The Activist CFO—Alignment With Strategy, Not Just With the Business

A report prepared by CFO Research Services
in collaboration with Booz Allen Hamilton

CFO
RESEARCH SERVICES

Booz | Allen | Hamilton
delivering results that endure

The Activist CFO—Alignment With Strategy, Not Just With the Business

A report prepared by CFO Research Services
in collaboration with Booz Allen Hamilton

CFO RESEARCH SERVICES

Booz | Allen | Hamilton

delivering results that endure

CONTENTS

ABOUT THIS REPORT

In October 2004, CFO Research Services (a unit of CFO Publishing Corp.) and Booz Allen Hamilton launched a research program to explore the changing agenda of senior finance teams and to document an increasingly activist role among leading CFOs. This report presents the findings of our electronic survey of more than 1,600 senior finance executives and in-depth interviews with finance executives.

CFO Research Services and Booz Allen Hamilton developed the hypotheses for this research jointly. Booz Allen Hamilton funded the research and publication of our findings, and we would like to acknowledge Vinay Couto, Gary Neilson, Mark Moran, and Frank Galioto for their contributions and support. At CFO Research Services, Sam Knox edited the report and managed the project.

The Activist CFO—Alignment With Strategy, Not Just With the Business is published by CFO Publishing Corp., 253 Summer Street, Boston, MA 02210. Please direct inquiries to Lisa Nelson at 617-345-9700, ext. 249 or lisanelson@cfo.com.

April 2005

INTRODUCTION

"I think controllership is an essential part of the CFO's role," says Bruce Nolop, CFO of Pitney Bowes, "but what's important now more than ever is to be a well-rounded CFO so you're not just a business partner but also an alter ego to the CEO—to really influence and deliver on strategy." Nolop brings to the surface an emerging role for the CFO and the senior finance team—one in which finance serves the company's strategy as much as it fills the traditional roles of controllership, financial reporting, regulatory compliance, and decision support.

Most observers would agree that CFOs and their senior finance teams should base their finance agendas on their companies' overall corporate strategies. Companies focused on growth through innovation and market expansion have one set of priorities. Those facing a turnaround have priorities that are often entirely different. For the finance organization to be truly effective, its agenda—the initiatives it pursues to track and report results, to allocate capital, to ensure control and compliance, and to support decision making—should be aligned closely with the company's overall strategy. Such alignment with the finance function, or indeed any function, should be commonplace across all companies, large or small.

CFOs are increasingly aligning their function not just with the business but with the company's overall strategy. And by doing so, they are not just supporting the business with information and analyses, but also ensuring that the entire enterprise delivers on its commitments.

But recent changes in the C-suite and companies' external environment have thrust the CFO into a new and expanded role in which finance teams are revisiting this issue of alignment. Increasingly, investors have little tolerance for companies that cannot deliver on growth and earnings commitments. Regulators and prosecutors have come down hard on companies in an effort to restore confidence in the transparency of reporting to the capital markets. And as CEOs are challenged by the external market and their boards of directors, they increasingly need a trusted adviser to help develop and execute corporate strategy. Thus CFOs are poised to take on an expanded and increasingly activist role within their companies. As part of this activist role, CFOs are increasingly aligning their function not just with the business but with the company's overall strategy. And by doing so, they are not just supporting the business with information and analyses, but also ensuring that the entire enterprise delivers on its commitments.

So what is an activist CFO? How is his or her finance agenda unique? Regardless of industry or strategic position, the activist CFO has an expanded and ambitious relationship with his or her C-suite peers and business unit leaders. And he or she has recast the agenda of the corporate finance organization, tying it closely to competitive and operating dynamics and aligning it with the company's strategic mission. Perhaps most important, however, is the root cause of activism in finance. This research program finds that activism correlates closely with higher expectations and an expanded relationship with a company's board of directors and external stakeholders. That is, when the board seeks change, activist CFOs and their teams rise to the challenge.

This activist CFO may sound a lot like a CEO, an overall leader of the enterprise and a super-line manager. But the activist CFO remains committed to his or her staff position. The activist CFO has, however, expanded that role to focus first on the strategy, not just on business support. And while we don't believe there is a trend underway for the CFO to usurp power and influence from the CEO, recent executive appointments suggest that the activist CFO is ideally suited to an expanded role. Corporate boards filled two high-profile CEO vacancies—at Hewlett-Packard and Boeing—with their CFOs, at least for the time being. And the list of CFOs stepping up to the highest levels of managerial authority extends to Smith Barney, Pfizer, Metro-Goldwyn-Mayer, and many other companies—all of which have promoted CFOs or hired them from outside to guide their companies through strategic change.

With these trends in mind, we have conducted a research program with more than 1,600 senior finance executives in an effort to explore how senior finance teams craft their agendas, whether finance executives see an expanded role for their function, and the extent to which overall company performance tracks with finance's priorities. We've segmented the respondents according to logic based on our experience and expectations for finance's emerging role.

About this Research

In January 2005, CFO Research Services and Booz Allen Hamilton launched a research program among senior finance executives to explore the links between overall corporate strategy and the finance team's agenda. To see the survey instrument and include your views in this research, visit www.cfoagenda.com. In total, more than 1,600 finance executives from around the world contributed their opinions to this research.

More than 1,600 senior finance executives from around the world answered questions about their strategies and the role of finance at their companies.

With a view toward capturing useful data across all industries and company sizes, we asked a series of simple questions about company strategy, competitive and industry dynamics, and firm-specific concerns (see appendix). In addition, we sought data on how senior finance executives seek to collaborate with the rest of the executive team and the barriers that finance faces in implementing its strategy. Finally, we asked respondents about the role of finance within their companies, in search of evidence of an emerging activist role among finance executives. We've supplemented this data with interviews and conference remarks from leading voices in corporate finance.

Using the data from this survey, we've segmented the respondents into four categories and discerned similarities and differences—some subtle, some pronounced—among the various types of finance organizations. We developed this segmentation logic before collecting the data and based it on experience with senior finance teams and on trends and forces that affect strategy, finance, and overall company operations. Based on these findings, we offer recommendations on how senior finance teams can reevaluate both their strategies and their finance agendas in pursuit of higher company performance.

Companies are segmented into four profiles according to their strategies, industry dynamics, and firm-specific concerns.

