LAGOS BUSINESS SCHOOL
PAN-ATLANTIC UNIVERSITY

CORPORATE FINANCIAL INTELLIGENCE

AND

THE PERFORMANCE LOGIC

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A business is a vehicle for creating value for shareholders and other relevant stakeholders in an ethical and sustainable way.

Executives and managers, under the direction and control of the board of directors are primarily charged with the responsibility of taking decisions that will achieve these objectives of the business in an efficient, effective and sustainable manner.

Managers generally identify opportunities, develop a strategy to pursue these opportunities, design and specify the scope of operations and investments required to support the business. Finally, managers take decisions on how to finance the entire operations using a mix of debt and equity.

From a corporate finance perspective, a business generally uses finance as its key driver. Corporate finance is thus the sourcing and deployment of funds in line with the strategy of the business and in pursuit of its objectives of creating value for its shareholders and stakeholders.

Corporate financial intelligence is premised on a number of assumptions about the organisation and its quest for superior performance. These assumptions are:

1. A business exists to create value for its shareholders on a sustainable basis, while delivering commensurate value to its other relevant stakeholders
2. All businesses operate on the basis of a universal or unifying performance logic
3. Managers are responsible for taking decisions that will improve the performance of the organisation and create value for shareholders and stakeholders
4. Improved organisational performance can be opportunistic or orchestrated
5. All managerial decisions have financial implications, irrespective of the domain of origination within the organisation
6. No managerial decision is entirely domiciled in any one function of the business irrespective of its domain of origination

The corporate performance logic implies that managers should take decisions that increase shareholder value.

Performance = ƒ(QMD) = ƒ(CC x QI x T x F)

Corporate performance is thus a function of the quality of managerial decision (QMD), which is in turn a function of the cognitive capacity (CC) i.e knowledge and skills of the manager. Then, the quality and relevance of information about the problem and possible solutions (QI), the time available within which to solve the problem (T) and the degree of flexibility (F) that the manager has in either delaying the decision without adversely affecting the decision outcome (time flexibility) and or the flexibility to change the scope of the decision parameters to improve the likelihood of a favorable outcome (scope flexibility).

Corporate performance can thus be opportunistic, circumstantial, or orchestrated. It is opportunistic or circumstantial when a company delivers stellar performance that is not directly attributable to the skillful management and decisions of the managers, but is due to the results of favorable operating conditions, and benign competitive conditions.

Performance is orchestrated when stellar results are a product of the deliberate, consistent and effective high quality decisions by managers, whether or not the operating and competitive conditions are favorable or not.

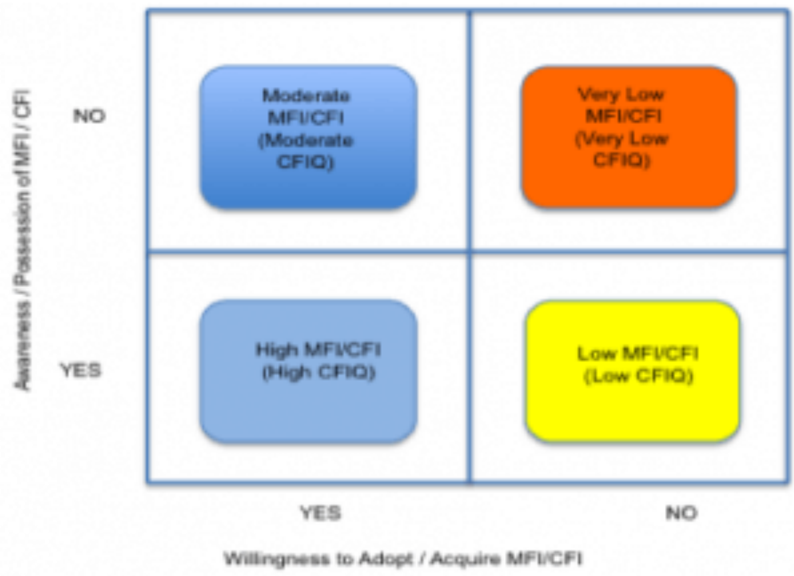
- *The Corporate Financial Intelligence Framework (CFI™) is the design of a corporate policy, system, culture and organisation that deliberately employs financial information and techniques as critical tools in evaluating business opportunities, strategies investment and financing decisions, risk evaluation, performance analysis and reward.*

Organisations with a well-established Corporate Financial Intelligence Framework have high corporate financial intelligence quotient (CFIQ™) and are likely to deliver consistently better performance relative to those with low corporate financial intelligence quotient (CFIQ™).

Components of the CFI Framework are:

- **Managerial Financial Intelligence**, a situation in which all managers responsible for taking decisions that impacts on the performance of the business are aware of the financial implication of these decisions, and have sufficient level of financial skills and knowledge to enable them read and understand basic financial statements, and use financial tools in problem analysis, proposing solution options, making informed choices and evaluating decision outcomes.

An evaluation of a sample of Nigerian managers suggests a generally low level of managerial financial intelligence and weak adoption conditions and intentions for corporate financial intelligence framework within the organisations they manage.



- The design and implementation of **Managerial Financial Information System** (MFIS) for gathering, storing and distributing relevant financial information from within and outside the organisation to relevant decision makers within the firm.
- There needs to be a high level of **commitment from top managers / executives** and the entire organisation to the institution and adoption of corporate financial intelligence framework on a consistent basis.
- The design and implementation of firm-specific, process and function-specific **key financial performance indicators (KFPI).** The KFPI must comprise of both leading indicators that will direct and reward actions towards improving performance in a measurable way, and lagging indicators that will measure the results of such actions, as a basis for rewarding and sustaining performance.

- The institution of **processes, systems and culture** that promote and support corporate financial intelligence in the organisation. A corporate strategy and operation built around corporate financial intelligence.

Corporate financial intelligence should be driven by the leadership of the corporation, that is, the board of directors and the chief executive, and cascaded to all employees.

Following the adoption of the corporate financial intelligence framework, the organisation can develop a corporate financial intelligence scorecard, which will help define, communicate, monitor and measure the execution of corporate financial intelligence of the business over time, enabling the measurement of the corporate financial intelligence quotient (CFIQ™) of the organisation.

The design and committed adoption of the corporate financial intelligence framework, leads to high corporate financial intelligence quotient (CFIQ™) for the organisation and measurable improvement in corporate performance and shareholder value on a sustainable basis. It is conceivable that corporate financial intelligence can serve as a basis of competitive advantage for the organisation.

Read the full article: Corporate Financial Intelligence as a Driver of Organisational Performance: A Conceptual and Exploratory Review

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