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People Performance: How CFOs can build the bench strength they need today . . . and tomorrow

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In this series of white papers, PwC and faculty at Wharton focus on how CFOs can build top-performing finance teams. Topics include attracting and motivating the right talent; leveraging all parts of the finance organization; and what it means to be a high-performance CFO today.

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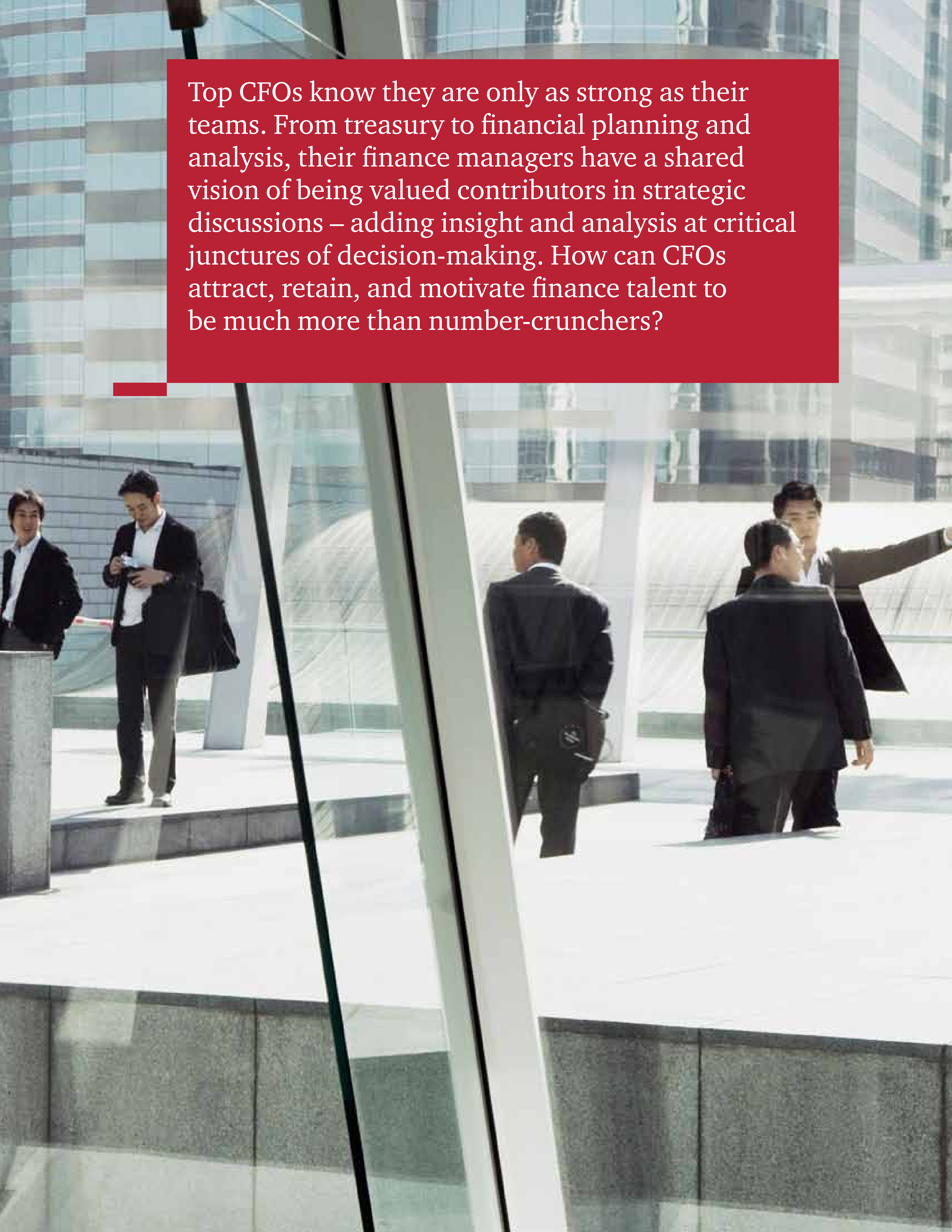
Top CFOs know they are only as strong as their teams. From treasury to financial planning and analysis, their finance managers have a shared vision of being valued contributors in strategic discussions – adding insight and analysis at critical junctures of decision-making. How can CFOs attract, retain, and motivate finance talent to be much more than number-crunchers?