FOUR PROFILES FOR THE CORPORATE FINANCE TEAM

We asked senior finance executives to answer 16 questions about their companies' strategies and the challenges and obstacles they face in executing their agendas. Then we segmented them into four groups based on an algorithm of logical priorities we anticipated for finance teams. (See Figure 1 for a more detailed description of these profiles.) The four profiles are:

- **Growth navigators:** CFOs who work closely with CEOs to map out an aggressive course to profitable growth through acquisition or organic channels. To be included in this group, executives had to say in the survey that top-line growth, not cost containment, was the primary driver of future performance and that analysts expected continued improvement, not major change, in the years ahead. Fully 52 percent of respondents fall into the growth navigator category.

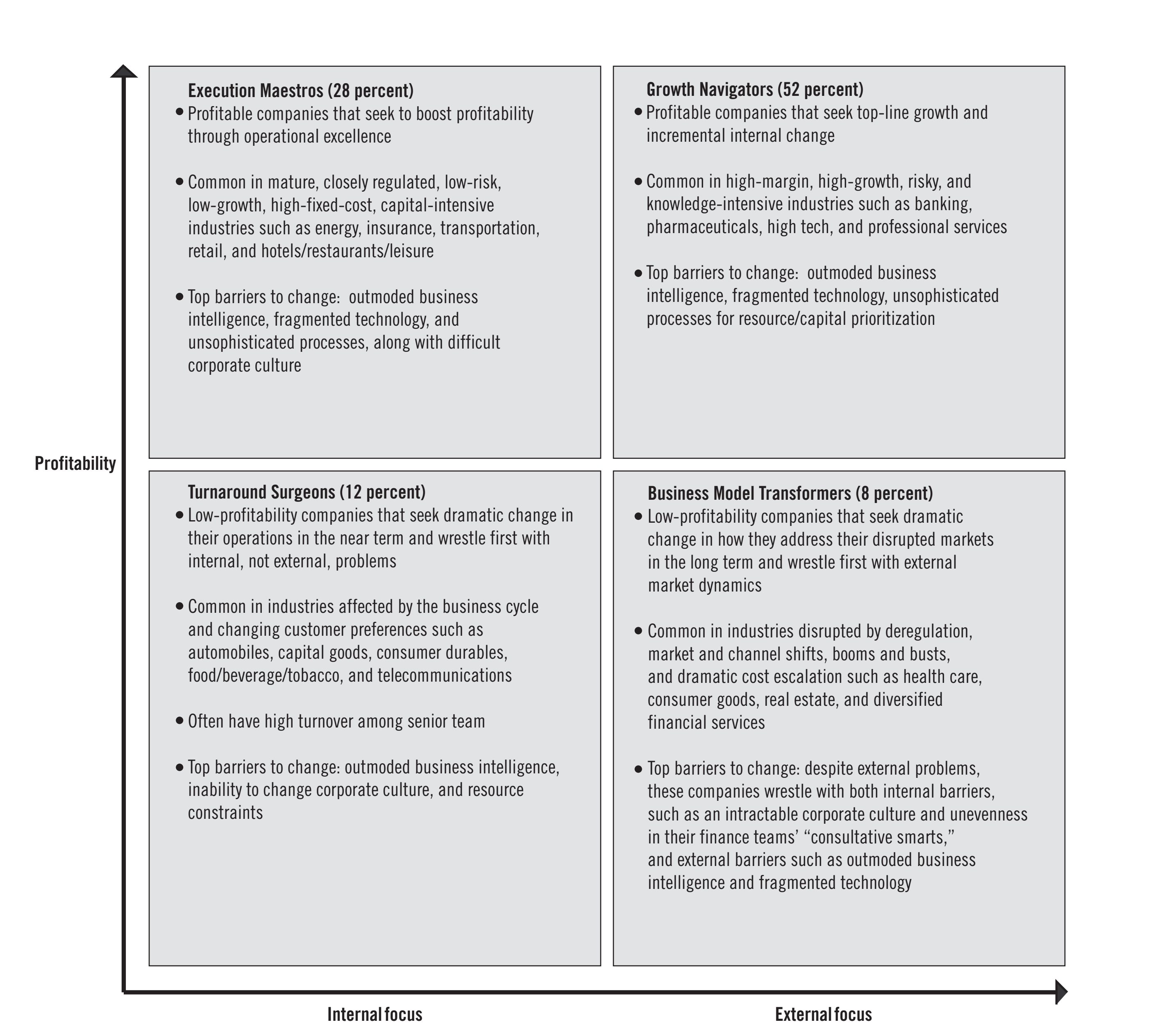


Figure 1. Profitability and internal/external concerns drive segmentation

- **Execution maestros:** CFOs who focus on operational excellence and instill in their companies a value discipline that enables them to do more with less. Our segmentation logic calls for execution maestros to deliver continued improvement, not dramatic change in the future, and to focus on "executing the basics," not "generating new products and services" as their primary source of value. The execution maestro logic also considers the board's satisfaction with company performance, the stability of the company's industry, and the degree of change that the company's operating model needs. All told, 28 percent of respondents are execution maestros.

- **Turnaround surgeons:** CFOs who step in under close scrutiny to make difficult decisions that others often will not make—with the goal of restoring ailing companies to financial health. Required for inclusion in this category are analysts' expectations for major change in the near term, as well as a combination of board dissatisfaction, a need to restructure and stabilize the company, high turnover among top management, and an overhaul of the company's operating model. Only 12 percent of respondents are turnaround surgeons.

- **Business model transformers:** CFOs who identify opportunities for strategic innovation and take advantage of them by recasting their companies' business models and organizations. To be categorized as a business model transformer, a CFO's company must have a board expecting change in the long term and a need for an overhaul of its operating model—along with some combination of board and analyst disappointment with company performance. Only 8 percent of respondents fall into this category.

Acquisitions, new products, and market expansion fuel the future of growth navigators.

Broadly speaking, companies fall into two larger groups: successful companies that aspire to generate more value for their shareholders, and companies that sense trouble and seek more dramatic change. Companies that say they are more profitable than their peers are most common in the growth navigator and execution maestro categories. Such companies have well-established market positions, tight controls, and well-managed operations—all of which contribute to their higher performance. These highly profitable enterprises are models for their less profitable, lower-performing peers.

