



CRUCIAL CONVERSATIONS in FINANCE SURVEY

In Association With
VitalSmarts®





It was our pleasure to partner with AFP and administer the *2013 Crucial Conversations in Finance Survey*. This survey explored times in a financial professional's career when the success of his or her organization or career depended on a single conversation or decision. We received more than 101 detailed accounts of these defining moments and from them learned a great deal about the risks and rewards of speaking up in times of crises. Specifically:

- Crisis are defined by hidden problems, entrenched interests, and profound future risks.
- In these defining moments, financial professionals face a choice that promises profound personal risk in order to stave off future organizational catastrophe—while offering no compensating personal reward.
- Self-interested actors are more likely to procrastinate than speak up and as a result, problems grow in size and urgency, often until the firm's existence is in jeopardy.
- Influential professionals skillfully speak up. Those who deliberately do so in times of crisis improve the trajectories of their organizations and their careers.

Most importantly, analysis of these 101 defining moments revealed a clear pattern for success and repeatable dialogue skills any leader can replicate to navigate a future defining moment.

- **Step Up.** Don't avoid, delay, or talk around the crisis. Instead, step up. Have the right conversations with the right decision makers.
- **Salute the Flag.** The military have a saying, "Always salute the flag before you disagree with your commanding officer." This advice minimizes the chance that your speaking up will be seen as an attack.
- **Start with Facts.** Your credibility rests on your professional expertise, so get your facts straight.
- **Tell the Story.** Explain what the facts mean and what they add up to while taking care not to overstate your conclusions.
- **Encourage Testing.** Have dialogues, not monologues. Ask for second opinions and data collection. Let others discover the problem the way you did.
- **Be Generous with Credit.** When you successfully defuse a crisis, share the credit with the decision makers and stakeholders who made tough choices and took difficult actions.

As you read through this report, I encourage you to evaluate your personal acumen at speaking up as well as assess whether your organization fosters an environment conducive to candid dialogue and universal accountability.

The last thirty years of research has taught me that the ability to speak up in defining moments is a vital behavior demonstrated by top performers, leaders, and influencers. More importantly, these skills—when supported by the entire organization—lead individuals, teams and the enterprise to make the best decisions and execute on those decisions to drive results.

Regards,

David Maxfield

Vice President, Research

VitalSmarts



CRUCIAL CONVERSATIONS in FINANCE SURVEY

David Maxfield

Many historians discount the influence individuals have on the course of history. They focus on broad patterns and miss the particulars. Whenever we dig into the details of an organizational crisis, we find individuals creating history and determining the fates of their firms.

We partnered with the Association for Financial Professionals and collected descriptions of 101 of these crises from top financial leaders. Many stepped up in crisis situations—risking their careers to save their firms. Some succeeded, many others failed. From them, we learn what it takes to speak truth to power and how speaking up can impact your organization and career.

INGREDIENTS OF A CRISIS

Nearly every crisis included the same three ingredients: hidden problems, entrenched interests, and profound future risks. The added complexity was that the protagonist faced a choice that promised profound personal risk in order to stave off future organizational catastrophe—while offering no compensating personal reward. So, while the status quo was perilous, the self-interested actor was more likely to procrastinate than speak up. As a result, the problems grew in size and urgency, often until the firm's existence was in jeopardy.

Hidden Problems. Many times the financial professional was the first or only person to recognize the risk. Others didn't have access to the information, didn't understand it, or failed to see the crisis at all.

They can't see it. "I was responsible for finance and accounting functions, including inventory. My inventory staff was beginning to report some sizable losses. Inventory was securitized and losses not only hit the P&L, but also reduced our borrowing capacity. The first reaction many key managers had was denial. They suspected the inventory results were faulty and wanted them retaken."

Entrenched Interests. Often there were powerful stakeholders who were invested in the status quo. They believed they would suffer if changes were made. The financial professional had to win over these opponents.

