

IBM Finance Forum 2011, Bucharest

# The CFO as Strategic Performance Manager – challenges and prerequisites

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## Contrast – Your partner for sustainable better performance

### Contrast Management-Consulting

- ▲ Leading Austrian management consultancy in CEE
- ▲ More than 130 employees
- ▲ Specialized in strategy, organization and controlling
- ▲ Strongly positioned in Central and Eastern Europe
- ▲ Consulting partner for corporations as well as for family enterprises, non-profit organizations and public management
- ▲ Knowledge alliance with the Controller Institute and the Vienna University of Economics and Business Administration



### Contrast Home Market: Central and Eastern Europe (CEE)

- ▲ Early market entry in CEE
- ▲ Headquarters in Vienna and offices in Bucharest, Budapest, Moscow, Prague and Zagreb
- ▲ Project-oriented management consulting and trainings in Bosnia, Bulgaria, Germany, Kosovo, Macedonia, Montenegro, Serbia, Slovakia, Slovenia, Switzerland, Turkey and Ukraine
- ▲ Business management consulting and trainings in national languages
- ▲ International quality standards and local consulting teams
- ▲ Among the top 3 in Romania with more than 30 consultants



### Contrast Practice Units

- ▲ Strategy Development and Implementation
- ▲ Strategic Performance Management
- ▲ Operative Controlling
- ▲ Restructuring and Turnaround Management
- ▲ Organization and Process Optimization
- ▲ Post Merger Integration and M&A
- ▲ Distribution Optimization



### List of references (excerpt)



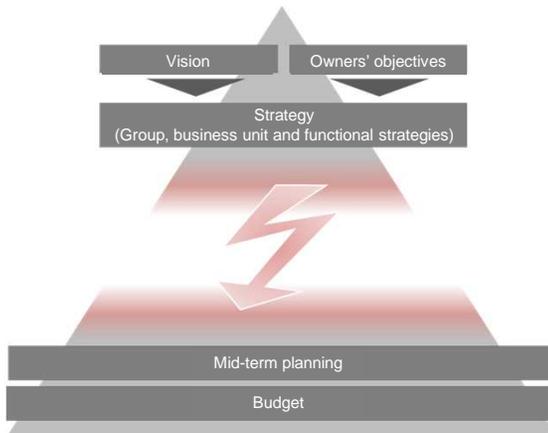
## Agenda

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<b>1</b>	<b>Components of an implementation-focused Strategic Performance Management (SPM)</b>
2	The role of the CFO as the Strategic Performance Manager
3	Challenges and prerequisites for the implementation of a Strategic Performance Management (SPM) system
4	Strategic Performance Management (SPM) on the CFO agenda

## Components of an implementation-focused Strategic Performance Management (SPM)

Studies show that a large number of companies are unable to successfully implement their strategies – gap between strategy and operations is the major reason



- “The percentage of companies that successfully implement strategy is between 10 and 30%.”  
Raps (2004)
- “Only 63% of enterprises manage to really utilise the potential of their strategy.”  
Mankins/Steele (2005)
- “71% of all companies state that the key tasks of implementation were defined inadequately.”  
Al-Ghamdi (1998)
- “A current study by The Economist says that 57% of enterprises have not successfully implemented their strategic initiatives in the past three years.”  
Allio (2005)
- “Studies show that 70% of all strategies fail in implementation.”  
Corboy/O’Corrbui (1999)

## Components of an implementation-focused Strategic Performance Management (SPM)

Strategic Performance Management (SPM) is bridging the gap between strategy and operations by aiming on three central objectives



### Insufficient quantification of strategy

- ▲ Strategies and strategic targets lacking quantification
- ▲ Performance Measurement focused on operational financial indicators (“symptoms of success”)
- ▲ Market-oriented managers missing profound understanding of value and cost drivers

### Objective I: Consistent quantification

- ▲ Concretion and quantification of strategies and strategic targets
- ▲ Committing the company towards financial performance aligned with strategy

### Defective integration of control systems

- ▲ Deficient integration of market-oriented and financial planning and control systems (“coexistence”)
- ▲ Unsatisfactory coordination of measures in order to optimize market-driven and financial performance

### Objective II: Continuous integration

- ▲ Integrated control system of harmonized market-oriented and financial elements
- ▲ Supplementation of financial performance measurement with strategic lead indicators

