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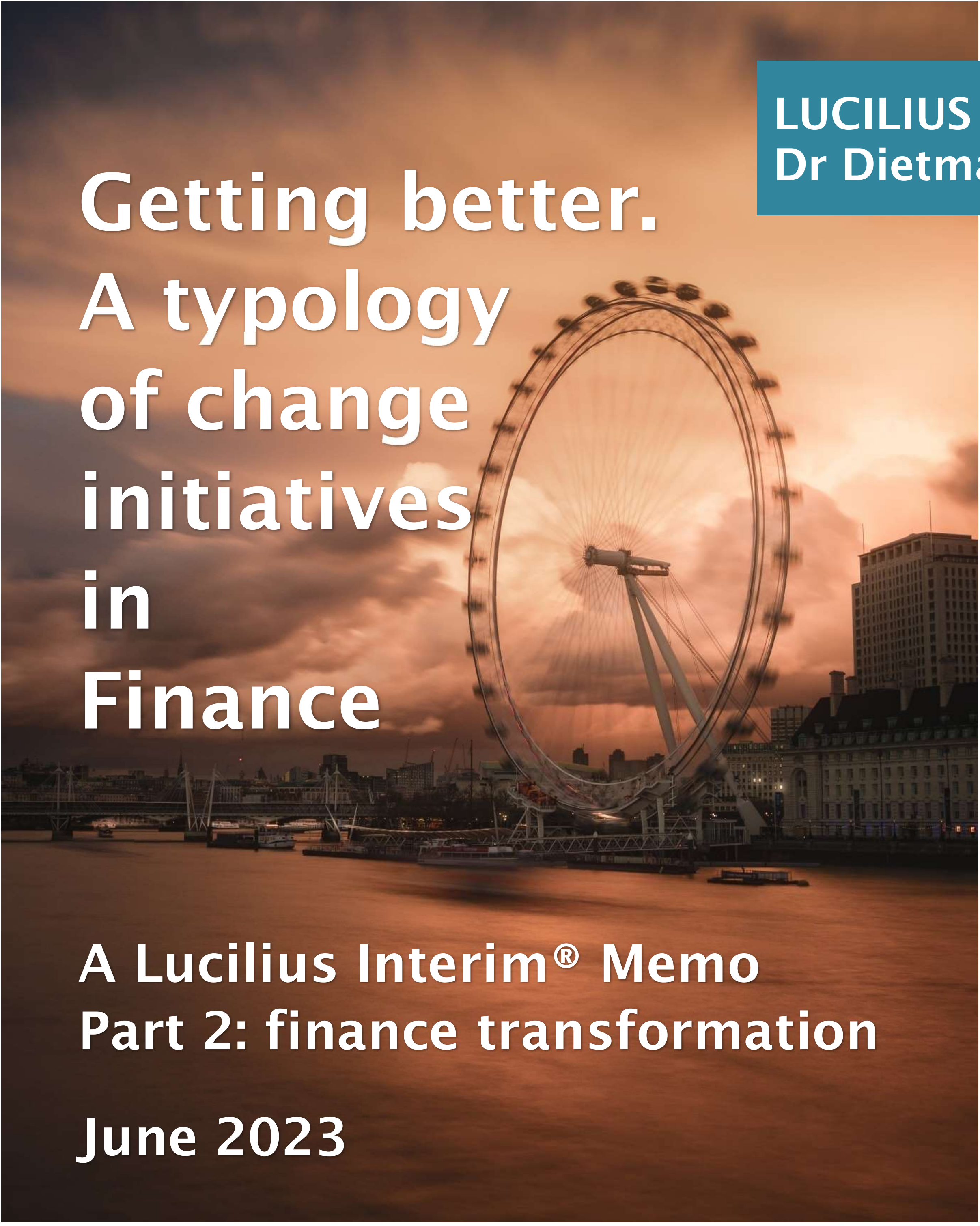

Getting better. A typology of change initiatives in Finance

A Lucilius Interim® Memo
Part 2: finance transformation

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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. --- Having dealt with incremental types of change in Part 1 – recovery projects and upgrades – the present Part 2 will turn to Finance transformation proper.

