The CFO role just got bigger: stepping out of the confines of finance

Today’s CFO does so much more than crunch numbers — shaping corporate strategy, guiding the CEO, managing stakeholders and driving organizational change.



January 1, 2013

The world of financial management is witnessing a shift in the responsibilities and demands

©IESE Business School

being placed on Chief Financial Officers (CFOs). The 2008 global financial crisis has been a major factor behind this shift, forcing CFOs to step up like never before. In the wake of the crisis, their profiles have been heightened — in the organization, with the CEO and among stakeholders generally.

Yet even in the years preceding the crisis, a spate of other financial scandals was already transforming the CFO's remit. Notorious cases, epitomized by Enron, prompted regulatory changes, most notably the Sarbanes-Oxley Act in the United States, designed to enhance standards for public company accounting and investor protection. Such reforms typically demanded the inclusion of at least one financial expert on audit committees, as well as stricter financial reporting and controls. Subsequently, CFOs have had to assume bigger responsibilities in corporate governance and stakeholder relations.

At the same time, Chief Executive Officers (CEOs) have started to look to their CFOs for something more. Shedding the one-dimensional role of "chief number cruncher," the CFO is expected to have more than the competencies of a senior accountant, showing leadership ability and giving input on corporate strategy as well. In short, the CFO is fast becoming the CEO's go-to person or right-hand man.

Two other recent trends are worth noting for their influence on financial reporting and investment portfolios: the rise of shareholder activism, with shareholders wielding more power over management; and the growing demands being made by stakeholders for greater transparency and social responsibility in the company's investment decisions. Both of these trends are having an added impact on, and hold clear implications for, the work of CFOs.

Given all this, we decided that a better understanding of this transformation was in order. To that end, we interviewed the CFOs of large corporations and organized panel discussions with another select group of CFOs working in global companies from India. Together, their feedback paints a revealing picture of the CFO's expanded role, which we consider to be a permanent shift, rather than a temporary adjustment made only to deal with extraordinary times.

In this article, we outline the main challenges facing the CFO, and suggest the personal and professional competencies that the CFO must develop in order to succeed in the future.

©IESE Business School

The increasingly complex role of the CFO today

Today's CFOs have a lot more on their plate than spending decisions alone. They are being summoned out of their offices to provide vital information and analysis for everything from corporate governance to strategy setting. Besides approving financial statements, they are being asked to handle relations with investors, employees and other stakeholders, conveying credibility to those outside as well as inside the organization. They are part CEO, part talent manager.

With this elevated role, their knowledge and understanding of the business have grown exponentially, giving them such a breadth of vision that they may sometimes be put in charge of overseeing cross-functional areas such as IT, asset management or operations.

All of this makes the CFO's relationship with the CEO much more complex. While the CFO may enjoy a closer working relationship with the CEO than, say, non-executive board members, theirs is not a relationship of equals; it would even be wrong to call them allies. Closer to the mark, perhaps, is the definition given by Andrew Halford, CFO of Vodafone, who said, "To me, the CFO role is very much that of being the CEO's right hand. As such, the personal chemistry is extremely important."

But apart from hitting it off on a personal level, the CFOs we interviewed felt that their biggest challenge was managing the relationship well over time. Along with being able to collaborate together effectively was the challenge of influencing CEOs in the right direction, while maintaining a proper degree of professional independence, in order to achieve some tangible results. This perfectly illustrates the tensions inherent in the CFO's new role.

Those whom we interviewed felt conflicted about being an ally to the CEO while at the same time being the one holding the company's purse strings. As our interviewees observed, and our own experience bears out, it is only by being able to strike a healthy balance between collaboration, influence and independence that CFOs will ever be able to meet the ultimate challenge facing them: achieving tangible results.

4 facets of the CFO's evolving relationship with the CEO

©IESE Business School

1. Collaboration

The CFO must work side by side with the CEO across a wide range of areas — from business strategy, organization, investor relations, capital management and investments, to financial reporting, planning, analysis, compliance and regulation.

Although some of these tasks have always formed part of the overall job description, now the CFO must do all of these things within the context of corporate strategy. This is because CEOs are relying more heavily on their CFOs for advice on the strategic issues facing the organization.

However, as David Sidwell, former CFO of Morgan Stanley, warns, you can't talk strategy with the CEO unless you have the necessary experience doing it. Ideally, finance professionals will acquire strategic competencies by moving around and working "on the shop floor" in other business units.

Gary Crittenden, who has worked as CFO of Citi and American Express, explains the advantages of job rotation: "We find that people who understand how difficult it is to run a business unit have a better appreciation for how important it is that we be accurate, good and forecast well."

Exactly how the CFO collaborates will depend on the particular aptitudes and leadership style of the CEO. CFOs who find themselves working alongside a visionary strategist will need to bring a complementary, more operations-focused view to the table. Conversely, if the CEO is more inclined to delegate and listen to other points of view, the CFO had better be more decisive, so as to avoid unnecessary delay, and drive the organization forward.

2. Influence

Collaboration without influence is ineffective. To be able to influence the CEO's decisions, the CFO must command respect within the organization and beyond.

A CFO who has real clout will be able to support the CEO, especially in listed companies, by building relationships with investors, analysts and opinion leaders.

CFOs must forge similar ties with the rest of the management team — even those with whom they do not interact on a daily basis.

Vodafone's Halford says that the sooner you extend networking activities to all areas of the

©IESE Business School

organization, the better: “As people work their way up the ranks, they should never underestimate the importance of building relationships with all those who are going to be key opinion leaders later on in their careers. And they’re not always necessarily the people who are in the direct line of sight.”