Growth navigators—Aggressive expansion led by new products and building on the core business

Growth navigators develop aggressive plans for profitable growth through market expansion, new product development, and acquisitions. And although growth navigators show up in all industries, they are particularly common in high-growth, knowledge-intensive industries in which net margins are relatively high. More than half of respondents in the banking, pharmaceutical, professional services, real estate, and high-tech industries fall into the growth navigator profile. Competitive advantage for such companies grows out of innovation, nimble reactions to market dynamics, and creative commercial engineering. Accordingly, such companies are simultaneously entrepreneurial, operationally focused, and adept at both resource management and the complexity of integrating disparate organizations.

Collaboration with core, company-wide functions of the business is a top priority for growth navigators. Sixty-one percent of growth navigators seek to work more closely with their operations teams, and more than half seek closer relations with information technology groups. Growth navigators also seek closer working relationships with externally oriented organizations like marketing and sales, but they are least likely to tighten their relationships with human resources. These companies also have stable executive teams, with only 13 percent reporting high executive turnover in recent years.

But problems with technology and business processes hold growth navigators back, say respondents. Like their peers in other profiles, growth navigators see "outmoded

Figure 2. Business intelligence prevails among top barriers in all profiles

Barriers to finance achieving its strategic objectives (rank order)

	Growth Navigator	Execution Maestro	Turnaround Surgeon	Business Model Transformer
Outmoded or missing business intelligence and forward-planning capability	1	1	1	2
Multiple, fragmented technology architectures preventing seamless enterprise integration	2	2	8	3
Inadequate resource firepower, unsophisticated processes for resource/capital prioritization	3	3	3	5
Resource constraints	4	5	4	10
Highly customized or unreliable financial processes supported by underdeveloped analytical tools	5	9	5	5
Uneven depth of leadership and consultative smarts within the finance organization	6	5	7	3
Inability to change a decades-old corporate culture	7	3	2	1
Strongly autonomous business units and an arm's-length managing corporate center	8	8	9	7
Finance bogged down in transaction processing and crises	9	7	5	8
Stature and influence of finance leadership	10	10	10	8

business intelligence and forward planning capabilities" as their most formidable barrier, followed closely by fragmented technology and unsophisticated business processes (see Figure 2).

Execution maestros focus on the core business and optimize the efficiency of their profit engines.

In charting their course for finance's delivery on strategy, growth navigators are unusually focused and disciplined on a few core ideals for their finance team. "I think," said Susan Decker, CFO of Yahoo, at the 2005 CFO Rising conference, "every company should have analogues financially for everything it's doing on the business side. And since I'm a free cash flow addict, driving free cash flow per share and trying to limit volatility are our goals. That's our mission. That's our reason for being in business and it drives market value." Accordingly, says Decker, her finance organization adheres closely to five core principles in all it does: (1) focus on cash, (2) think in the long term, not the short term, (3) allocate capital accordingly, (4) institute metrics that matter, and (5) communicate transparently and consistently. These principles, says Decker, guide everything that she and her finance team do in support of the company's strategy.

Growth navigators, as profitable companies in high-margin, sexy industries, are often Wall Street darlings and receive press coverage and admiration of executives throughout industry. And while they aspire to generate more value for shareholders with a tightly aligned strategy for finance, so do their operationally focused peers, the execution maestros.

Execution maestros—Running and optimizing a profit engine

Execution maestros operate under "normal" conditions and focus on operational excellence, seeking ways to do more with less. They spot early signs of failure, participate actively in operating reviews, and through running a lean and efficient enterprise, seek to extract an "operating premium" from the capital markets. Execution maestros, like their growth-oriented brethren, report higher-than-average profitability versus their peers and often compete in mature, regulated, information-intensive, low-margin, and capital-intensive industries such as utilities, energy, transportation, insurance, and retail. Given the sources of value in these mature industries—low cost, operating efficiency, economies of scale—it comes as little surprise that execution maestros are concentrated in them.

Execution maestros have economic engines that run smoothly, and their finance teams work to optimize the efficiency and throughput of these engines. Accordingly, execution maestros collaborate most closely with business operations and information technology, putting little emphasis on sales, marketing, and product development. And like growth navigators, execution maestros see outmoded business intelligence, a lack of forward-planning capabilities, and fragmented technology as barriers to achieving their finance goals. But they also see problems with ingrained corporate culture—large, often unionized workforces, regulatory compliance infrastructure, and so on—which hold companies back from making dramatic structural change.

Spurred on by higher board expectations, turnaround surgeons rebuild their companies through cost control and overhauling operations.

Bruce Nolop, CFO at Pitney Bowes, speaks clearly on the priorities of the execution maestro. Nolop joined the company as it reevaluated its diversification strategy and worked aggressively to focus on its core, highly profitable mailing automation business. To do so, he and his team focused on building a corporate development team as part of the finance group, bringing order and discipline to selling off and acquiring businesses. "Their role is to facilitate with transaction skills," says Nolop, "and to make sure what we do is rigorous and consistent. They answer questions with the business units such as 'Why are we doing this transaction? Why do we think this fits with our business strategy? Why do we think we can manage it?' So process discipline is their primary role." This focus on process discipline extends, says Nolop, into every aspect of finance and the company's business—from tax, to performance management, to HR and compensation.

Execution maestros and growth navigators are in some respects the envy of their less profitable peers. They have business models and operations that are efficient, innovative, and ultimately profitable. And while their finance teams face barriers such as weak business intelligence and planning systems and technology platforms that don't support their strategies well, these companies and their finance teams are poised for further growth and profitability. Their less profitable peers, however, are less sanguine about the future and position themselves for turnarounds and more dramatic rebuilding of their business models.

Respondents who say their companies are less profitable than their industry peers are concentrated in two other profiles: the turnaround surgeon and the business model transformer. Sensing immediate or longer-term problems with the market and their companies' responses to it, these CFOs are focused on more dramatic changes to their companies and how they do business.

Turnaround surgeons—Responding quickly to the board's higher expectations

The turnaround surgeon makes difficult decisions that others will not make in an effort to restore a company to financial health. Among the determinants for inclusion in the category are an expectation from the board of directors and analysts that the company achieve substantial gains in the next six months (rather than over the next several years), overall investor dissatisfaction, high turnover among senior management, and an awareness of the need for both cost control and an overhaul of the company's operating model.

Turnaround surgeons are common in industries that are tied to the business cycle and to consumer preferences—automobiles and components, capital goods, consumer durables and apparel, food, beverages, and tobacco, and media. Given the recent economic slowdown, it's surprising that only 12 percent of respondents fall into the turnaround surgeon profile.

