

Breakthrough CFO Leadership During Transformation

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Over 70% of transformations fail to achieve their original goals.
Over 80% of M&A activity falls short of the original deal books.

What's going on here and how can CFO's position themselves to help?

Transformations are personal to me because they result in us leaving the people and the place either better or worse for having done the work.

GE change equation: $Q \times A = E$

Quality of the technical solution times the acceptance by the team equals the effectiveness of the project/transformation

One of the big mistakes of a transformation is putting process before people

Today's Topics

- ✓ CFO — A transformational role
- ✓ Why transformations fail
- ✓ Why transformations succeed
- ✓ Trust equation
- ✓ Behaviors that build trust
- ✓ Decision-making and its challenges
- ✓ Change communication model

If you don't like something, change it. If you can't
change it, change your attitude.

Maya Angelou

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The takeaway: The most effective transformation leaders know they need to change themselves first before helping others do the same.

CFO—A Transformational Role

1. **Setting and measuring performance goals**
2. **Focusing resources on highest-value projects rather than most visible or biggest**
3. **Providing timely, relevant line of sight on costs/benefits across functions**
4. **Acting like a private equity firm**
5. **Ensuring that benefits make it to EBITDA**

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3. Single version of the truth especially important in keeping transformations moving forward

1. Finding the value
2. Defining the master plan
3. Enabling execution
4. Partnering for performance
5. All to optimize total shareholder return

CFO—A Transformational Role

6. **Developing finance team skills and mindsets to support the broader transformation**
7. **Impartial business advisor with a value-creation lens**
8. **Chief Performance Officer to establish KPIs for value creation and operational excellence**
9. **Communicates transformation value**
10. **Coach, catalyst, and simplifier**

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What are some other things you believe a CFO should do during a transformation?

Catalyst: Stimulate and drive timely execution of change in finance and the organization.

8. CPO: Milestone-oriented KPIs that promote value creation priorities and proactively manage performance and enforce consequences

9. Communicator of transformation value inside and outside. Promotes, empowers project teams, support for resolving issues, making decisions, removing obstacles

10. Often the CFO becomes the center of respectful straight talk.

10. Deloitte CFO Signals survey indicates CFO's aspire to spend 60% of their time as a change catalyst and strategist

To do this, the CFO must go well beyond the numbers. Today we will talk about what that looks like.

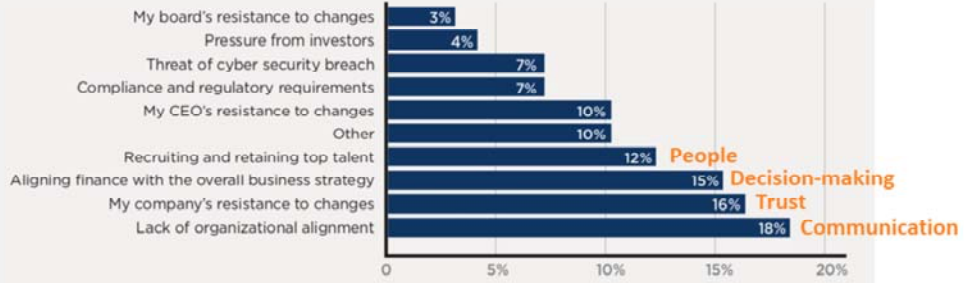
McKinsey's Five Frames

1. Set goals
2. Assess organization capabilities
3. Design transformation initiatives
4. Execute
5. Sustain the changes

Action on all five frames = 72% success rate (26% without)

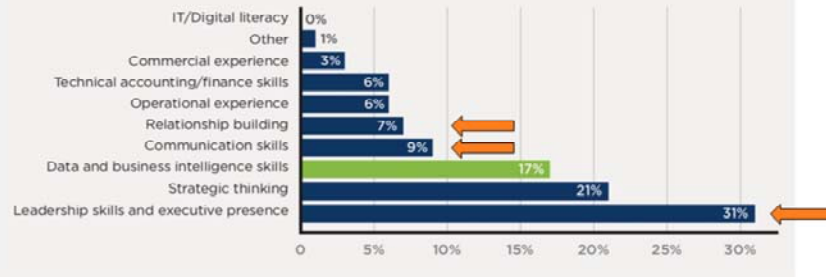
1. CFO's provide a baseline for performance and top-down targets for the transformation
2. CFO's play a key role in performance assessment
3. CFO's create milestone-based KPI's that clarify requirements and provide consequences. They help prioritize initiatives that drive value and stop the things that don't.
4. They can provide coaching, remove obstacles, make decisions and resolve issues
5. Maintaining the financial discipline and reminding everyone that making sure the transformation gains fall to the bottom line is critical.

What is the #1 thing that keeps you up at night?

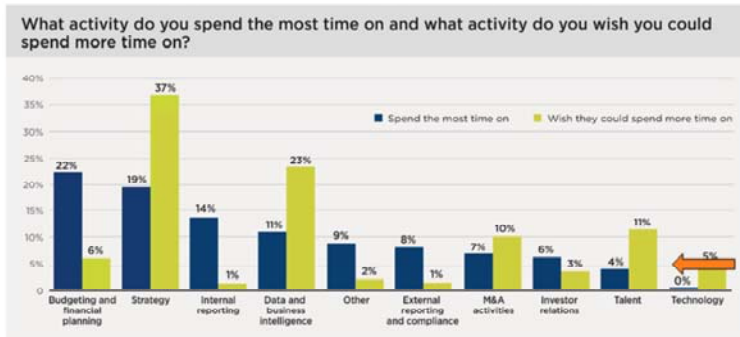


Top four are critical barriers to transformation success

What is the most important capability you are focusing on developing within your direct reports?