For many of those interviewed, it was equally important that everyone in the company saw them not merely as accountants but as allies. This combination of strong relationships and influence within the organization is crucial. It is what enables the CFO not only to support the CEO’s plans from a financial and strategic point of view, but also to present those plans convincingly to the rest of the organization and to facilitate their implementation.

For the relationship to work well, the CFO must be good at anticipating the CEO’s need for information and advice. This will mean keeping close tabs on the CEO’s agenda.

When the advice involves complex financial data, as it frequently does, the CFO must be able to deliver the necessary information in the most usable format. In time, the CFO should be able to anticipate and supply the required information without having to be asked.

3. Independence

Independence is the counterweight to the previous points. As Peter Marriott, formerly of ANZ, cautions, “If you become too friendly and too close to the rest of the team, you might lose some objectivity.”

Independence — rooted in the CFO’s traditional fiduciary duties and reinforced by current regulation — will always be one of the CFO’s core values. After all, CFOs are the ones who know best whether or not the company is meeting its obligations to shareholders and other stakeholders.

As such, they must set clear boundaries and instill in the organization a culture of respect for compliance in every aspect of practice and control. If CFOs consider corporate strategies, policies or conduct to be financially imprudent or even reckless, it is their job to play the role of “bad cop.”

Crittenden says, “You have to be tough … you have to insist on performance and you have to draw the line. There has to be someone inside the company, like one of the parents in a family, who has the ability to say no.”

He adds that there is an art to saying no in such a way that the bond with the CEO is

©IESE Business School

strengthened rather than weakened.

Simply being a yes man does the CEO no favors. John Hele, then CFO of ING, told us, “The only person the CEO can turn to is the CFO for help in making the really tough decisions that need to be made. In terms of adding value, helping make that one right strategic move at the right price may be worth more to the CEO than all of the other things you do.”

4. Results

Collaboration and influence, combined with independence, should translate into tangible results. CFOs who offer nothing but unchallenging advice, or who object to every risky business plan, are not doing their jobs.

Pierre-Jean Sivignon, former CFO of Philips, puts it this way: “It’s very easy to play the role of a bad guy, to be the control guy, to say you can’t do this, you can’t do that. But the good CFO is not a risk controller but a risk manager. When a question of risk is put on the table, instead of simply saying yes or no, you say no but offer a way to get to yes.”

In other words, a good CFO is prudent, but also has a healthy appetite for risk in the sense of scanning the business horizon with an entrepreneurial mindset.

This capacity to offer solutions, rather than only focusing on problems, stems from having a thorough grasp of the company’s business model.

For whatever model is presented, CFOs should be able to express the financial implications without resorting to heaps of spreadsheets and PowerPoints.

As Hele says, “A good CFO should be able to talk about business models instead of financial statements. And to describe the business model in a few sentences and with a few key value indicators is even better.”

The key to getting results lies in changing the organization. This is perhaps the most substantial change in the role of CFOs: their metamorphosis into change leaders who push the organization to work more efficiently and who come up with solutions that lead to better performance.

©IESE Business School

A new agenda for CFOs

To be the successful collaborator, ally and agents of organizational change, CFOs must acquire new competencies and deploy them within the company and its business environment.

The CFOs we interviewed offered the following recommendations, each of which poses specific challenges.

Get business savvy

The CFO needs to switch focus from accounting and financial statements to business fundamentals and value creation. In order to grow beyond the traditional accounting profile, what the CFO needs most is strategic vision. By delegating routine accounting and controlling tasks, the CFO will have more time for decision-making and strategy.

CFOs must move from managing internal stakeholder expectations to managing the expectations of stakeholders outside the organization. And they must remain alert to any changes in the business environment that could affect the company.

Speak the CEO’s language

Together, the CEO and CFO are the public face of the organization. To convey transparency and consistency, they must present a united front at all times.

Within the organization, the CFO must be sufficiently knowledgeable to become the CEO’s most trusted source on issues such as change management, foreign laws and regulation.

CFOs can also help the CEO by treating concerns about risk, compliance and corporate governance as business enablers rather than objectives.

Like CEOs, CFOs must learn to discern which tasks need to be delegated and which they must deal with themselves. This is something they can learn by becoming more proactively engaged.

CFOs must shake off a bureaucratic mentality and prove that they are leaders capable of managing people, processes and systems with swiftness and confidence.

At the same time, they must be able to grasp the nuances of the business and have the

©IESE Business School

vision and foresight to predict where the market might be, say, five years from now.

Be a talent manager

With high rates of attrition in middle management, managing the company's talent is also becoming a key function. The CFO must dedicate time to hiring, motivating, developing and offering the right training to the members of the finance department.

As the saying goes, leaders are only as good as their teams. If that adage is true, then it is in CFOs' best interest to support their team members and to offer them new opportunities and diverse experiences in other parts of the organization.

Think beyond finance

Exercising these new functions will require CFOs to deal with many more areas, which will entail honing some essential soft skills.

- **Communication.** The new CFO needs to be a good public speaker and, perhaps more important, a good listener.
- **Problem solving.** To drive change in the organization, the CFO must be a good team builder and motivator.
- **Public relations.** Beyond the nitty-gritty of company accounts, the CFO must learn to use persuasion, acting at times like a PR manager or a good politician, to engage with and enlist the support of the heads of other departments, as well as shareholders, regulators and the community at large.

Clearly, the need for CFOs to move beyond their traditional administrative functions and to devote themselves more to strategy will become even greater in the years to come. Evolving from being mere purveyors of financial information, CFOs are destined to become key partners in setting the strategic direction and tone of their business.

This article, by Pablo Sagnier and Luis Baón, was originally published in *IESE Insight* (Issue 16, Q1 2013).

©IESE Business School