

## CFO Insights

### Are your conversations strategic?

Increasingly, many CFOs strive to be seen as strategic (see [“Are you a strategic CFO?: Seven essential questions,” CFO Insights](#), Deloitte LLP).<sup>1</sup> But what does that mean in practice—specifically, in the critical conversations needed to move your company forward?

Such conversations happen in organizations all the time—in every economic environment. How much capital should we allocate toward organic growth versus new acquisitions? Is there a short-term solution to stem eroding margins? Is there an optimal cadence for rolling out a global product expansion? Making these decisions effectively, however, isn’t particularly suited for today’s frequently overstructured meeting formats. Instead, as outlined in *Moments of Impact: How to Design Strategic Conversations that Accelerate Change* (Simon & Schuster, 2014),<sup>2</sup> co-authored by Deloitte Consulting LLP’s Chris Ertel, the process calls for a more thoughtful approach, with the right input, players, and environment.

For CFOs, who often have a finite tenure, instituting protocol around such *strategic conversations* can have another benefit: they are often the means to making an impact in a relatively short period of time. In this issue of *CFO Insights*, we’ll discuss the what, when, why, and how of having strategic conversations—and outline some leading practices for making the resulting decisions stick.



#### When to have strategic conversations

On a day-to-day basis, CFOs can face both technical and adaptive challenges. Technical challenges are typically more clear-cut and often have one or just a few “right” answers. Think of approving a 5 percent cut to a marketing budget or deciding whether or not to hire additional finance staff. Adaptive challenges, on the other hand, involve situations where the question is complicated or open-ended, and multiple perspectives are needed to gain real insight.<sup>3</sup> Capital-allocation decisions are often a case in point.

Typically, with capital allocation there is a business strategy driving the decision. For example, suppose you had to decide how aggressively to respond to a new disruptive technology in your industry. The decision may be complicated by competing interests, tax considerations, multiple stakeholders, and several viable options. Moreover, human differences, perspectives, and judgments may likely come into play. And instead of “next steps,” the situation would call for alignment and new insights that could propel your company forward.

To attain that alignment in a strategic conversation, it’s important to identify the people with the right perspectives to solve the problem; a common platform that leverages a sense of urgency with a shared sense of purpose; and a common understanding of the issues. In addition, strategic conversations should be held in an environment that fosters creative collaboration—and, an experience should be created for the participants that is both powerful and shared.

When to have that conversation is another matter. It often depends on the “ripeness” of the issue. As with fruit, there are issues you can tell are ripe just by “feel.” On one extreme, say with margin erosion, you may be in such a negative spiral that it’s hard to think straight, and even a strategic conversation might be stunted by a lack of creative problem solving. On the other hand, you may have an issue that is important, but not urgent, and it could take many of your leadership skills to engage people in a productive conversation. That’s why, ideally, you want to call a strategic conversation when the issue is clearly important, but you are not in crisis mode.

### Three types of strategic conversations

There are three types of strategic conversations, depending on where you are in the process of resolving an adaptive challenge. To work toward a resolution, it is critical not to mix them up.

**1. Building Understanding.** This is basically a diagnostic session. It is called for when your team doesn't know much about a particular issue or has multiple divergent views. Overall, the purpose is to try to get alignment around specific insights and gain shared understanding. The challenge, however, can be keeping it at the knowledge-sharing level. People often try to rush to decision-making, but it's generally a bad idea to go from initial insight to decision-making in the same session (in fact, if a "smoking gun" answer is arrived at, it almost always presents a technical challenge). Leading practices include posing a clear challenge and defining the end point.

**2. Shaping Choices.** When the issue is well understood but the resolution is not, a shaping choices conversation is needed. In this conversation, participants discuss different options based on their shared understanding of the situation, and evaluate the pros and cons of each. The key practices in this type of strategic conversation are to develop a manageable number of options—say, three to five—and to also treat the status quo as one of them. After all, by putting "do nothing" on the table as a specific option, you can remove its "default" power and treat it as just one of several possible choices.