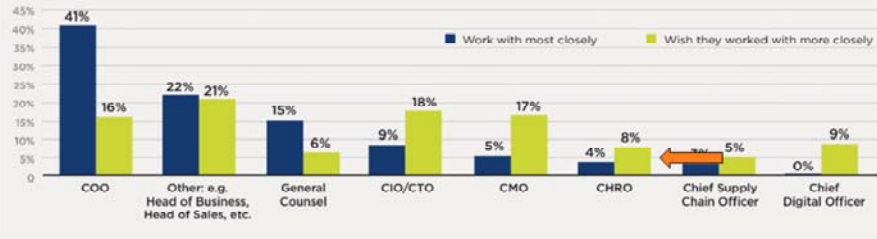
Leadership skills and executive presence have 3X focus over communication and 4X over relationship building



What enables a company to deliver its strategy and develop its business intelligence?

Korn Ferry CFO Pulse Survey 2018

Besides the CEO, which executive do you work with most closely and which executive do you wish you worked with more closely?



If talent matters to the CEO, the CFO and CHRO are working in lockstep to help transform the company

Why transformations fail

1. **Competing priorities**
2. **Low-trust environment**
3. **Reluctant decision making**
4. **Lack of customer-focused vision**
5. **Ineffective communication**

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The CFO can help by reiterating the sense of urgency and continuous improvement mindset at the C-level, by demanding that new targets that reflect the improvements are baked into the budgets in future years, and by sharing the stories, perhaps their own, about what happens when complacency replaces urgency. The importance of buy-in by line managers should be emphasized as no change sustains if the people with line-of-sight to the customer are not on board.

Declining financial discipline: We don't reset budgets and targets to EXPECT the gains to be sustained from the improvements and inertia wins.

Quitting while ahead: Early gains taken for granted and not sustained

Why transformations fail

6. Insufficient employee engagement
7. Declining financial discipline
8. Surrendering to change fatigue
9. Quitting while ahead
10. CEO turnover

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Why transformations succeed

1. Senior leaders continuously communicate transparently and everywhere
2. Trust is established and expanded
3. Decision-making is designed and deliberate
4. Leaders role model new behaviors
5. Everyone tells a consistent change story
6. We drive multiple actions during and after transformation

All leadership happens during conversation

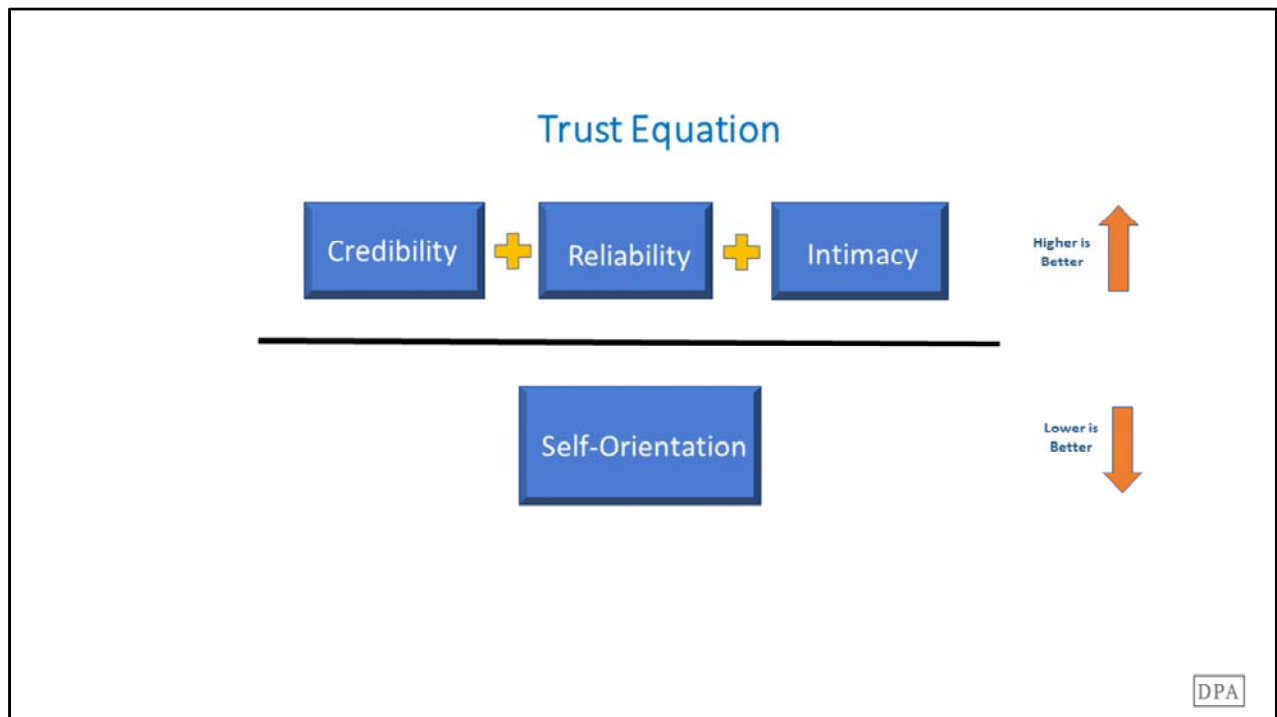
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Communication equals speaking and listening. It is a two-way exchange of information.

Role model: Leaders must work on themselves first

Drive multiple actions: Make it stick and overcome inevitable inertia

We will spend most of our time together today on trust, communication and decision-making. Whatever your technical skills that allow you to be a great financial professional, these two areas are key to success or failure. This is generally true, and doubly so in transformations.



EXERCISE: Based upon this description, I'd like you to think about a work relationship that isn't going as well as you'd like. Once you have that in mind, I'd like you to consider this question: In which box of the trust equation do you think the other person is exhibiting behavior that hurts their trustworthiness? One more question: In which box of the trust equation do you think you are exhibiting behavior toward this person that makes you less trustworthy?

Trust is, by definition, a two-way, high-risk street. It's easy to judge others by their behavior. At the same time we often judge ourselves by our intent, not our behavior. How we are showing up to the relationship matters.

Trust Equation: Questions



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Credibility is about what we know and the words we use.

Reliability is about what we do, our actions and resulting dependability

Increasing Intimacy is about safety or security we feel when entrusting someone. How safe people feel to share with you.

