
The Chief Financial Officer of Tomorrow



Janet Milne

This study was carried out by Janet Milne in her capacity as Visiting Executive at the Conference Board of Canada between February 2005 and March 2006. Prior to her work at the Conference Board, Ms Milne was Assistant Deputy Minister (ADM) of Finance and Administration at Human Resources and Skills Development and Social Development Canada, providing financial advice and services to both departments. She spent a year at Human Resources Development Canada as ADM of Systems in 2002 and was ADM Corporate Services at Transport Canada from 1998 to 2002.

Ms Milne, joined the former Science Council of Canada in 1981 to work on a study of science education in Canadian schools. She later worked at Industry Canada, Agriculture and Agrifood Canada and Natural Resources Canada in a variety of science, policy and management positions.

Ms Milne was educated at Queen's University in Kingston, Ontario and Monash University in Melbourne Australia, graduating from Queen's with a Bachelor of Science in 1965. She has studied economics and public administration at Carleton University.

The Conference Board of Canada has recently undertaken an extensive consultation and research project on financial leadership and management in government. Results of the "Moving From Control to Strategy" study will shortly be made public and are providing insight into the financial function within provincial and federal governments. The study provides recommendations approaches to ensure that the public sector financial community is prepared for the newly emerging requirements. Janet Milne, formerly Visiting Executive at the Conference Board and Assistant Deputy Minister with responsibility for Finance at both Transport Canada and Human Resources Development Canada, was responsible for the study. She met with Sylvie Guertin-Pagé from the Editorial Board of the *fmi journal*. The following is a précis of their discussion on the study and its impacts.

fmi journal: Janet, why did the Conference Board of Canada conduct this study at this time?

Janet: The Conference Board has a Division dedicated to organizational effectiveness. It does research, consults with people from different levels of government and the private sector to look at the factors which influence the effectiveness and performance of public as well as private sector organizations.

About a year or two ago we started discussions with the Treasury Board Secretariat about major changes in play in the role and the expectations of the Chief Financial Officer (CFO) in both the private sector and the public sector. There had been a lot of work on what was changing in the private sector, but very little to explain or understand what was changing in the public sector for the chief financial officer, and what was driving those changes.

We are all aware that scandals such as

Enron have led to profound changes in the private sector, but other factors are also driving change, including globalization and technology.

In this work we wanted to understand how the role and expectations of senior financial people in government are actually changing from the perspective of those doing the job, and their clients. Our focus was on the government equivalent of the CFO. Different jurisdictions use different titles, but I've used the term CFO as shorthand for the most senior person under the deputy who has responsibility for finance. We wanted to understand what was happening, how expectations were changing, what was driving those changes, what the constraints were and how much success we are having in transforming the role of the CFO and the whole finance function.

The Board felt that this would be timely, and that we should be looking at what was happening in the public sector to gain perspective on the differences between the private and the public sectors. We consulted a large number of people including the Comptroller General of Canada, Charles-Antoine St-Jean, who, of course, has a very strong interest in this and several provincial Comptrollers General. We consulted Wayne Wouters, the Secretary of the Treasury Board, as well as a variety of people at the provincial level. Two provinces were involved – British Columbia and Ontario. We also spoke with key people who were either CFOs themselves or who worked very closely with CFOs in order to try to scope the key questions we should be looking at in the study.

The Comptroller General of Canada was just coming forward with a new model for CFOs in government. We thought it would be timely to have a read on what was actually in place in the public sector, how it works in relation to his objectives and what was required to close the gap.

There was a consultation phase before we started to scope the project and define the priority issues. In the course of the study, we conducted about 45 interviews with federal and provincial deputy ministers, and serving CFOs. In doing that, we tried to pick a range of both large organizations and small ones. We also carried out an e-mail survey of CFOs across the country to establish baseline facts such as current qualifications, and commissioned two expert discussion papers on high priority issues: Financial Information for Decision-making; and Re-allocation of Resources in Government Environments. The study engaged experts and practitioners in reviewing the results and providing direction and context on their implications and the best responses to be recommended.