### Numerous inefficiencies in planning processes

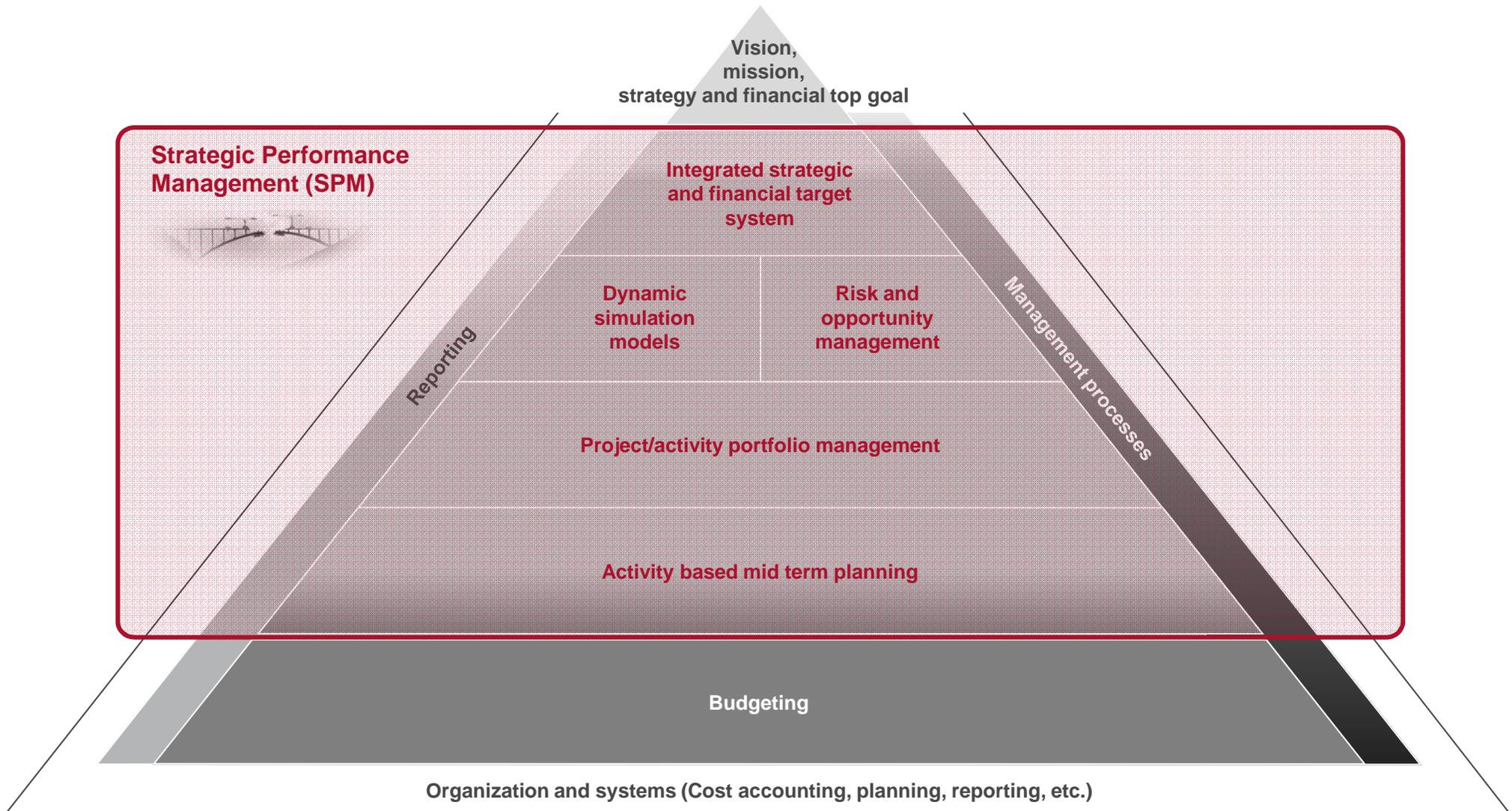
- ▲ High resource consumption in recurring budgeting process
- ▲ Top management involved in detailed planning issues instead of managing the “big picture”
- ▲ Despite considerable planning complexity limited controllability by top management

### Objective III: Refocusing of planning

- ▲ Shift of planning focus from operational budgeting exercise towards strategy design
- ▲ Strategic decision based on flexible and dynamic simulation models and analyses

