



INSPIRING
FINANCIAL
LEADERSHIP

**THE FINANCE JOURNEY:
A DEVELOPMENT AND LEADERSHIP MODEL
FOR FINANCE TEAMS**

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I. Introduction and background

Some years ago I joined the Finance department in a large, complex organisation. One of the things that struck me early on was its mission statement, which started with the words: “To keep the score”. I have to confess that, at the time, I found this distinctly underwhelming. It prompted a fundamental question about the role of a finance function within an organisation. Is Finance essentially an administrative support function, maintaining the books and processing transactions, or is it something more that can provide broader leadership to a company, public body or charity? For the senior members of any finance team – especially the CFO – that also translates into a critical question: leadership of finance or leadership from finance?

Recent research (in 2012) indicates that around half of FTSE-100 CEOs are actually from a finance background. This figure has risen sharply since 2008, perhaps not surprisingly given the depth and duration of the recession. But even before that, the figure was around a third. The same statistic doesn't seem to carry through into the wider world of public benefit, however. Very few major charity CEOs are from a finance background and when we trawl through the list of the most senior public servants, we see a similar pattern.

This disparity between the commercial sector and the world of public benefit is understandable at a superficial level – companies exist to make money first and foremost, so why not have a financial person at the helm? Government and civil society have a very different goal, so this link doesn't exist in quite the same way. This argument is fine up to a point but it arguably presupposes that accountants can lead in a wider context only where the creation of financial return is the endgame. Of course, one doesn't have to be the CEO to provide that broader level of leadership, but the indications seem clear.

To my mind, these things came together with the need for a model that demonstrates that the finance person can be a broader, organisational leader, especially in those sectors where this hasn't been the norm. The result of this was the model I call the **Finance Journey**. Its primary purpose is to lay out a development path for both individuals in key finance positions as well as finance functions as a whole; a development path that recognises the traditional activities whilst at the same time outlining a way in which those activities can be the foundation for a broader contribution to an organisation – one which involves driving performance, articulating a realistic and coherent view of the future and transforming the organisation to bring that future about.

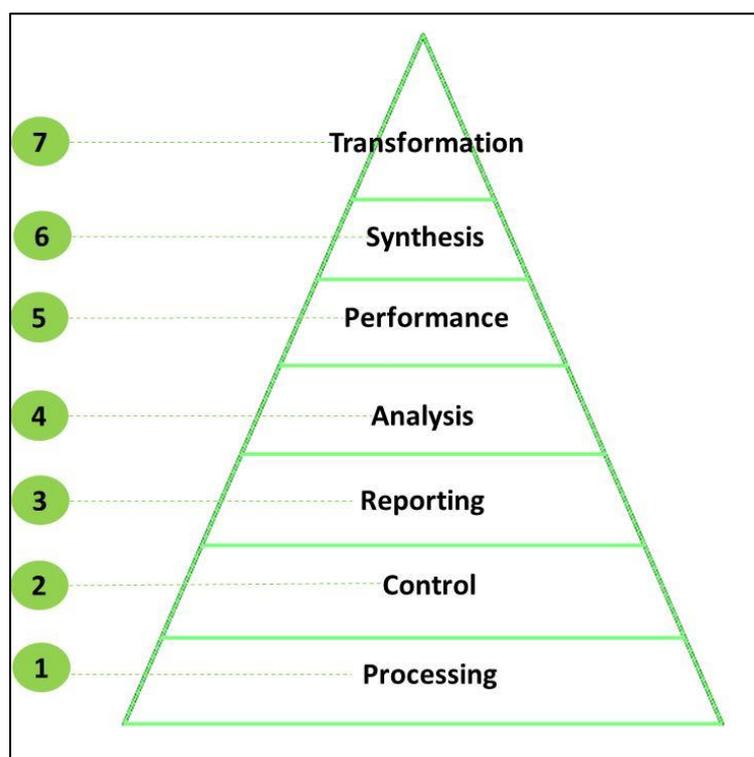
In this article I'll mainly stick to describing the basic model. Over the last few years it's been used for a number of things – assessing potential, creating change programmes for finance functions and creating personal development programmes for individuals. I'll touch upon these briefly and hope to discuss them in more detail in a further iteration of the model. At its core, though, the approach was designed to be simply food for thought and doesn't attempt to give all the answers or deal with every possible situation. That's how it is presented here.

