



Insights from The Clarion Institute Leadership Vision in a Kaleidoscopic World

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CFO Leadership in a Kaleidoscopic World

The complexity, the nature of change, and the scale and speed of running large business enterprises present extraordinary demands on organizations and the individuals who work within them. While this challenge is broadly acknowledged, what is less recognized is how these same challenges are different – perhaps unique – when faced by those at the top. In this article we describe what C-Suite executives face – what we call the C-Scope Challenge – and the particular impact this is having on today's CFO.

The level of leadership perspective, scope, and integration required at the top demands enormous capacity and depth of individual talent. And it is more than any one person alone can humanly manage. If for no other reason, the overwhelming scale and complexity of today's business organization demands that individual leaders function together as a tightly woven, high performing Team at the Top. Similarly, it is not sufficient for today's C-Suite executives to manage their own functions separately, no matter how well this is done. Each must also design and manage their organizations to address the pressures of integration and complexity that ultimately converge at the top.

Nowhere is this phenomenon more clearly illustrated today than in the role of the Chief Financial Officer. The Clarion Group was recently asked by the CFO of a leading technology firm to benchmark Best Practices Finance organizations in leading edge multinational companies. These findings, combined with our knowledge from working with Teams at the Top, enabled us to recognize fundamental links between the two. Perhaps more than any other part of the organization, Finance is called upon to help address the C-Scope challenge. Understanding this goes a long way to explain the evolution of Finance over the past

decade. Best Practices firms reveal trends reaching deep into their Finance organizations that are a direct reflection of the unique C-Scope Challenge faced at the top.

The C-Scope Challenge

Expansive breadth of scope, overwhelming complexity, organizational transformations, and shifting paradigms permeate the C-Scope Challenge. All efforts to describe it must be simplifications. Here is one: very basically, it all comes together at the top. Someone, somehow must make sense of all the discrete, disparate, even conflicting sources and types of data, identify what is relevant to the business, focus on what is critical to future success, and weave it all into one strategically unifying message that is simple and clear enough to manage and monitor all the various parts and keep the whole of the enterprise in alignment. All in a way that increases shareholder value. And which changes, by the way, overnight, every night.

Here is another: a metaphor, that of looking through a kaleidoscope where new patterns of colors and shapes are created with each turn of the wrist. In a kaleidoscope there is only one layer of colored glass reflected between mirrors. But the kaleidoscope through which a CEO, COO, or CFO looks each day has many layers and thousands of bits of rotating colored glass. Each layer represents a different aspect of the business: a new market, a different product, a competitor, a regulation, an investor, a department, an organizational structure, a customer, distributor, etc. – all the various stakeholders, all the way through the value chain. And every time even one of those layers rotates even a fraction of an inch, a new pattern is reflected all the way back through the whole of the value chain, creating a new combination of colors and shapes. Each creates a new business environment, and

some (too many it seems) require a new business model.

The higher one ascends toward the top, the longer the kaleidoscope with more layers to see through. At a certain point of complexity, it is not enough to just see farther, linearly; one must develop a different capacity for seeing altogether. Think of it this way: it takes a strong, clear light to see each layer for itself, and also see *through* all the layers, without getting stuck in, or distorted by one layer alone. Of course you cannot ignore the individual bits, the individual layers, but the emphasis here is increasingly on the *intersection, the alignment, the patterns, the connections* between the layers. This C-Scope Challenge is unique to Teams at the Top. Nowhere else in the organization does it all come together as it does here.

The critical perspective at the top moves beyond the analysis of any single element, and now includes much more the capacity to recognize the significance of change itself, the patterns of change, and the relationship of change in any one part to another – and ultimately to the alignment of the whole. The capacity to hold the parts and to see the whole with balanced objectivity becomes paramount.

Why is this so critical today? Largely because so many of the structural components are in motion simultaneously that the fundamental underlying assumptions of the business are being called into question more frequently. Not just one product line, or one division, or a market segment, but rather the whole of the business model – the linkages that brought it all together in the first place. If business leaders do not see that the *pattern* of relationships between the layers of glass has fundamentally shifted and thereby changed the underlying business premise, then the business itself is at risk. The responsibility for seeing the business from this larger perspective – the fundamental assumptions, the underlying Theory of the Business – lands squarely in the C-Suite. More than a microscope, telescope, or periscope combined, C-Scope requires a different kind of vision, a different leadership lens that is truly kaleidoscopic in nature.

