Lucilius Interim
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Get well soon!

A Lucilius Interim® Memo on finance recovery: re-enabling a broken finance function to meet its value proposition

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When a finance organization cannot provide sound actuals and doesn't find time for punctual VAT filings anymore, when - in short - it has stopped the delivering even the most basic elements in its value proposition, then emergency treatment is urgently needed. --- In this memo, I discuss the nature and imperatives of such efforts, which I will refer to as finance recovery projects.

Better finance through upgrade, transformation, and recovery projects

I have elsewhere outlined two types of performance improvement programs for the finance function of a business:

- A finance upgrade aims at improving performance relative to a current value proposition. For example, if 'the timely provision accurate data' is (part of) finance's value proposition, then advancing the delivery date for a report from workday 10 to workday 5 is an upgrade.
- Finance transformations want to bring to life a new, more powerful value proposition. Evolving from 'timely provision of data' to 'driving profitability by pro-actively engaging decision-makers' for example will require a multifaceted transformation project, which tackles recruitment, skills, systems, and audience education - simultaneously.

In what follows, I will isolate a third type of improvement effort, which I will call **finance recovery**, an effort which **strives to resurrect the ability of a finance function to keep the promises of its current value proposition, a proposition it is consistently falling short of** to an extent that not even the most basic processes run reliably.

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Ich brauch' mehr als 'n Kumpel

Symptoms that a finance organization is in need of a recovery effort include the following:

- Statutory audits and filings are delayed, audit opinions qualified, fees and fines rising.
- Compliance is deemed non-essential and doesn't have top-management attention.
- Management reporting is habitually late or has been suspended.
- When numbers are reported, they too often contain surprises. And too often, no one cares.
- The meaning of some BI data is unclear; seemingly identical reports are contradictory.
- People stay put for reasons like: familiar environment; low demands at work compatible with real interests elsewhere; leaving would endanger benefits; couldn't find a job outside.
- People are resigned to their processes not working.
- Systems are not updated.
- Recurring automated journals are not understood; no one dares to touch them for fear of braking something nobody can specify.
- No one has a solid knowledge of the systems or of the end-to-end processes they support.
- Decision-makers turn elsewhere for substantiation and data.

To some extent, these are exaggerations, and, clearly, elements of this list may surface in well-run finance functions, too - but if so, then rarely and for short intervals only. It is once they accumulate and persist, that someone needs to call an ambulance.

Ill winds blowing

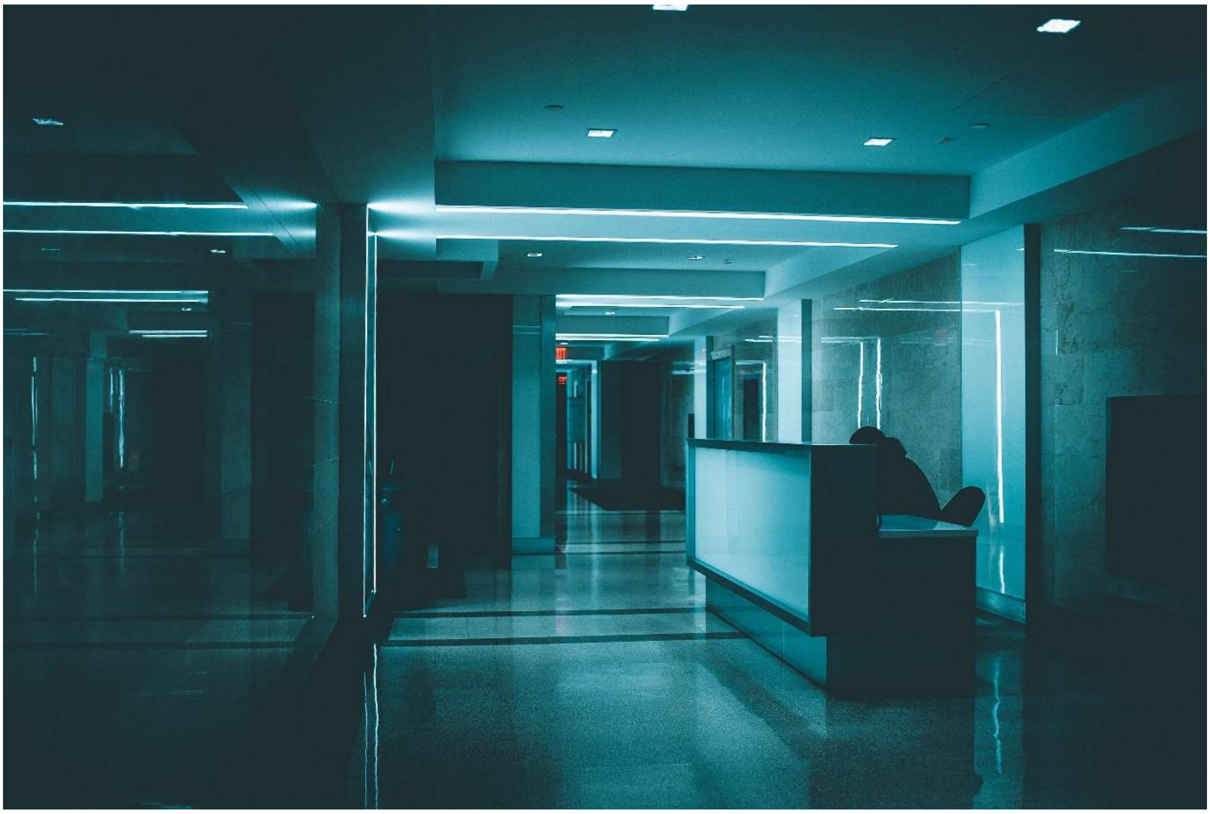
But how can an organization even land in such a conundrum? It's important to know on what caused the problems in the first place, because such knowledge may determine or limit the choices for the would-be reanimator. So, let's consider some of the downward slopes.

