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# Will a High-Performance Finance Function Company Become a High Performance Organization?

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*High Performance Organization (HPO), High-Performance Finance Function (HPFF).*

**ABSTRACT**
Each company has a different performance and competitiveness from other companies. This performance determines their resilience to face various economic conditions, including economic contraction due to the Covid-19 pandemic. Various kinds of literature state that High-Performance Organizations (HPO) are related to their financial management performance. This study took a sample of 66 small and medium-sized companies in North Sumatra Province, Indonesia. We conclude that all High-Performance Organizations (HPO) factors strongly correlate with the High-Performance Finance Function (HPFF). Therefore, if a company wants to become a High-Performance Organizations company, it must also become an HPFF company. Therefore, we suggest that the top management of each company pays attention to the interrelated aspects of managing the financial function to improve or maintain the company's competitiveness. Another thing to note is the HPFF characteristics, namely "Personal Development" and "Role Clarity," which can differentiate the performance of the financial function among research respondents.



## 1. Introduction

The COVID-19 pandemic has put pressure on the economy. Although some business sectors are relatively able to survive, in general, all businesses cannot keep their business running normally. However, the severity level between companies is relatively different from one company to another. Several companies have closed their businesses; some can survive with reduced operations, some are operating normally, some are even experiencing growth.

The company's survival ability difference is reminiscent of the High-Performance Organization (HPO) concept. An HPO is a company that achieves significantly better financial and non-financial results than its peers for five years or more with a commitment to focus on what matters to the company (de Waal, A. A, 2012). The essence of the HPO idea is to create a reliable internal company to quickly and flexibly handle threats and take advantage of available opportunities. This condition can only be achieved if all company functions create and maintain HPO (He & Liu, 2018). Based on this understanding, we suspect that companies that are relatively able to withstand the pressures of the Covid-19 pandemic are High-Performance Organization (HPO) companies.

As an High-Performance Organization (HPO), a company is undoubtedly supported by various internal company functions. Among the various management functions, any company's most important supporting function is the finance function (CFO Innovation Asia, 2018; Graham et al., 2012; Wolf et al., 2015). The term "*finance function*" refers to all financial processes within an enterprise. Someone in charge of the financial process is usually involved in other parts. The person is like a spider in a corporate web, having connections with every part of the company. Therefore, the finance function must be the function that leads other functions, namely in the concept of High-Performance Finance Function (HPFF) (de Waal, A., & Bilstra, E, 2016).

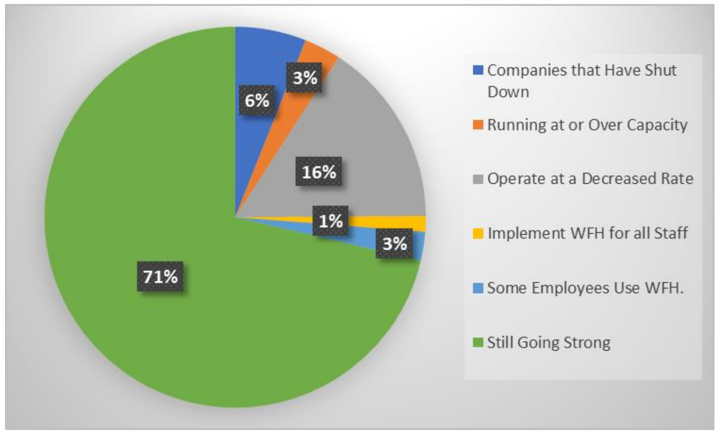


**Figure 1. The Covid Pandemic's Impact on North Sumatra Business**

In particular, in the North Sumatra Province, the Covid 19 pandemic has put pressure on many companies. In 2020, North Sumatra experienced negative growth. However, it is currently experiencing a recovery with a growth of 3.67% (Q3 2021, yoy). The Central Statistics Agency (BPS) of North Sumatra Province surveyed the impact of Covid on the business sector. The survey data are shown in Figure 1. There are 73.39% operating as usual, while 6.21% have stopped operating. As many as 84.49% of small and medium scale companies experienced decreased income.