> *"Why companies aren't getting the employees they need*[1]*"*
> Read the headline of a recent article in *The Wall Street Journal*. It's one that may have caught the eye of many a CFO in Corporate America. After all, finance chiefs, like other c-level executives, often cite their struggle to attract and retain great staff as one of their top concerns."
>
> THE WALL STREET JOURNAL

However, the article – written by Wharton management professor Peter Cappelli – may not have offered the consolation that CFOs are seeking. Rather than blaming, say, the education system or the government for not providing future job-seekers with the training and skills development needed at companies today, Cappelli, who is also director of Wharton's Center for Human Resources, singled out employers themselves. The reason he gave for much of the "talent shortage?" "Many companies simply don't believe their own workers have the necessary skills to take on new roles. But … many workers could step into those jobs with a bit of training," he wrote.

For CFOs, this should be a wake-up call. In a 2011 survey, staffing company ManpowerGroup found that positions in finance and accounting are among the top 10 jobs that U.S. employers say are among the hardest to fill. Beyond the technical qualifications needed for audit or accounting, CFOs say they particularly need candidates with greater business knowledge and communication skills.

Those concerns are being raised at a tumultuous time for finance teams. With budgets being steadily cut, finance staffers are on an endless odyssey to find ways to do more work with fewer resources. CFOs are reconfiguring finance jobs that haven't been axed – or outsourced – to boost productivity, often at the expense of the critical service they should be providing; that is, insight into their companies and markets with timely, accurate analyses of the past, present and future.

Challenge one: Unraveling complexity

Experts say there is plenty that forward-looking, innovative CFOs can do to ensure their finance teams have the expertise they need. "Part of it has to do with the culture of the organization, but also what types of leaders [a company has] in finance," says Gary Apanaschik, a partner at PricewaterhouseCoopers (PwC). Developing those leaders, he adds, requires addressing head-on "the people component of finance."

Doing so can be easier said than done. The reality is that companies, and their finance departments, are quagmires of complexity, says Apanaschik. That's happening for a range of reasons – rapid growth, acquisitions, changing regulations – "and [executives] probably didn't address how they were going to eliminate some of that complexity upfront and have just been living with these things."

Furthermore, CFOs' teams are bogged down with the finance essentials of transaction processing, compliance and control. "In addition, they're caught up trying to support overly complex business, management and legal reporting structures that may need to be simplified," says Apanaschik.

Even when finance departments invest in new systems and processes to address that complexity and improve the efficiency and quality of their work, "it's still not world-class everywhere," observes Suzzane Wood, head of the European finance practice at executive recruiter Russell Reynolds Associates. "And there's a lot of sticky tape holding things together, which can drag down CFOs," who are under pressure to spend more and more time outside finance, lending their expertise to company-wide strategy and growth.

One upshot: Finance teams aren't always getting the career attention they need. "Look at how reactive CFOs have been with team development," Wood says. "In truth, they have so many customers to be servicing that what suffers most is finance's development."

Yet with talent shortages an ongoing concern for finance executives, focusing on staff development is an imperative. Human resources experts often refer to a rule of thumb: 70% of learning transpires in the course of day-to-day work, 20% through informal learning and coaching, and 10% through formal classroom-based instruction. The good news is that there are a number of approaches to learning that can be tailored to a CFO's team – and CFOs can delegate some of that learning to other team members. Practical on-the-job coaching, for instance, can be provided through team-based learning – such as having junior staff "shadow" senior managers.

How can CFOs know if their training and development strategies are delivering? Along with setting individual and organizational performance metrics that are tracked over time, finance leaders need to understand what activities their teams are supporting. "Good CFOs should understand what their customers need to have, but they also should understand how the work is being done so they can drive change," says Apanaschik.

