

## The Detonate imperative: Why you should blow up your best practices

In an economic environment where—to borrow the mutual-fund disclaimer—past performance is no guarantee of future success, finance leaders play a critical role: to realign their functions and work processes to keep pace with the demands of an increasingly disruptive marketplace.

That imperative is even more pressing given how technology is rapidly changing that marketplace and how finance operates within it. In fact, in the Q3 2018 *CFO Signals™* survey, CFOs reported that they expect a large relative increase over the next three years in the gig economy, shared

service centers, and offshore finance operations, overlaid with the growing need to address evolving talent requirements.<sup>1</sup>

Against this backdrop, finance executives who seek competitive advantage by implementing widely accepted “best practices,” or by following playbooks that distill conventional wisdom, may be destined for mediocrity. Moreover, those who continue to embrace “the way we’ve always done it” approach in an era abounding in uncertainty may not only squander resources, but also destroy value.

In their new book, *Detonate: Why—and How—Corporations Must Blow Up Best Practices* (John Wiley & Sons, 2018), authors Geoff Tuff, principal, Deloitte Consulting LLP, and Steven Goldbach, chief strategy officer at Deloitte LLP, suggest a wholly new approach to capitalizing on a continuously changing market.<sup>2</sup> Among other recommendations, 

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they share four guiding principles for adopting a new mindset to break old habits. They also identify specific areas—in risk management, strategic planning, and elsewhere—that should be targeted for detonation. In this issue of *CFO Insights*, we will outline those principles, and offer guidance as to how finance can be better calibrated to an environment where risk is difficult to measure and manage.

### When best practices become bad habits

Best practices are typically intended to codify the structures, systems, and processes that boost organizational performance. But as they age, becoming more commonly accepted and less relevant, those same practices can calcify into bad habits that impede innovation and hinder change. Having reached their sell-by date, such unchallenged inefficiencies need to be identified and disposed.

To do this effectively, however, any organization requires a transformational approach characterized by four principles:

- 1. Focus on human behavior.** Nobody questions the sanctity of numbers. But CFOs need to remember what's behind the direction in which those numbers move: human behavior. Whether it's customer activity or employee participation, the underlying goal is to influence people to change how they act, as human action is the most basic element of business.
- 2. Bring a beginner's mind.** The fluid nature of today's marketplace defies any form of hardened expertise. A CFO's adherence to accepted principles, no matter how well they have served the business in the past, ends up restricting options and obscuring possibilities. Like their entrepreneurial counterparts, executives at businesses that strive to become disruptors should pay no heed to accepted conventions.
- 3. Embrace impermanence.** Amid the volatility that gives rise to disruption, CFOs need to accept that advantages are increasingly fleeting and organizations require a full-throated acceptance of impermanence. For CFOs, such

a realization means continuously reassessing the validity of the company's strategy for generating value.

- 4. Build minimally viable moves to test and learn.** It's neither practical nor prudent for companies to make drastic course corrections in response to every competitive or technological challenge. Instead, companies need to find ways to send feelers into the external marketplace, testing ideas and acquiring sufficient knowledge to move to the next iteration. Rather than unleashing a dramatic bet-the-farm offering on the outside world, the goal is to incrementally and economically innovate step-by-step, eventually arriving at a more promising product or service.

### What CFOs should target

For proof that playbooks aren't forever, consider some of the areas where rigidly adhering to existing practices can be counterproductive.

#### Financial forecasting and budgeting processes,

for example, tend to be geared toward comfortably populating a spreadsheet, rather than toward achieving specific outcomes. Using last year's numbers as a baseline, however common, makes it too easy for management to overlook the fact that customers need to be won anew next year. Revenue is the result of investing in the tools that prod customers to buy or enable employees to change how they work, which may be a function of improved training, different management systems, or reconfigured incentives.

At many companies, **strategic planning** shuffles at a zombie-like gait, attuned to a process built around an annual calendar or a fixed template. But circumstances don't use datebooks, and market conditions can take on new dimensions that no longer fit into existing templates. CFOs and their companies would be better-served by trying out new planning models—using both short-term and long-term horizons—to reflect a time frame that mirrors external realities. Assessing how a new value proposition is being received in the marketplace, for example, takes time.