The above explanation shows that the economy is still growing, and some companies can survive and even grow. However, there is a gap between one company and another. Not only caused by differences in industry characteristics but also due to differences in the quality of internal management.

The difference in the company's conditions in dealing with the COVID-19 pandemic is very likely the impact of High-Performance Organizations (HPO) and High-Performance Finance Function (HPFF). Based on the theory and the results of previous research, the companies that can survive are companies with HPO status. The company's ability to become HPO is suspected to be closely related to its ability to carry out its financial functions properly. This study will elaborate on High-Performance Organizations (HPO) and High-Performance Finance Function (HPFF) in small and medium-sized companies in North Sumatra Province.

**High Performance Organization (HPO) Framework**

The HPO framework needs to be developed to holistically identify which factors affect a company's high and sustainable performance. The HPO factors are as follows (A. A. de Waal, 2012):

1. HPO Factor 1: Continuous Improvement. HPO has a unique strategy that makes it stand out in its industry. The HPO is responsive to environmental changes by continuously innovating its products and services, thereby creating new sources of competitive advantage. In addition, HPO ensures that core competencies are maintained, and non-core competencies are transferred.
2. HPO Factor 2: Openness and Action Orientation. Managers at HPO companies respect employees' opinions and always involve them in important business and company processes. HPO company managers are open to the possibility of making mistakes and encourage everyone to take risks. It is considered a valuable opportunity to learn, develop new ideas, and exchange knowledge to pursue collective improvement.
3. HPO Factor 3: Quality Management. HPO company managers try to get employees to trust them. They respect loyalty and have high integrity; they treat their employees with respect and maintain individual relationships with them. HPO company managers are deeply committed to the company and have strong ethics and standards. They support and help employees to achieve results because they believe that

employee achievement is also their responsibility. The HPO company manager is a role model for the entire company.

4. HPO Factor 4: Long-Term Orientation. For HPO companies, long-term commitment is more important than short-term profits. The company's stakeholders benefit from a long-term orientation where the principal manager relationship is also put in a long-term perspective. Managers of HPO companies are committed to the company, and generally, new positions are filled by employees who have worked within the company. Managers at HPO companies believe their company is a safe and comfortable place to work. They are sure to contribute to the best of their ability.
5. HPO Factor 5: Employee Quality. HPO company employees are flexible and resilient. They are trained formally and on on-the-job training to achieve extraordinary results. They work in a team with diverse competencies to deal with problems and generate good alternative ideas for improvement.

A company can evaluate whether they are an HPO or not by performing an HPO diagnosis. This process begins with disseminating awareness regarding HPO to management and other interested parties. They were introduced to the HPO framework, the diagnosis of HPO, and the possible transformation process into an HPO company. During the diagnosis of HPO, management and employees fill out an HPO questionnaire consisting of questions regarding the factors of HPO. Based on this, top managers can determine which factors need improvement.

**High Performance Finance Function (HPFF) Characteristic**

Several studies conclude the advantages of HPFF. This means that companies with high HPFF have better performance than those with average industry performance (O'Connor et al., 2014). For example, in the HPO study, Accenture (2014) noted that HPO companies have better financial functions than non-HPOs. The finance function is headed by the Chief Financial Officer (CFO), who usually has significant influence. The CFO is often responsible for large projects within the company and is involved in the strategic planning process and evaluating the company's overall activities.

Using a questionnaire distributed among 1,500 financial professionals in more than 200 companies, PwC (2014a) identified the main differences between companies with the best financial management performance and those with average financial management performance. For example, companies with average financial management performance will bear 60 percent higher costs and take twice as long to process certain activities. Meanwhile, companies with the best financial functions can carry out internal controls twice as effectively and have 40% more effective partnerships.