We spoke with two provincial Comptrollers General and a couple of private sector CFOs to get a comparative understanding of how they would respond to the same questions.

fmi journal: According to the study what is driving the change in financial leadership and management?

Janet: Well interestingly enough, I think that we're seeing factors that are very similar to the ones driving change in the private sector. The most pressing thing that's driving the need for change is the obvious demand for increased accountability. We have seen similar phenomena in both the public and private sectors – namely dubious practices. Those are creating the same kind of concerns in both milieus.

Expectations in terms of accountability and transparency, and ability to attest to state financial statements, have increased quite a lot and they are going to increase even more over the next little while as we go forward with things like the implementation of new *Federal Accountability Act*. There are similar pressures at the provincial levels as well.

That leads to the second factor which is that all levels of government whether federal, provincial or municipal are still very, very tight for money. No matter how big the surpluses are, there is never enough money to do everything that is important. Difficult choices have to be made. The role that Finance has traditionally played in departmental financial or policy discussions has often been very much a support role. Finance is rarely engaged up front at the beginning. As the choices become increasingly difficult, it's important that we have a better understanding at the early part of that policy discussion of the financial implications of different options, of the different ways of addressing problems, of which ones will be more cost-effective, and which ones are going to cost us more in the short term, long term, and medium term.

We also need to think about more creative delivery strategies. In government, we're used to developing proposals and going to the Department of Finance and to Treasury Board and asking for funding. But there are other options now. We see increasing use of public-private partnerships, strategic alliances and special operating agencies. We need to learn when and how to use these tools effectively in government. This is important because we're mixing public and private money and the accountabilities and expectations need to be clear. It's a different set of skills from the tradi-

tional finance group when we were really just getting most of our money from the tax base.

So that's driving a whole agenda for change not just for the CFO, but for the whole finance function. Finance officers need to know a lot more about the business of the department. They need to see helping the department figure out the most cost-effective ways to do its business and what options it has to deliver programs, as part of their role.

We refer to that in our report as “strategic financial management”. It's a term that doesn't necessarily sing to everybody, but it's meant to differentiate from the traditional model of Finance and the CFO, that model is focused on financial control and reporting, making sure that the monies are properly accounted for and spent on what they are intended to be spent on, and that the accounting is done right and bills are paid and those sorts of things. That's the traditional role of the Comptroller and Finance in the department.

For a long time that has been enough. They still need to do that. But now there's an additional set of expectations. The world is more complicated than it used to be and different services and advice are needed from Finance and the CFO. Those are the things that are driving our discussion around the new role of CFOs.

I shouldn't leave technology out because our financial systems have changed radically. The new, highly evolved systems lead people to have very high expectations about analysis, about timeliness, and all sorts of things to which we can't necessarily respond too well yet in government as our systems tend to be disjointed, outdated and not up to the task.

fmi journal: How do the findings from the public sector compare to those of the private sector?

Janet: There are many similarities in the drivers for change and the new expectations that are emerging. However, one of the big differences is that in the private sector we see the role of the CFO actually changing significantly. The CFO is a very senior member of the management team – in many cases the single most senior person after the CEO. And they play a role in a wide variety of domains including under-

standing of markets and the development of new product opportunities. This is well beyond the traditional finance role. And these people are at times the successors to the CEO in the private sector.

We're not really seeing that kind of evolution yet in the public sector. The CFO's current role, I think, is gaining in seniority and certainly new demands are making it a much more central part of any organization's management team. But the two sectors are driven by different forces. The private sector is driven by the need to create sustainable value for the shareholder – they are financially driven for a very large part. On the other hand in the public sector the most important outcome of action is an increase in what we call “the public good”. And so in the public sector, finance is a component of a larger ensemble of drivers which include many intangibles such as national unity, social justice, equity and international relationships to name just a few.

We are seeing similarities in the demand around what we want from financial people in the public and private sectors. We want more strategy from them, we want them to be more engaged in the business including risk management – a lot of things that we also see in the private sector. But the roles are a bit different in the two sectors because the bottom line objectives are different.

fmi journal: What is the role of the CFO in government today and how is this role evolving?