Like the execution maestro, turnaround surgeons place a premium on collaboration with operations and with IT. But in the effort to restore their business to financial health, the turnaround surgeon's finance team seeks close collaboration with the sales team (60 percent) and marketing (30 percent).

One turnaround led in part by finance illustrates the turnaround surgeon's role. Safeco, an auto, home, and small-business insurance provider, needed a dramatic turnaround in the late 1990s, after over-diversifying and taking on too much debt. The new CEO called on Christine Mead to serve as CFO and to orchestrate much of the turnaround. Mead spoke of the turnaround and the company's efforts to emerge from it not just stable but healthy and growing—that is, to emerge as a growth navigator or an execution maestro. To do so, says Mead, was a matter of "rebuilding the foundation, rebuilding the product, strengthening the capital structure, and putting performance measurements and risk management into place to ensure our future success and that we wouldn't fall behind again.... You don't want to go through a turnaround and then say, 'So what?' So for us it was about setting long-term strategy and then investing in products, the people of the company, and finance's wherewithal."

Mead describes finance's contribution to the turnaround as "intertwined and interlinked with what the product teams are doing." And in addition to the core performance management discipline of new metrics, Mead cites an overarching requirement for finance to both lead and support Safeco's organization. "We've restructured the leadership team so that we're aligned around our strategies, so my responsibilities include the platform—finance, technology, service, and human resources—the people, processes, and technology that make everything go at Safeco." And Mead cites collaboration between all members of the C-suite—"bringing the best thinking on any business issue, regardless of traditional silos, gets us to the best conclusion." This culture of collaboration extends, says Mead, not just internally but externally to the company's agent pool, which sells products to consumers.

Perhaps the most important difference between turnaround surgeons and their more profitable peers is their focus on internal rather than external matters. Senior finance executives in the turnaround surgeon profile cite organizational problems—such as an inability to change corporate culture and inadequate resources—far more often than do their more profitable peers. This intuition may well be correct; there seems to be little in the world outside the company that correlates closely with the turnaround surgeon profile. As a group, respondents in this profile say their industries are both consolidating and expanding (60 percent) and stable and mature (40 percent); new entrants appear both frequently (59 percent) and rarely (41 percent). The inference: The source of turnaround surgeons' difficulties lies more with internal problems than with external factors such as market structure and industry maturity.

The importance of internal concerns in a turnaround was brought home by Keith Heffron, VP of finance at Adelphia Communications, a cable television company that has been rocked by scandal in recent years. Adelphia's response to this scandal —a scandal which included widespread fraud at the top of the organization—has been an insistence on very tight controls on all business processes, benchmarking of company performance against internal and industry standards, and—somewhat surprisingly—a decentralized finance organization. Says Heffron of the old Adelphia structure, "It was the kind of organization that made all decisions centrally, and as a result, trained the rest of the organization not to make any decisions at all." But for such decentralized decision making to work effectively, a sound control environment with increasingly automated checks needs to be in place, says Heffron.

Collaboration, too, figures prominently in Adelphia's turnaround: "I can say I work closer on a daily basis with our VP of marketing and sales than with anyone else. I know his team is as intimately plugged into revenue as mine is—not just into customer growth. Last week, we had a lengthy discussion of key operating metrics like average revenue per unit and their impact on the bottom line. They get it, and we've really built a level of financial literacy cross-functionally."

Business model transformers—A small group of companies seeking a new approach to altered markets

Business model transformer is the fourth profile in the quantitative research among senior finance executives, and it's the smallest segment, making up only 8 percent of respondents. Business model transformers recognize opportunities for strategic innovation and recast their organizations and their business models in a way that alters their competitive dynamics. Like turnaround surgeons, business model transformers report lower profitability than their peers, although they are in perhaps less dire straits than the turnaround surgeons.

Business model transformers seek dramatic change in their organizations and in their approach to the external market.

AutoNation, a national rollup of automotive retailers, surely has a heritage of business model transformation. The company began in the mid-1990s as a conglomerate, focusing on a portfolio of waste management, auto rental, and auto retailing and financing businesses. Over the next several years, the company shed its car rental and waste management businesses and acquired a collection of more than 350 automotive franchises around the country. AutoNation's CFO, Craig Monaghan, says that the company set out to change the core business model of selling cars to consumers by using best practices, standardizing, and branding the car-buying experience.

To do so, the company focused on bringing scale advantages to a highly fractured but successful entrepreneurial business operating in a local market environment. After bringing all these stores together, the company asked, "How do we add value?" AutoNation needed to maintain the local entrepreneurial spirit in each market, but at the same time it needed to create a disciplined operating environment that would strike a balance between entrepreneurial energy and scalable, best-practice processes, and use technology to create a better customer experience. "With a $19 billion organization, you get to the point where instead of having all your decisions made locally, you need to make some regionally and some nationally. But changing that culture without blowing up a successful organization was our number one challenge," says Monaghan.

Central to AutoNation's recasting of its business model was a focus on automating and controlling its operations. "You can't run an organization with 280 accounting locations across the country and not have problems," say Monaghan, "and I'll tell you we took some significant write-offs early on because we constantly had surprises coming from each of these stand-alone accounting operations." Monaghan says the company and its finance team have lead this effort through implementing tighter controls, modernizing its technology, and implementing shared services centers for IT and parts of finance. To do so, says Monaghan, the company looked outside automotive retailing to mortgage companies, big-box retailers, and others for good ideas on how to structure, automate, and centralize its back office operations in support of strategy.

Business model transformers are common in disrupted markets in which companies' competitive advantage is weakened by external factors.

Business model transformers are common in industries that have been disrupted by competitive dynamics in recent years. The most common industries among business model transformers include real estate (which has been disrupted by regional bubbles and busts), diversified financial services (adversely affected by deregulation, firms' over-diversification, and financial market instability), health care (disrupted by regulation and rising costs), and consumer products (shaken by the power of big-box retailers). As a result of these disruptions, finance teams at business model transformers seek to lead dramatic changes in how their companies approach their markets. Like the turnaround surgeon, the business model transformer is troubled by internal barriers to change such as an intractable corporate culture and uneven consultative skills among the finance team. And like other profiles, the transformers seek close collaboration with business operations and information technology.