This will take a lot of support. "While implementing a new treasury system, we discovered that globally, we were not fully utilizing the currency functionality of our ERP system. We needed to decide whether treasury would cancel the implementation or move mountains to change accounting practices, document new processes, and retrain our finance teams globally on how to properly book foreign currency transactions. In choosing to continue with the implementation, we had no choice but to influence and gain the support of our global finance teams."

Uncertain or Unpleasant Future. Many times the financial professionals were bearers of bad news. The changes they requested had immediate costs to stakeholders and the future they described was uncertain.

This isn't what you want to hear. "When it came time for me to speak, I explained that after listening to the conversations, I was confused. The parent company stated they only wanted to acquire the best that showed a strong likelihood for success. I explained that neither management team worked together well; one operation was union and the other non-union; and financial performance was lackluster at both operations. I felt this merger was too large for the Denver team to manage and, based on our defined mission for acquisitions, this was not a good deal. By the reactions I got, I felt like my new career was over."

INGREDIENTS OF A DEFINING MOMENT

A crisis becomes a defining moment when it establishes a new reputation, reveals a person's character, or proves what they're made of. These defining moments become significant pivot points in the person's career—for better or for worse.

Three ingredients turned a crisis into a defining moment: the risk the person took in pursuing their beliefs, the visibility of their actions, and the results they achieved. Savvy financial professionals never waste a crisis. They take deliberate actions to create defining moments.

Risks. The financial professionals put their careers, and sometimes their personal safety, on the line for what they believed was right. When people place their organization ahead of their own interests, it gets attention. Others know they are seeing the person's true character.

Fire me, if you want. "One morning the irate president came into my office to 'persuade' me to admit the results were faulty and to change the report. I refused...he insisted...I refused again. At this point, he loomed over me and beat my desk with his fist. I finally told him to fire me if he wanted. I knew the results were correct and I wouldn't change them. He stomped out knowing that even if he did fire me, everyone in key management roles knew the truth."

Visibility. When these financial professionals spoke up or took a stand, they had an important audience. Often, they spoke up to their boss, the CEO, board members, or owners. The way they spoke up—their courage, knowledge, and professionalism—defined them in the eyes of these critical audiences who further carried their reputation to a broader audience.

***Schedule the big stage.** “Shortly before the Great Recession, my company made a lot of money on mortgages and chose to ignore the signs of the housing bubble. I was very concerned that we didn’t have a strategy for when the bubble burst. So I asked to meet with the executive leadership and presented evidence and laid out a strategy for dealing with the aftershocks—which were large enough to put the company out of business. After forty-five minutes, I convinced them that it was a bubble and that our business model was at grave risk.”*

Results. Results matter in two ways: First, the advice had better be right. Giving bad advice can become a defining moment too. Second, the advice needs to be given in a professional way, that isn’t seen as an attack.

***Force a solid assessment.** “A major service provider notified my organization that it was going to start enforcing payment terms—giving us 30 days to come up with \$4 million in cash to move the outstanding account from 75 days to N30. We did not have a line of credit or any external financing to cover this requirement. I used this event to force the company to assess our pricing policy. It caused radical changes to the way we priced our products and services. This was a pivotal moment in the organization’s maturation and helped strengthen our long-term financial viability.”*

LESSONS LEARNED FROM 101 CRUCIAL CONVERSATIONS

Analysis of these defining moments yields clear patterns for success. These leaders did not simply speak up—they skillfully minimized defensiveness even in remarkably volatile situations. And astoundingly, most not only preserved relationships, but increased their influence substantially with stakeholders. Some of the most common skills include:

Step Up. Avoid the twin dangers of silence and violence. Neither will serve you well. Don't avoid, delay, or talk around the crisis. Instead, step up. Have the right conversations with the right decision makers. At the same time, don't attack, patronize, or insult. Speak up in a professional way. You will need all the credibility you can muster, and people will be watching to see how you react.