II. The Basic Model

The model identifies seven levels of contribution that Finance can make to any organisation. A central premise of the model is that these levels are acquired or mastered cumulatively; that is, in order to be truly effective at those areas that provide strategic leadership or insight, the technical stuff needs to be mastered first. Hence why it's called the "Finance Journey" – it deliberately describes a progression through several levels of performance or activity. Similarly, the model works only when Finance continues to focus on the traditional responsibilities like control and reporting as well as operating in the strategic and transformational space.

The seven levels can be presented as follows:

Figure 1: The Finance Journey – The basic model



Below, I describe what each of these levels means, and how the function or individual can evolve to successfully transition between levels. Most of these are pretty intuitive or obvious but are included anyway for completeness.

- **Processing** represents the execution of individual transactions – expenses, supplier invoices, customer transactions and so forth;
- **Control** represents the application of checks and validation on top of that processing to assure its integrity;
- **Reporting** represents the creation of meaningful reports of performance data – management accounts, annual reports, ad hoc reports;
- **Analysis** represents the interpretation of those reports, emphasising what is really going on behind the figures and why it is happening;

- **Performance** represents the use of measures and analysis to drive substantive improvement in organisational performance;
- **Synthesis** represents that group of activities that articulate what the future could look like;
- **Transformation** represents the process of substantially changing the impact or way of working of the organisation to realise the view of the future described above.

The first four levels of this evolutionary model will be totally familiar to most finance people. Collectively they reflect the traditional workload of financial accounting and management accounting teams. That said, it's important to stress the distinction between these levels, and to emphasise what it takes to progress between them. In particular, the "joins" at three stages of the journey are, in my experience, worthy of particular attention and I'll discuss these below under "the likely stress points". I'll also discuss, in section IV, some practical examples of development activities that I've seen or used in moving between various levels.

Processing (level 1) arguably underpins everything else. At the most basic level, we have to record and complete individual transactions. It is very easy to dismiss processing as only ever being a low-level task and jump straight to the notion of "controls". Processing, though, is vital in understanding how transactional operations behave. As I'll discuss below, it has a critical link to effective analysis, driving performance and transformation.

At what point simple processing evolves into level 2 – **Control** – is a largely academic point. Making processing more productive or quicker can arguably be a strong application of level 1 (although I've rarely seen such things achieved without an associated improvement in controls!). The key thing is recognising that control enhances the quality of processing and increases confidence in its reliability, both in being accurate and also in being less likely to go wrong. But an understanding of processing is essential in designing and applying effective controls – if we don't understand the logical flow of transactions, we can't begin to identify those extra checks or reviews that prevent problems, or understand those points in the process which are most susceptible to error, omission, fraud or other undesirable events. The point is to recognise the improvement that level 2 brings. The difference between the two is, I would argue, the application of a healthy scepticism and the ability to contemplate how mistakes or problems can arise. That is a skill in itself and I wouldn't expect a new AP or AR recruit straight from school to immediately operate at level 2. I would, however, expect a team leader or supervisor to operate at that level. The ability to see potential flaws or risks in processing is a pretty good indicator that an individual or a team is stepping up a level.

Reporting (level 3) probably speaks for itself. Just about every senior finance person I've ever met has emphasised the total reliance of the management accountant on the quality of the data in the system. Levels 1 and 2 are about getting information in the system. Level 3 is when we start to get that data out, turn it into information and do something with it to help the organisation perform. Even with the significant advances in reporting systems over the last generation, reporting represents another step on from level 2.

Analysis (level 4) is the logical next step. In this model, analysis is all about trying to understand *why* things happen (as opposed to "what", which is level 3). It's not just about the financial numbers either. In reality there's often a thin dividing line between levels 3 and 4, especially when working out what to report in the first place, and indeed how to present

those reports. However, there is a clear distinction between simply reflecting what's in the numbers (typically a commentary of how each line is doing against budget, which is still level 3) and understanding whether those variances are down to timing differences, bad budgeting or an underlying trend that needs addressing. The other point about this level is the critical link between analysis and control (level 2). In my experience, the best analysts will be able to diagnose not just the difference between blips caused by timing differences and underlying trends, but also where the numbers reveal something concerning about the underlying data itself. It's about knowing when the numbers "just don't look right". Whilst the model primarily works on the basis of each level being underpinned by what's gone before, this is an example of it working in reverse – the great analyst who spots the flaws in the data is the controller's critical friend.

