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*By leading the charge to entrepreneurial government and developing nonfinancial competencies, government financial executives can step out of the shadow of their technical expertise and into an expanded role at the policymaking table as valued business partners.*

# From Scorekeeper to Business Partner: The Evolving Role of Government Financial Executives

*By C. Morgan Kinghorn, Jr.*

Traditionally, government financial executives have occupied the role of organizational scorekeeper. In this capacity, they are responsible for collecting, synthesizing, and reporting the financial information used by elected officials and senior managers to make important policy and operating decisions. As such, the finance function in most governments is regarded as a critical pillar of decision support. But much like the scorekeeper in a sporting event, most financial executives have little, if any, direct influence on the final outcome.

Times have changed. The increasing importance of information technology in public administration and ever-louder calls for accountability to stakeholders have thrust government financial executives into a more active role in decision making. They are being called upon to lead the charge toward entrepreneurial government and performance-based management. For most of these executives, this transformation represents a significant departure from their traditional scorekeeping duties. Success in this new role will ensure that financial executives have a place at the policymaking table as valued business partners.

Exhibit 1 shows how the role of the chief financial officer/finance director is changing from scorekeeper to trusted business adviser and partner. Although this transformation has been occurring in the private sector for quite some time, it is a more recent trend in government. As business partners, financial executives spend most of their time applying their expertise to key strategic and operating decisions and virtually none to traditional back-room accounting operations such as account reconciliation, payment processing, and historical financial reporting.

This shift in priorities does not necessarily require the hiring of additional employees to take up the slack. As Exhibit 1 illustrates, the size of the finance function, already shrinking, will diminish even further over time. This time reduction is made possible by

redesigning finance-related processes, introducing best practices, improving and integrating financial and other information management systems, and, in some cases, outsourcing financial operations to outside providers. As part of the transformation of the finance function, control activities are built into nonfinancial processes so that nonfinancial managers can assume more responsibility for them. This allows highly trained financial professionals to make the best use of their expertise.

This is not to denigrate the traditional duties of government financial executives. Compliance with accounting and financial reporting standards, accurate cash reconciliation, timely processing of financial transactions—these are all important activities. Yet, the truth is that detailed accounting work is simply “doing the knitting.” Elected officials, senior managers, and program directors only notice these basic financial management tasks when they are

done poorly. To join these other leaders at the decision-making table, financial executives must do more than the basics. They must become entrepreneurs in the best sense of the word.

The transformation of the financial executive from scorekeeper to strategic business partner is occurring at all levels of the public sector as well as in the private sector. Given the

events in the private sector over the last year, the challenge for financial executives is to strike an appropriate balance between their scorekeeping and advisory roles. In other words, they must continue to ensure that the knitting gets done well, while simultaneously assuming a much more substantial role in organizational decision making. In the public sector, we are beginning to see the results of this transformation in the form of improved budgetary processes that link resource allocation to results, innovative approaches to funding administrative costs, and the improved use of technology to reduce the need for reconciliation and redundant data entry.

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## Entrepreneurial Transformation

Entrepreneurial government is government “done differently.” It is a nontraditional approach to solving the problems of today to build the systems, structures, and processes of tomorrow. Because entrepreneurial ventures invariably involve money, financial executives naturally find themselves involved in the planning and execution of such ventures. They help identify, estimate, verify, and monitor the costs of alternative methods for delivering and paying for public services. Financial executives also facilitate entrepreneurial government in a number of other important ways:

- Help operations managers develop the financial portions of business cases and proposals for new or expanded services.
- Lead efforts to revamp and expand nonappropriated funding sources, such as fees, rents, royalties, and franchises.
- Identify innovative ways to finance entrepreneurial ventures, such as establishing revolving funds, entering into public-private partnerships, or establishing fee-for-service arrangements.
- Facilitate performance-based management.
- Ensure a level playing field for competition between government and the private sector.