My approach is to classify change projects based on how they relate to the Finance value statement, and I 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 failing to meet.
- A Finance **upgrade** sets out 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 represents an upgrade.
- Evolving from timely data provision to 'driving profitability by pro-actively engaging decision-makers', however, will likely require a multifaceted **transformation**, which tackles recruitment, skills, systems, and audience education, simultaneously.

What type of change effort to embark on depends entirely on the needs of the organization in the situation at hand. As argued at length in Part1, incremental change efforts have considerable merits, but they also have their limitations. And when increments are not enough anymore or have become outright irrelevant, when – as Part 1 put it – Upgrade Street peters out in the Desert of Diminishing Returns or is ripped apart by tectonic shifts in the industry, Transformation Time has come.

Transformers: Go!

Change becomes transformation when it is about moving a Finance organization from a current value proposition, which is now deemed insufficient, to a new, fundamentally different one and when it, hence, will affect many parts of the finance organism.

❖ For example, if a new CEO demanded that Zytec Finance 'wake up' and start to perform in the ferociously activist business partnering ways long honed at Apex, this would be a call for a transformation. Consider which parts of the organism are affected:

  Skills: Numerical aptitude remains important, but business acumen and communication become paramount.

  People: Can everybody on the current team develop the new skills or do we have to hire? Should we hire anyway to bring catalysts into the team?

  Systems: Perhaps there are tools that make our analysts more productive than they would be with Excel, Word, and PowerPoint.

  Processes: Mailing over data and recommendations will not be sufficient anymore. We have to define how Finance will involve itself in the preparation and making of decisions.

Habits: Finance needs to learn to act on what has just been defined. The other functions have to learn to not only accept but exploit to the max the new finance offer.

Mindset: Everybody needs to evolve from detail to simplicity and actionability. And all parties need to come to terms with sharing in the responsibility for the decisions taken.

Organization: Perhaps (part of) Finance should be embedded with (some of) the other functions?

- The same applies if, in a second example, the Ünder CFO – operating in an intensely finance-minded organization, where business partnering ahead of a decision is like bringing owls to Athens – decides that her function should add more value by ensuring fast and disciplined implementation of whatever decisions have been taken.

  Skills: The new focus area is more about action than analysis and communication – the tasks typically associated with core Finance and business partnering.

  People: Do the current Finance staff even want to get out there?

  Systems: A former boss would say that a notepad is the only tool needed for this kind of work. Maybe so, but a function as steeped in technology as Ünder Finance will hardly leave it at that.

  Processes: How does Finance involve itself in the implementation phase?

  Habits: Even harder than in the previous example. And if anything, even more so for the other functions than for Finance: "Does Finance now run everything?"

  Mindset: Come to terms with a role even more exposed than activist business partnering. And with this shift of the mission, what is now the functional core of Finance at Ünder?

  Organization: If Finance does not assume responsibility for project management or for the line management of the other functions, is this 'implementation management' role a further dimension in the managerial matrix? Can this make sense?

For our present purposes, the questions are more important than the answer. Obviously, any such effort has to have air cover from the top from start to finish. The other important point here is: If multifaceted shifts like these want to enjoy success, they need to be approached holistically - with a clear blueprint.

Blueprint

A big practical difference to both upgrade and recovery is that transformation needs to work from a blueprint of where it wants to end up. The blueprint should start with a careful rendering of the new value proposition. The proposition itself will be a few sentences, but clarifications, explanations and some examples should expand this document to five to ten pages. Once the function itself and the stakeholders are agreed on the proposition, it's time to flesh out the blueprint in earnest: What is the skill mix, what are the people profiles, org structure, system capabilities, process maps, etc etc we need to create and what are the KPIs by which we will measure success?

The resulting document should be 50 to 100 pages of continuous text - not a PowerPoint deck. Hopelessly pre-agile? Perhaps, but agility only goes so far: The bigger the change you envision, the more likely people are to load the end state with their own interpretations, concerns, preferences, and pre-conceptions. You need to get ahead of this tendency by way of elaboration, clarity, and precision. Of course, leave out anything unnecessary, but relative to the suggested length, be as elaborate, precise, and detailed as you can.