Self-orientation is about our focus. It, along with intimacy, is the toughest, yet effective way to leverage our leadership effectiveness

Trust Equation: Skills

Credibility

- ✓ Develop mastery in your field
- ✓ Keep current with trends and news
- ✓ Develop a teachable point of view and share it
- ✓ Say "I don't know"



Reliability

- ✓ Define expectations and report progress frequently
- ✓ Make many small promises and follow through
- ✓ Communicate delays and take responsibility
- ✓ Respect others' culture and approaches



Intimacy

- ✓ Tell others what you appreciate about them
- ✓ Know and use their name
- ✓ Share something personal
- ✓ Name the elephant in the room

Higher
is
Better



Self-Orientation

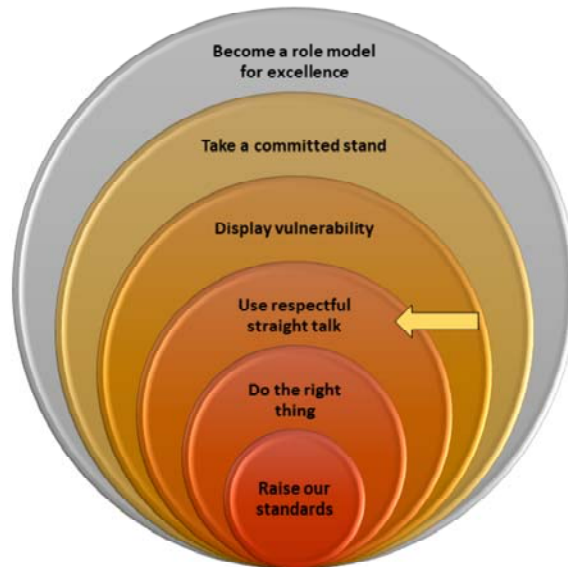
- ✓ Ask many questions
- ✓ Listen even when uncomfortable
- ✓ Speak difficult truths, even when awkward
- ✓ Give others the credit



Lower
is
Better

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Elements of courageous leadership



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We can build our own trustworthiness by being more courageous in our leadership. It's important to have the courage of our talent and not keep what we are capable of under wraps.

By working on these 6 elements, we increase our trustworthiness and our leadership effectiveness.

I want to dive into one of the elements more deeply. How we use respectful straight talk. (next slide)

Respectful straight talk

Leave discussion with a better relationship

Tell the truth and ask for help

Hold timely discussions about performance issues

Speak face-to-face about sensitive issues

Coaches without judgment and makes distinctions about behavior

Conveys the power of shared values by living them

Defines unacceptable behaviors and follows through

Favors plain talk vs management-speak

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The Power of Why

- Always share the “why”
- Repeat the message
- How many times do I have to repeat myself?!

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People intrinsically want to be part of something bigger than them. Telling people why something needs to be done helps them connect to a worthwhile goal.
Clarify and repeat the “why” to make sure it is understood and accepted
Repeat yourself: Repetition is the mother of all skill
When we are tired of our message, people are just beginning to hear it

Babies and change

- Emotions are not rational
- Emotions move us
- All of us!
- All of the time!
- Capturing hearts and minds creates engagement

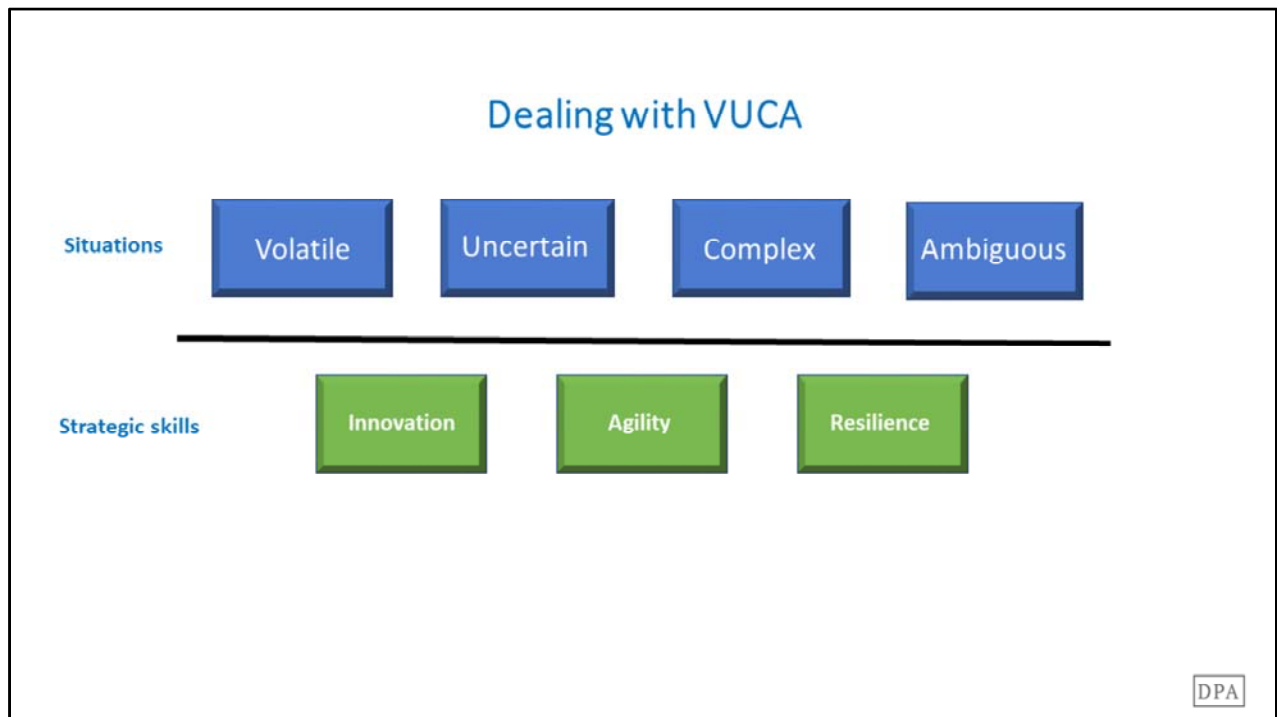
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Pleasure and pain