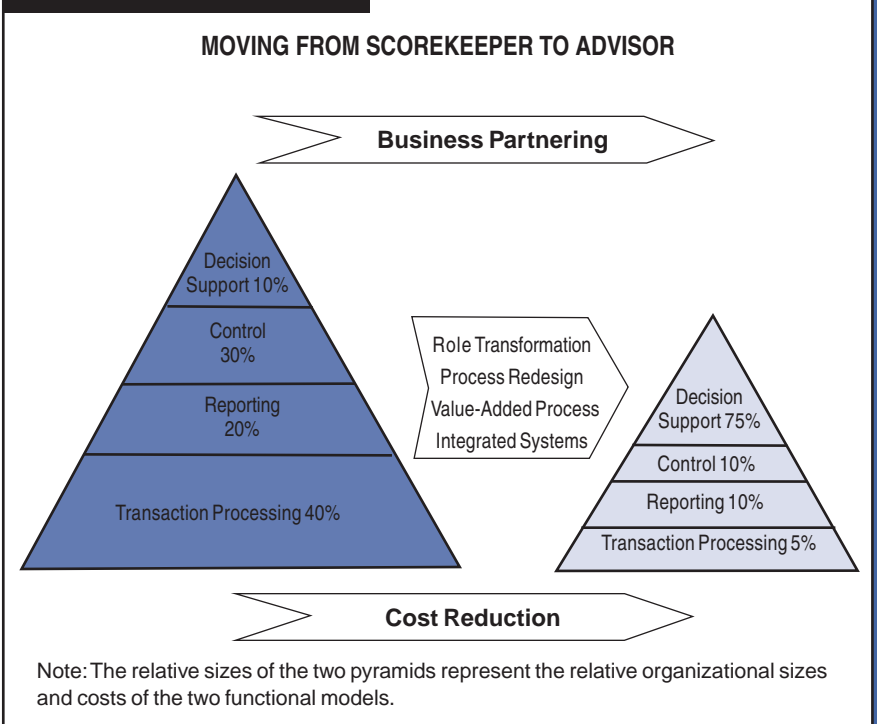
Financial executives and their staffs are uniquely positioned to assist in business case planning. They are trained and experienced in finance and accounting and understand pricing studies and other finance-related market research. Most importantly, they have access to the financial information that is needed to prepare complex cost estimates. By employing these skills and information resources, financial executives add an often-missing ingredient in entrepreneurial government: knowledge and understanding of the financial aspects of innovation.

Most government finance departments monitor operations from a budgetary perspective in order to ensure that programs and services draw down, but do not exceed, appropriated funding levels. Through sound cost monitoring mechanisms, finance can alert program managers to negative trends in cost components that, if not addressed, can cause long-term financial strain. Financial executives should demonstrate a bias toward entrepreneurial solutions that deal with root causes of budget shortfalls and other problems, not just the symptoms.

Financial executives who are serious about entrepreneurship will find creative ways to knock down organizational barriers to innovation both inside and outside their departments. If they think about it for a moment, financial executives will recognize the latent power they have to tear down such barriers. Consider, for example, an organizational structure that promotes overly centralized decision making and stove pipe functions that do not communicate with each other. Few financial executives believe they have the authority to restructure their organizations, especially if they think restructuring means moving boxes around an organizational chart. In most organizations, however, the boxes of the organizational chart mean less every passing day.

The flow of information and the location of financial decisions are what really define an organization’s management. Financial executives already control the most important kind of management information—financial data. Many also “own” the agency-wide information system. Some have management responsibility for grants and asset information. Entrepreneurial financial executives forget about the boxes and figure out how these sets of information

**Exhibit 1**



can best be utilized to help inform the decision-making process.

Shifting from appropriations to fees for selected services represents another entrepreneurial opportunity for government financial executives. User fees are advantageous for some public goods and services because they directly link the costs of providing those services to the beneficiaries thereof. User fees by themselves can force innovation in service delivery. As such, financial executives should assess the viability of introducing fee structures into selected services, as well as their departments’ readiness to perform the full cost accounting that necessarily accompanies such structures. Fee structures can be applied to both internal and external services.