I would also involve (almost) the whole team in this step. The new end state will enthuse some of your staff, but alienate others, and it's good for you and your team to get clarity on where everybody stands sooner rather than later. The inspired cohort will take pride in being on the construction crew, will make the new world their own, and will help you create it.

For the action planning, think about using a double-diamond sequence: When you have prepared the end state document, assign one team to each of its elements – systems, processes, skills, etc. - and let each team work out the next level of detail for their element. With this done, the teams should get together, assemble their parts, and iron out the inconsistencies. The next step is to let the teams work through their plans for getting to the respective end states. Then back to consolidation: All teams meet to make the action plans consistent. The result will not survive unaltered, but you now have a sporting chance that everybody understands what you're setting out to achieve and how. You also have collected the wisdom of your team in the best possible way.

Changing finance

Terabytes of storage have been filled with advice on how to lead large-scale change projects, and so I only want to add a few aspects that are particular to finance.

No Finance leader sponsoring or leading a transformation program can ever stop delivering the core products: actuals, compliance, and cash flow. If any of these fail on the journey, it may not be the end of the journey, but it might be the end of its leader.

There is a high likelihood that in the first months or even the first year in the new target state, things don't work well and will feel worse than before. It is crucial to manage expectations carefully, even though it's an art to achieve this without draining energy.

Transformation will tend to the more complex. Often, this will be a good thing. But Covid, the Ukraine war, tribalist politics, and the deepening rift between the great powers have taught us that we cannot take the physical, political, and technological infrastructure we rely on for granted. So, if you want to move to a more complex set-up, do run some stress tests to see how vulnerable the processes you envisage are to external shocks.

Most transformations today will involve digitalization, which will often equal big investment. Such spending has to respond to the needs of the business. Always stay tuned to these needs. To preclude mission creep, do not let your transformation get technology-led or, worse, technology-vendor-led. This is a real danger, because digital is tough and the vendors' incentive is not to simplify matters for you, they want you to believe their views and buy their products. As a corollary of the last point, make sure you have a transformation leader who will counterbalance any tech shift you might be facing.

Transformation attracts the bold and impatient, and the fact that both counts for an asset in an aspiring manager only reinforces its appeal. Take into account, as well, the constant barrage of transformation-touting content, and it's easy to see why even risk-averse Finance leaders suffer FOMO attacks if they haven't been doing anything transformational for the past six months. The key here is to always follow the needs of your organization. If it's the improvement of a frustrating, persistent, but ultimately limited issue – too many systems breaks on the way from the accounts to the top management reports or too little business impact because of missing business skills – it's not transformation you need. Targeted, incremental improvements will likely be a much better investment.

Mind the gap

I want to end with addressing a frequent misperception: Transformation programs do set out to change a lot in fundamental ways and, to boot, are often oversold to gain board approval. Furthermore, its proponents may honestly believe that their project will put an end to all need for caring about any kind of detail. As a consequence, it is often hard to picture the details of the post-transformation landscape in a realistic way. Stakeholders, sponsors and even program leaders can easily come to imagine a brave new world free from all the nitty-gritty day-to-day nuisances that make up so much of today's reality.

They would be mistaken.

Here's an example of what I mean. If, as part of a finance transformation program, you are going to replace manual AR matching processes by automated ones, the slowness of the manual legacy processes should indeed not be an issue anymore after the project. You will not need to worry anymore about upgrading the skills and agility of the (legacy) team. But is this the end of the story? Likely not. For example, you may find that the new, digital processes don't work as well as expected because they require a much higher customer master data quality than available. In the old manual processes, the AR team was used to fixing master data issues on the fly. In your new, automated world, this ability is gone, and the details of how to create top-notch master data quality become a new prime concern of yours.

So, when boarding the transformation train, mind the gap between the map you were handed at the station and the actual territory where you step off. If managed and executed well, transformation can take you to a better place, but the little nuisances native to that place will already be there waiting for you, whether they're marked on the map or not. Even in Berlin.

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Financial Leadership On Demand

Written in Frankfurt and Regenstauf in May/June 2023. Pictures by Tom Athawes (p.1) and Soroush Karimi (p.6) on Unsplash.com. Many thanks to both of them. If you wish to discuss your views on transforming Finance, don't hesitate to call on +49 177 33 983 22 or drop me an email at ds@lucilius-interim.com