Janet: In our study, we wanted to find out what the answer to that question looks like today – what's happening and how do people want it to change? And, of course, we immediately saw that it's not the same everywhere. There's quite a range of capabilities or roles in different kinds of organizations.

In the end we looked at it as a kind of continuum. At the high end, the ideal that we're looking for is the organization that really provides strategic financial leadership and management, as well as ensuring the books are in order and controls are in place. We found one or two organizations that are very close to that level.

We saw a lot of government organizations with a CFO role that is still very much focussed on control. In talking with

deputies, that's what they say they want – they want their CFO to keep them out of trouble. They want to make sure that the risks are attended to and that the books are in order. While deputies haven't as a group articulated a strategic role for Finance and the CFO, they talked individually about the new complexities in their financial environment and many of the factors that we saw as drivers for change. They know the need is there. They just haven't made that leap to 'I should be getting that kind of analysis and support from Finance'.

If I go to the other end of the continuum, there's a very small group of government organizations which I feel are in an unsustainable mode of financial management. They probably are okay on a very basic control level. They have systems and they have to meet central agency requirements. These organizations tend to be highly decentralized and information is often very inconsistent. For the corporate finance group to really understand what the money is being spent on is difficult because different units in these departments keep their own books, resist sharing accurate information with each other and with Finance and provide high level forecasts and analysis of spending, often late in the fiscal year. Definitions and business processes are inconsistent across the organization, making it difficult to compare or collate data from across the organization and create a comprehensive picture of how and where money is spent. Finance lacks the mandate and authority needed to get good, timely information.

I say this situation is unsustainable because when we have to certify to the accuracy of forecasts and statements there is always going to be some doubt in those organizations. They are not deliberately misleading, but it will be very difficult for the senior officers of those departments to be absolutely confident that their information is correct. I don't think there are a lot of organizations in those circumstances, but there are a few.

fni journal: What do you see are the key attributes of the CFO of tomorrow?

Janet: There is a great debate about whether they should be certified accountants. I asked both CFOs and deputy heads when I was doing my interviews what they felt about that. On balance there an argu-

ment to be made (though not all agree) that it is desirable for the CFO to be a certified accountant. Accounting is clearly a key knowledge domain for that person. But it's not enough in itself. And deputies underlined that it was not the single most important attribute they wanted in their CFO. They're looking for people with strong leadership skills who understand the business of the department. Often, the ideal person would actually have experience working in the operational part of the business.

The ideal person is also someone who is creative in the way they think about delivery mechanisms and related financing - not in a suspect way, of course. They need to bring a positive "can do" attitude to find new ways to design, fund and deliver new approaches to public service. Departments are looking for the person who will take up the challenge and provide essential financial expertise and advice to support and provide new ways of doing business. They are looking for the skill set that allows them to manage things such as public-private partnerships effectively and accountably.

And, of course, one of the critical competencies is to be able to work in a collegial fashion with their colleagues. CFOs have to take some difficult positions sometimes. They need to understand the financial structure of the organization, know where the money is being spent, know where it isn't being spent as efficiently as it might be and challenge their colleagues to improve performance. CFOs also need to be comfortable and skilled at working directly with ministers, deputies and other senior officers in government, including selecting and presenting relevant information in understandable formats.

So the accounting certification is a stepping stone, but what departments really want is this larger package of judgement, leadership, negotiation skills and the ability to work with people and understand the business. Those are the skills of the future.

fni journal: It is interesting that those findings support what the Comptroller General has identified as important attributes for CFOs. So, what in your view are the conditions for success in implementing a CFO model? With all these competing change management initiatives what would

be your recommendation to ensure a successful transition?

Janet: I would say there are two or three really important conditions for success. The first one, not surprisingly, is that the deputy has to be on side. And if the deputy minister or the leader doesn't want the CFO to play that kind of a role, it's unlikely to happen. CFOs need the active, clearly stated support of the deputy to change the kind of role they play with their colleagues from making sure the books are in order and things are done right to the more interactive and engaged role at the front end. Someone we interviewed referred to it as "getting out of the engine room and up on the deck, out at the front end of what's going on." And that really does require that when operational colleagues get involved in discussions with financial implications, they get Finance involved right from the 'get-go', and not wait until ten minutes before the Treasury Board submission has to be signed off.