Performance (level 5) is arguably where it becomes as much an art as a technique. You've produced a compelling report, you're sure of your figures and your insight into why something isn't working is unassailable. It doesn't mean that the person or team responsible for those figures is going to do anything about it! I'll talk about the fit of the model with the softer skills like influencing below. Suffice to say the crux of this level is all about using the insight you've provided into the measures to effect substantive improvement in organisational performance. There are a number of techniques that can be useful at this point. One I've used in the past is to look at the likely root cause of any issues and ask the responsible person to diagnose what remedial action is likely to resolve the issue. Set a timescale for this and revisit that measure, and any supporting measures that exist as well. In one organisation we used a system of "RAG" indicators (i.e. whether measures were classified as Red, Amber or Green) against specific KPIs, based on clearly defined business rules which defined when a measure went into red or amber status. Where had a "red" measure we'd include in our commentary an assessment of the likely effectiveness of any action plan being put in place to deal with it. If that plan was non-existent or weak, we'd give it a "double red" indicator. Not surprisingly people quickly saw the benefit of avoiding the dreaded double red. The key thing here was to agree to this as part of the normal monthly routine so any such assessment wasn't merely seen as Finance putting the boot in but rather being the custodian of an agreed performance framework!

Synthesis is level 6. I've been asked: "Why "synthesis"? Why not talk about strategy?" In a way, they're the same thing. The definition of the word generally talks about the creation of something new (or more sophisticated) from simpler elements. Synthesis in this context is about taking what we know and expanding it or building on it to define what the future might look like. At its simplest level it's a forecast or a budget; at the more sophisticated level it's a compelling and realistic vision of an organisation or its impact at some point in the future – that can be a long term "what if?" financial or investment scenario, a new business model or way of working or a new system, or tool which makes a significant jump forward in terms of productivity, quality or effect. The use of the word "synthesis" clearly requires that this future view will be built on something we know now such as an existing set of statistics or financials. The creation of the strategic view is therefore built on evidence, extended to something more sophisticated by clear logic or business rules. In short, the model argues that this is a good way for finance people to create strategy. The application of this level can be seen in the development of investment strategies, the stress testing of longer term funding plans and in sophisticated financial scenario or risk modelling.

Transformation (level 7) is where the model sees all the other levels coming together. In levels 1 and 2 we understand how things work at an operational level; in levels 3 to 5 we understand what causes things to improve for the benefit of the organisation and its customers and how to make that happen; at level 6 we are able to articulate something in the future that is credible and built on evidence. The model argues that when we bring all this together, we can not only explain what the future looks like but can implement it.

III. Some broader assumptions in the model

To revert to the basic premise that a grounding in finance can be a great foundation for broader organisational leadership: levels 5 to 7 of the model refer to the ability (and techniques) to drive organisational performance; to create a coherent and compelling view of the future; and to lead the organisation to that future point. These are really important leadership qualities and my argument is that they can be acquired as a natural, evolving extension of the finance person's more traditional toolset.

A critical aspect of the model is that it works on the premise that the acquisition of each evolving level is absolutely dependent on what's gone before, as I've described in section II. What this means is that the notion of "missing out" levels (so, for example, jumping straight from work at the Reporting level to Synthesis) isn't recommended. The cumulative nature of the approach here argues that trying to make such a jump is not going to be possible except in cases of total genius – for most of us, we have to "work through the gears".

Similarly, the model doesn't work on the basis that if we have achieved capability at, say, level 5, that we don't ever need to bother with levels 1-4. That would be unrealistic and, indeed, for the finance leader, not being able to set direction, coach or mentor at all levels up to that point is likely to become a noticeable weakness. What the model does recognise is the idea that the emphasis of someone in a predominantly level 6 or 7 role is going to be on the more strategic stuff but there should be elements of all levels so that we can still see how everything in finance – across all levels – fits together. The only reason for truly leaving behind any of these levels is when someone leaves the finance function altogether in a relatively left field move. (For the record, if the CFO is lucky enough to get the CEO job, I strongly advise him or her to remember their functional roots and not just for CPD purposes. If I'm right, the whole journey has been a logical evolution into that role. Why deliberately set aside the frame of reference that got you to that point? It doesn't make sense).

As I've alluded to above, the model doesn't reflect a pecking order. Whilst it's true that the average leader of a finance team is going to be spending much of their time at levels 5-7 and the finance officer is going to be working on levels 1-2, the functional importance of each level in this model is assumed to be equal. There is an interdependence here that I believe wouldn't work if we saw the analytical or forward looking activities as being higher up the value chain than the operational activities. (Why spend time on looking to the future if the most recent set of actual numbers wasn't reliable?) This is also really important in building effective teams and careers for the people in those teams and I'll discuss this in section V.