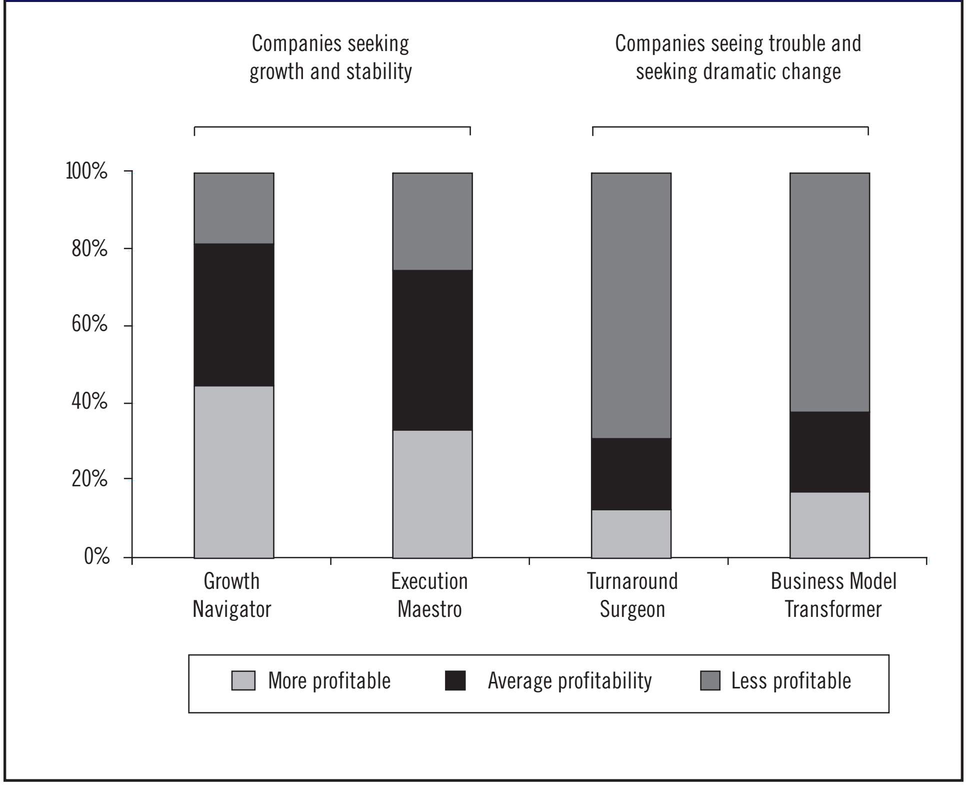
PROFITABILITY, PROFILES, AND MISMATCHED FINANCE AGENDAS

While profitability seems to track fairly closely with the profiler results—with highly profitable companies falling into the growth navigator or execution maestro categories, and less profitable ones falling into turnaround and transformation categories—companies that report average profitability versus their peers describe their finance agendas in a way that seems somewhat troubling. Companies reporting average profitability fall into the growth navigator and execution maestro segments, when in fact their business problems and lack of profitability may well require the more ambitious changes that come from a turnaround or business model transformation.

Overall, companies seem to have overestimated the strength of their financial performance; 20 percent reported profitability below that of their peers, while 43 percent claimed high profitability and 37 percent claimed average profitability. These average-profitability companies identify themselves more with their profitable peers, which they hope to emulate, than with less profitable companies (see Figure 3). Many of these middling-performance companies are likely to be less profitable than their peers and should have a corporate strategy and finance agenda that focuses on the more dramatic change of a turnaround or a business model transformation.

Some companies overestimate their true profitability, and as a result may have finance agendas that are not aligned with the true state of their strategic position.

Figure 3. Profitability tracks closely with finance agenda, but many companies overestimate their own performance



Barriers to Change in the Finance Organization

We queried finance executives on the barriers they face in pursuing their strategies for finance. By understanding the barriers that finance faces, we can deduce where finance teams will seek to devote their time and attention in the future. Comparing these barriers across the various finance agendas produces a clearer picture of each profile. We found first that companies are most often concerned with "outmoded or missing business intelligence and forward planning capabilities," with more than a third of respondents citing this problem as one of their top three barriers. Fragmented technology/multiple systems and "inadequate resource firepower and unsophisticated processes for resource and capital prioritization" were also cited frequently by the full population of respondents.

Figure 4. Profitable companies focus on core finance capabilities and company-wide complexity

Top obstacles to achieving finance's current agenda

	Less profitable	Average profitability	More profitable
Outmoded or missing business intelligence and forward-planning capability	44%	35%	38%
Multiple, fragmented technology architectures preventing seamless enterprise integration	24%	34%	36%
Inadequate resource firepower, unsophisticated processes for resource/capital prioritization	35%	33%	29%
Uneven depth of leadership and consultative smarts within the finance organization	24%	29%	29%
Highly customized or unreliable financial processes supported by underdeveloped analytical tools	24%	24%	28%
Inability to change a decades-old corporate culture	33%	30%	26%
Resource constraints	29%	30%	26%
Strongly autonomous business units and an arm's-length managing corporate center	19%	22%	25%
Finance bogged down in transaction processing and crises	24%	21%	22%
Stature and influence of finance leadership	15%	10%	14%
(Percentage of respondents identifying each item as one of their top three barriers to change)			

A segmentation of these barriers by respondents' profitability, however, shows that highly profitable companies see core finance capabilities and company-wide complexity as the most formidable barriers to change (see Figure 4). By contrast, their less profitable peers feel constrained by the organization around them.They believe they are held back by the problems within their companies and see barriers such as the "inability to change a decades-old corporate culture" as the most formidable.