Essence of Decision-Making

Sound decision-making at its core:

- Data-driven but not over-analyzed
- Process-based with natural intelligence
- Emotions managed
- Values-based over formulaic
- Flexibility to handle VUCA



Volatile: Change is rapid and unpredictable in its nature and extent

Uncertain: The present is unclear and the future is uncertain

Complex: Many different, interconnected factors come into play, with the potential to cause chaos and confusion

Ambiguous: There is a lack of clarity or awareness about situations

Innovation: Inventing the future

Agility: Avoiding punches

Resilience: Getting back up

The point is that new skills, approaches and behaviors are required to manage VUCA



Decision-Making Challenge

In a CIMA study, global companies struggle to:

- Overcome bureaucracy and achieve agile decision making
- Build greater levels of trust and improve collaboration
- Take a long-term view and define the right metrics
- Turn huge volumes of data into strategic insight
- Build the decision-making skills of senior leaders

Source: Joining the Dots: Decision Making for a New Era.
Chartered Institute of Management Accountants, February 2016





Study findings

The study reveals:

- 72% had 1 or more strategic initiative **failure** in last 3 years due to delays
- 42% lost business to more **agile** competitors
- 70% room to improve active **collaboration** between leaders and employees
- 65% say the same about **trust**
- 57% see a need to improve active **collaboration** with fellow executives

Source: Joining the Dots: Decision Making for a New Era.
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Decision-Making Insights

- We are terrible at predicting the future
- We tend to be overconfident
- We don't **suffer** from confirmation bias, we **embrace** it
- Halo effect happens to our detriment
- Priming entangles us and we rarely escape its grip

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Predicting the future; Tetlock's research demonstrated that experts' predictions are worse than simple extrapolations from base rates

Overconfident: We tend to think we know more than we do about how the future will unfold (Doctors who rated themselves completely certain were wrong 40% of the time)

We analyze options but gather only or mostly self-serving information (not disconfirming)

We have a favorable impression about someone and assign credit to anything asked about them or said by them.

Is the height of the tallest redwood more or less than 1,200 feet? Or 180 feet? What is your best guess about the height of the tallest redwood. 1200 guessed a mean of 844 and 180 guessed 282 (a priming effect of 55%)

Ohio State Study on Decisions

- 356 decisions in small and medium-sized businesses in the US and Canada
- Over 50% of decisions failed
- Only 29% of organizations considered >1 alternative

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Dr. Paul C. Nutt studied 356 decisions in small and medium-sized businesses in the US and Canada. 50% failed due to manager-imposed solutions, managers limit search for alternatives, and use power to implement their plan.

Successful managers:

1. Personally manage their DM processes
2. Search for understanding
3. Establish direction with an intervention and objective (intervention is creating a sense of urgency by establishing existing performance is inadequate)
4. Stress idea creation and implementation. The DM process should guide thinking about taking action

OSU Study: Successful Decision-Making Behaviors

1. Personally manage the decision-making process
2. Search for understanding
3. Establish direction and create sense of urgency
4. Emphasize idea creation
5. Think about implementation and taking action

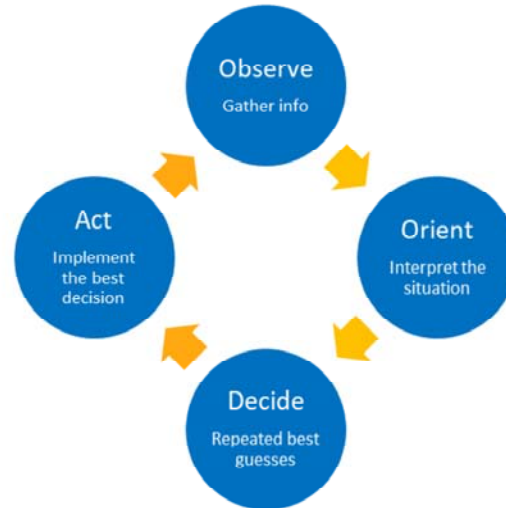
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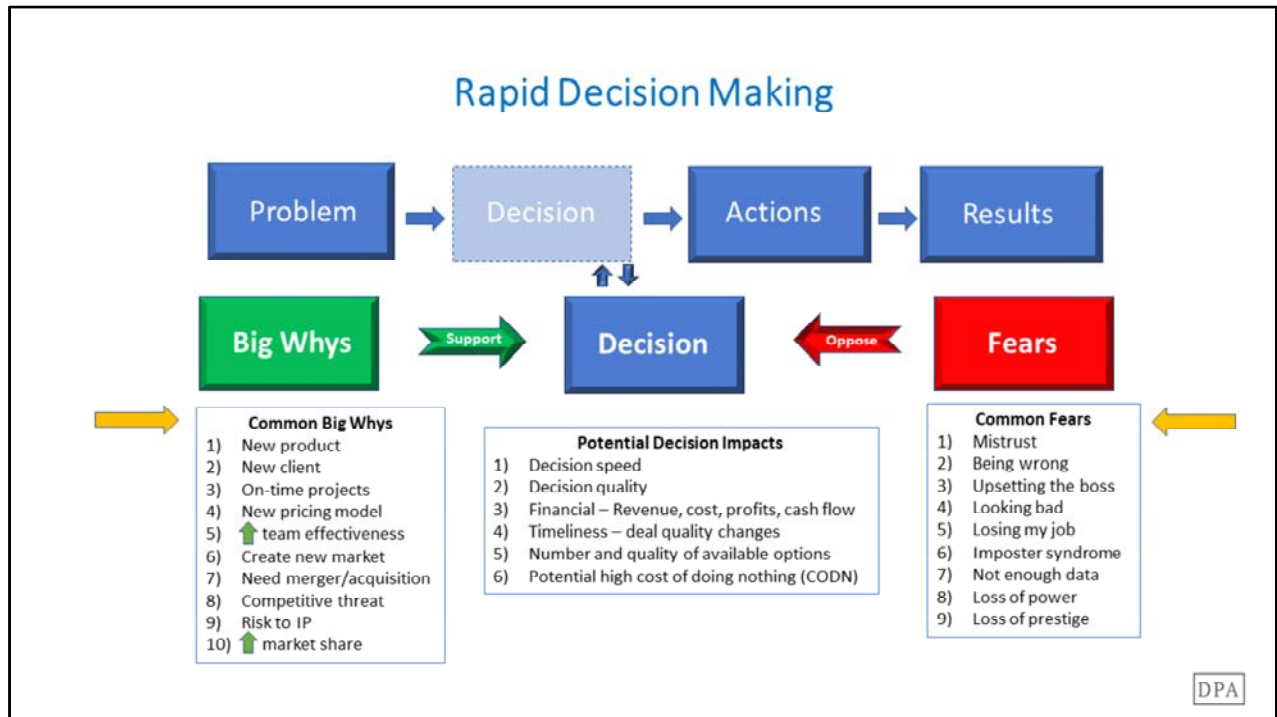
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Classic Decision-Making Model