## Components of an implementation-focused Strategic Performance Management (SPM)

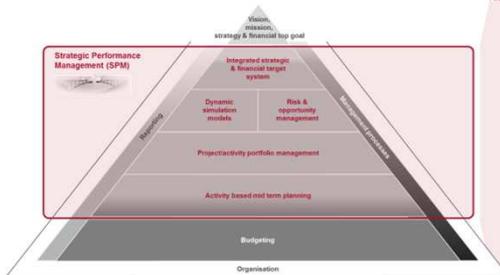
Modern Strategic Performance Management (SPM) combines multiple components to an integrated control system



## Components of an implementation-focused Strategic Performance Management (SPM)

The realization of a Strategic Performance Management (SPM) system comprises of numerous – integrated – activity fields

Major prerequisite for the implementation of a SPM system is the availability of an explicit strategy and the financial top goal



Adequate framework conditions such as target congruent incentives, continuous management processes and ensuring of a strategy conform organisation have to be considered in a SPM system implementation

### Fields of activity when implementing a SPM system

- 1 Definition of an **integrated strategic and financial target system**
- 2 Identification of **performance gaps** and their **systematic analysis**
- 3 Development of a **strategy determined value driver logic** and **dynamic simulation models**
- 4 Systematic **identification, evaluation and management** of the **major volatility drivers** caused by risks and opportunities
- 5 **Formulation, selection and prioritization** of **project/measures** and development of a continuous **progress monitoring**
- 6 **Operationalization of strategies** by an **activity based mid term planning** that serves also as the **link for operational budgets**
- 7 **Implementation of a reporting system** to support management for efficient decision making regarding strategy implementation

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- 2 The role of the CFO as Strategic Performance Manager**
- 3 Challenges and prerequisites for the implementation of a Strategic Performance Management (SPM) system
- 4 Strategic Performance Management (SPM) on the CFO agenda

### Several empirical studies outline the dominant role of the CFO in building up a comprehensive Strategic Performance Management (SPM) system (1/2)

#### *The New Value Integrator*

IBM CFO Study  
(2010)

- ▲ There is a **substantial increase in the CFOs influence on strategic decision making** (e.g. design of the value chain)
- ▲ **Financial excellence is the foundation for the CFOs success** (i.e. highly efficient finance processes, organizations and systems are becoming a “hygienic factor” for the development of the contemporary finance function)
- ▲ The development of **enterprise wide data standards and data integration are central activities** for modern CFOs
- ▲ To **deal with increased uncertainty (an thereby volatility of results) is a major challenge** for organizations (i.e. implementation of an adequate risk and opportunity management is a typical CFO task)

#### *Today's CFO*

CFO study of  
Contrast and the  
Austrian Controller  
Institute  
(2009)

- ▲ Design and implementation of **efficient organizational structures, processes and systems are success factors** for a strong CFOs position (i.e. emphasize decision support and performance management compared to pure transactional activities)
- ▲ Beneath the role of a service partner, **successful CFOs position themselves as active sparring partners and challengers** of line management
- ▲ CFOs are more often **involved in strategic decision making** and **no longer only the keepers of compliance**
- ▲ CFOs are key players for **target definition and cascading them down** (i.e. development of target system to create commitment to strategies)
- ▲ **Shaping and monitoring of the risk position** is a central CFO task

### Several empirical studies outline the dominant role of the CFO in building up a comprehensive Strategic Performance Management (SPM) system (2/2)

#### Strategy Execution

CFO Research  
Services and Deloitte  
(2006)

- ▲ While business and finance close ranks, the **diffusion of finance thinking, know how and instruments into the CEO world** has to be promoted by the CFO
- ▲ The CFOs role in the **development and implementation of business strategy** has to be clearly defined in order to establish efficient collaboration with line management
- ▲ CFOs have to address **the rising importance of integrated performance management systems** (i.e. integration of financial and non-financial KPIs and their use for target setting, planning, reporting, and decision making)
- ▲ **Information standards for financial and non-financial KPIs** are mainly driven by CFOs and serve as central enablers for **increased efficiency and transparency** throughout the organization

#### Starting up as CFO

McKinsey in Finance  
(2007)

- ▲ As **CFOs move towards a central role in decision making**, the bandwidth of their activities broadens from financial excellence to **active participation in strategic decision making**
- ▲ The **CFO agenda has to be balanced between financial excellence and strategic initiatives** to be prepared for the upcoming challenges
- ▲ Gain **insight to business and understand the critical value drivers is becoming an imperative** for CFOs (i.e. understand how a company earns money)