One final thing: whilst this particular model has evolved in larger organisations, it can apply equally well to smaller ones. Common sense dictates that in smaller teams, the same person

can be doing, say, control work and strategic planning in one day. Whilst it's probably easier to apply the model in a larger team – because you can create more specialised roles – it's not intended to be limited to the larger end of the scale. The critical argument is that finance can be a source of wider leadership, and logic dictates that the size of organisation being offered that leadership is irrelevant.

I would be especially interested in feedback from smaller organisations on its use. A more detailed exploration of how to apply the model in those teams will be a major priority of the next iteration of this work.

IV. The likely stress points – some war stories

I've been using this model for some years now. There are 3 points which seem to cause the biggest challenges.

The move from processing to control is a natural challenge. I've mentioned above that this transition is usually marked by the application of a healthy scepticism. What marks out the natural level 2 colleague is the desire to understand how things work and not just to accept the status quo.

The use of techniques like process mapping, especially if conducted in an interactive or workshop environment, can be a good way of drawing this out. One thing I've done in the past is to take teams through a process mapping exercise and then shortly afterwards have a "break" session. This involves taking the documented processes and imaginatively trying to think of ways of making them go wrong (i.e. let's break it). At this point, the team can then be encouraged to think of ways of guarding against that breakage. I've seen people progress to a much greater control maturity using this technique.

Similarly, the step from reporting to analysis is a big one. Like the example above, it fundamentally revolves around a state of inquisitiveness and in being prepared to have an opinion about why things are happening – not merely reflecting what the numbers say but digging below them to find out what is really going on in our business. In my first management job (back in the 1980s!) I had a young, part qualified accountant who was constantly asking me why certain things were necessary. I was only about 26 myself and at first it came as a bit of a shock. Eventually I worked out that this thirst for getting to the bottom of things made him a huge asset and was able to let him loose on more complex problem solving.

I've referred above to the habit of the true analyst in interpreting variances between bad data, timing differences and underlying trends. One approach I adopted in my first Head of Finance role was to define a set of rules around variances that would dictate which things had to be explained e.g. any movement month on month above a certain value, any adverse variance, any material divergence between year to date run rate and full year forecast. The management accounts team knew that they would need to get answers to any variance that met certain criteria. Eventually, because it became part of the monthly routine, they became more and more accustomed to finding out what was behind the numbers where they previously pointed out what the variances were.

The final common stress point I want to emphasise is the move to synthesis. The reason it's a challenge is that it represents the point where we have to deal with major ambiguity. We rightly pride ourselves on accuracy and attention to detail. At level 6 everything changes and we are producing something that is by definition speculative. My definition of synthesis in this context should be helpful – namely that we can produce something speculative based on existing evidence, flexed by sensible and transparent business rules. However, this is one of the hardest steps and I've known technically brilliant people who decide not to go down this road as the ambiguity is not appealing.

I once applied for a senior Financial Planning & Analysis job where the emphasis was on creating compelling long term spending plans which reflected the strategic priorities of the organisation. When I asked what the key attributes of the ideal candidate were, the answer was: "to just be the FP&A type". It seemed a really strange thing at the time but now it makes total sense and there are some people for whom this type of work is a natural home. There are development techniques to help people into this level – start them on short term forecasting; use a non-finance person who is strong on strategy as a mentor; always stress the importance of rules-based models in this area with rules setting validated by budget holders or accountable managers.

V. Uses of the model – it's all about the people!

I've used the model in a number of ways. The main ones are described below:

- Looking at **development** for key individuals. I've used this in the past to assess both current capability and likely potential of key staff. Where you have someone who you believe has the potential to step up several levels from where they currently are, you're going to need a pretty comprehensive (and long term) development plan for them. Where you have someone who has acquired all the levels they're likely to be comfortable with – and the most important thing in this is to understand what levels they want to acquire – then their development plan is going to be different. Instead it will need to focus on what I would call a Deep Technician development plan. Such a plan is more about recognising a specialism for that person, based on one of these 7 levels, and supporting them in becoming more of a technical specialist in that area.
- This in turn leads onto a second use – understanding and supporting people in their **career path**. It's vital to recognise people's preferences. I've mentioned in section IV that roles involving synthesis, for instance, just may not appeal to some people. In those circumstances, they may be content to stay put for some time. Alternatively, if they are receptive to the Deep Technician approach, you can enable them to specialise but this may involve letting them go to a bigger or more complex organisation where they can continue to grow in their preferred area. Of course you may choose to let them be your go-to person or functional leader in any technical projects that fit with their preferences. Similarly, if you've got someone who has potential to go through several more levels, you may not be able to create a career path for them to the full extent of that potential. Sometimes you have to let a high potential talent move on because the alternative is to create an artificial ceiling for them.