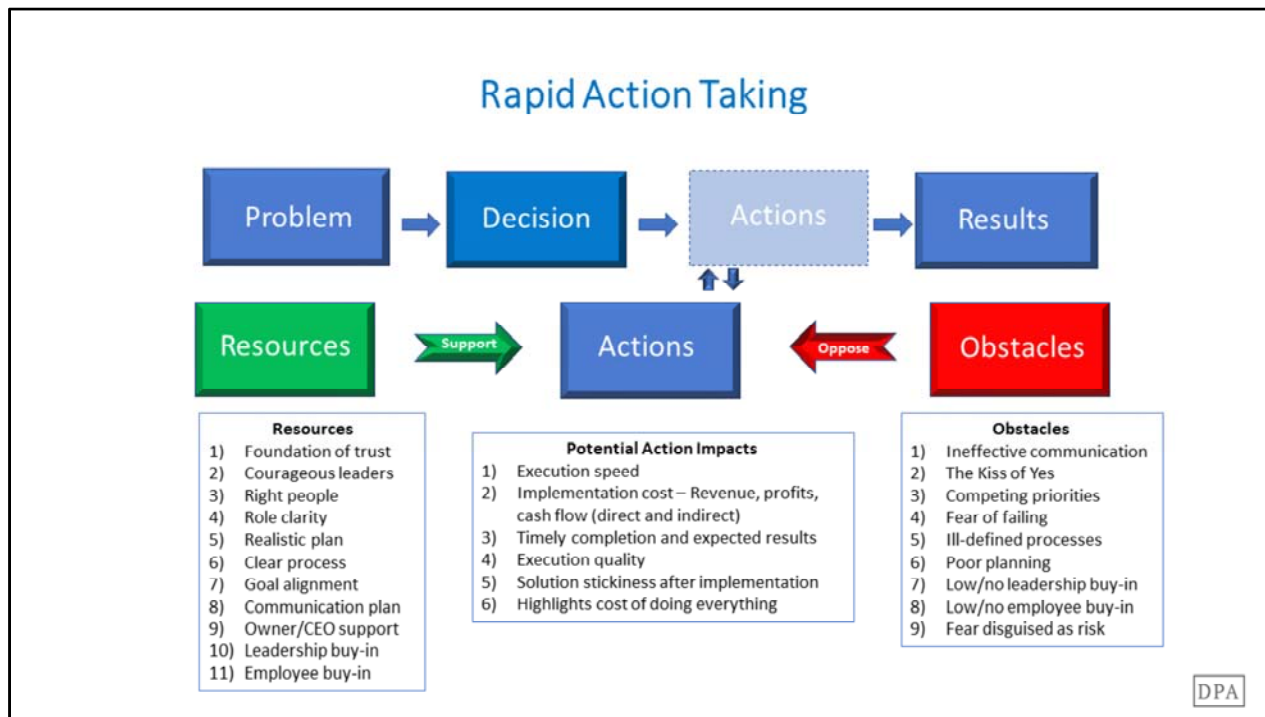


- Course leader:
- Plan: Identify and analyze the problem or opportunity, develop hypotheses about what the issues may be, and decide which one to test
- Do: Test the potential solution, ideally on a small scale, and measure the results (Do= try or test, not fully implement. That happens at the Act stage)
- Check/Study: Study the result, measure effectiveness, and decide whether the hypothesis is supported or not
- Act: If the solution was successful, implement it



A big why is helpful to create the urgency required for rapid decision-making. Big whys become musts rather than shoulds.

On the other side, fears slow down decision making, so dealing with them reduces their power over us.



Once a decision is made to move forward, we take action. And action also has resources to work toward our goal and obstacles that slow us down. The key to leadership is exploiting the resource advantage while removing the barriers (or obstacles) to our success.

Use the resources as a playlist of possibilities to clear the way for action.

Use the obstacles as a way to focus discussions on the right issues that are stopping the team.

What are some useful tactics for effective decisions?