## Agenda

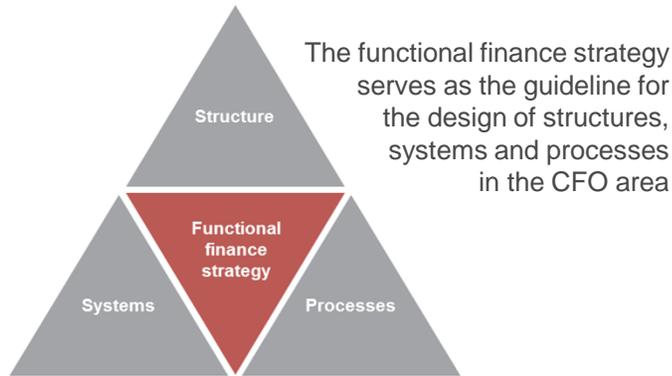
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There are four critical tasks that finance chiefs have to tackle to set up a contemporary Strategic Performance Management (SPM) system (1/2)

1

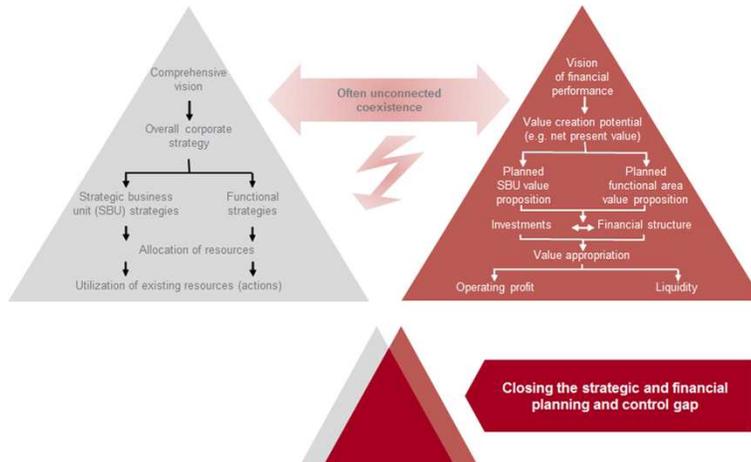
Establish financial excellence



- ▲ The **CFO has to ensure** the implementation of **adequate organizational structures and processes** to meet compliance requirements
- ▲ High **efficiency in processes and information systems** focus' **resource deployment on "value generating" activities** within finance
- ▲ **Excellence in financial core processes and instruments** like cost accounting, reporting and planning/budgeting **is the base for a strong position** of the CFO in the governance of the corporation

2

Set data standards and provide integrated information systems

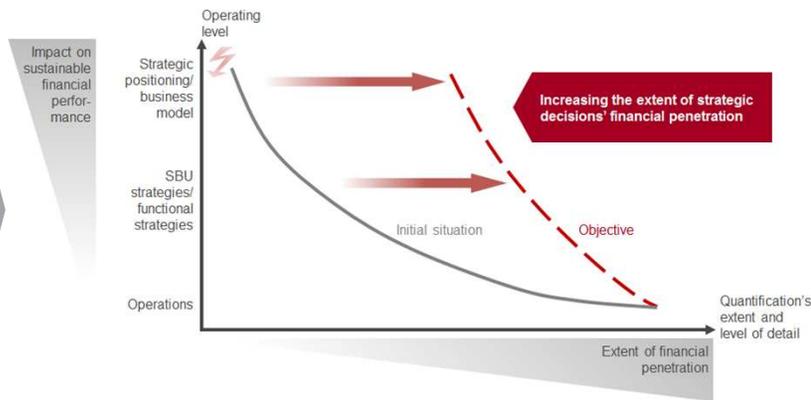


- ▲ The **CFO is the central driver to set up financial and non-financial data standards** which are **broadly used** for target setting, decision making, planning, reporting, etc.
- ▲ **Integrated performance management covering all hierarchy levels** is becoming a major imperative for **governing modern organizations**
- ▲ Initial ramp-up costs materialize in **efficiency gains and increased transparency** throughout the organization

There are four critical tasks that finance chiefs have to tackle to set up a contemporary Strategic Performance Management (SPM) system (2/2)