Many of the processes that once acted as the equivalent of “comfort food” for finance executives—creating a sense of well-being about the direction of the business—no longer serve that purpose in an economy with a voracious appetite for change. In **risk management**, CFOs often rely on stage-gate systems to track innovation or product development, scrutinizing financial data at specific intervals to assess progress, secure buy-in from stakeholders, and make decisions about future resources and timelines. The demand for data, however, often drives innovators to shoehorn their ideas into existing models for the sake of securing support. That dilution not only discourages creativity but also renders those decisions worthless—or, worse, value-crushing.

### How CFOs can help drive change

What CFOs should do is adopt ideas and behaviors that enable them to align resources to an ever-changing marketplace, rather than creating new playbooks that gain credibility by borrowing heavily from preceding playbooks. Here's how CFOs can change their behavior:

- **Ask better questions.** Rather than accepting company orthodoxy, try to trace its history, while also assessing its future usefulness. What would it look like if we didn't do things that way? Do we see evidence of companies—in our industry or elsewhere—that don't follow the same rule? Rather than inquiring about return on investment (ROI), which is often freighted with guesswork, consider judging returns based on return on behavior (ROB), the cost of changing customer behavior in an advantageous way. Marketplace activity, rather than accepted metrics, is what drive revenues.
- **Create a portfolio of innovation** away from the core and closer to unknown territory. CFOs serve in a unique capacity when it comes to deploying financial resources that will define how the business pursues innovation. Too often, however, their portfolios end up disproportionately devoted to opportunities that use existing products to serve existing customers in familiar 

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markets. While they may dip into adjacent markets, CFOs tend not to stray too far from core markets—despite what they may think.

In this environment, though, they need to guide the company into the transformational space where the bigger risks, and fatter profit margins—not to mention signals of the future—reside. Too often, companies conceive of themselves as innovators without realizing that their explorations beyond the core are few and far between. To simplify the resource-allocation process, finance leaders should divide opportunities into two realms: One being the known world, consisting of customers they do or could serve and from whom they could retrieve valid feedback about any attempts to add value to current products or services; the second is the unknown, and often unknowable, space, where the size of the opportunities may be more difficult to pin down, but could yield bigger payoffs. CFOs need to rebalance the portfolio to reflect the fact that as much as 50%-60% of new opportunities require exploring unfamiliar terrain.

