Financial Professionals as Strategic Leaders: 
Leveraging Your Financial KSAs

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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 $\rightarrow$ 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 😊*

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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
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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