A. An outsourcing or centralization project gone wrong. For whatever reason, the tasks never got transferred, but the damage was done: the good left during the project, the best when it stopped, others were let go. After the crash, the team was not re-built, perhaps for lack of money or because it had to be pawned away in a face-saving deal.
B. Ill-advised restructuring. Instead of solving the underlying market issues, shrinking sales are compensated by cutting-down 'non-client-facing' teams - without reengineering their systems or simplifying their processes. As a result, too few people try to run bigger-business processes. Those who sense that better opportunities might lie elsewhere leave.
C. Poor management. Out of a false sense that administrative processes and systems are beneath the concern of top management or out of ignorance of what it takes for things to run reliably, decisions routinely disregard the needs of backbone functions. Disaffection is rampant, morale and people power erode.
D. Monied decline. Industries losing their license to operate or stuck in a declining region can be bleeding people while finding it difficult to attract new personnel or create a business case for investing in admin automation, even though the funds are available.
E. Poor, not sexy. Businesses in persistent, severe difficulties and lacking a story around which people could rally are in the toughest spot. Unable to pay well and invest, such companies have no way to replace its personnel or modernize its systems.

Here's your prescription

All these cases are tough, some close to intractable, but still, from crisis comes opportunity, and so here are some ideas on how the different scenarios could be approached.

In the poor, non-sexy case E., a broken finance function will not even be top of the issue list and it cannot be mended at the functional level. As long as no overall betterment – for example via a break-up and sale – is imminent, all you can do as finance leader is to make the situation bearable: take good care of the people who are still around, stop all work on anything that is not an A priority, and use the time hopefully freed up to work on improving daily life and core compliance, step-by-step.



If – as in D. – despite persistent business decline money is not (yet) an issue, the situation is more favorable. Since service providers are usually less picky with their clients than applicants with their employers, outsourcing transactional processes, compliance, and perhaps even the transaction systems can be a valid strategy for you. The outsourcing itself might be tough to implement but consultants can help. And given the low base level of performance, you should be able to show immediate improvements despite all teething problems.

The wrong tone from the top in C. needs to change from the top. As a new CFO – perhaps brought in from the outside by a worried board – or a respected insider influential and robust enough to detoxify the situation, you will first of all want to shield your team effectively from whatever negative vibes there are. With this levee in place, you can start to rebuild the capabilities of your function.

Cases A. and B. - crashed outsourcing and point-missing restructuring, respectively - might be the easiest to rectify. The first item on your agenda will be to acknowledge that things did go wrong, why they went wrong, to apologize, and to thank the remaining finance staff for their pains. Then, at a later meeting, make a credible new start. Make it absolutely clear that with you in charge the follies of the past will not re-occur. Ask for your team's support and advice, then get to work. Success will depend to a large degree on you personally and on your leadership. If you cannot credibly project a new beginning, consider hiring an interim manager. Most important: you really have to make sure that the follies of the past do not re-occur.

The four challenges

I have already alluded to the first challenge: acknowledging that there is a severe issue which needs fixing. This seems easy but can be a minefield. Outsiders might have the best chance. A new CFO, new commercial management insisting on better business partnering, or indeed an interim manager, can be effective catalysts of change. In any case, some impulse from the outside may be needed. Alternatively, a painful crisis, such as fines levied on the company or its officers, might obliterate all need for insiders to be considerate of the feelings of those responsible.

The second is time. Even if the fundamentals for rebuilding are there, it will still need time. Time for upskilling, for recruiting, for system changes, but mostly for rebuilding the functional ethos. Management needs to re-earn credibility and trust bit by bit over a longer period. Teams have to stop relishing their victim status and have to learn enjoying top performance again.

The third is money. Most of the investments not made will have to be caught up on. Recovery will be more expensive than maintenance: systems will have to be updated, and new and better people may cost more than legacy staff.

The final one is perseverance, lots of it. Let's consider why.

That don't impress me much

Many business projects are tough, and in that sense, recovery efforts are no exception. What makes them special is that even successful ones may not feel all that great. You finally managed to close 2017 in subsidiary X? Not only Shania Twain will be inclined to shrug her shoulders. Of course, this is deeply unfair, since closing 2017 may in fact mean that you have achieved a signal break-through. The issue is that finance recovery projects often have a poor glory-to-effort ratio – a bit like cleaning neglected master data or overhauling the German railway infrastructure.

The temptation, therefore, will always be to look for the magic cure which, will heal it all with one drop on a lump of sugar. But don’t fall for this trap. Giving in to wishful thinking will not heal anything. Quite the contrary: the all too familiar sequence that is certain to ensue – one more round of heady promises, followed by disappointing results, frustration, ignoble retreat, and embarrassed silence about an even bigger mess than when it started - will only serve to confirm the team in their low morale and an equally low opinion of their leaders.

Its own reward

In a finance recovery situation, there is no alternative to a nurture-and-grow approach, which requires time, patience, consistency, management attention and expertise. It also means you have to show superior leadership, consistently. Not something for the faint-hearted, the short of breath or, as we have seen, those thirsting for publicity.

Although, seen from the right angle, the rewards for the leader and the team who achieve recovery are actually the highest that are out there: the recognition and respect of those who know what it takes.

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Photo credits: Many thanks to Akram Huseyn (surgery), Bady Abbas (exit sign), Brendan Holmes (corridor at night), and Amirreza Jamshidbeigi (young medic) - all on unsplash.com

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