Several previous studies have succeeded in formulating the formation of the HPFF (Accenture, 2014; CFO Research, 2013, 2014; CFO Research and SAP, 2014; Chang et al., 2014; Chartered Global Management Accountant, 2013; de Waal et al., 2013). ; Fintouch, 2015; Hendrickx, 2014; KPMG, 2013; Lawson, 2013; O'Connor et al., 2014, 2015; PwC, 2012, 2014a, 2014b; Strikwerda, 2014; Tillema, 2013). Based on this, 11 characteristics of the financial function were obtained for a company to become an HPFF. These characteristics are as follows:

1. Shifting focus from survival to continuous improvement of the financial function. The financial function is not carried out like a firefighter but carries out a strategic function. The company continues to adapt to environmental changes. The finance function must anticipate these changes by providing the support it needs.
2. Shifting focus from routine transactions to activities that increase added value. This step requires policies to enable financial professionals to move from routine work to partnering with all other managers.
3. Change manual operation to full automation. The finance function must shift towards a fully integrated information system. The change to an integrated IT system is essential to becoming an HPFF.
4. Focus on providing all middle line managers with the necessary support systems such as IT systems and business intelligence systems.
5. Looking to the future more proactively and predictively to be able to more quickly identify and anticipate risks and immediately take advantage of opportunities.
6. Transferring various functions to outsourcing to focus on diverting resources to activities that provide more added value.

7. Shifting the focus from technical and financial issues that the IT system has handled to a financial function focusing on strategic matters.
8. Turning professional training in finance into ongoing personal development. This happens because information systems and applications will take over routine tasks so that humans handle only activities with high complexity.
9. Switch from a tactical role to a more strategic role. The finance function will be more actively involved in strategic planning. Financial professionals can use their expertise to analyze in-depth the financial consequences of strategic decisions and provide advice to other managers
10. Move from one general behavior framework for all situations to specific behaviors for certain conditions.
11. Learn to master how information technology systems work because all financial management professionals must understand how a system works and performs many functions within the company.

The eleven characteristics above are classified into five: finance function improvement, IT Focus, Personal Development, Role Clarity, and Strategic Role.

## 2. Materials and Methods

This research was conducted by filling out a questionnaire by managers responsible for the finance function in small and medium-sized companies in North Sumatra. We use the Snowball Sampling technique to obtain several samples that we believe can be used as data to obtain an overview of the problems studied. Before filling out the questionnaire online, we conducted a Focus Group Discussion (FGD) in stages with these managers. The online form contains 63 items to measure the five factors of HPO and the five characteristics of HPFF.

