

AFP®



# Annual Conference

OCTOBER 27-30, 2013 | LAS VEGAS

ORIGINAL → ESSENTIAL → UNBIASED → **INFORMATION**

## Financial Professionals as Strategic Leaders: *Leveraging Your Financial KSAs*

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Tuesday, October 29, 2013, 2:00-3:00

# Disclaimer

**Unbiased?  
I AM BIASED!!**

**Financial Professionals (YOU)  
ARE SPECIAL!!  
HAVE EXCEPTIONAL KSAs !!  
HAVE EXCEPTIONAL TALENTS !!**

***Not really biased, just the facts 😊***

# Disclaimer

**Financial Professionals (YOU)...**

*...have some of the best insights, understanding, knowledge, skills and abilities (KSAs) relevant to business and sustainable strategy as anyone.*

**Leverage Your Talents**

**Soar with Your Strengths,...**

**...manage your weaknesses (Clifton)**

# Financial Professionals As Strategic Leaders: Leveraging Your Financial KSAs

## Agenda

- 1. Perspective & context of session**
- 2. Your financial KSAs & expertise → unique, high valued strategic insights**
- 3. Finance's role in organization → unique, high valued strategic opportunities**
- 4. Additional KSAs to further leverage your existing expertise**

# Session Perspective

**Not a session on strategy per se...**

*Focus is leveraging financial talents, perspectives, knowledge, skills, and abilities (KSAs), etc. to enhance strategy leadership, particularly strategic leadership of value and risk*

# Strategy: An Executive's Definition

## Business Strategy:

*a firm's overall long-term plan resulting from choices made to maximize long-term value...*



- Questions such as what's our target market & what's our unique approach?
- How to create value? What unique capabilities create our advantage and sustain value? ***What's our value proposition?***

(Favaro, et.al.)

# What is Strategy?



*“Competitive strategy is about being different.”*



**“...choosing a different set of activities to deliver a unique mix of value.”**

(Porter, p64)

# What is Strategy?

- **Operational Effectiveness (OE): doing things better than competition**
- **OE alone → path of mutually destructive competition**

**Strategy is more than focusing on OE**

*Strategy needs unique, holistic,  
value propositions*

(Porter, p64)



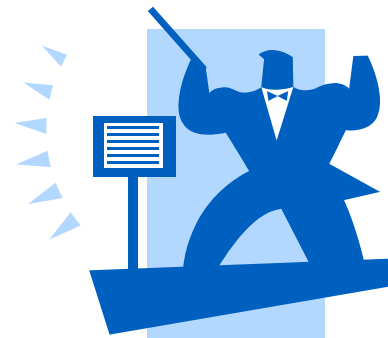
# Strategic Management

- “... *the art & science of formulating, implementing, and evaluating **CROSS-functional decisions** that enable an organization to achieve its objectives.*”

(David, p5)



- *Orchestrating the resources...*



# Strategic Leadership vs. Strategy Leadership

- **Similar & related concepts,...**  
**...but not the same**
- **Strategic leadership is required for strategy leadership**
- **Focus is strategy leadership, but strategic leadership an integral part**

# Strategic Management vs. Strategy Leadership

- **Strategic Management often is Strategy Management**

Every characterization likely flawed from some perspective, but a general view...

- **Management: organizing, planning, controlling, and directing resources to achieve objectives**
- **Leadership: influencing self and others to optimize effort toward a unifying goal**

(adapted from Kruse)

# Financial Professionals

- **Finance and Accounting**
- **Similar, but not one and the same**
- **Finance professionals need core accounting KSAs**
- **Accounting professionals excel with financial KSAs**

**Strategy Leaders & Strategic Leaders have both**

# Your Financial KSAs & Expertise

**Financial education & experiences...**

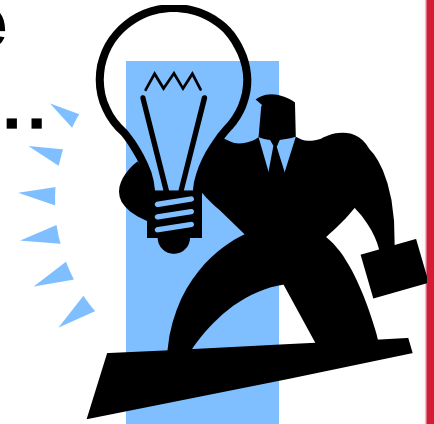


**Leverage Your Financial Skills**

# Your Financial KSAs & Expertise

## Financial education & experiences...

- Finance KSAs are unique & provide inherently valuable strategic views...
- Technical competencies, expertise and insights are mysterious to many & above average...
- Financial discipline is naturally aligned to add strategic value...



