
THE ROLE OF THE CFO IN THE STRATEGIC MANAGEMENT PROCESS

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Executive Summary

There is an emerging trend - caused by capital market dynamics - to create a common language, common ground, and common cause for the inextricably linked fields of corporate governance, strategic management, and investment decision-making. This trend has significant implications on the role of the CFO. Specifically, like other key G&A leaders, including the board of directors, today's post-Enron CFO must learn how to function as a strategic asset and source of sustainable competitive advantage.

Forces of Change

It's been said that trillions of dollars of shareholder value have been destroyed by either bad strategy, or the inability to implement good strategy. In addition, research shows that 50% of a company's market value comes from qualitative factors that, when effectively managed, can increase sustainable market value up to \$73,000 per employee. By working interdependently with other G&A leaders to function as a strategic asset and competitive advantage, CFOs can assure that winning strategies are formulated, implemented and modified to create – rather than destroy – long-term shareholder value. As forces of change continue to build, CFOs will be well-served by pursuing this new standard with a sense of urgency *before* it evolves from a competitive advantage to a competitive necessity. Some of the more notable forces of change include:

Pressures from Capital Markets: Private equity seeking undervalued investment opportunities; institutional investors and shareholder activists demanding improved performance; Wall Street analysts learning how to analyze and report on how well the firm is being managed and led to deliver superior returns to shareholders. (See attached SVA Template for Equity Reports.)

Changes in the Director-Officer Relationship: Shareholders have made it clear – they entrust their capital to the board, expecting the board to build and direct a team of officers capable of producing superior, sustainable returns compared to those returns produced by alternative investments of comparable risk. In response, boards are now becoming integrally involved in strategy formulation, implementation, and modification as governance shifts from its emphasis on compliance and control, to strategy and mission.

Changing Role of the IRO: In the past, one could argue that the role of the IRO has been to *tell* a story about the company pleasing to investment decision-makers. But in the new world of strategic governance, the role of the IRO is carried out “upstream,” helping management to *make* a story worthy of being told – a story of director and officer competence utilized to create organizational soundness and integrity.

Changing Role of the CEO: As the key link between directors and officers, leading CEOs are embracing the equation of Strategic Governance™ – Mission = Governance X Strategy© – by causing directors to play their four fundamental roles – fiduciary, advisor, overseer, and advocate – to assure officers work on their four fundamental systems – financial, strategy, organization, and operations – to meet and exceed shareholder expectations.

Strategic Management Process

The strategic management process is the total set of commitments, decisions, and actions needed a firm to successfully formulate, implement, and modify a strategy for long-term success. It is the work of “strategic G&A” functions in a nutshell.

The tool kit for “strategic G&A” is quite simple: Strategic Planning, seamlessly integrated into Operational Planning, transformed into actionable levels of work in the Human Resource Plan. In utilizing this tool kit, there are seven metrics and standards to focus on:

CFO

- Competitive levels and mix of capital spending
- Superior levels of high quality operational free cash flows

CHRO

- Low levels of unwanted turnover
- High levels of discretionary effort

CIO

- Technology as an accelerator of only positive momentum
- All IT capital investment projects creating long-term shareholder value
- Integrated tool kit enabling effective integration and collaboration between directors, officers, and workforce

With this tool kit, effective leaders of strategic G&A *functions* enable line management to achieve excellence at strategic G&A *practice*:

- Building great workplaces in which great workforces deliver superior value to customers in ways that produce superior value to shareholders
- Hiring, training, developing, retaining, and motivating workforces with the skills and styles needed to manage the firm’s systems, in its structure, while practicing shared value, all to achieve strategy and mission

In playing this new role in the strategic management process, CFOs will:

- Meet the post-Enron standard of functioning as a strategic asset and source of sustainable competitive advantage
- Practice strategic G&A to maximize firm-level market value
- Leverage strategic governance to achieve long-term success

Case Study Feedback:

Mark Sickles presented the participants with the Case Study: Forces of Change on the CFO Position:

Your shareholders have asked your board of directors, “Why are private equity firms able to buy publicly traded companies and then significantly increase their market value in relatively short periods of time?” In response, the board has asked your CEO if the firm’s G&A functions are being managed as strategic assets that increase operational free cash flow at levels and in ways meeting the criteria for sustainable competitive advantage. This question is the result of the board attending a recent *Inside The Boardroom* event sponsored by Drexel University’s LeBow College of Business, entitled, “Private Equity: What Are The Lessons For Public Companies?”

Your CEO has asked you to prepare a presentation to the board on how the officers of the firm are managing G&A functions as differentiating resources effectively and efficiently creating sustainable, superior returns compared to returns produced by alternative investments of comparable risk, including those investments funded with private equity.

Participants provided feedback from their individual group discussions:

Group I Presentation

Finance

- ◇ Know what your strategy is
- ◇ By formalizing the strategic planning process, the CFO can report on key drivers of business
- ◇ Theme that came across is that it is all about how good your processes are

HR

- ◇ Invest in optimum organization; match skills with the output of the plan
- ◇ Ensure alignment with the strategy through performance management processes

IT

- ◇ Invest in strategic IT platforms; treat IT systems as a strategic asset
- ◇ ERP systems are a commodity but just ‘cause you have one doesn’t mean you are using it to strategic advantage.’
- ◇ IT investment processes need to be formalized

Group II Presentation

1 Improve hiring practices

- ◇ Focus on onboarding system
- ◇ Training (continuing) via “university”
- ◇ Good ways of managing wanted and unwanted turnover

2. Intellectual Property (IP)

- ◇ Use patents and trademarks to generate revenue
- ◇ Defensive – cost control
- ◇ Integration – visionary
- ◇ Leverage with customers and employees

3. Outsource non-key functions

- ◇ Communicate vision and strategy to all – from the CEO to the lowest level employee – all should have an elevator pitch about their products/services

Group III Presentation

Efficient and effective G&A

CEO as the driver, in conjunction with CFO, act as champions

Workforce Development Program

- ◇ Led by HR
- ◇ Align organization design with strategy instead of by department
- ◇ Reward system aligned with culture and strategy
- ◇ Develop key metrics to measure against; visible to all employees
- ◇ Focus on process; systems will support



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The SVA Template for Equity Reports

- The management of this security investment (has/does not have) a well-developed plan to integrate its organizational design with a well-formulated business *strategy*.
- Specifically, management (has/has not, will/will not) align(ed) its organizational *structures* with key business goals and *shared values* effectively derived from *strategy*.
- Management (has/has not, will/will not) create(d) a *great place to work* for a *great workforce*.
- Management (has/has not, will/will not) develop(ed) a *staff*, ensuring this staff has the *skills* and *styles* to manage the key business *systems* designed to deliver superior value to their targeted *customers* that, in turn, delivers superior value to their *shareholders*.
- In doing so, the overall workforce (is/is not) a valid *source of sustainable competitive advantage* enabling the company to be/not be a *great place to buy and invest*.