“Early on, I enforced the credit card security standards. When one of the merchants was operating in a risky/unsecure environment, I forced them to close their merchant account which put them out of the credit card acceptance business. That departmental head was extremely influential and did as he pleased. When people learned I shut this merchant account down, they were amazed I tackled someone so politically influential. The word quickly went around that I meant business and from that point on I had little trouble getting people to pay attention to my requests for tightening the security.”

Salute the Flag. The military have a saying, “Always salute the flag before you disagree with your commanding officer.” This advice minimizes the chance that your speaking up will be seen as an attack. Saluting the flag carries two reminders: First, it shows respect for the other person, their role, and their circumstances. Second, it reminds them that you share a common purpose. Position yourself as their ally rather than their adversary.

“I worked as the senior financial officer for a family-owned business. On several occasions, decisions were made at family dinners without me. I set up a meeting with the President/Owner and told him my goal was not to come between him and his family—I was a daughter too and my relationship with my father was extremely important to me. Then I explained that when business decisions were made out of the office, I was unable to do the work he hired me to do.”

Start with Facts. Your credibility rests on your professional expertise, so get your facts straight. Anticipate how people might misread or question the data. The facts should be incontrovertible, the common ground everyone can agree on.

“They needed hard data to see the scope of the problem. So I put together a spreadsheet that showed 100 examples of errors made on our accounts in the last six months. I also told them that company B made 10 errors in that same time frame and company C made 7. That perked up their ears and they started paying attention and fixing the problems.”

Tell the Story. Explain what the facts mean, what they add up to. Don't assume others see the same implications you do. Take care not to overstate your conclusions. Conclusions aren't the same as facts; they are open to differing interpretations.

“I knew through my research, that the stakes were high if we were breached; severe monetary and reputational loss. I created a presentation with the highlights of what was at stake if we did not get ourselves into compliance. The key was keeping the presentation focused on the potential business risk if we were breached.”

Encourage Testing. Have dialogues, not monologues. Once you've shared your perspective, make sure others share theirs—especially if they see things differently. Ask for second opinions and data collection. Let others discover the problem the way you did.

“We hired a new executive-level manager who refused to follow our processes. I wrote out the reason why she was out of compliance and then we had a crucial conversation. Each of us explained our intent regarding fiscal matters. Each explained our perspective. We reached a mutual understanding of why our processes were important and had to be followed. After that conversation, we saw improvement in her compliance.”

Be Generous with Credit. When you are successful at defusing a crisis, your actions will speak for themselves. You won't need to advertise your success. Instead, share the credit with the decision makers and stakeholders who made the tough decisions and took the difficult actions.

“Several employees were caught stealing company property. As the Department Head of the Cost Control section that uncovered this criminal activity, I worked with HR and Security to provide details, confront the wrongdoers, and participate in the police report. Despite receiving threats, we conducted our work as normal to demonstrate that truth will not back down in the face of wrongdoing. The General Manager and Head Office also gave their support and added visible security around the property for several months.”

MAKE YOUR MARK

The financial professionals who spoke up in times of crisis, and made them defining moments, improved the trajectories of their organizations and their careers. Nearly all of them spoke to the positive impacts it had on their companies and their lives.

- *“This conversation really fixed in people’s minds that I meant business and would back up what I demanded with action; it has made similar difficult conversations much easier over the years.”*
- *“I believe these conversations were crucial in my continued success in our company.”*
- *“It ended with staff changes, full capacity, and a 1st time national accreditation under my leadership.”*
- *“I know I earned respect from the VP. He called me in to his office, talked about leadership, thanked me for my contributions, and offered me the open FP&A Manager’s position.”*

Crisis situations don't happen every day, but they happen several times in every career. Make sure you are ready to recognize the signs, create a defining moment, and make your mark on history.