Financial executives can help ensure that user fees are fair by using cost accounting to determine the true cost of providing a unit of service. This exposes the practice of subsidizing some fees with appropriated funds, forcing discussion and debate over the appropriateness of this practice. Forced to charge the full cost of services, program managers are likely to become more cost-conscious and customer-oriented, especially when their customers have alternatives. Comprehensive and readily available full cost accounting information can turn even the most uninterested program manager into a modified financial executive.

Accurate accounting and financial reporting are valuable internally only to the degree that the information can be (and is) used to improve government operations. As such, one of the most important responsibilities of the entrepreneurial financial executive is to facilitate performance-based management. Performance-based management simply refers to the process of measuring results, using this data to evaluate and improve performance, and linking results to resource allocation decisions. Done well, performance-based management can guide the transformation of a state or local government from stolid bureaucracy to fast and flexible public service provider.

No treatment of entrepreneurial government would be complete without a discussion of the financial implications of competition between in-house government agencies and outside service

providers. For managed competition to be legitimate, governments must create a level playing field in which no single bidder has an unfair advantage over another, including the internal agency. To this end, financial executives and their staffs should audit the bids of internal service providers to ensure that they fairly present all relevant costs. Given their skills in cost accounting, they also should be involved in analyzing and comparing the cost-effectiveness of the various alternatives.

### New Skills for a New Role

Most executive-level general managers (at least in the private sector) do not regard the chief financial officer of their organizations as a strategic business partner. Instead, they perceive the CFO as an organizational police officer. Why do senior managers often view financial executives as somewhere below themselves on the organizational food chain? The American Institute of Certified Public Accountants, the Institute of Management Accounting, and other professional groups have begun to address this image problem by issuing new competencies for financial executives. These new competencies are closely aligned with the wider range of skills commonly ascribed to well-rounded business managers.

In a 1999 practice analysis by the Institute of Management Accountants, respondents ranked the following competencies as most necessary for success in a leading-edge finance organization:

- Communication skills
- Ability to work on a team
- Analytical skills
- Knowledge of accounting
- Familiarity with business operations

Notice that of these five competencies, only one relates directly to financial management. The other four are attributes possessed by effective managers in general. For financial executives to assume their rightful place at the policymaking table, they must cultivate these attributes.

### Overcoming Information Myopia

An important first step toward establishing partnerships with nonfinancial managers is admitting to information myopia—the tendency to not look beyond one's own immediate information requirements. Gathering and reporting the information needed to obtain and maintain a clean financial audit opinion, for example, is a critical short-term priority for financial executives. If they are to establish themselves as business partners, however, financial executives need to be at least as attuned to the daily information needs of nonfinancial managers as they are to their own.

This begs the question, How are financial executives to know what general managers need from financial information systems? Some financial executives simply guess, while others attempt to

integrate existing systems without an understanding of user requirements. Neither of these approaches works particularly well. The former wastes resources and often angers the users, and the latter merely “paves the cow paths” of old and outmoded ways of doing business.

What does work is to sit down and discuss the financial information needs of nonfinancial executives and other end users of the data. At first, these meetings can be awkward, confusing, and sometimes frustrating. Financial executives sometimes leave such meetings feeling like nonfinancial professionals “expect the world,” are content to let the reporting process define their needs, or will eventually adjust their needs on a whim. Before financial executives can hope to understand the information needs of their nonfinancial peers, there must be a relationship of trust and a sense of partnership among the parties. Financial executives should be willing to take the first steps down this path—steps that inevitably lead to the desks of their nonfinancial colleagues.

### Conclusion

Raising the organizational profile of financial executives requires more than simply fostering effective working relationships with senior managers. Financial executives also must have the ear and respect of the chief executive officer. This demands that financial executives more broadly define the role of finance within their organizations and demonstrate how this role is essential to operations in general and strategic decision making in particular.

By leading the charge to entrepreneurial government and developing nonfinancial competencies, government financial executives can establish themselves as valued business partners. The transformation from scorekeeper to business partner is occurring at all levels of government and in the private sector as governing bodies and chief executive officers are increasingly turning to financial executives to take their organizations to new heights. Financial executives should not shy away from these new responsibilities, but rather embrace them. Those who do are likely to find that the ability to exert greater influence on strategic decisions will increase their job satisfaction and further their careers as never before. ■■■

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