

Innovating Your CFO Activities

Innovating the Accounting, Finance and Treasury (AFT) Functions

Double entry bookkeeping is a concept that is over 500 years old. You might ask, “What can we learn about innovation from an industry that old?”

A seminar conducted by KRM and the endersgroup at a Vancouver company focused on innovating AFT activities. The seminar provided a great example of an AFT team that is taking the lead in building an innovative culture at their company. They are doing this by making step function improvements in their AFT processes.

Here is how we define innovation.

Innovation occurs when the value of the product or service increases while the cost to deliver the product or service decreases; or when the new value/cost ratio is significantly higher than the old ratio¹. The value of innovation is illustrated with the following diagram:

The diagram starts with the old state, $\text{Old Value} - \text{Old Cost} = \text{Old Benefit (A)}$. True innovation tackles both the value of the product or service and the cost to deliver it; creating a step function improvement in the new state, $\text{New Value} - \text{New Cost} = \text{New Benefit (B)}$. The Innovation Value = $\text{New Benefit (B)} - \text{Old Benefit (A)}$.

The steps in the innovation process we followed are outlined below:

1. Select the innovation project (see below for project ideas)
2. Identify all customers and suppliers (frequently internal for AFT activities)
3. Validate the customer/supplier relationship model
4. Identify the innovation sweet-spots
 - Key value drivers
 - Define innovative solutions
5. Iterative process that solves for the best solution
6. Develop an implementation strategy
7. Implement the strategy



Innovation, including the accelerated, structured methodology developed by the endersgroup, is a messy and iterative process. Breaking down self-imposed boundaries and expanding your canvas creates an array of new possibilities. Patience, great listening skills and complete participation by all stakeholders are required for your innovation to achieve the optimum result. Many times the most significant innovations come from the least expected source.

Finance departments generally have the [discipline and technical skills](#) to channel these new possibilities into an executable plan. Yet, the tendency in many businesses is to think of these finance attributes as controlling and limiting when, in fact, they are liberating.

The CFO whose team participated in the seminar sent this update: “Regarding the Innovation project, you will be happy to hear we...held our meeting to ‘articulate our output to a platform’ and we gained some immediate improvements, as a result... we have begun meeting with stakeholders about the reports we produce for them. It was a really good meeting, everyone felt excited about what we were accomplishing.”

How can your accounting/finance department drive innovation at your company?

1. Here is a starter list of great AFT activities to apply the innovation process:
 - Closing the books...management reporting
 - Planning – budgeting, forecasting, capitalization
 - Investment analysis - growth, capital allocation, return criteria
 - Banking – cash management, refinancing, merchant accounts
 - Accounting Processes – P.O., Receiving and Payments; Employee Travel and Expense; S.O., Billing and Collection
2. Document the innovation process and refine it for the specific needs of your company.
3. Share the innovation process across all departments.
4. [Lead the training](#) effort required to bring different teams into the process.
5. Create a corporate wide culture of innovation.

The CFO mentioned above is determined to take the lead on innovation at her company. She recognizes that the 500-year-old principles accounting and finance bring to the table are steeped in discipline, [planning skills](#) and execution capabilities that directly apply to the principles of innovation. You too can take the lead in creating an innovative culture at your company.

Albrecht and Jeanne Enders run the endersgroup. The endersgroup increases client’s market share and profitability by helping them define and develop new products and services through innovation principles. The Enders live in Lake Oswego, Oregon. Learn more about the endersgroup at www.endersgroup.com

Steve Rosvold runs KRM Business Solutions. KRM delivers interim and part time CFO services to growing businesses in the Pacific Northwest; business education and financial intelligence to the global business community. Steve spent 22 years in finance and strategic planning at Cargill Inc. and ConAgra Foods. He lives in Vancouver, Washington. Learn more about KRM at www.krmbusinesssolutions.com



Steve Rosvold

Business Solutions and CFO Consulting Services
<http://businessfinancialconsulting.com>