All of this requires an incredible level of integration and discernment. Again, this is too much for one individual alone. A CEO must have a whole team, and it is critical that the Team at the Top knows this, owns it, and acts accordingly. While we will focus in the remainder of this article on how recent trends have turned the spotlight on the CFO and Finance, the critical learnings will apply across the entire team.

So Why Finance? Why Now?

Finance has Delivered

For starters, at least in Best Practices companies, Finance executives have earned the respect of the organization. Finance sits in the hot seat of fiduciary control, risk assessment, compliance, and investor and regulatory reporting. Demands are ongoing and hugely visible, both internally and externally. Finance has delivered well on a core function, critical to preserving shareholder value, with accuracy, timeliness of reporting, and reliability of financial data. The talent in Finance is analytic, fact based, and objective; they are able to ask the tough questions; they are reliable and trusted; and they know their stuff. As a functional support organization, Finance has earned the reputation of being disciplined, structured, and organized; able to deliver the bottom line, on time.

Central Nervous System

Without that respect, Finance would not earn a seat at the table. But to really understand “Why Finance? Why Now?” what is far more significant is the way in which the role and scope of Finance align with the challenge of C-Scope. For pulling it all together, seeing the layers of kaleidoscopic change and the intersections between the layers, Finance is uniquely equipped to serve. Much like the Central Nervous System in our bodies, Finance reaches out into the organization and brings critical information back up to the locus of decision making.

This unique role of Finance is defined by a cluster of attributes and factors in combination. Taken one at a time, they are as follows:

1. Finance Touches All

Finance reaches deeply and directly into every single part of the business organization, no matter how distant or differentiated. Financial information is required frequently and relentlessly, and flows both in and out. Loosely paraphrasing Abe Lincoln's famous words, while other functional areas may touch some of the organization all of the time, or all of the organization some of the time, Finance touches all of the organization all of the time. In Best Practices firms, financial information flow creates an environment of immediacy and continuity, top to bottom, side to side, from one end of the value chain to the other. This factor alone is highly significant but is still only the beginning.

2. Holistic View

Information linking all of the parts to each other and to the whole, as well as the capacity to make sense of this information, is critical to the Team at the Top. Not only does Finance see and touch all the individual parts separately, but also pulls together all the parts in such a way as to make sense of the whole. Finance sees the total performance as well as the trade offs, the competing needs of individual departments, the relative performance of each, the argument for and against investment capital by division, the allocations by function. Best Practices CFOs effectively pull their Finance organization into all the critical points of intersection... of options, of decision making, of conflict resolution. Leading edge CFO teams' capacity to see the whole of the organization is of enormous value to those responsible for the C-Scope Challenge. The inability to do so represents a serious gap for any company in today's business environment.

3. Metrics: Linkage to Accountability

Finance sits at yet another critical juncture, this one a little more subtle. The language of Finance is numbers, but numbers stand for something else. Ultimately every organization needs to know whether or not its strategies, choices, and actions are in fact translating into shareholder value – are they achieving the intended results? Financial numbers measure human actions and effort. Finance is

entrusted with the art of translating what are sometimes highly intangible factors into financial metrics, the hard measure of success or failure. To do this successfully, CFOs and their teams must fundamentally understand the subtleties of the business. This is not a simple exercise. Those CFOs leading Best Practices organizations are constantly seeking to know: are we measuring the right things? From this position of enterprise wisdom, it is far better to measure the right things vaguely than to measure the wrong things precisely. Are we measuring those aspects that drive business growth, motivate performance, etc.? In many areas of business activity, it requires extraordinary sophistication of thought to capture the thread of cause and effect from ideas and concepts (strategy), to actions and initiatives, to results, and to the meaningful measurement of results. In this role, the CFO is also the Chief Metrics Officer, called upon to use discernment and business judgment to know what to measure and assure all the necessary linkages to accountability.

4. Critical Intersections

The centrality and criticality of financial metrics and linkages play out in all the various intersections along the kaleidoscope, big and small, subtle and profound. Two very visible examples of CFO leadership at center stage: internal-external and past-future.