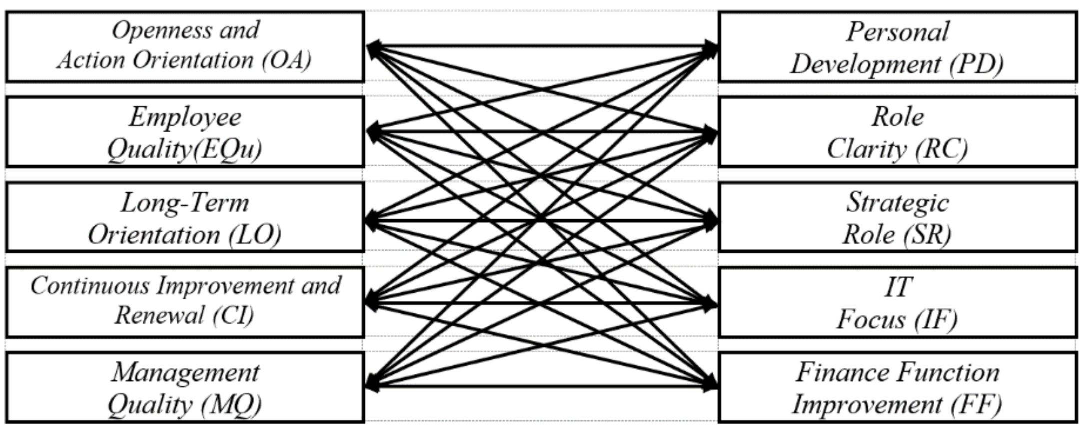


**Figure 2. Correlation Analysis of HPO and HPFF Characteristics**

We performed descriptive analysis procedures, Confirmatory Factor Analysis (CFA), correlations, and effects using the Smart PLS application to test our proposed model. The model is shown in Figure 2 and Figure 3. Figure 2 is a model for testing the correlation between the HPO factor and HPFF characteristics, while Figure 3 shows the model testing the effect of HPO and HPFF on Finance Function Performance (FFP).

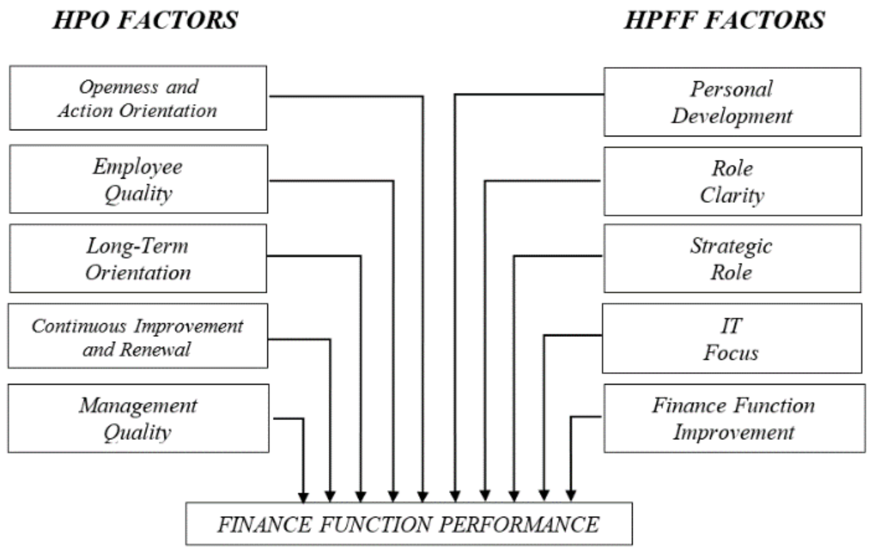


**Figure 3. Effects of HPO and HPFF on FFP**

## 3. Results and Discussions

After going through the snowball sampling process, we have obtained the willingness of 78 financial managers to fill out the questionnaire. Before filling out the questionnaire, we conducted several Focus Group Discussions (FGD) in stages with respondents who have expressed their willingness to fill out the questionnaire.

The questionnaires processed in this study were only 66 questionnaires from 66 companies. Twelve questionnaires were eliminated because several companies filled out the questionnaires by two different individuals, and several were deleted due to problems with the quality of data entry.

Before we test the relationship and interrelationships between the HPO and HPFF frameworks, we conduct a descriptive analysis of the data obtained. To avoid analysis difficulties due to differences in scale, each respondent's HPO and HPFF values are divided by the number of items asked to measure each factor and characteristic. Based on this, the measurement scale will be in the range of "one" to "five" according to the Likert scale that we use. Then calculate the average value and standard deviation for each factor and characteristic. The results of the descriptive statistical calculations are shown in table 1.

