

Chapter 1

Introduction

ABSTRACT

In this Chapter the need and the reasons for a high performance organization (HPO) and a high performance finance function (HPFF) are discussed. The finance function is defined, its most important tasks processes, activities described, and its challenges in modern-day organizations reviewed. The current situation of most finance functions – which can be described as a “blood, sweat, and tears” environment which can just satisfy basic requirements of internal clients and external stakeholders – is compared to the desired HPFF state. A schematic reading guide is given and the justification for the book – the reason why it is important and how it came into being – starts the reader on the exciting journey toward high performance.

“The constant need to fail fast and relearn in a complex world, and the frequent upgrade of our skills, plays to the strength of the lifelong learning philosophy of the finance professional. It highlights the ever-growing importance of education on the quest to finding out what we don’t know” (McCaffry, 2020).

1.1 THE NEED FOR A HIGH-PERFORMANCE FINANCE FUNCTION

As the world is starting to emerge from the deepest recession since the 1930s (at the time of writing this book, Spring–Summer 2021)—after years of financial scandals, economic shrinkages, cost reductions, and a global pandemic—it is time to look ahead by focusing with renewed energy on growth and adding value. Organizations—profit, non-profit, governmental—are again focusing on the future and their drive to build is returning. One manifestation of this focus is increased attention to the concept of the high-performance organization (HPO). The HPO is defined as “an organization that achieves financial and non-financial results that are exceedingly better than those of its peer group over a period of five years or more, by focusing in a disciplined way on that what really matters to the organization” (De Waal, 2012, p. 5). Core to the HPO idea is to create a strong internal organization that can easily and flexibly deal with both the threats posed and—in particular—the opportunities presented by the outside world. This can only be effectively achieved when all parts of the organization contribute to creating and sustaining

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the HPO (He et al., 2018). This means that all departments, functions, business units, and divisions must transform themselves into high-performance entities (Mowbray et al., 2018).

Among the most important support functions of every organization is the finance function (Burgess & Bryant, 2001; CFO Innovation Asia, 2018; Dunk, 1999; Graham et al., 2012; Wolf et al., 2015; Zoni and Merchant, 2007). The finance function can be regarded as the spider in the organizational web, because it has relationships with every part of the organization and is also represented on the executive board. Therefore, it is of utmost importance that this function takes the lead by transforming itself into a high-performance finance function (HPFF) with urgency, serving as a role model for other functions in the organization. In practice, there appears to be only a handful of top-performing finance functions that have successfully mastered the mix of culture, talent, governance model, technology, and ability to improve necessary to become an HPFF (Roos et al., 2020). Most finance functions still spend too much time on routine activities and therefore cannot play an active and important role in strategic decision-making processes in the organization. In addition, many finance functions have more or less become stagnant in terms of their development because circumstances in recent years (see frame below) have forced them to concentrate mainly on getting their basic processes and reliability of their data and reports in order to allow them to meet the increasing compliance requirements. This has put a lot of pressure on the financial professionals who, thanks to their “blood, sweat, and tears”, have often succeeded in only achieving the required basic performance: delivering reports, budgets, forecasts, and annual accounts in time and getting these approved by the external accountant. These pressures have prevented finance functions from investing sufficiently in the development of their financial professionals (McCaffry, 2020). In addition, operational managers and management teams increasingly require better service and support from the finance function to help them deal with organizational challenges (Lawson and Hatch, 2020). On top of this, many finance functions suffer from quality problems that have arisen because, since the financial and economic crises at the beginning of this century, often only basic investments have been made—often at the expense of the development of the financial professionals (Farrar, 2018)—while, at the same time, costs have been reduced by an average of 29% (Agrawal et al., 2020). The COVID pandemic and its economic consequences are expected to perpetuate such problems because organizations, and therefore also their finance functions, are anticipated to have to make (further) cutbacks (Lawson, 2020).

“Many finance functions seem to be stuck in a rut. The symptoms are often easy to see. Teams manually produce the same reports, year after year—long after they have stopped being useful to management. Experts spend too much time making sure their numbers are right and not enough time figuring out what the numbers mean or what to do about them. And CFOs are often too caught up in their function’s highly specific challenges to understand what best-in-class performance looks like and how to achieve it” (Roos et al., 2020).

However, working in such a way and in such a challenging environment cannot be sustained in the long term. Because of the great pressure, errors will inevitably creep into the work and people will become overtired and possibly leave the organization. This provides the first reason for finance functions to want to become HPFFs: financial professionals no longer have to work under immense strain in a fire-fighting mode; instead, they operate in a well-running finance function where it is enjoyable to work. The second reason to become an HPFF is the ambition of the finance function and its professionals to

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