Internal – External

For the most part, the financial disclosure requirements of Sarbanes-Oxley (SOX) were already being met by Best Practices firms. What is different is the extent to which the investor community is increasingly inclined to dig into the story behind the numbers; this applies to past performance, but even more to future projections. What are the company's plans to address earnings? How will growth come about? Does the story make sense? The ability of the CFO to articulate a clear and compelling case, seamlessly weaving numbers, strategy, organizational structuring, etc., has a direct impact on investor confidence and the resulting stock price. This business rationale is also the backbone of internal strategic guidance coming from the C-Suite: it brings clarity and focus to the organization's ability to exe-

cute. Within or without, it is hardly sufficient for CFOs to simply deliver the numbers, no matter how accurate; CFO leadership demands the ability to make sense of them for the whole of the organization.

Past – Future

Just as Finance is no longer simply about the numbers, it is certainly no longer just about past performance. In a world of constant and disruptive change it is no longer enough to report the past more quickly. What is required is a greater capacity to anticipate the future. The cutting edge work for Best Practices CFOs is the capacity to link more effectively with business forecasting, enabling a creative connectivity between financial data and other variable measures of forecasting that are predictive of future market trends. Those at the leading edge seek ways to maintain consistent and centralized control over collection of current financial data, while also building flexible, creative processes to make this centralized pool of data accessible to decision makers forecasting business opportunities close to the markets.

5. Objectivity, Neutral Point of View

All the various slices of the kaleidoscope represent parochial points of view. In the midst of competition for investment dollars, budgets, and allocated expenses, it is expected that Finance stand independent from any particular business division, function, or individual (no matter how senior). There is an assumption that the numbers are objective. For the good of the firm as a whole, Finance is asked to be the honest broker: evaluate all, weigh trade-offs, analyze allocation of budget dollars and internal capital investment decisions. Once again, this is a perspective that is closely aligned to what is demanded by the C-Scope Challenge – the need to see straight through all the rotating layers of colored glass with clarity and singleness of purpose, without distortion caused by favoring one part over another.

By its sheer complexity alone, the C-Scope

Challenge requires a process by which Teams at the Top can keep up with critical information, a mechanism that helps integrate all the parts in service of the whole, a continuous loop of two-way strategic communications and performance feedback. Finance serves as the Central Nervous System for the Team at the Top – the Brain. More than any other part of the organization, Finance is the critical carrier of information, linking the cerebral to the kinesthetic, the parts to the whole.

The C-Scope Challenge and Human Capacity

Perhaps one of the unintended impacts of SOX is that it lays bare the prevailing expectation that Teams at the Top should have a superhuman capacity for omniscience about their companies. It is frighteningly unrealistic to think any one human being could possibly sign off on direct knowledge of all the details of everything that happens in today's global companies. It simply is not possible. Making no excuse for fraud, the extraordinary demands on C-Suite executives stretch the limits of human capacity. To address this challenge, Teams at the Top must develop highly efficient dynamics by which they can trust and depend upon each other. There is no room for error here. Unsurprisingly, CFOs often speak of the need to build trust, integrity, and honest communication with their peers and within their organizations.

CFOs must also develop effective organizational strategies to climb the mountains of data and navigate the disorienting sensory overload of kaleidoscopic complexity. There needs to be some consistent, trustworthy process by which to surface critical issues and essential business information to the top, and filter out all that is secondary. This is part of the unique C-Scope Challenge that is quantitatively and qualitatively different at the top. Benchmark research shows just how pivotal the CFO has become in addressing this challenge, both as a peer member of the Team at the Top, and as the leader of the Finance function.

Data, Data Everywhere, But Nary a Bit to (Help Me) Think

For many companies in today's information age, lack of data is not the problem – making sense of it is. The sheer volume of data makes it more difficult, not less. One challenge is simply managing the raw data such that it is accessible to those who need it. It is yet another to find the right people with the business skills and perspective to know what to look for. The expectation from the top is that Finance can help. The implication is that Finance knows the business intimately. Many Finance organizations have a Business Partner role where this knowledge is embedded within a business unit; as good as this is, the Business Partner role is at best a stepping stone on the way toward the enterprise-wide perspective required to support Teams at the Top. The nature of data required at this higher strata shifts toward a holistic perspective, now more focused on the crucial intersections, relative valuations, patterns of change, options in the face of uncertainty, and the alignment of parts to the whole. Here the identification of relevant data is a challenge for even the leading edge Best Practices Finance organizations.

