

Getting better. A typology of change initiatives in Finance

A Lucilius Interim® Memo
Part 1: recovery and upgrade
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Despite the inflationary use of the term, not all Finance change projects have to be transformations. Often, more selective efforts – like upgrades – yield better ROIs. --- Here's a guide for CFOs on how to achieve change in their organizations under different scenarios. I will differentiate between three types of change: After sketching the framework, Part 1 looks at recovery projects and upgrades; Part 2 will discuss transformation proper.

Just like to a hammer all problems are nails, it seems that to some practitioners, all change projects are transformations – owing, perhaps, to the fee-boosting and resume-enhancing powers imputed to the term.

There are, no doubt, change projects which for good reasons do set-out to transform the Finance function in a fundamental way, but many others don't and for equally good reasons shouldn't: What type of change effort to embark on depends entirely on the needs of the organization in the specific situation at hand.

Based on a simple conceptual framework, I will present three typical cases and recommend the best way of approaching each of them. I will differentiate between these cases by asking how Finance needs to change in relation to its value proposition.

The framework

The Finance value proposition (fvp) is a short description of the vital, unique value Finance promises to contribute to the company's success. The following are simplified examples:

- ❖ Zytec Finance ensures the timely availability of accurate and well understood actuals to the stakeholders of the Company. This includes the precise background of any deviations vs prior year data.
- ❖ Apex Corp Finance is embedded in all decision-making. The function pro-actively engages with key decision makers to provide analytical guidance. Its purpose is to give rigorous, clear, actionable recommendations regarding any material decision.
- ❖ Under Finance, finally, vows to constantly push the boundaries of seamless, no-touch streaming of all types of financial services to the Under eco-system.

Value propositions are most useful when supported by a set of more detailed explanations. Zytec Management, for example, will want to know what exactly the Finance team consider 'timely'. The Apex CFO needs to manage expectations regarding when a decision counts as 'material'.

Also, fvp's are selective. They do not list everything Finance wants to achieve, but only those elements that matter most. Apex Corp Finance will, of course, provide actuals in addition to offering decision support, but the reporting capability is not seen as a core contribution – not because it is not valuable, but because it can be taken for granted.

As mentioned above, my approach is to classify change projects according to how they relate to the current Finance value statement, and I will differentiate between **recovery**, **upgrade**, and **transformation** proper.

- Finance **recovery** aims to resurrect the ability of a finance function to meet its current value proposition, a proposition it is consistently falling short of to an extent that not even the most basic processes run reliably.
- A Finance **upgrade** wants to improve performance relative to a given value proposition. For example, if 'the timely provision accurate data' is (part of) an fvp, then moving the delivery date for a monthly report from workday 10 to workday 5, would be an upgrade.
- Evolving from timely data provision to 'driving profitability by pro-actively engaging decision-makers', however, will likely require a multifaceted Finance **transformation**, which tackles recruitment, skills, systems, and audience education simultaneously.

Let's now look at these one by one.

Someone please call 911 - recovery

The following symptoms point to the need for a recovery effort:

- Statutory filings are delayed, audit opinions qualified, audit fees and fines are rising.
- Compliance is seen as non-essential and has no 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.
- BI reports show data whose exact definition is unknown. Apparently identical reports contain conflicting numbers. No one really knows why.
- Processes and systems are out of date and not understood.
- Too many people are part of the team for the following reasons: familiar environment; low demands at work compatible with real interests lying elsewhere; leaving would endanger benefits; tried to leave but could not find anything else.

Parts of this list may surface in well-run finance functions, too, but if so, then rarely and only for short intervals. It is once they accumulate that management needs to call the ambulance. As a first step, any would-be re-animator should know why the organization ended up in its conundrum. Let's consider some of the downward slopes:

- Botched centralization or outsourcing. An outsourcing or centralization project has gone wrong: Tasks did not in the end get transferred to the SSC, but the people were anyway let go. The team was not re-built so that at least some cost savings could be shown.
- Compensating market issues through cost cuts. Instead of solving the underlying market issues, non-client facing teams were cut down - without simplifying systems or processes. The more enterprising leave, and as a result, too few people try to run outsized processes.

- Poor management. A false sense that processes and systems are beneath the concern of top management or ignorance of what it takes for things to run smoothly both lead to a disregard of the essentials of backbone functions. Morale and person power erode.
- Business decline. Industries losing their license to operate or businesses in declining locations can easily bleed people with no hope for replacements and no business case for investing in automation – even if funds are available.

Here's an outline of how the recovery effort should be approached in each of these situations.