CREATING A CULTURE OF CANDID DIALOGUE

Our research over the past thirty years reveals a clear difference between speaking up and speaking up well—and we observed identical trends in this study. When it comes to speaking up in defining moments, past studies show that nearly half of leaders make some attempt to hold a crucial conversation. But unfortunately, most leaders are ineffective—they aren't skilled at using the dialogue principles described above. Some speak up but they water down their concerns so the issues are never fully aired. And some speak up but do so in a way that provokes defensiveness from others. Ultimately, only a handful of leaders are able to share their full concerns and, by the end of the conversation, feel their views are heard, understood and respected.

While the skill of the initiator is a key ingredient in ensuring these crucial conversations are held well, the receptiveness of the other party is similarly important. While financial leaders who are adept at holding crucial conversations are far more effective in dealing with prickly and defensive executives, their skills don't guarantee that their concerns will be addressed. Unless and until leaders take extraordinary measures to overcome cultures of silence and ensure their environment is conducive to holding crucial conversations, a significant number of issues will remain unaddressed, invisible and fatal.

And just what is the cost of a culture of silence?

In one study we conducted among 600 employees, we found that 95 percent of a company's workforce struggles to confront their colleagues and managers about their concerns. As a result, they engage in resource-sapping avoidance tactics including ruminating excessively about crucial issues, complaining, getting angry, doing extra or unnecessary work and avoiding others. What's more, the ramifications of avoiding conflict are extremely costly.

In fact, we found that employees waste an average of \$1,500 and an 8-hour workday for every conflict they avoid. In extreme cases of avoidance, an organization's bottom line can be hit especially hard. Specifically, a shocking 8 percent of employees estimate their inability to speak up in defining moments costs their organization more than \$10,000. And one in 20 estimate that over the course of a drawn-out silent conflict, they waste time ruminating about the problem for more than 6 months.

In a second study of 2000 managers from 400 companies that struggled to restructure financially in the face of economic hard times, we found that how quickly and how well an organization makes financial adjustments depends on how well leaders hold crucial conversations. As one example, when managers could not speak up about financial “sacred cows” in their company, the pace of response was five times slower and the quality of the response (as measured by company profitability) was ten times worse. What differentiated companies that responded wisely and quickly was not the size of their financial gap, it was how skillfully and consistently people engaged in crucial dialogue.

So for leaders who find themselves the soul champion of speaking up in a culture of silence, here are a few recommendations for building a culture of candid dialogue.

Develop a Business Case for Change. Hidden problems, entrenched interests and profound future risks do not turn into malignancies if people are willing and able to speak up and address them.

In one organization, the senior executives worked tirelessly to create a culture where people could raise these crucial conversations no matter the level or position of the person they had to confront. This effort seemed to immunize the organization against crises that have the power to destroy careers and entire organizations. While poor decisions still slipped through the cracks and risks were occasionally ignored—these problems did not persist. They were routinely discussed and resolved simply because the senior executives influenced employees to practice the one behavior that matters more than most any others—skillful candor.

So if you want to create a culture where professionals step up to defining moments with skill and confidence, invest your influence efforts in creating a culture where crucial conversations are held promptly, routinely, and skillfully.

- Start by distributing this report to senior leaders to generate discussion about the root cause of silence. Draw attention to the existence of hidden problems, entrenched interests and profound future risks and whether they are being adequately discussed and addressed.
- The goal of this process of reviewing research, engaging discussion, and focused listening is to help senior leaders connect the behaviors described here with results they care intensely about. Once they can articulate this connection, they will see the business need for changing these vital behaviors.

Invest in Skills. Most financial professionals lack the confidence to address these politically sensitive issues and pending crises because they don't know how to lead these risky discussions. Leaders who train their people to deal with crucial conversations see substantial improvement in whether and how the crises are identified and averted.

- Publish a bold improvement goal. Get senior leadership committed to specific improvements over baseline measures.
- Follow up with training, discussion, assessments, and other tools to ensure that transference is occurring. Monitor the impact of this training in your organization.
- Map training outcomes to key performance indicators. Determine the behaviors that are connected to the results you want to improve and track both the behavioral change and the bottom-line result you're after.