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Decision-making tactics

- Process = 6X analysis
 - Create a decision effectiveness model

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Process=6X importance of analysis (Knowing we are near-sighted does not correct our vision)

Make it safe

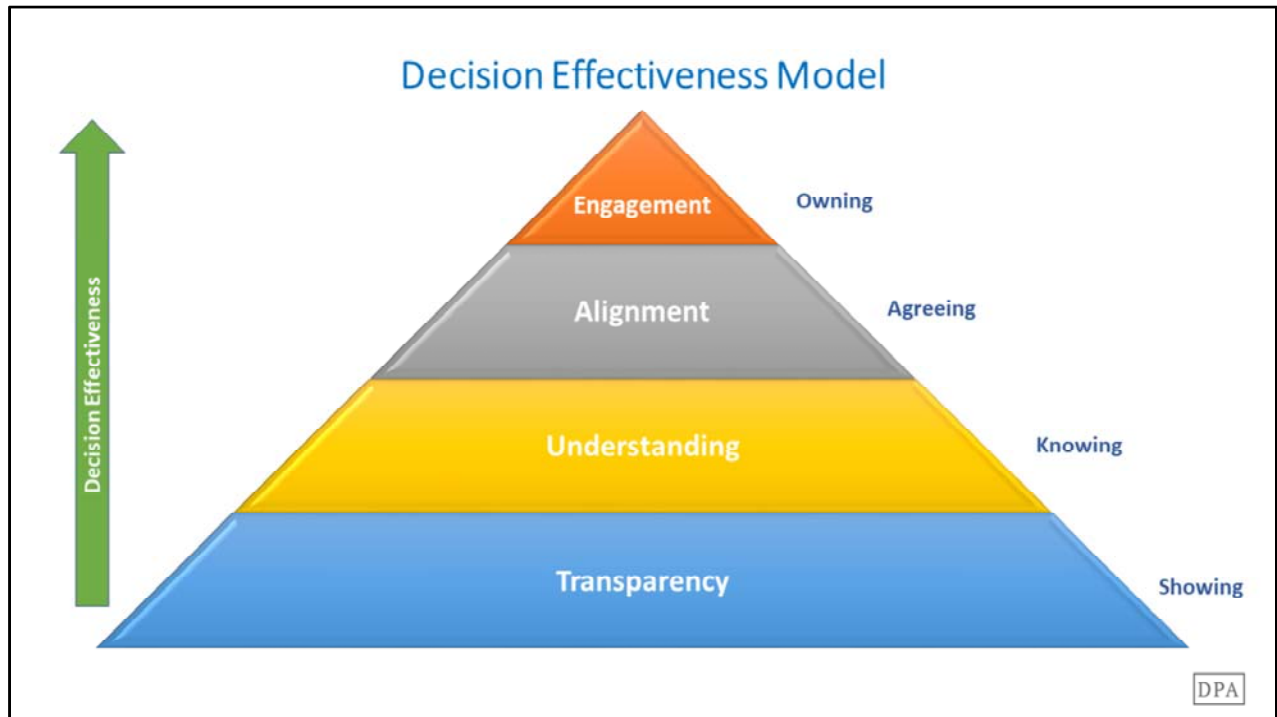
Increased openness to input and challenge: Gary Klein: Curiosity is a counterforce for contempt when people are making unpopular statements.

Better collaboration w/other leaders

Increased collaboration with employees (diverse POV, higher buy-in during implementation, most stickiness over time)

Clearly communicate and own the decision (telling the why and what enhances trustworthiness of the leaders, reduces cynicism, increases engagement)

Learning from outcomes: pre-mortem and post-mortem



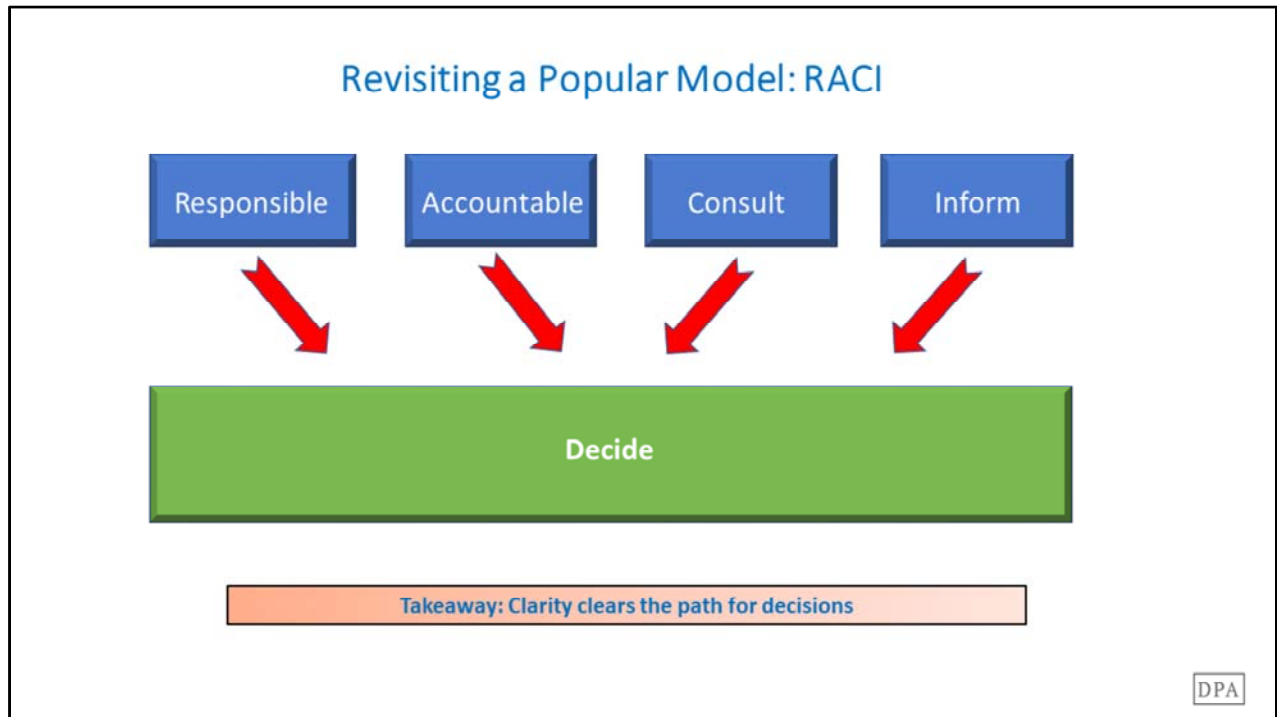
Create greater **transparency** into how and why decisions are being made for deeper **understanding** of business model and employee **alignment** toward common goals which drives increased **engagement** in the implementation of the decision

Decision-making tactics

- Process = 6X analysis
 - Create a decision effectiveness model
 - Multiple views of same problem
 - Decision rights model

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Multiple views: Multitracking considers more than one option at the same time
Minimizes politics and egos don't get tied up in a single option
Example: Not 24 jams, 6 jams



This is likely a familiar model to you. The distinction I want to make is about responsible and accountable. Many leaders are accountable for a result and believe they are also responsible to do the work to achieve that result. This may be necessary at times, but to leverage your time and skills as a leader requires you to delegate responsibility to your team. As a bonus, this is the principal way they learn, contribute, and grow. And it also increases their engagement.

