know how the company is being managed. They know how to measure the performance of a program. They know the metrics of the business, and they know how finance and strategy interact with one another."*

Another key to success is hiring people based on their potential to achieve results, not just technical skills and previous experience. As the role of Finance evolves, there will be more and more need for people who are creative, intelligent and business-savvy. Don't just fill positions. Look for people who can grow.

Breathing Lesson Number Seven:
Hire for talent. Move people around.
Export them into the business.

* "Different Paths to One Truth: Finance Brings Value Discipline to Strategy Execution," CFO Research Services in collaboration with Deloitte Consulting LLP, 2006.

Power up the dotted lines

Business leaders have long viewed span-of-control as a way to measure success. The more people who directly report to them, the greater their power and prestige. But for CFOs today, the quest to build an organizational empire often undermines performance.

The truest measure of CFO clout isn't span-of-control, it's sphere of influence. Building on strong relationships with their CEOs, the best CFOs work hard to instill a deep focus on value creation throughout their organizations.

In the best of all worlds, everyone would view their day-to-day activities through the finance lens — a rigorous perspective focused on creating more value for shareholders. It's the CFO's job to shape that perspective by promoting a structured, fact-based approach to decision making.

One way to do that is simply by getting out more. The most successful CFOs are those who meet most often with both the CEO and business unit leaders.

Another way to expand your influence is by embedding some of your best people into the business units. That may seem like a huge sacrifice, but the upside is worth it. Having talented, financially literate people dispersed throughout the enterprise builds connections to the business and spreads the gospel of finance.

"One of the things that we talk a lot about here is creating financial literacy in the organization," says Alfred Drewes, chief financial officer and senior vice president, Pepsi Bottling Group. "That sounds like a lofty term, but what it really means is making sure that when the sales guy goes into a store, he has the tools to understand what the right price points are, what the right package mix is."*

Breathing Lesson Number Eight:
Call a friendly business leader. Make a date to meet. Repeat as necessary.

* "Different Paths to One Truth: Finance Brings Value Discipline to Strategy Execution," CFO Research Services in collaboration with Deloitte Consulting LLP, 2006.

How good are you at peddling influence?

	DISAGREE				AGREE
I don't initiate contact with business unit leaders unless there's a problem.	1	2	3	4	5
Line managers are always complaining that they don't get enough help from Finance.	1	2	3	4	5
I keep my best people close to me in Finance.	1	2	3	4	5
I'd rather have a root canal than spend an hour with the head of "that" business unit.	1	2	3	4	5
Luckily, Finance is the one place business units don't recruit from.	1	2	3	4	5
I need to own more areas to have the influence I want within the company.	1	2	3	4	5

Scoring

5 – 15 You're in a good position to influence the business without stretching yourself too thin.

16 – 24 You're not exerting all the influence necessary to make the most of Finance capabilities.

25+ You're way too isolated from the business. Get out more.

Score:

Hi, Mary, this is John

GM: John who?

CFO: John the CFO?

GM: Oh, that John. Sorry. You hardly ever…

CFO: I know. I hardly ever call. But I'm…

GM: What line item is over-budget this time?

CFO: Everything's fine. I just want to…

GM: Everything's fine?

CFO: (laughs) Yep. I just thought you might want to hear some of the questions that came up in yesterday's analyst call. Those guys have a unique perspective that's worth keeping in mind.

GM: Well, I am looking at a couple of potentially big deals.

CFO: Want to get together and tell me what's on your plate? Maybe have lunch?

GM: You want to take things off my plate?

CFO: I'm not that crazy.

GM: Still. This is kind of unexpected.

CFO: Now that you mention it, yeah, I guess it is.

GM: Okay. You've got a deal. But let me buy lunch. I know how you love reviewing expense accounts.

Breathing Lesson Number Nine:
Pick up the phone.

Many CFOs today are choking on a dangerous combination of ever-increasing responsibilities and a pressure-cooker environment.

Which might explain why they're turning over at an annual rate of 17%. In fact, three out of four CFOs in the Fortune 500 have been in their jobs less than five years.*

But it doesn't have to be that way. The best CFOs are taking back control — and refocusing on opportunities to create value. They're reducing their reporting relationships, investing in their operations and pushing their people closer and closer to business decision makers.

They are also finding time to breathe.

"Freedom is strangely ephemeral. It is something like breathing; one only becomes acutely aware of its importance when one is choking."

William E. Simon, US Secretary of the Treasury 1974 to 1977

* Improving CFO Personal Effectiveness, Corporate Executive Board, 2005.

Breathing lessons

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8. Call a friendly business leader. Make a date to meet. Repeat as necessary.
9. Pick up the phone.

About this book

Breathing Lessons (How CFOs can thrive under pressure) is the seventh in a series of books dedicated to helping companies improve performance. To request additional copies of this book or to order previous editions, go to *deloitte.com/straighttalk*.

To receive *Breathing Lessons* year-round, please subscribe to our newsletter at *deloitte.com/breathinglessons*.

Talk to us

We look forward to hearing from you and learning what you think about the ideas presented in this book. Please contact us at breathinglessons@deloitte.com.