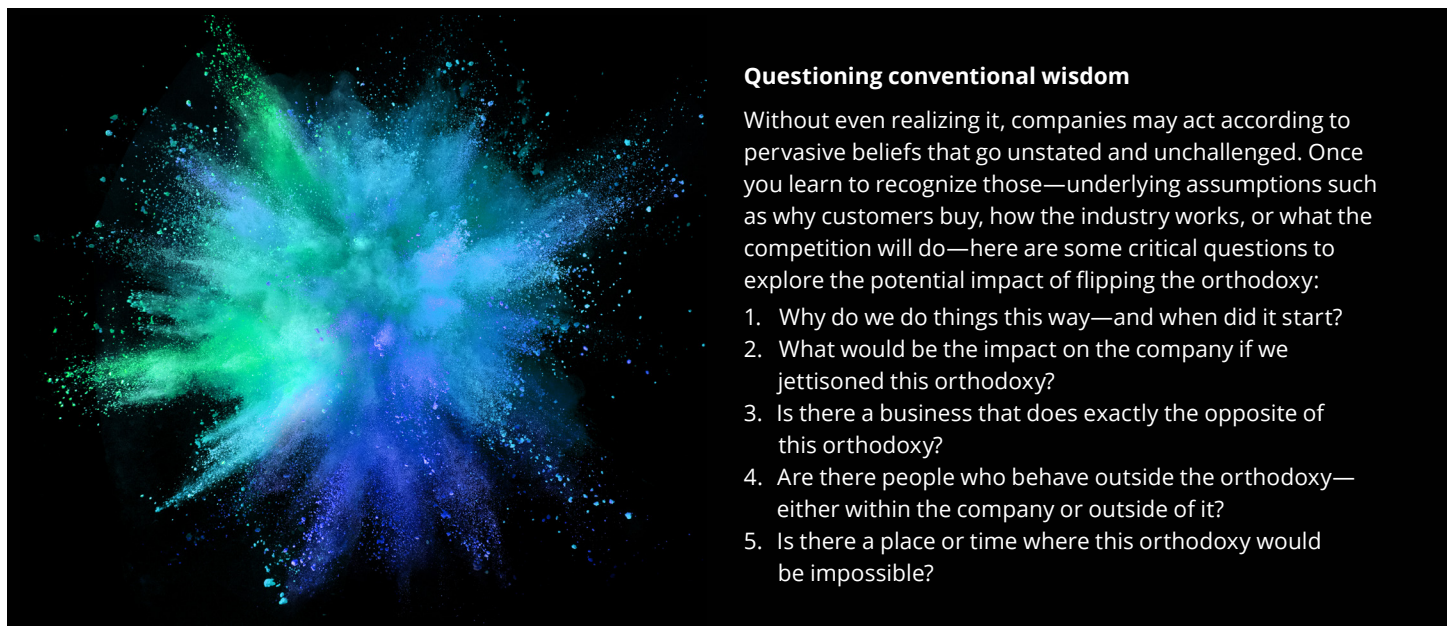
- **Make budgeting adhere to strategy,** not the opposite. With competitors and customers evolving at breakneck speed, the notion of basing budget forecasts on historical results (which is what, by our estimates, 75% of companies do) often proves to be misguided. CFOs would be better served by basing their budgets on a calculation of how much it costs to nudge customers into engaging into behavior that results in added revenue.
- **Switch to zero-based budgeting.** Customers need to be won over anew year after year, a daunting challenge given the brisk pace of change. By using zero-based budgeting—where every dollar in every budget must be justified—CFOs are requiring managers to apply a new level of scrutiny to their most recent results, rather than devoting their time and energy to figuring out why the last plan ended up being such a poor (or exemplary) predictor of performance. Whether the company meets or beats the numbers isn't anywhere near as useful as knowing exactly how the company achieved its results. Finance executives can use that granular data to pinpoint opportunities for reducing costs and improving efficiencies, as well as spotting small swings within customer segments that may have big implications for the future.

In a marketplace crowded with ambiguity, one of a CFO's most important tasks is to make decisions based on how the company's performance is keeping pace. That's what the changes described are designed to do—for now. Such techniques do not by any means comprise a hard-and-fast playbook; above all, CFOs need to accept that impermanence is here to stay. What works now may only work for a little while longer. That said, any truly useful structure, put in place today, might very well need to be detonated tomorrow.

### Figure 1. Looking for a place to start? Here are seven common playbooks that are ripe for a “controlled detonation.”

-  Risk management systems
-  Strategic planning calendar
-  Financial forecasting & budgeting
-  Syndicated data
-  Traditional insight generation
-  Celebrating failure
-  Org charts and career paths

Source: *Detonate: Why—and How—Corporations Must Blow Up Best Practices*, Steven Goldbach and Geoff Tuff, John Wiley & Sons, Inc., 2018.



### Questioning conventional wisdom

Without even realizing it, companies may act according to pervasive beliefs that go unstated and unchallenged. Once you learn to recognize those—underlying assumptions such as why customers buy, how the industry works, or what the competition will do—here are some critical questions to explore the potential impact of flipping the orthodoxy:

1. Why do we do things this way—and when did it start?
2. What would be the impact on the company if we jettisoned this orthodoxy?
3. Is there a business that does exactly the opposite of this orthodoxy?
4. Are there people who behave outside the orthodoxy—either within the company or outside of it?
5. Is there a place or time where this orthodoxy would be impossible?

## Endnotes

1. North American CFO Signals survey, see Q3 2018, US CFO Program, Deloitte LLP.
2. *Detonate: Why—and How—Corporations Must Blow Up Best Practices*, Steven Goldbach and Geoff Tuff, John Wiley & Sons, Inc., 2018.

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