Decision-making tactics

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- Create safety and reward input and alternative views
- Build trust between leaders

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- Clearly communicate
- Own the decision
- Learn and integrate the outcomes

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Decision-making tactics

- Vanishing options test
- Whether or not warning bell
- Look inside for bright spots
- Trying things beats forecasts (Know v. predict)
- 10/10/10
- David Lee Roth it

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Look at options and take everything away. What do we do instead?

Whether or not is one option, not two

How do we feel 10 minutes from now? 10 months? 10 years? Gives us distance on our decisions

Great decision-making questions

- What would my successor do?
- What would have to be true for this option to be the best choice?
- What are the base rates for this decision?
- What would I tell my best friend to do in this situation?
- Default to core values: What kind of person do you want to be? What kind of organization do you want to build?
- What am I willing to stop doing to make room for my real priorities?
- Am I thinking too much? Am I thinking too little?
- What needs to happen to support our vision?

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Successor do? Moves beyond emotion and ego

What would have to be true? Avoid going too narrow, too soon

What are the base rates? Extrapolations and outside experts tend to be accurate about base rates. Helps check for reasonableness

What would I tell my best friend to do? Helps focus on the real challenge

Core values: Struggling to make a decision often comes down to lack of clarity on values. Once you evaluate using the values, the decision becomes clear

Stop doing: One of the most difficult things we do as leaders is make a decision to stop doing something that's good for something that's better. Status quo bias is strong

Too much or too little: Worth asking before a final decision is made. It's subjective but may highlight analysis paralysis or a rush to judgment

The single biggest problem in communication is
the illusion that it has taken place.

George Bernard Shaw

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The role of fear

- We work hard to avoid pain
- Headphone spacer error
- Poor strategy → Poor preparation
- Communication skill is a muscle

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1. We like looking good and being right. But we go out of our way to avoid embarrassment, being wrong, looking bad, feeling silly, etc. AVOIDING PAIN KEEPS US FROM OUR BEST WORK

2. Headset spacer error: We are wired to automatically respond to threats, even the ones we make up in our heads.

3. Strategy: The lack of a strategy—What we will do in our communication or stop doing creates more uncertainty and fear

4. Communication skills: Expands by demand like a

muscle, strengthening our abilities.

The fearless leader doesn't exist. Courageous leaders act through the fear by setting high standards, doing the right thing, using respectful straight talk, displaying vulnerability, taking committed stands, and role modeling excellence.

Being a courageous leader

- Raise our standards
- Do the right thing
- Use respectful straight talk
- Display vulnerability
- Take a committed stand
- Become a role model for excellence

For courageous leaders...
...outcomes are greater than fears

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The fearless leader doesn't exist. Courageous leaders act through the fear by setting high standards, doing the right thing, using respectful straight talk, displaying vulnerability, taking committed stands, and role modeling excellence.

5 stages of effective change communication



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The key is to make sure we are having the right conversation at the right time with the right person.

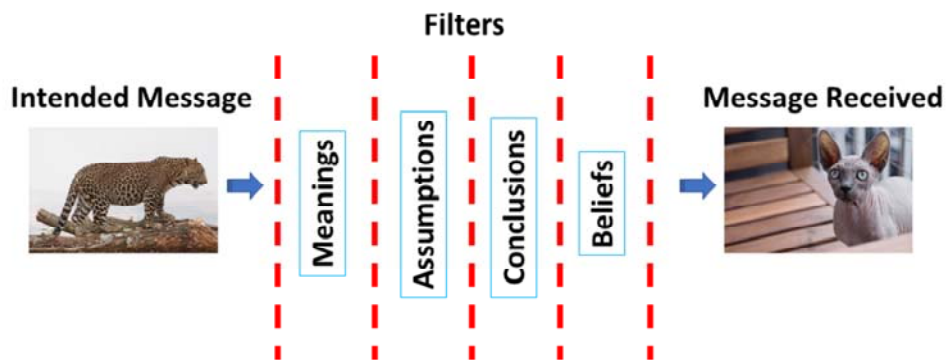
Stage 1: Awareness

Awareness

- ✓ **Every message starts here**
- ✓ **Brains flood with questions**

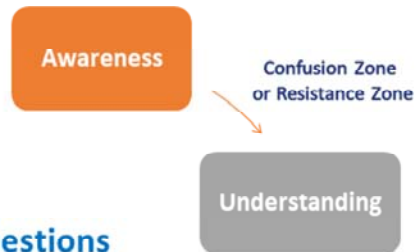
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Be open to adaptive moves as questions are asked and answered



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Stage 2: Understanding



- ✓ **Emotion-filled questions**
- ✓ **New questions asked and answered**
- ✓ **Reflective resistance and confusion**
- ✓ **Honest communication is key**

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Help them understand:

1. Cost structure
2. Performance development
3. Ongoing improvement initiatives
4. Overall: the most important value drivers