And so perhaps the most essential conditions for success is having understanding and support from the leaders of the organization. Capacity is also a big issue. You know you need support from the top, but you also need support from the bottom. You can't do it all as one individual. It takes a whole organization.

I think what we're seeing is that finance organizations in many departments across government have a lot of good people in them. But sometimes their skills are not being used in a really effective way. They get dragged off to do transactional work that is way below what they're capable of doing. There's not a lot of demand from the client and program branches side for strategic financial analysis and support, in many cases because they are not aware of the potential for Finance to provide this kind of support and its value to them.

So the experience, knowledge and the skills of the Finance organization need to be there, and to be used effectively. Clients of Finance need to understand how Finance can work more effectively with them to improve outcomes and develop funding strategies. Greater demand from clients will push Finance organizations to build the capacity to deliver this kind of advice.

The third condition for success goes back to this business of transactions and how we

manage them. We occupy our people far too much with just processing. We've made some progress in reducing the volume of transactions using things like credit cards for purchasing. But we need to do a lot more to restructure the way we use the resources that Finance organizations have.

As you know there is discussion about a shared service organization, which I personally think is a good idea. This may not be the only answer, but if you look at any large private sector organization, anything as large as the federal government, they would not be doing accounting and accounts payable and receivable in hundreds of different locations. It simply wouldn't be happening. So I don't really think that the current structure makes a lot of sense for an organization like the federal government.

We met with IBM and talked about how their finance function is working just so we could have a point of comparison. It's a global organization very widely dispersed geographically with a whole lot of different kinds of business involved. And they do all of their accounts payable out of one location. We do it everywhere. That's how people with lots of skills end up spending most of their time doing transactions.

fmi journal: How do you suggest the Conference Board of Canada report be used? How do we take full advantage of the results of the report?

Janet: You know, we do research projects and come up with recommendations and hope that they get taken up. I think the important thing to get things moving is leadership from deputies. Perhaps my key recommendation is that deputy heads, particularly at the federal level, get together and state their needs clearly and what they're willing to commit to.

The Comptroller General of Canada, Charles-Antoine St-Jean, has explained what he wants the CFO to become, and there's a wide range of views on that among deputies. Some are very much on board, a few who think it's a little too private sector in its orientation, and others who really just haven't paid much attention to it as yet. Before anything real is going to happen, I think really deputies need to say okay, here's what we think and what we're prepared to invest in to help these changes happen. And it's not another study I'm recommending –

I'll be very clear about that. It may be a written statement of three pages from the deputies stating that this is what they're prepared to commit to. And I believe that's a very important thing that should happen.

Ministers must be engaged in this agenda as well. In this study I deliberately did not try and engage with the question of the financial interface with Parliament and the House, not because I didn't think it's important; I think it may be a very critical piece in all of this. There is only so much you can do in a one-year study. But I do think that the governance needs to be looked at, including the things that motivate (or demotivate) departments and the deputies to do financial management more effectively. So there's a level there that needs to be looked at that is not part of this report, but is a critical piece for the future.

One thing I think really makes a difference overall and drives a lot of other improvements is the quality of financial information, and our ability to link it to information about performance to see very clearly what bang for the buck we are achieving. If we have the tools, the people and the processes to get good quality financial information and analysis that can drive improvement on a whole lot of other fronts. That seems a useful one because it is something that the CFO and Finance can work on even in the absence of a lot of real vision from the rest of the organization – and they can use it to start to build credibility about the value-added Finance can bring to the broader discussions of policy and strategic direction. A lot of people outside of the financial community just don't get it. They still have the perception that all Finance does is pay the bills. The changing role of the CFO is not something that's on their radar screen. They're engaged in other things. And their expectations haven't changed.

fmi journal: If we now look specifically at the federal government, how do the results relate to the CFO model proposed by the Office of the Comptroller General?

