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CFO Insights

CFO Transitions

Navigating change: How CFOs can effectively drive transformation

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By Dr. Ajit Kambil

TODAY'S CFOs are increasingly required to partner with CEOs to drive transformations in their organizations. Indeed, our North American *CFO Signals* survey finds that, on average, CFOs aspire to spend about 60 percent of their time as a catalyst for change and a strategist in their organizations.[1] Yet, based on more than 100 CFO transition labs, we find many CFOs who aspire to the catalyst role are often ill equipped to go beyond the numbers and effectively drive organization-wide change that improves future company performance. This issue of *CFO Insights* examines sources of resistance to change and provides some practical tools for CFOs to diagnose and navigate change efforts more effectively. In addition, we clarify how CFOs may effectively support and influence change in their organizations.

Triggers of resistance

Whenever a change initiative is announced, there is invariably resistance. It is change, after all. That resistance typically falls into one of the following three categories, each of which may be defused by proper information, process and work design, and high-level sponsorship:[2]

1. More work, no payoffs. A key type of change that invites resistance is one that creates new work without payoffs for those doing the work. The most common manifestation is when a group-level CFO or controller asks for new information from a division or business-unit CFO without accounting for the extra work demanded of that unit. If the business-unit CFO and CEO do not value the information requested, it is very likely

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the request will be resisted, slowed, or done in an ad hoc or untimely way. Avoiding this form of resistance requires consideration for the extra effort required at the business-unit level and perhaps reducing other demands on that unit to free up resources to gather and provide the information to the group level. For CFOs to diagnose potential resistance from added work, they need to undertake a process-stakeholder analysis that will diagnose how new processes impact the work effort of different stakeholders.

2. New roles, less satisfaction. Another trigger for resistance arises when work roles are transformed in a way that leads to less satisfaction or a change in worker status. For example, many CFOs look to create savings in finance by implementing a shared services solution. While moving key staff from multiple locations to a centralized shared services center may immediately appear to reduce costs, the real outcome could be reduced client satisfaction and increased turnover—undermining the cost-saving benefits. When jobs and the location of jobs are redefined through a shared services initiative, the satisfaction of existing workers may be reduced. They may have less connection with their local clients and less of a sense of being appreciated and valued by the finance function. These changes may engender resistance to change or reductions in productivity, undermining change efforts. The risk of adverse impacts can be mitigated through careful consideration for the "socio-technical systems" prevalent in a company. To manage change, CFOs should consider the social status and other social satisfaction impacts of work redefinition in a change effort.

3. More transparency, less power. The third rail of resistance arises from change that may impact power relationships in an organization. For example, when the group-level CFO seeks greater transparency into the business units and their work-in-process inventories, it may reveal information that dramatically alters the balance of power between the center and business units. The information the group CFO gathers may reveal shortcomings of the business-unit CEO and undermine his or her power and influence in the overall group. Thus, requests for information to the center that can undermine local autonomy and power are likely to be resisted. To overcome resistance to changes in power, it is likely the CFO will have to accumulate his or her own power or have the power of the group CEO behind changes in information flows that change the distribution of power in the organization.

These three types of resistance can generally be diagnosed in advance and mitigated by careful process design, work design, and reorganization of information flows with the support of powerful sponsors such as the CEO. In contrast, the change we see most CFOs stumped by is cultural change—diagnosing and altering the underlying pattern of beliefs and assumptions in the organization. This requires a different level of change management.

Culture conundrums: Beliefs and behaviors

Culture is defined as the shared beliefs and assumptions underlying an organization. Thus, changing culture requires change at the belief level, which is often substantially more difficult than process or information systems change. To complicate matters, CFOs have much less authority for culture change. While CEOs have the authority to drive cultural change across a company, typically CFOs can only be supportive of a CEO's company-wide culture change efforts or are limited in scope to drive belief changes in their finance organization.

Still, CFOs can help diagnose dysfunctional cultural attributes and get at underlying beliefs to help drive culture change. How? Consider that most culture change models build on the three stages: "unfreezing" the beliefs in an organization through critical events, change through role modeling and setting new behaviors and beliefs, and "refreezing" the organization to lock in a new culture (see Lewin-Schein Models).[3] Based on our CFO transition lab experiences, I have adapted these stages into a series of practical steps CFOs can use to diagnose the culture of the organization, reframe and replace the culture and narratives in a company, and reinforce a new belief system to help their CEOs establish a new company culture. Each of the four steps is discussed below:

Diagnose the culture. The first step is to diagnose and articulate the beliefs underlying the existing culture. To do this, it is useful to have CFOs think through the organizational outcomes they do not like, the behaviors that led to them, and the underlying beliefs driving the behavior. Consider the two illustrative examples in table 1 below. By writing down the outcomes or behaviors that frustrate you as a CFO, it is often possible to get at the underlying beliefs more easily.