Stage 3: Acceptance



- ✓ Revisit steps
- ✓ Acceptance \neq support
- ✓ Most people stop here

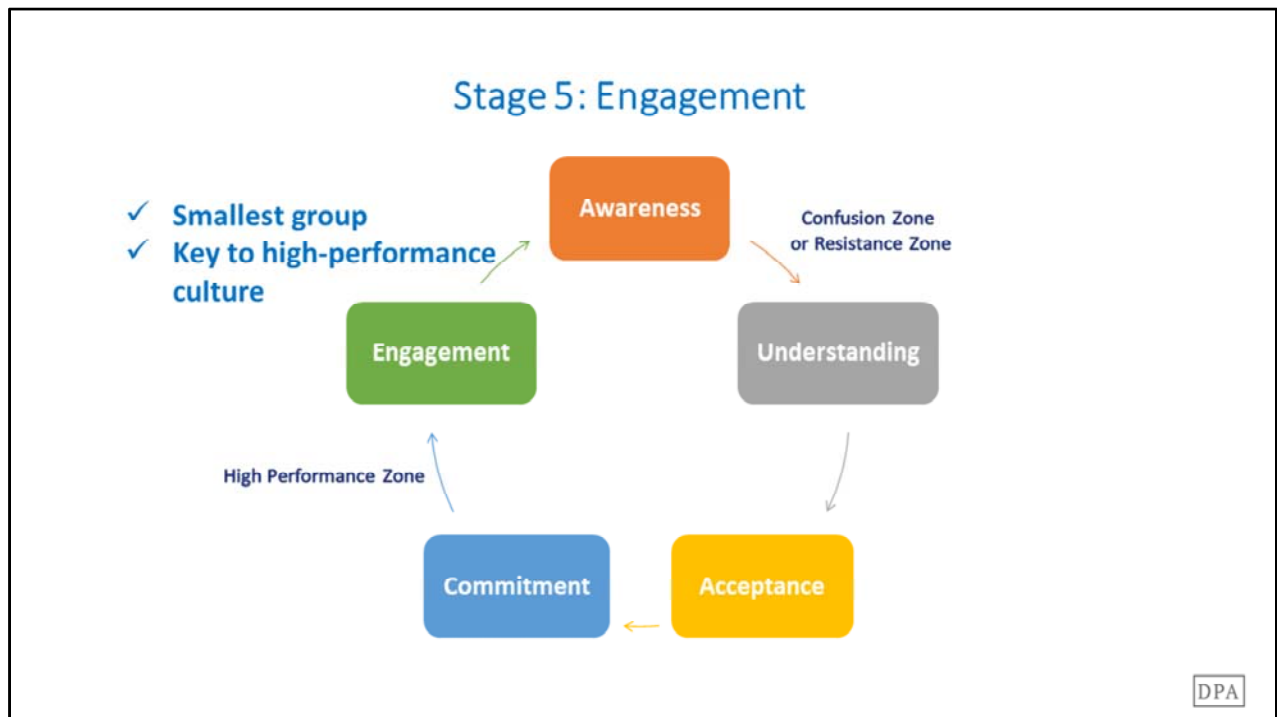
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Stage 4: Commitment



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Thought leaders are often informal leaders in the organization.



20/60/20 story (normal distribution has 68% within 1 s.d., 95% within two s.d., and 99.73% within three s.d. of the mean)

Top drivers of engagement (per Quantum Workplace)

1. My job allows me to utilize my strengths
2. I trust our senior leaders to lead the company to future success
3. The senior leaders of the organization value people as their most important resource
4. If I contribute to the organization's success, I know I will be recognized. (Bottom 5 in favorability)
5. My opinions seem to count at work.
6. I believe this organization will be successful in the future



2017 Employee Engagement Trends Among America's Best Places to Work

What does engaged mean? 1. Highly favorable 2. Preach organizational love 3. Plan to stay 4. Pursue extra effort (Overall for 8,700 companies and 500,000 employees at 66%)

What does contributing mean? 1. Moderately favorable 2. Hold back 3. Opportunity for increased performance (at 25%)

What does disengaged mean? 1. Indifferent 2. Lack motivation 3. At-risk for turnover (at 6.6%)

What does hostile mean? 1. Negative 2. Lack commitment 3. Impact others' productivity (at 2.4%)

Important to note that this is from a cohort of companies that are focused on being among the Best Places to work in America

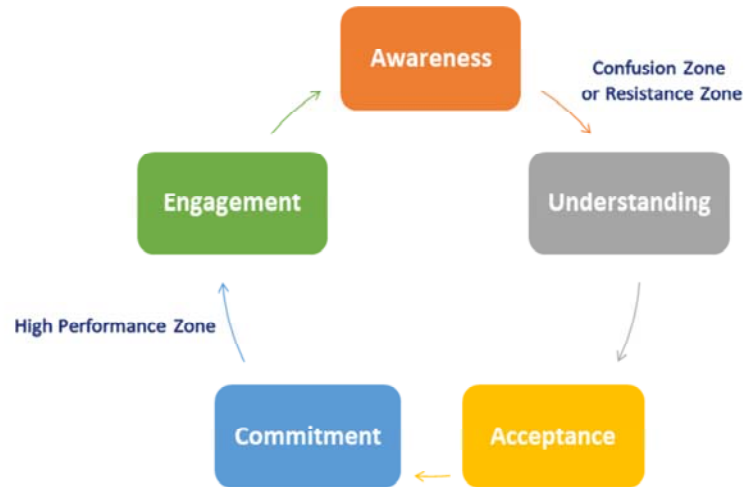
When the organization makes changes, I understand why? This was the item (out of 37 items) that had the highest amount of uncertainty at nearly 27%. Employees were neither favorable or unfavorable on this item. This is at the core of our communication as leaders

and an area of improvement for the best companies and, therefore, yours.

Quantum Workplace employee engagement survey of 500,000 employees in 8,700 US organizations: Lowest favorability: When the organization makes changes, I understand why. 27% are neither favorable or unfavorable. Still time to change their minds. 68% fav. And 5% unfavorable

“If I contribute to the organization’s success, I know I will be recognized.” Top 5 driver of engagement and Bottom 5 in favorability

5 stages of effective communication



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The best way to persuade someone is with your ears, by listening to them.

Dean Rusk, former U.S. secretary of state

A doctor interrupts a patient presenting her symptoms after...

18 seconds!

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Quick tip: On an index card or PostIt note, write Listen! and put it on the table in front of you.