Janet: For the most part, the things we see as being important for the CFO are consistent with the model that has been proposed by the Comptroller General. We may be slightly less glued to the accounting certification and more interested in the broader

package. But we support the fact that it is very useful and probably should be essential. However, it is critical to understand that the objective of financial management in government is to improve the government's capacity to contribute to the public good, which is a difficult, and complex subject. We don't have a handy yardstick of the bottom line like the private sector to judge progress. Management in the public sector will always require a balanced understanding of financial and non-financial measure and issues.

In this context we need a clear understanding of what we're going to ask of the CFO. The private sector, the drive for profit leads to a very, very senior leadership role for the CFO. In the public sector, I think it needs to be a senior and influential role, but it's probably not going to be quite the equivalent of the private sector. It definitely needs to be stepped up from where it is today. It's still too much a backroom function and it needs to be brought forward.

There is some level of concern in government departments about the nature of the relationship between the CFO and the Comptroller General. Deputies are asking, "Is that CFO a trusted member of my department and my team as my advisor? Or are they a member of the Comptroller General's team and his advisor?" It comes down to trust at the end of the day – who's team is he or she on?

That's a tricky one because to play the role we are looking for the CFO really has to be a core member of the deputy's team. There are going to be occasions from time to time when the deputy needs an advisor – someone who they can get support from and who will go to bat for them if they're in a difficult position. However, there may also be times when the CFO needs advice and support from the Comptroller General. As professionals they have professional standards of quality and ethics to respect and they will be held accountable by the appropriate professional institutions for doing that. They may occasionally need the support of the Comptroller General when disputes arise.

Personally I think those occasions are quite rare. But if the CFO sees things happening in the organization that are, from a financial perspective, not acceptable and if the management team is not willing to

come to grips with those, then the CFO really does need a third arm as a backup. This is different than most of the other policy or operational jobs in the department.

I agree with the Comptroller General that CFOs should have a solid line relationship with the deputy. But there's definitely going to be a dotted line relationship to others, for instance between the Comptroller General and departmental CFOs.

Finally, we need standards for CFOs qualifications, and for financial performance to enhance consistency and quality across departments and organizations. We need to articulate the qualifications that we expect the CFO to have – one of which may be an accounting designation. But that's just one of a whole range of other qualifications – experience, ability, knowledge – that they need to have. And these standards are not currently in place. Benchmarks for spending on transactions, quality of information, centralization and decentralization of financial organizations and policies: there is a broad range of areas of financial organization and performance on which standards and benchmarks are needed in order to measure and improve performance. Treasury Board and the Comptroller General need to take a leadership role in this area.

fni journal: In terms of the evolution of the CFO's role in the public sector, do you think that there will be more mobility between private sector and public sector organizations or will the basic differences make it such that they remain two different worlds?

Janet: I think there are more similarities between the public and private sector CFO roles than most of us imagine. The kinds of businesses that finance is involved in have similarities in both environments. The private sector borrows money from the banks and has shareholders; the public sector borrows money from Treasury Board – their banker – and they have shareholders called taxpayers. So there are equivalencies for many of the things.

But there are also a whole range of things we don't do. We don't do pensions for the most part for example. Pension valuations are a huge issue in the private sector right now. We don't borrow money on the global markets, managing exchange and interest rates and so on. So there's a range of things we don't do. And there will always be differences.

Driven by the over-riding objective of the public interest, there's a culture in government that is not the same as the private sector. There is a learning curve for a person coming in. Certainly there would be a learning curve for a person going out to the private sector for the first time. So I don't think it's ever going to be quite as easy as just taking a round peg out of this hole and putting it in a round hole in that organization.

That said, I think that there's more interchangeability possible than maybe we believe, and it would be a very good thing if we could have more exchange and give people enough training and orientation so that they can understand the other culture.

It's really one way to stimulate innovation by bringing in new perspectives through someone who takes a fresh look at the way things are done. I think that's one of the ways we're going to get change to happen.

• MIKE TRACEY, FINANCIAL MANAGER •

WHAT A WEEK! HE JUST REALIZED THAT HE
STILL HAS TO FIND AN AUDIT FIRM
FOR A COMPLIANCE AUDIT DUE IN
3 WEEKS AND HE JUST REALIZED HE LOST THE
DIAMOND EARRINGS
HE GOT FOR HIS WIFE'S BIRTHDAY...TOMORROW.