- I've also used the model quite extensively in **taking stock of the broader level of maturity of whole finance teams**. More often than not I've actually asked key staff: where do you think we are on this model? What has struck me on virtually every occasion is that the answer I get back is an incredibly honest one.
- Having done that stock take, we can then start to create longer term **functional development or change plans** for the team. You may desperately want a finance team that can do everything up to level 6 so that you can major on transformational leadership. But if they assess themselves at, say, level 2 or 3, your functional plans in the short to medium term need to focus on building capability in reporting and analysis. You can (and should) still aspire to get them to level 6 but it's going to take time. There is no magic formula for working out how long it takes to get through the various levels. It depends on a number of things: the receptiveness of the wider organisation to a different proposition for finance; the state of your systems; staff turnover; the relative level of enthusiasm of the team; and a whole host of other things. What I would say is that, in my experience, you should allow a minimum of a year for each level progressed and nailed down. In reality it will probably take longer.
- The other use I would recommend to anyone working in a leadership role in finance is to use it to **take stock of your own priorities**. As the senior finance person, you'll be expected to work at the later levels as a matter of course. But if your team is working at level 2, the model argues that you need to fill all the layers above. In line with what I've said above, you can't miss out the middle levels – it won't work. So I'd urge FDs and other senior colleagues to use it to recognise the number of levels they're filling personally, set expectations accordingly and don't burn yourself out.

There's another really critical use which absolutely reinforces the fact that the various levels are equal. That is, using it to assess whether you have the **right mix of skills** in a team. There's no use having a team filled with strategists if you have a complex accounting operation to run, any more than you should have a team entirely consisting of transactional experts if part of the role is to create compelling future scenarios.

VI. Fit with other models – stewardship, operations and business partnering

There has been a lot of welcome development in recent years in recognising different types of finance roles. That is a whole other discussion which I won't attempt to take on in detail here other than to draw attention to current work being published on the evolution of finance business partnering in particular. This model has been used with a particular approach that recognises three broad role types:

- **Stewardship** (which relates to those activities which are “Head Office” in nature and can range from organisational control policy to investment and financial strategy for the entire business);
- **Operations** (which relates to financial transaction processing and operational controls); and
- **Business Partnering** (which relates to financial analysis, support and advice dedicated to one particular line of business, department or division in the organisation).

I'd argue that each of these role types can operate at any of the 7 levels in the Finance Journey. The table below offers some suggestions on this:

Figure 2: Examples of Stewardship, Operations and Business Partnering applied to the Finance Journey

	Stewardship	Operations	Business Partnering
Transformation	Leading major cross-functional change projects across the whole business	Successful implementation of major change programmes relating to volume operations	Leading major cross-functional change projects for the relevant line of business
Synthesis	Creating coherent and credible longer term financial strategy for the whole organisation and using this to direct the allocation of scarce resources between lines of business	Business process re-engineering	Creating coherent and credible longer term financial and action plans or business cases for line of business activity
Performance	Using measures to challenge and drive performance plans across the entire organisation, identifying where resources need to be diverted for best effect	Using metrics to drive a culture of continual improvement, evidenced by improving measures	Using measures to challenge and drive performance plans for the line of business
Analysis	Interpretation of reports or results for the organisation as a whole	Understanding root causes of variation from expected volumes or quality	Interpretation of reports or results for the relevant line of business
Reporting	Group or organisational-level reporting	Designing and implementing measures of process effectiveness	Producing high impact regular reports for the line of business supported
Control	Setting control policies across the organisation	Application of assurance and sceptical process design	Monitoring and championing the application of authorisation or other controls in the relevant line of business
Processing	Actively putting transactions through an agreed process or system	Effective processing of transactions	Ensuring that specific transactions (or groups of transactions) are being progressed through the system

Every example above is equally critical. In an area like business partnering, the people we are supporting first and foremost want reliable numbers and good advice. I think it's fair to say that our colleagues don't see a hierarchy – they want us to do all of it and to do every level equally well!