**Table 1. Descriptive Statistic**

| Framework and Characteristic | Factor / Characteristic | Average | Standard Deviation |
|---|---|---|---|
| High Performance Organization (HPO) Factor | Continuous Improvement (CI) | 3.95 | 0.66 |
| | Openness And Action Orientation (OA) | 3.95 | 0.63 |
| | Management Quality (MQ) | 4.02 | 0.61 |
| | Employee Quality (EQu) | 4.10 | 0.57 |
| | Long-Term Orientation (LO) | 4.14 | 0.53 |
| High Performance Finance Function (HPFF) Characteristic | Finance Function Improvement (FF) | 3.97 | 0.59 |
| | IT Focus (IF) | 3.76 | 0.64 |
| | Personal Development (PD) | 3.82 | 0.83 |
| | Role Clarity (RC) | 3.85 | 0.89 |
| | Strategic Role (SR) | 3.96 | 0.66 |

The average of each HPO factor and HPFF characteristic is about a value of four. In general, respondents stated the presence of each HPO factor and HPFF characteristics in their company. However, we are aware that filling out this questionnaire will take place in September 2021, when the pandemic has been going on for a year and a half. This means that the respondents in this research are employees of companies that have been relatively able to withstand the pressures of the Covid 19 pandemic.

Based on these conditions, it becomes logical for us to understand the average values of the HPO and HPFF factors which tend to be high. We acknowledge this condition as one of the weaknesses of this research, which only takes from companies that have been proven to survive in conditions of economic contraction. Therefore, the sample should be expanded to include companies that have failed to withstand the pressure of the Covid 19 pandemic. The "Continuous improvement" factor has the highest deviation among the HPO factors.

However, the standard deviation value gives a more detailed meaning. There are relatively significant differences between various HPO factors and HPFF characteristics. This means a relatively significant difference between one company and another. For example, among the HPO Factors, there is a relatively significant "Continuous Improvement" difference between the sample companies. Continuous improvement includes strategy development, performance improvement, and internal innovation. This aspect can be one of the essential aspects in creating and improving competitiveness. Based on the difference in the ability to carry out continuous improvement, there may be differences in the company's resilience in the face of economic contraction.

The deviation value between HPFF characteristics is significantly greater than the difference in the HPO factor. Two HPFF characteristics have a deviation value that is much larger than other HPFF characteristics, namely "Personal Development" and "Role Clarity." The characteristics of HPFF companies should show good employee development, but it can be seen that there are differences in their commitment to employee competency development among the sample companies. Companies that have a low commitment to developing the competence of their employees are relatively at risk of being unable to face economic changes, especially in the company's industry.

The following characteristic that significantly differs between the research samples is "Role Clarity," which reaches a deviation of 0.89. This means that there are companies that have clarity of duties and roles of their employees, but there are companies that do not have clear roles among their employees. This unclear role description in carrying out the financial function risks causing problems in the future. Therefore, we suggest that the company's management needs to clarify the roles of each of its personnel.

The data is processed using Smart Partial Least Square (PLS). The first test was conducted to test whether each HPO factor and HPFF characteristics item could be used for further testing. Some items do not pass the outer loading value of 0.5, namely the "CI" factor item number 6, item "OA" factor number 4, item "LO" factor number 4 and 6, and the "FF" characteristic item number 6. Items that are not sufficient contributions to the HPO and the HPFF are eliminated. Furthermore, reliability and validity were tested. All HPO factors and HPFF characteristics are reliable because they have passed the Cronbach's Alpha value of 0.7 and are valid because they have passed the Average Variance Extracted (AVE) value of 0.5.

Furthermore, it is tested whether each factor and characteristic affects the HPO and HPFF and whether the HPO and HPFF determine the Finance Function Performance (FFP). The results of these tests are shown in table 2. Based on the results shown in table 2, it is shown that each HPP factor and HPFF characteristics contribute significantly to the formation of the HPP and HPP.

**Table 2. CFA Hypothesis Testing**

| Relation | T statistics | P Value | Relation | T Statistics | P Value |
|---|---|---|---|---|---|
| CI -> HPO | 21.26 | 0.00 | FF -> HPFF | 18.72 | 0.00 |
| OA -> HPO | 15.82 | 0.00 | IF -> HPFF | 15.62 | 0.00 |
| MQ -> HPO | 22.25 | 0.00 | PD -> HPFF | 14.87 | 0.00 |
| EQu -> HPO | 13.85 | 0.00 | RC -> HPFF | 11.58 | 0.00 |
| LO -> HPO | 12.81 | 0.00 | SR -> HPFF | 18.55 | 0.00 |
| HPO -> FFP | 22.29 | 0.00 | HPFF -> FFP | 19.14 | 0.00 |

For companies to have higher competitiveness, company management needs to ensure the continuity of the following things; Continuous Improvement, Openness and Action Orientation, Quality Management, Employee Quality, and Long-term Orientation. The very high level of significance proves the substantial contribution of each of these factors to determine the company's success in becoming a High-Performance Organization (HPO).