Hold Senior Management Accountable. Investing in financial professional's competence at holding crucial conversations is necessary but insufficient. Effective organizations judge leaders and hold them accountable for improving the outlined measures within their areas of responsibility. The best even tie it to senior leadership bonuses and performance evaluations. In addition:

- Make leaders the teachers. People will change their behavior more rapidly if leaders model effective dialogue or deliver training on these skills and principles. When leaders model and teach, the speed of change can be two or three times greater than when those who aren't as credible and connected in the organization lead instruction.
- Hold everyone accountable for creating a culture of candid dialogue. When senior leaders know they are accountable for how well they lead at changing people's behavior, they become much more interested.

Make Heroes of Early Adopters. The key to getting a hundred people to speak up is to publicly reward the first one who does. Be sure to send a clear and public message that these conversations aren't just important, they're crucial—and those who raise them are highly valued.

- Highlight and reward people who take a risk and blow the whistle on a pending crisis, surface sensitive project risks or challenge leaders in a public forum. If you want to change the values of an organization away from silence and toward candid dialogue, make heroes of those who take a chance with the new behavior.

The last thirty years of research has taught us that crucial conversations skills are the vital behaviors demonstrated by top performers, leaders, and influencers. They are the tools for achieving productive dialogue in even the most harried and risky defining moments. More importantly, they lead individuals, teams and entire organizations to make the best decisions and execute on those decisions to drive results.

AFP RESEARCH

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director, Research and Strategic Analysis, Kevin A. Roth, PhD, who is joined by a team of research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting.

AFP Research also produces *AFP Econ Watch*, a weekly economic newsletter. Study reports on a variety of topics, including AFP's annual compensation survey, and *AFP Econ Watch*, are available online at www.AFPonline.org/research.



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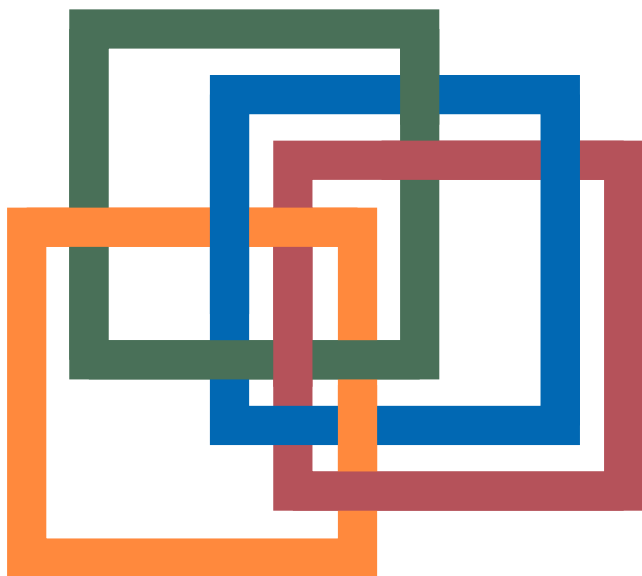
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When you invest
in your people,
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successfully.

VitalSmarts: Our Unique Approach

VitalSmarts, an innovator in corporate training and leadership development, has identified a unique approach for enabling organizations to achieve new levels of performance by focusing on the human system, otherwise known as the Cultural Operating System.

Just as electronic devices need basic functions like input, output, data management, and so on, what basic human software do you need in order to execute flawlessly and innovate consistently over time?

Our research led us to four foundational skill sets that, when present across all levels of the organization, ensure things run smoothly and improve routinely. They are:

Personal level: Self-directed change

Interpersonal level: Open dialogue

Team level: Universal accountability

Organizational level: Influential leadership

The VitalSmarts suite of training products, when used in combination, create a synergy that addresses these four building blocks of a healthy Cultural Operating System and enables your organization to **CHANGE FOR GOOD.**

To speak with a VitalSmarts representative about how to improve the culture of your organization, call us today at **1-800-449-5989** or e-mail salesupport@vital-smarts.com.

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