**3. Making Decisions.** Once there is understanding and the choices are evaluated, it is time to make a decision. While some organizations like to pretend that big strategic decisions are made in executive-team or management-committee meetings, that's usually not the case. Rather, most big decisions are made by leading players "offline" and then ratified in formal meetings. For this reason, real decisions tend not to be made at meetings that are billed as decision-making sessions. Rather, decisions are typically shaped much further upstream—which can be all the more reason to

focus the bulk of your energy on designing powerful strategic conversations around Building Understanding and Shaping Choices. By the time it rolls around to Making Decisions, the game could be mostly over.

### Elements of effective resolutions

Whichever type of strategic conversation is called for, there are certain elements that can make them more effective. Consider the following:

**Convene the dream team.** For strategic conversations, there is often a "dream team" of participants and a "must invite" team. For a really important adaptive challenge, you'll likely need the dream team. Take a step back and consider who could really make a difference in understanding this challenge and in making progress against it. That may include customers and subject-matter specialists. Then invite only those folks—or figure out how their perspectives can be represented.

**Be clear about decision rights.** While adaptive challenges are often vague and cut across many parts of a business, there still needs to be clarity on who has final say. Make it clear before the session who will be responsible for making execution decisions. Otherwise, you may run a real risk that no decisions will be made.

**Avoid fake participation.** Even if you will be making the final decision as CFO, it is wise to seek input from multiple sources. But be genuine about these asks. Do not convene participants simply to make them feel like they've been involved in the decision. These types of check-the-box invitations can make people feel more cynical rather than supportive, although they're unlikely to say so to your face.

**Give it time.** Typically, strategic conversations last a day or two, but the effort usually doesn't stop there. In fact, adaptive challenges need a sustained effort that may take months and involve everything from informal discussions to market experiments. During the sessions themselves, however, the point is to generate momentum and energy that will help propel the team toward a solution.

### Common habits of strategic thinkers

Here's a short list of things that strong strategic thinkers often do habitually.

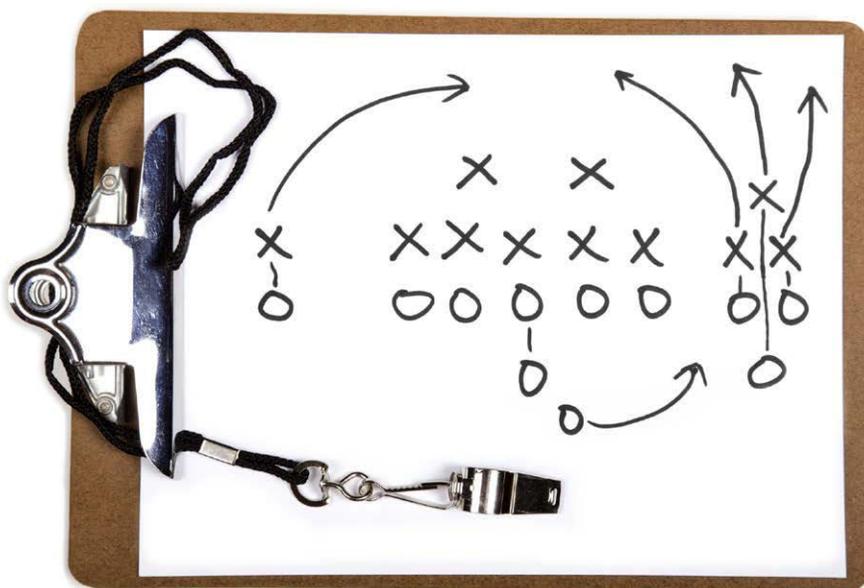
1. **Systems thinking:** Construct—and constantly tinker with—mental models about how their business works to solve problems and spot new opportunities.
2. **Scanning and pattern recognition:** Perpetually scan for new data points and insights from a wide range of sources—including those beyond their industry.
3. **Challenge their own assumptions:** Invite other people to challenge their thinking as well as their underlying thought processes.
4. **Balance future and present orientation:** Consider the future and the present needs of their business at the same time, without conflict.
5. **Synthesis and storytelling:** Take observations and ideas from a wide range of contexts and combine them into coherent stories about future options.
6. **Hypothesis telling:** Look for quick-and-dirty experiments to test emerging hypotheses and see what works.