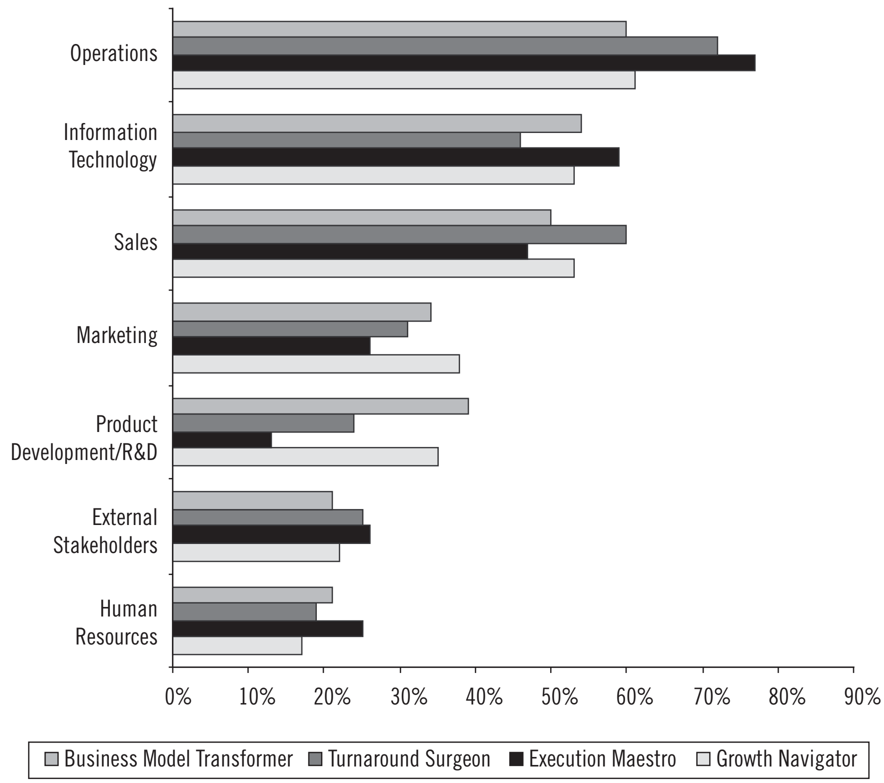
Collaboration with other functions and C-suite executives

In the survey and interview program, we asked senior finance executives about their relationships with the rest of the organization. Companies consistently called for closer collaboration with their operating units (see Figure 5, next page).

But while finance will work more closely with operations, IT and sales in the years ahead, it's worth noting that externally oriented companies—growth navigators and business model transformers—are more likely to ally themselves with product development, research and development, and marketing. And many internally focused companies, especially those led by turnaround surgeons in finance seek to drive improved performance through working more closely with—and even scrutinizing—operations and sales efforts.

Figure 5. Collaboration is central to finance effectiveness—especially with operations and IT functions

With which of the following functions do you anticipate collaborating most closely in the future?



(Percentage of respondents)

ACTIVIST ROLE AS A NEW MODEL FOR THE SENIOR FINANCE TEAM

Finance organizations have served historically as control and compliance stewards, as the "keepers of the books," and as ad hoc counselors to the CEO and business units on investment decisions, budgeting, and so on. Indeed, for years, finance organizations have aspired to streamline their transaction processing roles and step up to greater decision support, all under the rubric of "supporting the business." But our research finds that finance doesn't seek to just support the business with information and analyses. Increasingly, it seeks to lead, to guide, and to guarantee that the business is in fact supporting and pursuing the enterprise's overall strategy. This change—this shift from supporting business units to ensuring business performance and strategic execution—offers a new role, new responsibilities, and a new agenda for the finance team.

Finance activism—defined as finance in a role beyond controllership and decision support—occurs more often among survey respondents who say their finance teams have become more closely engaged with the board of directors in the last two years.

One leading voice in finance articulated activism perfectly in a recent interview: "I think there's a spectrum on which CFOs operate," says Mick Murray, senior vice president and chief accounting officer at Yahoo. "At one end of the spectrum is the CFO whose primary orientation is on the fiduciary side—internal controls and financial operations. At the other end of the spectrum is the CFO who's the strategist who's there at the table driving the broader corporate strategy, particularly in the context of the long-term financial objectives of the company." To Murray and his team, activism means finance in a company-wide, strategic role. Later in the conversation, Murray called for finance to establish an internal brand within a company. "A successful finance organization operates as one branded group across the company—across all business units and geographies—with a common, shared perception of our fiduciary and strategic roles."

In the CFO Agenda survey, we queried senior finance executives on the role of finance in their organizations. Are you, we asked, an accountant focused on control and reporting, a business partner supporting decisions with data and analysis, an architect creating measurements and leading planning? Or are you more an activist and interventionist—one who challenges the business from a neutral, objective position, one who acts as an arbiter of performance with a mandate from the Board and CEO to prompt change?

Allowing for multiple responses, we found that more than 40 percent of senior finance executives say they and their teams are activists and interventionists—that is, they play a role beyond accounting, control, and business decision support. Perhaps most interestingly, this activist/interventionist role is independent of the profiles and reported company profitability. Finance activism occurs consistently in all profiles and profitability bands.

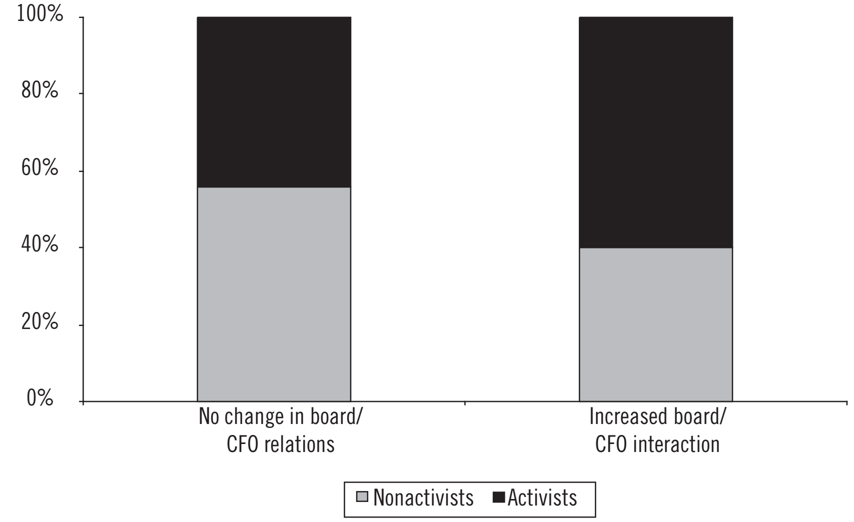
We view the number of activists—more than 40 percent of respondents—with a bit of skepticism. Yes, nearly half of senior finance executives say their organizations "leverage the unique position of finance to proactively challenge the business and lead the next wave of opportunity capture." But this may well be more an aspiration to lead their pursuit of strategy than a clear-eyed statement of finance's actual role. Whether an aspiration or a realized role for finance, activism represents a new model for finance's contribution to enterprise performance.

Activism—again, defined as finance in a role beyond controllership and decision support—occurs more often among survey respondents who say their finance teams have become more closely engaged with the board of directors in the last two years (see Figure 6, next page). Sixty percent of senior finance executives who say their CFOs have a closer role with the board also identify themselves as activists—while their peers who perceive no change in finance's relationship with the board are far less likely to say they have an activist agenda.

Closer relations between finance and the board of directors are tied to analysts' expectations, high turnover among top management, and a need to overhaul operations.