Reframe existing narratives. The second step to culture change is to frame the narratives that will be used to change beliefs. This begins with the recognition that existing beliefs did not arise in a vacuum and often served a good purpose even if they are not useful now. In the illustrative example above, autonomy was highly valued as the company's success was predicated on breakthrough products created by researchers and designers who broke out of the norm in conceptualizing the new, new thing. On the other hand, autonomy of financial systems in different business units did not necessarily serve the same purpose of autonomy in product innovation. To begin reframing existing beliefs, it is important to create a narrative that shows the value of the widely held beliefs and also shows the pitfalls and inappropriateness of the beliefs in other contexts. In this example of a high-technology company going through a turnaround, it was important for the CEO and CFO to partner and create a new consistent narrative—one that acknowledged the power of autonomy and "being special and different" in creating products, but also spoke to the limitations of this belief in other aspects of the business, such as the costs it imposed on the overall business to not have standardized financial and other systems.

Sometimes I find it useful to articulate the belief, behaviors, and outcomes that are

Table 1. Illustrative maladaptive outcomes, behaviors, and beliefs

Outcomes	Behaviors	Beliefs
Multiple ERP and financial systems across multiple divisions increasing cost and not enabling information sharing	Overt or passive-aggressive resistance to efforts to establish shared services; each unit has its own way of doing business	High autonomy for each business unit ("We are special and different.")
Delays in executing initiatives with respect to the market; overengineered and expensive projects; lack of ownership of initiatives	Endless reviews of proposals with multiple sign-offs and indecision as risks are weighed	"We have to do everything perfectly right."

Table 2. Reframed belief for more desirable outcome and behaviors

Outcomes	Behaviors	Beliefs
Faster decision making, less overengineering of solutions, and increased speed to market	Critical review of decisions that can create a high adverse impact; rapid decisions on low-adverse-impact choices	"We have to do some things perfectly right and most things well enough quickly."

desired. For example, the second belief in the table 1 is reframed in table 2.

Narratives to challenge existing beliefs need to be carefully crafted (and communicated) to acknowledge their value but also to disaffirm the misapplication of the belief.

Replace existing belief patterns. While specific narratives may disaffirm beliefs, replacing existing beliefs requires articulating and demonstrating the behaviors and beliefs required to support desired outcomes. Establishing new beliefs requires role modeling—demonstrating by doing things in a way that is consistent with new beliefs and rewarding those who behave in ways that support desired outcomes and beliefs. But new narratives and role modeling may not be sufficient. Instead, they often require recruiting new leaders and staff to replace those unwilling to change their behaviors.

Reinforce desired behaviors and outcomes. To establish a new set of behaviors and beliefs in a sustained way, it is important to revisit incentives and performance management policies. This may include changes in compensation and goal setting to better align with desired outcomes. Such levers can serve to lock in changes. To institutionalize new behaviors, it is important for CFOs to break down silos and lack of teaming—characteristics of many finance organizations that CFOs inherit. Creating an open-door policy or establishing regular in-person team meetings with new expectations for behavior can go a long way toward reinforcing change by demonstrating new behaviors from the top.

Change leadership: What can CFOs do?

CFOs may have to change the culture of the finance organization they inherit or partner with CEOs on broader organizational transformation. To do either successfully, they need to diagnose sources of resistance to change and develop appropriate strategies to mitigate that resistance. Resistance from changing workloads or shifts in satisfaction from work or changes in power are relatively easy to diagnose and can be addressed through careful process and work design or by getting critical sponsorship. In contrast, CFOs and CEOs are most usually challenged by the need to change culture. Here, CFOs can help CEOs and others on the leadership team correctly diagnose beliefs, behaviors, and outcomes that do not serve the organization well. They can provide the fact based on outcomes that help CEOs and the leadership create narratives to disaffirm beliefs and evaluate the costs of replacing staff and redirecting the organization. They can also role-model desired behaviors, and finance can help create incentive programs to sustain new behaviors.

For many CFOs, becoming an effective change partner requires employing fundamentally new skills beyond those that got them to the CFO position. This edition of *CFO Insights* should provide some first steps to framing more effective approaches to change.

Endnotes

1. Our Q2 2010 *CFO Signals* survey found that CFOs aspired to spend 29 percent of their time as catalysts and 31 percent of their time as strategists. See *CFO Signals: What North America's top finance executives are thinking—and doing, 2nd Quarter 2010,* Deloitte Development LLC, 2010, http://www.deloitte.com/view/en_US/us/Insights/browse-by-role/Chief-Financial-Officer-CFO/CFO-Signals/b4cba63d-42f89210VgnVCM100000ba42f00aRCRD.htm.
2. The three types of resistance are well articulated in M. Lynne Markus, "Power, Politics, and MIS Implementation," *Communications of the ACM* 26, no. 6 (June 1983): pp. 430-444, http://dspace.mit.edu/handle/1721.1/48781.
3. The Lewin-Schein change model is well discussed in Edgar Schein's working paper, *Kurt Lewin in the classroom, in the field, and in change theory: notes toward a model of managed learning*, Sloan School of Management, Massachusetts Institute of Technology, 1995, http://hdl.handle.net/1721.1/2576.

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