Another potential pitfall of complexity is the development of "shadow organizations," according to PwC partner Don Rupprecht. When a CFO's team isn't satisfying business needs, it's not uncommon for colleagues in other parts of the company to do financial planning and analysis or other jobs that should be housed in finance. "I see it in the smallest to the biggest companies in the world," he says. Once those shadow organizations appear, "it's difficult to reel them in. That takes some muscle, and some finesse."

- ***For various reasons, finance organizations have become overly complex. CFOs who fail to address that complexity have little time and resources to devote to finance's development beyond the fundamentals.***
- ***Complexity is also preventing finance teams from serving their customers' changing needs with agility and speed.***
- ***Lack of customer service leads to the emergence of "shadow organizations."***
- ***It takes a long time to reclaim lost territory. Finance teams need to think – urgently – about their value proposition today.***

It also takes time. A CFO wanting to reclaim finance's responsibilities "can't just take a hammer and say, 'I'm going to take all these people' from the shadow organization and put them in finance," Rupprecht notes. The temptation for business unit heads to set up their own shadow organizations only stops "when finance can prove that it is a customer-oriented organization, not just a cost center," he says. There may also be reputational issues that need resolving: If finance teams can't execute basic functions correctly – from closing the books to transaction processing – how can they be trusted to do more? Regaining this territory requires a CFO to map out a clear path for the long term while taking into account each business unit's needs – a process that could take years. The bottom line, according to Rupprecht, is that finance teams urgently need to take preventative measures and "think about the value proposition they are providing their customers."

Challenge two: Attracting top talent

The work can't stop there, however. CFOs must understand not only what work finance is doing and how it is getting done, but also who is going to do it.

But what particular strengths should CFOs keep an eye out for when hiring? Finance executives need team members who can build trust and "collegial" relationships across the company, according to John R. Percival, a Wharton adjunct finance professor. They also need a team that "technically is very good but can think beyond the pure accounting aspects of the business, think about the future and deal with issues like organic growth versus acquisition."

As CFOs take on new and younger employees, for example, they need to factor in how workers' expectations have shifted considerably over time. According to a recent PwC paper titled, "*Millennials at Work: Reshaping the Workplace*[2]," a global survey of 4,364 graduates conducted over five weeks in 2011 found that this newest generation of employees entering the workplace – that is, those born between 1980 and 2000, which will account for 50% of the workforce worldwide by 2020 – have career aspirations, attitudes about work, and knowledge of new technologies that are far different than those of older generations. The finance organizations that are, and will be, the most attractive to this generation of workers are able to provide a new mix of financial and non-financial compensation – including flexible working hours, quick career progression and rotational job assignments, even outside finance.

At the same time, CFOs also are managing increasingly diverse teams in terms of geographic location – requiring nuanced attention to cultural differences across time zones. In that context, CFOs can no longer afford to think locally. "My advice [for CFOs] is to be international, start becoming more macro," Wood says. Finance chiefs should rotate their human capital resources across the globe, while embracing international talent as part of the people strategy. Forward-looking – and globally-minded – CFOs should "put the best people where they can make the biggest impact on the business, not in headquarters," she says.

Building a team that has diversity in race and gender also is a growing concern for many finance chiefs. Consider gender: Although women comprise more than half of undergraduate accounting majors and 36% of MBAs, they hold less than 10% of CFO roles at large companies, reports CFO magazine in an article titled, "*Taking the Next Step*[3]." Yet there are several reasons why CFOs should want that to change, says Katherine L. Milkman, a Wharton operations and information management professor.

Milkman has conducted several studies about gender and diversity in the workplace, including one[4] she ran with Kathleen L. McGinn, a business administration professor at Harvard, analyzing the arrivals and departures of junior lawyers and senior partners at a U.S. law firm. According to Milkman, the findings of that research suggest that "if you have more people who 'look' like you demographically above you [in seniority], that's helpful" for being mentored, getting promoted and staying loyal to the company.