Figure 6. Finance becomes more active in managing the business in response to closer relations with the board of directors

Finance's activism versus interaction with board

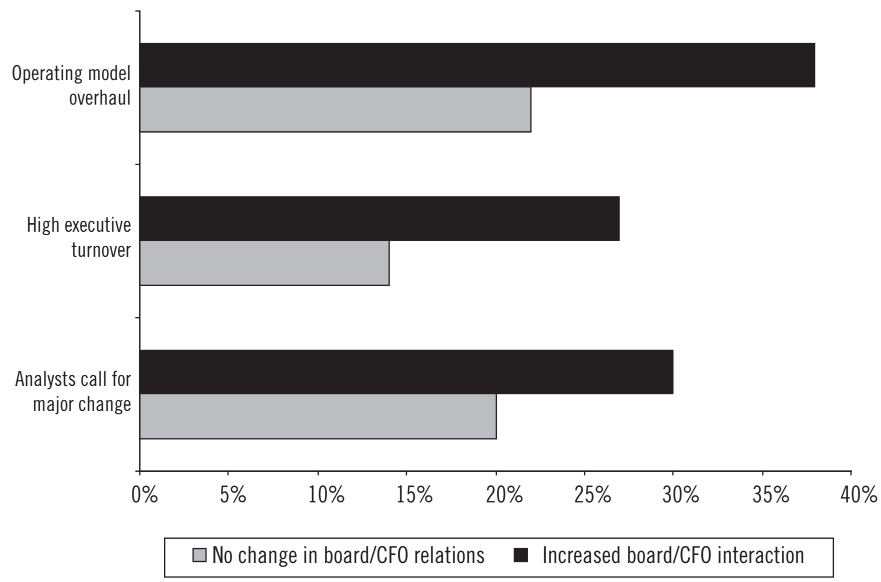


(Percentage of respondents)

We draw further inferences about the relationship between finance and the board after looking at responses to other questions. We find that closer board relations are tied to external pressure from analysts for change, to significant turnover among top management, and to an acknowledgement of the need to overhaul a company's operating model (see Figure 7). Based on these findings, we infer that the activist role is finance's response to a clear sense of urgency from the board, and that boards seek finance's expertise and organizational scope in times of operating distress.

Figure 7. Boards call on finance in times of operating distress

Relations between board and finance versus indicators of operating distress



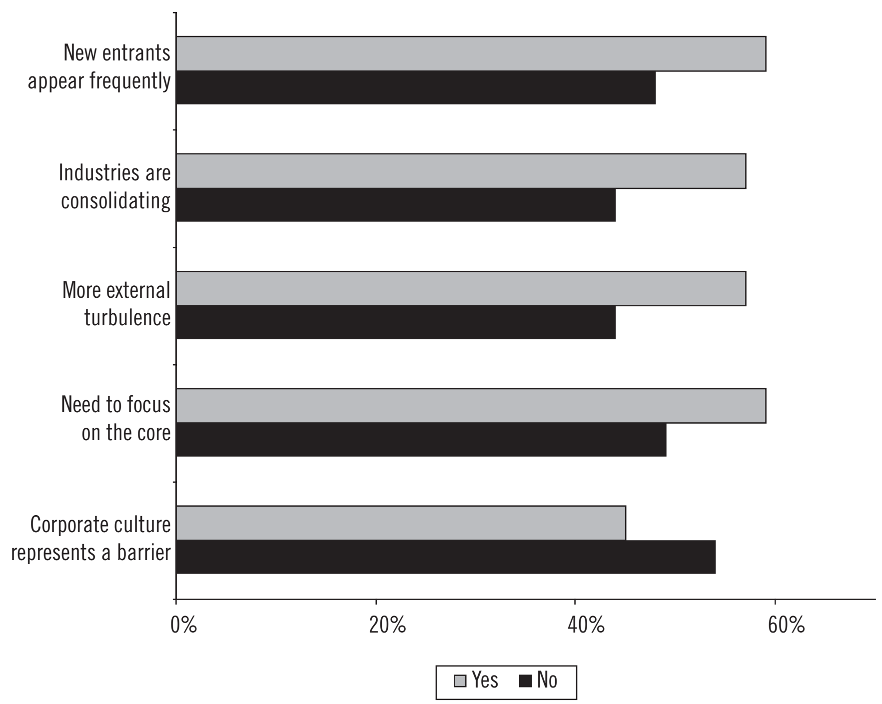
(Percentage of respondents)

Senior finance executives in some industries have embraced finance activism more fully than others—perhaps out of the need for the activist's guidance in driving change within the organization. Executives in the capital goods, retail, transportation, and telecommunications industries are more likely to be activists than their peers in banking, professional services, and energy. And while we found little variation in activism across the profiles, there is clearly a trend in the data suggesting that finance executives in historically low-margin industries such as transportation, capital goods, retail, and telecommunications have adopted activism, perhaps out of necessity in pursuing turnarounds and business model transformations. Executives in historically higher-margin businesses such as banking, professional services, and real estate—which have a higher percentage of growth navigators and execution maestros—are less likely to adopt an activist agenda.

The other noteworthy difference between activists and their non-activist peers is activists' focus on systems, resource constraints, and technology, and non-activists concern for business intelligence, corporate culture, and the stature of finance leadership (see Figure 8). Activists don't wrestle as much with an intractable corporate culture, nor do they lament the stature of their function within the organization. Rather, they identify core managerial and business problems—notably, poor technology and resource scarcity—and seek to solve them.

Activists identify core managerial and business problems—poor technology, process inefficiency, and resource scarcity—and are less concerned with intractable corporate culture.

Figure 8. Activists focus on the external market and are less likely to get distracted by difficult corporate culture



(Percentage of activism for respondents choosing Yes or No for each item)

CONCLUSION

How can finance teams take these findings on how their peers are crafting their agendas to match their corporate strategies and put them to practical use?

A careful review of fundamental questions about finance's support for strategy and for the board's expectations will yield a new and stronger finance agenda.

First, companies should take a close look at the core issue of alignment between finance and the organization. Does finance support the business or support the strategy? Are finance's priorities and efforts focused on helping business units make good decisions, or has finance stepped beyond decision support to embrace a more activist role in delivering results? There's no single right answer or remedy to questions and problems like these. But finance teams would be well served by reevaluating whom they serve and how they do so.