For example, we might find a way of making an end to end process more efficient or more controlled. "End to end" in this context means nothing more complex than looking at a process from the point of view of the customer, rather than a team performing a set of tasks.

If this involves a better experience for the donor or supporter, our colleagues are likely to be supportive of our recommendations and want to work with us to improve things.

The big point here is that we don't just change things or influence or workmates at levels 5, 6 and 7. An overly hierarchical view of the model would possibly prevent us innovating in the operational areas. More often than not we will be providing that thought leadership at the more operational levels, not least because it's much more straightforward to see how the customer benefits by making processes easier to use and less error-prone.

VII. Softer skills and the licence to operate

One final comment - the Finance Journey doesn't attempt to describe those soft skills that give us the licence to operate and build great working relationships with colleagues. But it absolutely recognises that it would simply not work without them. I would, however, argue that many of the attributes implicit in each of these 7 levels help the finance professional or the finance team to build a personal brand that of itself legitimises that licence to operate: reliability, insight, objectivity and the ability to see both what the future could look like whilst being grounded in today's reality of how things work and why things happen the way they do.

I'd simply offer these few tips:

- **Timing** is key, especially with your CEO. Work out when to hit her or him with incisive analysis or compelling synthesis.
- **Just do it.** Sometimes simply delivering the more transformational or strategic output without advertising it in advance can maximise your impact.
- **Find your allies** – somewhere in your trustee board will be someone who wants you to be the transformational leader; someone in your team will be inspired by the prospect of getting out of the back office; somewhere in your peer group is a colleague (very possibly the IT, Legal or HR leader) who shares your aspiration. Find them and hunt as a pack.
- Don't under-estimate **the power of analysis and synthesis**. Conclusions drawn from rigorous evidence and method are incredibly powerful. If there's one thing we're good at, it's distilling evidence, testing its reliability and using it to synthesise a scenario that people need to take notice of. I can remember one occasion where I was able to stop a board of directors in its tracks (in a positive way!) with a simple calculation of where their cost base should be based on things they claimed were all happening successfully. I didn't do anything clever; merely let the maths do the talking at a time when a meeting was getting heated. Communicating your findings in a way that is well researched and evidenced, rather than based on supposition or opinion, tends to get respected by most audiences.
- Don't forget that, for the most part, we have **the benefit of objectivity**. In the charity sector, we'd normally expect the "front line" areas, like policy, research, charitable programmes, service delivery and so forth, to be sitting outside our chain of command. So we're not tied to one point of view where there are competing demands. The CEO will always need someone to lean on when faced with a problem that has to be resolved in a cross-functional way – we're ideally placed to provide that support and influence.
- Critically, this objectivity, if used effectively, actually positions us well to help organisations **achieve consensus**. It's not the most obvious attribute of the effective

finance person to many people. (I can recall one CEO who introduced me to an external stakeholder as being “in charge of saying no”). But if you can become the person who provides that analytical and logical objectivity, then helping people to make mutually agreeable decisions follows logically.

- Using this model, by definition we cover the **full range of activity types** from the transactional to the strategic. As a result we are natural allies to anyone who wants to think something through fully as we can see a broader view of the world. Don't hesitate to remind colleagues that we have this breadth of perspective.
- I've already mentioned in section VI how our process and control skills can help us see how things can work better. The licence to operate here is made compelling if we can use this as a way of **putting ourselves in someone else's shoes**. I think most colleagues will want to engage with us if we can say to them: “let's find a way of making things simpler for you”. Similarly, if we can find ways of making things work better from the point of view of the beneficiary or donor, it's pretty hard for someone to disagree. If you're dealing with a colleague who sees us as a merely back office function, just think how much they are going to change their mind if you show them you're thinking from their customer's point of view!
- And finally, be prepared to use the ethos of occasionally making colleagues **sit up and take notice**. A calm, evidence-based assessment of risk can be a powerful tool. Occasionally making people aware of the implications of a particular course of action, using our strengths in synthesis; using our considered diagnosis of operational risks, wearing our Control hat; using our analytical capability to diagnose what is really going on (above); these can all be game changing.

Those inter-personal skills that are about taking others with us, which are so important at level 5 for instance, can be enhanced hugely by these qualities. Perhaps the dividing line between the professional skills, like analysis and control, and the personal attributes that allow us to build great relationships, is best when it's blurred.

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