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fni journal: We like to stay in our comfort zone. Based on the results of your project, what two key areas would you suggest the Office of the Comptroller General focus on for strengthening financial management in the federal government?

Janet: There's a need to work with deputies and make sure that the commitment and the vision are there. If deputies understand that this isn't just a new obligation, not just another flavour of the week, something to 'check off' to say "yes I've done that", but in fact that there's a real benefit to them in terms of making their jobs easier and improving their ability to respond to the problems that land on their desk on a daily basis then we may get some real action going. That's the dialogue that I think needs to take place urgently. I know that there's been lots of discussions between the Comptroller General and deputies, but maybe the deputies need to be challenged to take ownership. And it may require that ministers get involved as well.

The second point that we touched on a little bit is building the capacity in the workforce itself. As we all know people are leaving in droves because of retirement. Over 50% will be eligible to leave within four years. However, I found that in the last two years there's been over a 60% turnover of federal departmental CFOs in the largest 26 departments. This was not largely driven by retirement as most people went on to other jobs in the public service. And I think it goes to the question of the role of the CFO not being seen as a senior position in the management team.

Corporate Services, including Finance, has become something people do to get experience at the senior level and then they move on to something else. That's the critical thing that we have to change. Being the CFO for an organization that spends, in many instances, over a billion dollars a year should be a highly regarded, respected position with authority and seniority. Lacking this, it will continue to be a revolving door

as talented people move on to other more influential roles where they can make a difference.

Replacing the retiring CFOs and those who depart for other reasons with qualified people ready to provide strategic financial management services will be a challenging task. The feeder groups (generally the Directors General) for CFOs have much the same age profile. There are lower turnover rates in the Director General group, but they also lack experience outside the Finance function and in-depth knowledge of the business. Many have not developed leadership skills and a comfort level in dealing with ministers and other senior political officials.

In short we really need to do both long and short-term planning – career planning – not just for the CFO, but for the whole function. And it needs to start from the day employees walk in the door. We are facing an immediate need to replace CFOs with people ready to play a new kind of leadership role and it is not clear where those people will come from.

We've done a good job of recruitment through the Financial Officer and Internal Auditor Recruitment and Development (FORD/IARD) program. But it stops when they get in the door. In my interviews, I heard a lot about people in the middle levels of financial officers being promoted too fast because of there being so much competition among departments to fill more senior positions, and about them not having enough time to get the experience they need. So we will need to do external recruiting at the middle levels, and I think definitely for a while we're probably going to need external recruitment at the CFO level. But we need to make sure we give them a chance by providing dedicated, well tailored training and mentoring to those who come in from outside government.

I would choose information if I had a third priority area to offer to the Office of the Comptroller General. There's a lot of

learning that we need to do about the type of information that is useful; for example, how to integrate performance information with financial information. And I say that with great hesitancy because that's become a buzz-word in government that nobody really understands. And I think there's a real learning curve we need to go up. It's easy in the private sector – did you make a profit? It's much more ambiguous in government.

We need to get much better at measuring the outcome and outputs. We don't even do a good job on measuring output. You know if we could start with outputs then maybe some day we can get to outcomes. It's important for us to know things like how many phone calls are we answering in an hour in the call centre and how much is it costing us to answer those phone calls. This kind of information can help us understand where we need to concentrate to really improve how we do business in terms of both efficiency and effectiveness. Leadership from the centre of government is needed to create standards and processes for doing this analysis, incentives for acting on the results, and standards of quality. This is really the core of what we mean by 'strategic' financial management. Not everyone has the vision yet. Not everyone understands what is needed or how to make it happen. Leadership is essential.

fni journal: Where can we find out more about the results of the "Moving From Control to Strategy" study?

Janet: It will shortly be available on the Conference Board Web site at <http://www.conferenceboard.ca> and it is also expected to be published in paper format very soon. Instructions are provided on the site.

In terms of final words, I would just say I think this is a critically important subject for Canadians. And if we don't get better at this then we're not really giving people value for money, or at least we can't demonstrate that we are. ■