Second, finance executives should be careful to view their companies' performance realistically, rather than exuberantly. Profiler respondents seem to have an overly optimistic view of their own performance and the depth of their strategic role. Many senior finance executives seem to believe their companies are more profitable than they really are. Many respondents say they play a role and have influence that may well lie beyond their true position within their organizations. If finance executives—the stewards of information, the people with perhaps the best view of company performance—can't say with authority how their companies are performing, who can?

Finally, finance teams should consider their mandate from the board of directors and carefully consider how to pursue this mandate. Findings from the survey suggest that an activist agenda beyond controllership and decision support is more likely among companies with close finance/board relations. With this in mind, perhaps the most important question for finance teams is this: Does our board expect a greater role from the finance team—and if so, how do we alter our finance agenda to play this role effectively?

APPENDIX: CFO AGENDA PROFILER

More than 1,600 senior finance executives around the world answered the following 16 questions, which form the basis for this report. Readers are welcome to visit www.cfoagenda.com to contribute their views to this research.

Which choice best describes the situation at your company?

1. The greatest contributor to earnings over the next 3 years	❍ Growth focus ❍ Low-cost orientation
2. The board's view of the company's past 3 years' performance	❍ Dissatisfied ❍ Satisfied
3. External stock analysts' expectations over the next 3 years	❍ Continued improvement ❍ Major change
4. The Board expects the majority of anticipated changes to be made	❍ In 6 to 12 months ❍ Over the next 2 to 3 years
5. Company's primary industry	❍ Consolidating or expanding ❍ Stable, mature
6. Company's strategic intent	❍ Focus on the core ❍ Diversify
7. New market entrants in company's industry	❍ Rare ❍ Frequent
8. Primary challenge for the business over the next 3 years?	❍ Restructure and stabilize ❍ Sustain and build
9. How will the organization provide more value over the next 3 years?	❍ Generate new products/services ❍ Execute the basics more consistently
10. Top management team turnover over the past 2 years	❍ Less than 40% ❍ 40% or more
11. CFO interaction with Board and Board issues from 2 years ago	❍ No change or moderate change ❍ Significant increase
12. Cost management is…	❍ A normal part of business ❍ A key driver of future performance
13. The changes needed to the current operating model	❍ Fine-tuning and execution ❍ Overhaul

14. To execute your agenda, with which of the following functions do you anticipate collaborating most closely? (Please choose three)

- ❍ Marketing
- ❍ Human resources
- ❍ Information technology
- ❍ External stakeholders (e.g., investors, creditors, legal counsel, unions, regulators)
- ❍ Sales
- ❍ Operations
- ❍ Product development/R&D

15. Identify the THREE biggest obstacles to executing your current agenda:

- ❍ Uneven depth of leadership and consultative smarts within the finance organization
- ❍ Inadequate resource firepower, unsophisticated processes for resource/capital prioritization
- ❍ Highly customized or unreliable financial processes supported by underdeveloped analytical tools
- ❍ Multiple, fragmented technology architectures preventing seamless enterprise integration
- ❍ Outmoded or missing business intelligence and forward planning capability
- ❍ Stature and influence of Finance leadership
- ❍ Strongly autonomous business units and an "arm's-length managing" corporate center
- ❍ Inability to change a decades-old corporate culture
- ❍ Resource constraints
- ❍ Finance bogged down in transaction processing and crises
- ❍ Other (please specify) ____________________________

16. How would you describe the role of finance in your company? (Check all that apply)

- ❍ Accountant: Maintains control environment and ensures integrity of reporting
- ❍ Business Partner: At the table with the business, playing a supporting role to the business
- ❍ Architect: Creates the yardstick against which performance is measured and leads planning processes and management forums
- ❍ Activist: Leverages the unique, neutral position of finance to proactively challenge the business and lead the next wave of opportunity capture
- ❍ Interventionist: Acts as the final arbiter of performance and has the mandate to prompt change in the businesses

Booz | Allen | Hamilton

delivering results that endure

SPONSOR'S PERSPECTIVE

The era of the Activist CFO has arrived. More than control agents or scorekeepers, leading CFOs have become active, innovative, and independent transformation agents. They identify and focus on the next "billion-dollar decisions," while at the same time ensuring the right mechanisms are in place for the thousands of smaller decisions to be made with the necessary rigor, transparency, and insight. To succeed, this new breed of CFO must develop an activist agenda that aligns with the company's strategic priorities and performance goals.

In our work with CFOs and their organizations, we have observed Activist CFOs leveraging their unique position to influence their organizations' agendas and ensure they are achieved. Indeed, the best CFOs have a combination of objectivity, credibility, organization-wide perspective, detailed business understanding, and influential relationships that uniquely positions them to influence the agenda. In addition, they are increasingly called upon to lead change or transformations in their organizations, further influencing the agenda.

Booz Allen Hamilton teamed with CFO Publishing to undertake this research to better understand the Activist CFO profile and how Activist CFOs influence corporate agendas both within the Finance organization and beyond. In addition to this research, our recently published book, *CFO Thought Leaders: Advancing the Frontiers of Finance,* contains interviews with 17 of the world's most influential CFO thought leaders describing their own agendas and providing insights on their own Activist agendas.

Booz Allen's interest in the Activist CFO Agenda originates from our work with leading CFOs and their organizations, helping them address their most important concerns. Our specific experience and capabilities include:

- Corporate Valuation, Portfolio Analysis, and Merger Integration Support
- Planning and Performance Management Design
- Finance IT Architecture Design
- Organization Design to Produce Results
- Cost Efficacy Analysis and Implementation
- Outsourcing and Offshoring Strategy Development
- Finance Talent Management
- Corporate Governance and Enterprise Resilience Design

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for 90 years. Booz Allen, a global strategy and technology consulting firm, works with clients to deliver results that endure.

With more than 16,000 employees on six continents, the firm generates annual sales of $3 billion. Booz Allen provides services in strategy, organization, operations, systems, and technology to the world's leading corporations, government and other public agencies, emerging growth companies, and institutions.

Booz Allen has been recognized as a consultant and employer of choice. In a recent independent study by Kennedy Information, Booz Allen was rated the industry leader in performance and favorable client perceptions among general management consulting firms. Additionally, for the past six years, *Working Mother* has ranked the firm among its "100 Best Companies for Working Mothers" list. And in 2005, *Fortune* magazine named Booz Allen one of "The 100 Best Companies to Work For."

To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for *strategy+business,* a quarterly journal sponsored by Booz Allen.