Source: *Moments of Impact: How to Design Strategic Conversations that Accelerate Change*, Chris Ertel and Lisa Kay Solomon, Simon & Schuster, 2014.

**Change the box.** The phrase “think outside the box” is often used to ignite a lot of strategy discussions. But in a strategic conversation, it may be more effective to think inside different boxes. For example, challenge participants to imagine what a new entrant might do or how the situation might change if you had either unlimited or severely limited resources. Such contexts could generate new ideas that could be more possible than originally thought.

**Consider your culture.** Culture is usually a huge consideration in a strategic conversation. There are typically three types: aggressive-aggressive, passive-aggressive, and healthy. Depending on your organization's culture, you could be faced with interactions that are either consensual or conflictual. Unfortunately, healthy debate is often a distinct minority. But by modeling the spirit of healthy debate (that is, don't be a bystander, don't be a fighter), CFOs can help move the dialogue toward a constructive resolution.

**Find a style that works for you.** While there may be strategic conversations happening every day within large organizations, few executives naturally embody the skills to facilitate them. But some leaders manage to develop practices over time that work well for them. Take, for example, the chief marketing officer of a large consumer tech company who had competing business units play a budget-planning game to get on the same page about the company's marketing spend.<sup>4</sup> Or the innovation leader at Intuit who sent her executive team members on a scavenger hunt so they could fully appreciate the new powers of mobile technologies.<sup>5</sup> Or the CEO of Plum Organics, who engaged his board members in a war-room activity to help them understand the changing nature of competition in their markets.<sup>6</sup>



There are about as many different ways to approach a strategic conversation as there are adaptive challenges. The point is that, when faced with an adaptive challenge, you should get creative and engage people in ways that are more likely to generate breakthrough insights than your standard meeting.

**Establish a consensus for execution.** Strategy is dynamic and, as such, is never fully resolved. Still, once there is consensus on what is wrong, alternative choices identified, and decisions made, execution should be put in motion. You may stand a better chance of success though, if you visualize your best-case scenario before going into a strategic conversation and sketch out a few initial plans for follow-up. Otherwise, you may continue having messy conversations and remain unsure if you're making progress.

### Accept the risks

Despite your efforts, there will likely be times when strategic conversations don't work. Politics may be one reason. Sometimes participants simply cannot rise above self-interest. Near-termism—for example, the way an organization's incentives are structured or certain market realities—is another factor. Consider, for example, that the average publicly traded stock is now held for only about a year, and you'll understand how time horizons can affect decision-making.<sup>7</sup> Finally, strategic-thinking capabilities can be a constraint. In many organizations, people rise to senior levels based on execution capabilities, but lack the skills that strategic choices demand.

Still, for CFOs looking to make an impact in a short time frame, strategic conversations are a useful tool. And given their place in the organization, it seems natural for CFOs to convene such conversations. So, go ahead: build understanding, shape the choices, and make decisions. In the process, you'll create your moment of impact.

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#### Endnotes

- <sup>1</sup> "Are you a strategic CFO?"; *CFO Insights*, Deloitte CFO Program, Deloitte LLP, September, 2014.
- <sup>2</sup> *Moments of Impact: How to Design Strategic Conversations that Accelerate Change*, Chris Ertel and Lisa Kay Solomon, Simon & Schuster, 2014.
- <sup>3</sup> *Leadership without Easy Answers*, Ronald Heifetz, Harvard University Press, 1998.
- <sup>4</sup> *Moments of Impact: How to Design Strategic Conversations that Accelerate Change*, Chris Ertel and Lisa Kay Solomon, Simon & Schuster, 2014.
- <sup>5</sup> *Ibid.*
- <sup>6</sup> *Ibid.*
- <sup>7</sup> *Saving Capitalism from Near-Termism*, Alfred Rappaport, McGraw-Hill, 2011.

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