Following the discussion in the descriptive analysis section, the "Continuous Improvement" factor has a relatively large variety of answers among the respondents' companies. This means that some of the company's management selected as respondents need to improve their efforts to make continuous improvements to their internal management.

Likewise, the HPFF characteristics also proved a substantial contribution from each of these characteristics in determining the performance of the company's financial function. Therefore, to have good financial management, companies need to pay attention to the following characteristics; Finance Function Improvement, IT Focus, Personal Development, Role Clarity, and Strategic Role.

Although all of these HPFF characteristics have been proven to contribute to determining the performance of the company's financial function, based on descriptive statistical results, it is necessary to pay attention to Personal Development and Role Clarity. The existence of these two characteristics among the respondents' companies is relatively varied. Logically, companies that are not good at managing these two things will be relatively less competitive.

**Table 3. HPO Factors and HPFF Characteristics Correlation**

| | | **HPO** | | | | |
|---|---|---|---|---|---|---|
| | | **CI** | **OA** | **MQ** | **EQu** | **LO** |
| **HPFF** | **FF** | .775** | .842** | .792** | .818** | .772** |
| | **IF** | .653** | .758** | .749** | .706** | .642** |
| | **PD** | .687** | .706** | .704** | .665** | .535** |
| | **RC** | .640** | .663** | .609** | .633** | .560** |
| | **SR** | .582** | .585** | .658** | .689** | .564** |

** Correlation is significant at the 0.01 level (2-tailed).

We then tested the relationship between the High-Performance Organizations (HPO) factor and HPFF characteristics. The results of the correlation test are shown in table 3. Based on these results, it can be seen that some of the HPO factors and HPFF characteristics have a strong correlation ("r" value above 0.5) and the rest have a very strong correlation ("r" value above 0.75). This is in line with our expectations and consistent with the results obtained by various previous studies.

The correlation test results in table 3, together with the results of testing the effect of HPO and HPFF on FFP shown in table 2, show strong evidence that the success of companies becoming prominent companies is strongly related to their ability to manage their financial functions. To become a company with advantages, the company must design and carry out its financial functions properly

## 5 Conclusion

Based on the discussion in the previous section, we conclude that the High-Performance Organizations (HPO) and High-Performance Finance Function (HPFF) factors have a very high correlation. Companies that want to become HPO must ensure that their financial management is carried out correctly. All High-Performance Organizations (HPO) and High-Performance Finance Function (HPFF) Characteristics have a strong relationship; even some of them have a very strong relationship. It can be ascertained that the existence is related to the existence of another.

Another important conclusion to note is related to the two characteristics of the High-Performance Finance Function (HPFF), namely "Personal Development" and "Role Clarity," which have relatively large variations among research respondents. These two characteristics can differentiate the performance of the financial function in a company. Companies with poor employee personal development and unclear roles among their employees can face problems in the future.

So that this does not have a negative impact in the future, we suggest to the company's top management to develop a plan for developing the competence of its financial employees. This is so that the company's employees can respond to changes in the economic environment and the latest financial practices. Another thing that needs to be improved is to clarify the role of each individual in the finance department so that everyone has a clear role. Unclear roles can cause severe problems and can even increase the potential for fraud significantly.

We suggest expanding the research sample to include companies that have gone bankrupt for further research. This is necessary to carry out a more profound elaboration on the causes of the company's failure.

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