- If there is no money and nothing to win over hearts, a mal-functioning Finance function will not even top the issue list. Unless fundamental betterment – like a break-up or sale – is imminent, the best a Finance leader can do is to make things bearable: Take care of the people, stop work on any non-priority, and use the time freed-up to improve daily life and core compliance.
- If despite ongoing business decline funds are not (yet) an issue, outsourcing key processes can be a sustainable way out: service providers will tend to be less picky than applicants. The outsourcing itself can be tough but consultants will help. And given the low starting level of performance, immediate improvements should result.
- Toxic management needs to change from the top. A new CFO – perhaps brought in from the outside or a respected, energetic insider – will first shield the team from the negative energy. With this levee in place, she can start to rebuild the capabilities of her function.
- A project that crashed or the fall-out of dumb restructuring might be the easiest to rectify if the basics are in place. For a start, you will want to acknowledge that things did go wrong and why, apologize, and thank the remaining people for their endurance. At a later meeting, make a credible new start. Make it 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. Honor your promises.

It is not the point of this paper (honest), but it will come as no surprise that interim managers can add massive value in supporting or leading recovery projects.¹

Better and better - upgrades

Perhaps the most frequent case is the upgrade. Commercial or technical management and Finance leadership agree that the function essentially does as it promises. But they also see the opportunity or the need for higher performance relative to the current Finance value statement.

¹ For an extended treatment of Finance recovery, see my recent Lucilius Interim Memo **Get well soon!** on my website www.lucilius-interim.com

- ❖ Zytec management would benefit from receiving monthly actuals 3 days earlier than today.
- ❖ The Apex CFO sees an opportunity for better customer order management by letting her analysts integrate S&OP volumes into their contribution forecasts.
- ❖ And Ünder may have discovered, in principle, a way of further reducing analyst intervention through a broader use of social media data when analyzing ad impact on sales.

Projects aimed at making such performance improvements a reality are upgrade projects. They differ from recovery in that they do not deal with a crisis, and from transformation in that they affect only one or two elements of the Finance organism.

By Finance organism, I mean the totality of the clockwork which makes Finance tick: the IT systems, the processes, the people, their skills, the way they are organized, their ideology, willingness to perform, sense of urgency, but also the habits, the assumptions that are not questioned, the receptiveness and ability of the other parts of the organization when triggered by Finance, and much more.

The more fundamental the value shift, the more of these elements will be affected, and the more are affected, the more the change effort moves towards transformation. The more gradually objectives change, the fewer parts will be touched, and the more this change tends to the other, the upgrade, end of the spectrum. (Whether a recovery project touches many or few elements, depends on how many are broken, but recovery will first and foremost want to re-create a state the organism used to be in.)

- ❖ Zytec, for example, may simply have to advance the accruals sub-process and replace more actuals by estimates, so that (only) some of the work processes have to be adjusted.
- ❖ At Apex, it's about skills: The analysts there need to learn how they can best bring to bear their expanded data set on their conclusions.
- ❖ And for Ünder, the upgrade described may just be one more leg in their multi-year trek to systems perfection.

Upgrades may not set people's pulse racing, but they have a lot going for them: Since they happen in a relatively stable environment, their cost-benefit ratio should be straightforward, the probability of their delivering what was planned, high. Teams going through upgrades repeatedly get used to change, stay used to the notion of always doing better, and become more self-confident with each increment they achieve. Upgrade projects are great training grounds for junior (project) managers. To the extent that other functions outside Finance are involved, upgrades keep different parts of the organization attuned to each other's needs. Finally, they produce improvement that will immediately be tangible.²

² For a discussion of incrementalism in a broader context, see **Gradual** by Greg Berman and Aubrey Fox, Oxford University Press.

Still, there are downsides: Upgrades on autopilot could become an issue. If the assumption that ever more detail leads to ever better decisions goes untested for a while, and successive waves of detail-enhancing upgrades are implemented, their return will tend to become low or even negative. More problematically, repeated upgrades may morph into a higher-order routine: an organization may become blind to the fact that the type of change it has been managing so adeptly is in fact of a very limited nature. If, in a disruptive turbulence, such incremental improvements turn out to be meaningless, this sudden reversal may find the organization unprepared. (As legacy car makers have been finding out to their detriment.) But even in this case, the upgrade-steeped organization will in fact be better equipped than one that has simply enjoyed its status quo for a decade.

You should not need to rely on outside support for upgrade projects. If for whatever reason you do want to employ a third party to lead or support your upgrade project, then make sure this resource not only completes the project, but also transfers the requisite management skills to the inhouse team as part of the assignment.



Transformers: Go!

But when Upgrade Street peters out in the Desert of Diminishing Returns or is ripped apart by tectonic shifts in your industry's landscape, Transformation Time has come. To get your bearings, be sure to return for Part 2 of this Lucilius Interim Memo.

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Financial Leadership On Demand

Written in Frankfurt, Regenstau (and on the floor of an overbooked ICE 229) in April/May 2023. Pictures by Rowan Freeman (p.1) and Marc Najera (p.6) on Unsplash.com. Thanks a lot to both of them. The 911 chapter header is from the wonderful song by Wyclef Jean (featuring Mary J Blige). If you wish to discuss your views on achieving change in Finance, do not hesitate to call me on +49 177 33 983 22 - or, in Wyclef's words: pick up the phone, yo.