**LEVERAGE THESE STRATEGIC LEADERSHIP OPPORTUNITIES!**

# Keys to Leveraging Your KSAs

- **Communication:**

*package information in a manner meaningful to your users...*

- **Sell your ideas & perspectives:**

*don't be haughty or obnoxious, but don't be too shy either...*

- **Charisma:**

*be an advocate, albeit an educated, rational decision-making advocate 😊*

*Be “Operations Friendly” - Know Your Business*

# Financial KSAs & Perspectives

- **Unique KSAs & talents...**  
...valuable perspectives for strategy
- **We see things differently...**  
... a blessing & a curse



**Celebrate, capitalize and leverage your unique financial talents & perspectives**



# Your Financial KSAs & Expertise

Financial professionals have exceptional untapped, latent talents to leverage for strategic leadership & strategy leadership...

- Unique training...
- Unique education...
- Unique experiences...
- Unique perspectives...
- Unique philosophies...
- Unique KSAs...

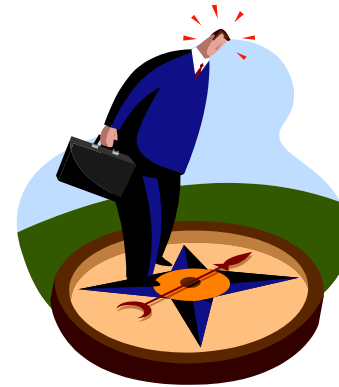
*Let's Explore These Financial KSAs & Talents*

# Financial “Way of Thinking”

Finance is a...

- Rigorous,
- Objective,
- Disciplined, and
- Fact-based...

... approach to decision making.



→ powerful for strategy

Development & Execution & Monitoring

(Silvers)

# Financial Leadership

## Qualitative vs. Quantitative

- Financial ***“way of thinking”*** ...
- Financial leadership as much qualitative as it is quantitative...
- Communicate & educate stakeholders on financial perspectives, intuitions, and “ways of thinking” ...
- Build bridges linking finance and other enterprise stakeholders...

# Balance Visionary Leaders

- **Financial “way of thinking” can provide...**
  - **foundation,**
  - **rationality, and**
  - **perspective**

**...for evaluating & operationalizing visionary ideas**
- **Enterprises need both visionary views and financially sound perspectives...**

(Rowe)

# Fundamental Strategic Goal

- To Make \$\$
- Create CF
- To Optimize Value



Finance “gets it”

Logic is inherently obvious to finance.  
Without this, other goals are not sustainable.  
***This is the foundation of sustainable strategy  
and how strategies are evaluated.***

# Value Based Decision Making

- The main objective: value
- Every business decision should be considered from the perspective of economic value...

*MB vs. MC*

- Finance → obligation to communicate to & educate stakeholders about role & value of value based decision making

*Link actions to value creation → strategy*

# Cash Flow Analysis



- **Fundamental financial skill**
- **Fundamental to strategy analysis, evaluation, implementation & success**
- **Key element of risk analysis and liquidity**

**Strategy without cash flow is doomed**  
**Finance “gets it” automatically**

# Marginal Analysis



- **Fundamental to finance**
- **Fundamental to strategy formulation, implementation and evaluation**
- **Identify the consequences of incremental decisions**
- **Eg. Incremental price changes could drive customers to substitute products**

**Marginal Benefits vs. Marginal Costs**

$$CF_{in} \geq Cf_{out}$$



# Liquidity Analysis

- **Key element of financial analysis**
- **Key to strategy analysis, evaluation, implementation & success**
- **Key to risk analysis**
- **Similar to Cash Flow perspective**
- **Eg. Profits without CF and liquidity can lead to bankruptcy**

# Capital Budgeting

- Inherently strategic...
- Qualitative & quantitative way of thinking
- Cultural alignment
- Strategic alignment
- Holistic: integrating entire enterprise

**Strategy evaluation is a capital budgeting exercise**

# Sunk Cost Concept

- **Common error in strategy implementation, evaluation, monitoring**
- **Can trigger to significant strategic errors**
- *Eg. Continuing to invest in a strategy / project based on past investments (sunk costs) violates fundamental financial analysis logic*

# Opportunity Cost Concept

- **Every decision has embedded opportunity costs...**
- **Should be considered in strategy analysis and evaluation...**
- **Requires mature, developed perspectives & broad awareness...**
- *Eg. Neglecting product development investments can have significant opportunity costs for strategies*
- *Eg. Not recognizing opportunity costs of using existing assets for projects can bias decisions*

# Agency Relationships

- **What are the agency relationships involved in various strategies ?**
- **What are the potential agency problems?**
- **How can agency problems be minimized?**
- *Eg. Be sure incentive structures reward desired behavior (avoid the folly of rewarding B when desiring A)*

# Governance Dynamics

- **Related to agency relationships & potential conflicts of interest**
- **Incentive structures to enhance strategy success and value optimization**
- **Appropriate governance systems reduce compliance violations/costs and enhance long-term strategy success**

# Compliance Implications

- **What are compliance implications of various strategies & vice-versa?**
- **How might compliance constraints limit strategy options, or create strategic advantages?**
- **How can compliance costs be minimized?**