3

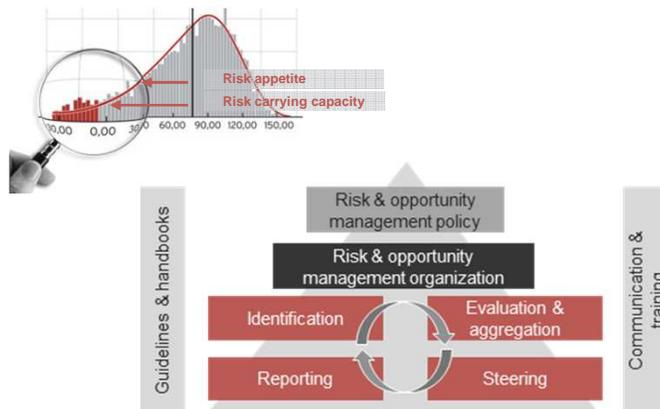
Gain business insight and strategic impact



- ▲ **Strategic decisions** (e.g. business portfolio decisions, projects, investment, M&A) require the **active participation of the CFO**
- ▲ **Deep business insight** and a **thorough understanding of critical value drivers** are essential for the CFO to fill out his role in strategic decision making
- ▲ **Financial decision criteria and processes** have to be **emphasized in strategic thinking** and can no longer be bypassed

4

Handle uncertainty and volatility



- ▲ The **CFO is the central player in handling uncertainty and volatility** by implementing an adequate **corporate risk and opportunity management system**
- ▲ **Transparency on profit volatility and enabling proactive steering** of risks and opportunities is in focus
- ▲ Modern risk and opportunity management is an **enabler to control risks and to leverage opportunities** – i.e. it is an important promoter of growth strategies and value creation

### Strategic Performance Management (SPM) instruments have to be fully integrated in the management control system to leverage benefits

#### What are the prerequisites for the full integration of Strategic Performance Management (SPM)?

##### ▲ Strategy

A clear defined strategy and the financial top goal serves as the basis for the development of financial and strategic target systems, deduction of target levels, and the basic premises for mid term planning (MTP)

##### ▲ Reporting

High automation and integration in reporting systems enables efficient reports that combine the CEO and CFO world by providing information on financials, non-financials, project portfolio, risks and opportunities etc.

##### ▲ Planning

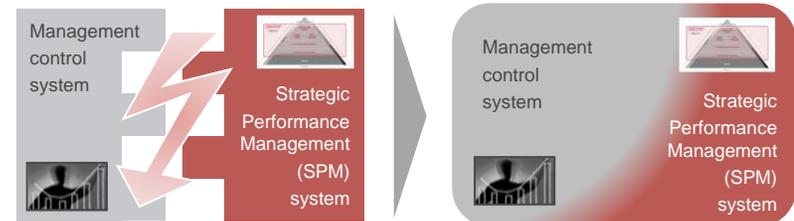
Only integrated planning systems enable a close inter-linkaged between mid term planning (MTP) and budgeting and serve as the basis for the integration of projects towards an activity based mid term planning

##### ▲ Management processes

Defined management processes enable the integration of information of the Strategic Performance Management (SPM) system into decision making & adaption where needed

##### ▲ Organization

The institutionalization within an organizational unit (e.g. strategic controlling department) assigns clear responsibilities for the implementation, operation and further development of the Strategic Performance Management (SPM) system



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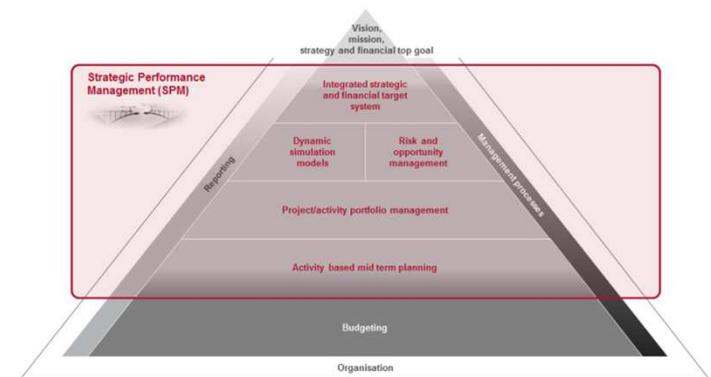
### Instead of a summary – some inputs for the new CFO agenda

*Use financial excellence as the base to develop the finance function towards the Strategic Performance Manager in the company by...*

Leveraging efficiency gains from lean processes and integrated IT systems to redeploy resources from transactional to “value generating” activities within the CFO area

Gaining business insight & strategic impact by taking an active role in strategic decision making

Implementing an integrated Strategic Performance Management (SPM) system to bring finance thinking and decision criterias into the whole organization



In case of further questions...

## Contact

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