Dashboard Driving Shareholder Value

Given all that has been said about the kaleidoscopic complexity that creates the C-Scope Challenge, Teams at the Top must rely on simplifying tools like financial dashboards to reduce mountains of data into a manageable set of critical performance gauges. The need to simplify metrics goes both ways, as it is incumbent on those same leaders to set company focus – that is, select a small subset of critical strategic objectives that will most effectively drive financial performance throughout the organization. Correctly linking the financial dashboard to the underlying Theory of the Business is critical, as it ultimately connects a wide but necessary variety of individual employee actions and differentiated behaviors directly back to the fundamental assumptions about what drives shareholder value. The execution required to accurately measure performance is itself challenge enough for many companies; but Best Prac-

tices CFOs are also leading financial innovation in exploring newer measures (EVA, tying balance sheet to income statement, estimating the impact of uncertainty, enterprise risk, etc.) that they believe will ultimately create greater value for their firms.

A Surprise Ending

There is much more that could be said about benchmark trends in Finance. For this paper, we have selected only a few that most clearly illustrate the C-Scope Challenge that has become characteristic of today's large corporations. In closing, we turn briefly to what may come as a surprise to some. Namely this: one of the most critical challenges facing CFOs is the ascendancy of “soft” management and process skills over the “hard” technical or financial skills. A CFO who is unable to adapt to this shift is lost, and Finance will suffer under them. Said differently, while technical Finance acumen will always be a pre-requisite, the critical leadership differentiator lies elsewhere. The CFOs of today must be architects of infrastructure. They must approach management issues with a systems perspective. They must not only have patience for processes, but also must understand that it is an organizing principle that underlies most financial decisions; they must master organizational process and grasp it intuitively. Both at the organizational level and the interpersonal level, CFOs must be exceptionally skilled communicators, influencers, mentors, collaborators – leaders. For all of these, and more, are the ingredients of integration and synthesis that underlie the demands of C-Scope and challenge of Teams at the Top.

For starters, CFOs must organize their own Finance departments for efficiency and effectiveness to align with the varied parts of a complex global organization. This is a given in Best Practices firms, and their focus is turned to the higher challenge of C-Scope integration that is highlighted in this article. For all the reasons identified here, like it or not, Finance today is looked to for leadership and direction in all process issues that stretch across the company, at times far outside the scope of traditional, historical “finance” ex-

pertise. Not all Finance organizations are well equipped to meet this need; but the expanded expectation provides huge opportunities to CFOs who have developed the requisite skills, and people, and are ready to step into leadership. Some have consciously recruited broader strategic and organizational design talent into Finance. Some have reflected the increased level of integration in the organizational design of their own Team at the Top, creating, for example, an “Office of the CFO” that effectively combines strategy, planning, business, and financial responsibilities in one high performing team.

The specific organizational solution will be different from one company to another, in accordance with each business and its historical context. But what is common across many Best Practices companies is that the CFO has taken this on. They have embraced the leadership role to initiate organizational change, and not just for their own departments. Perhaps quite surprisingly, they themselves and their Finance organizations have become organizational Change Agents within the larger enterprise, using the opportunity afforded by their unique placement at all critical intersections to drive business transformation. They not only see the many layers of glass, they intentionally turn the kaleidoscope, much to the benefit of the enterprise, to attain greater alignment of the parts. For this reason it is no

surprise that in many companies the CFO has become a position of great influence in the Team at the Top and is often a prime successor to the CEO.

Beautiful Form

It is perhaps fitting, then, that the origin of the word kaleidoscope is “beautiful form.” Success in meeting the C-Scope challenge has as much to do with architecting form as building content. Part of the unique challenge is being able to see the inherent logic in structures and processes, the significance of change itself, the creativity of intersecting values – and to elevate ones’ leadership focus accordingly. What the CFO shares in common with each member of the Team at the Top is the challenge of creating an organizational structure and business model that is sustainable, thriving and growing, and is aligned with the fundamental underlying Theory of the Business that makes it all come together at that moment in time. When successful, business leaders create order out of chaos, even if temporarily. In those times all the many separate parts of a vast and sprawling multinational company come into alignment. The result is an enterprise that makes sense to investors and is profitable and sustainable. For those at the top who grasp the extraordinary nature of the challenge, it is also seen to be, in its own unique way, a thing of beauty.

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