# Enterprise-wide Risk Management

- **Key financial analysis topic**
- **Key to strategy development, implementation and evaluation**
- **Integrates operational perspectives and long-term strategy**
- **Holistic, enterprise-wide perspective**



# Systems View: Portfolio Perspective

- **Significant implications to strategy development, implementation, and evaluation**
- **Correlations, relationships, interdependencies of components**
- **Integrates relationships and synergies of firms departments & divisions**

# Financial Ethics, CSR & Accountability

- **Fundamentally, finance / accounting is “accountable”**
- **Create a culture of and awareness of accountability throughout the organization**
- *A sense of accountability and responsibility creates connections and relationships that enhance strategy development, alignment, commitment and success*
- **Expand the “circle of accountability” ...**

# Financial Ethics & CSR

- **Conservative principles of accounting & finance align with foundations of ethical behavior**
- **Fiduciary duty... ...agency relationships**
- **Financial stewardship**
- **Foundation of financial markets = trust, faith, ethical standards, etc.**

*Ethics & Moral Maturity Guide Finance & Strategy*

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# Finance's unique role in organization

## Finance discipline is natural...

- **Clearinghouse of ideas...**
- **Warehouse of information...**
- **Mentor to organization of financial performance & health...**
- **Educator of core business principles...**
- **Catalyst of business innovation & development...**

# Finance...

## Partner in Strategic Process

- Finance brings *“unmatched understanding” of business dynamics...*
- Catalyst for *“executable strategies that deliver measurable real value...”*
- Translates financial concepts & goals into meaningful actions that drive value...
- *“Uniquely qualified to bridge gap between strategy and operations”*

(Silvers)

# Market & Environmental Awareness

## Finance naturally aware of...

- **Market conditions**
  - Often both financial and product / service markets
- **Business conditions**
- **Economic conditions**

# Value Chain & Supply Chain Optimization

- **Finance plays key role in accessing value chain and supply chain dynamics**
- **Information repository**
- **Terms and conditions analysis**
- **Risk management perspectives: diversification strategies**



# Information Management

- **Key to strategy development, implementation, and evaluation**
- **What information is needed?**
- **Why? What is it used for?**
- **What form is most productive?**
- **Communicate in form users understand...**

# Capital Budgeting Role

- **CB requires integration of multiple departments:**
  - Marketing & sales, operations, manufacturing & engineering, accounting, etc.
- **Finance is unique position to contribute to strategy development, analysis, and implementation**



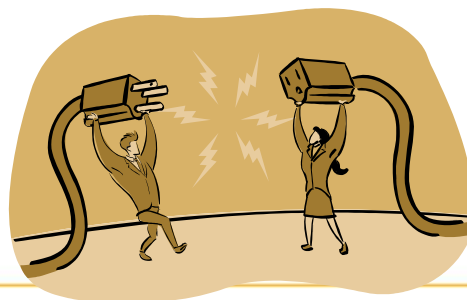
# Leverage Your Department

- **No one knows everything...**  
...but, other than CEO, the CFO / senior finance officer and finance department is **ONLY** person / area with holistic view
- **Capitalize on your department's overall portfolio of financial KSAs**
- **Discover latent and untapped strengths and insights**
- **Stimulate open dialogue**  
→ **innovative insights**



# Leverage Your Organization

- **Apply your portfolio perspective to**
  - Empower organization to capitalize on overall portfolio of business KSAs
  - Discover and nurture latent & untapped strengths and insights
  - Stimulate open dialogue & innovative insights





# KSAs to Develop

*Financial professionals can enhance strategic leadership by developing KSAs in areas not necessarily natural in our training or analytical perspectives*

# KSAs to Develop

- **Networking: integrating multiple divisions with financial perspectives**
- **Relationship building: ultimately it is PEOPLE who accomplish all the goals**
- **Knowing the Business: make it a goal to really know the dynamics of the business and importance of all the players**
  - ...know the 'deeper purpose' of organization
  - ...create & develop alliances



# KSAs to Develop

- **Communication: particularly to non-financial professionals...**  
...deliver in language suitable to users
- **Educator: financial fundamentals & perspectives**  
...cultivate learning exchanges
- **Sales → selling financial perspectives**

# Strategic Leadership Foundation

- **Technical competence**
  - **Need to know the core competencies of financial analysis**
- **Experience**
  - **Need to know the business and the people engaged in the business**

# The Next Level

- **Professional Maturity**
  - Consistent self-discipline
  - Awareness and accountability
  - Holistic perspectives
- **Leadership Competency**
  - Emotional intelligence
  - Environmental awareness

*Professional development is  
a journey, not a destination*

# CFO thoughts...

*“We have to learn the language and terminology of other functions and disciplines so we can become multilingual translators.”*

**(Stenzel, 2004, p75)**

## CFO thoughts...

*“Remember, financial professionals must stick their necks out; we won’t be asked to be a business partner; we must take initiative & constantly be learning to fill that capacity.”*

(Stenzel, 2004, p74)

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