Her overall message to CFOs: "If you really want to have the best talent, it's even more important to go to great lengths to retain people at high levels and not think this is a game that you can win by hiring a lot of junior people. Do whatever you can to promote the people who are close to being senior already, and there will be larger rewards beyond just having another good person on staff."

- ***When hiring, CFOs need to consider the new generation's expectations for compensation, flexibility and career progression.***
- ***As companies grow globally, CFOs need to move top talent resources strategically, using a combination of rotating assignments and internal promotions that draw finance closer to the business.***
- ***CFOs reap big rewards when focusing on attracting and retaining diverse staff.***

Challenge three: Instilling a sense of purpose

While a CFO is only as strong as his or her finance team, the reverse is also true – a finance team is only as strong as its CFO. In Percival's view, a "strong" CFO is one who is proactive, seeking to build solid communication with other parts of the company, from the shop floor right up to the chief executive's office – in ways that clearly articulate the business expectations of the finance organization. "Today, the CFO doesn't wait for the CEO or business unit manager to say, 'Here's an issue; I'd like you to go do some analysis,'" says Percival. "The CFO needs to decide [on his or her own] what the issues are, and bring them to the table and say, 'We haven't discussed this, but it's an important part of our future and we need to be talking about it. Here's an analysis and what some of the potential solutions are.'"

In turn, CFOs can reinforce a sense of mission throughout their finance teams. "Successful CFOs, like all great business leaders, provide their employees more than a job… they provide a vision that excites people to come into work every day." says PwC's Rupprecht. "Employees want to know that their efforts are making a difference in the success of the company and in the lives of their co-workers." A sense of purpose motivates people more than money, Rupprecht observes. "This is especially important to the younger generation which is why companies are emphasizing the social benefits of their business when recruiting and marketing. The CFO needs to play on that as well."

Is that pie-in-the-sky thinking? "In some ways, yes. But if your company has a great sense of purpose, you might as well use it," Rupprecht says. "And if it doesn't have that sense, you need to create a purpose for the finance function itself." That could mean, for instance, helping finance staff see how significantly streamlining the forecasting process can make the whole company more agile and competitive.

Rupprecht's views are corroborated by academic research on the subject of motivation. For example, Wharton management professor Adam Grant has examined what motivates staff in numerous settings over recent years and has found that employees who know how their work has a meaningful, positive impact on others are not just happier than those who don't – they are vastly more productive, too. "Even minimal, brief contact with beneficiaries can enable employees to maintain their motivation," he and several co-researchers write in a 2007 paper titled, "*Impact and the Art of Motivation Maintenance: The Effects of Contact with Beneficiaries on Persistence Behavior* [5]," published in the journal Organizational Behavior and Human Decision Processes.

"Everybody has an end-user," Grant said in *an article about his research*[6]. "In some cases, the end-users whom managers want employees to focus on are co-workers, colleagues in other departments or managers themselves." The question, he said, is: "How do companies establish that connection in a consistent, routine way, such as a weekly conference call with co-workers?"

"I've been at this for years, and a lot of the concepts [behind finance transformation] are still the same – spend less time on transaction processing, be a more valuable business partner, and so on," Rupprecht notes. Ultimately, finance teams are looking for CFOs with "the courage to change," he says. "The world is changing fast… and any CFO who doesn't have an agenda to change the finance function is not keeping up with the business environment."

According to Rupprecht, "It's up to the CFO and his/her leaders to provide a purpose-based vision with a three–to five–year plan that is properly resourced and funded. Employees want to be valued and they want to be part of successful teams that make a difference in the lives of others. Providing that vision and that opportunity is a great way to attract and retain top talent."

- ***Top CFOs lead by example, proactively providing business insight and promoting a robust flow of information-sharing across a company.***
- ***Finance teams are more likely to excel when their CFOs provide them with a strong vision and sense of mission.***
- ***In a fast-changing world, high-value finance talent will seek out CFOs who have bold agendas for change.***

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Endnotes

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