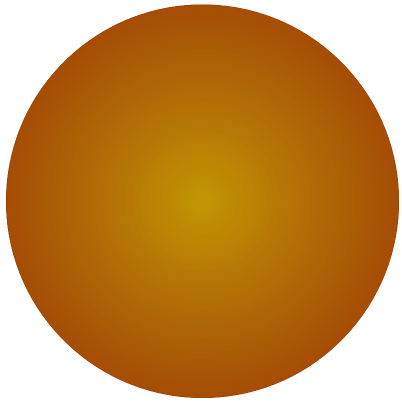

cfo as e-business architect, *revisited*

BY MARLENE PITURRO

In September 2001, *Strategic Finance's* Marlene Piturro looked at CFO responses to the changes at their companies and in their industries after the dot-com bubble burst.

At that time she wrote: "The CFO is once again acknowledged as the person who makes e-commerce decisions based on the firm ground of financial discipline….He/she is the bridge between the worlds of business and technology, the architect who focuses on processes and applications."

Piturro recently revisited the theme of "CFO as e-business architect," finding the landscape greatly changed. As if CFOs weren't challenged enough in late 2000 and throughout 2001, the corporate governance scandals in the past two years have only added to their burdens. CFOs are under immense pressure to show return on investment from their e-commerce investments at a time when their professional trustworthiness and credibility are on the line. Despite their myriad pressures, CFOs readily shared with us how they continue doing the financial work that has to be done.

ILLUSTRATION: STUART BRADFORD

During prosperous economic times consumers spend, bankers lend, and businesses expand. When the economy tanks, businesses, led by their CEOs and CFOs, focus on reducing expenses, leveraging existing investments, and gaining efficiency. Making the right decisions depends a great deal on experience and good business sense, but it also means having the right information technology (IT) infrastructure and decision-support tools accessed by CFOs who are integral to the top-management team.

As a result, CFOs are more cognizant than ever of their responsibility for the major task of yoking IT power and business goals. For some, all that may be left of the dot-com era is expensive technology and equipment acquired when lavish spending was the norm. Those CFOs are still trying to figure out how to recoup that investment at a time of intense scrutiny in a weak economy.

> "Three years ago, it was unclear as to what e-business would mean.... Were financial people dinosaurs? Now part of the CFO's role is to accurately cost IT investments."
>
> —*Tom Watjen, UnumProvident Corporation*

That may sound straightforward, but it's far from simple. According to an April 2002 report by industry analyst Meta Group, many e-business projects continue to fail because of an unclear picture of project cash flows and the inability to match project costs with benefits. These are major roadblocks for CFOs trying to assign accurate ROI to their firms' technology investments. Their challenge, to show an immediate and tangible return on major IT spending, is formidable, but some CFOs are successfully helping complex multiyear e-business projects turn the corner.

DOING MORE WITH LESS

In the last two years CFOs have grown accustomed to making the most of their firms' e-business investments under intense scrutiny from top management and shareholders. Peter Faletti, formerly a CFO with several regional banks and now an Atlanta-based IT consultant, says that CFOs are fighting technology-related battles every day, with no end in sight. Critical to their success are IT systems that generate accurate data, including the ability to do risk-based capital allocation that helps justify spending, activity-based costing to track the flow of dollars, and some kind of scorecard to measure performance. "Your IT system must do this, even if it takes months and years to get to that point," Faletti says.

There also has to be rigorous assessment for the business case of a big project. For example, if someone from top management asks for a new A/P system to eliminate the salaries and benefits of 15 A/P clerks, the CFO has to counter with "We had 45 clerks, and now we're down to 30. Is this the right head count? If not, what's the business case to reduce it?"

Tom Watjen, who in September was named president and CEO of Chattanooga-based UnumProvident Corporation, a large disability and specialty risk insurer with more than 13,000 employees, was vice chairman and COO at the time of our interview, so some of his comments reflect that experience. He says the financial sector CFO now answers to both financial and business users, and that's okay. "Overall, we are much more confident than we were two or three years ago," he says. "Then it was unclear as to what e-business would mean. What was the 'New Economy'? Were financial people dinosaurs? Now part of their role is to accurately cost IT investments."

Changing UnumProvident's e-business architecture has been incremental, driven by major internal investments and earlier dot-com acquisitions that helped improve business processes. For example, the company purchased www.employeelife.com, which had "decent ideas on the HR piece but no customers." Watjen explains that absorbing dot-com fatalities that have some intellectual capital is now a crucial part of the CFO's role as e-business architect and strategist.

The cautious CFO who sticks to a sound and sustainable business model is back in demand, according to Steve Giusto, CFO of Resources Connection, a firm that places CFOs and controllers in interim positions. "During the dot-com years we saw tons of people who purchased everything with an open checkbook. There were hundreds of millions of dollars wasted on IT infrastructure." That's gone, and the CFO who's a professional manager instilling financial discipline is king. Giusto notes that today patience levels in the boardroom are low when it

what cfos say about information technology

In an August 2002 survey conducted by Cap Gemini Ernst & Young of 265 CFOs, 80% from companies with annual revenues in excess of $1 billion, these key findings emerged:

- 64% cited a need to change or upgrade the skills of the finance department
- 63% of respondents had inadequate IT resources to perform major functions
- 56% cited a general need to acquire a major IT system
- 53% said they need to build the perception of senior management to include finance as a partner in business development
- 23% have partially or fully integrated ERP systems for handling financial data
- 77% expect to have integrated ERP systems by 2005

Sources: Cap Gemini Ernst & Young, 2002; MP Research, 2002

comes to bringing about results, and “the CFO must be in charge of a sustainable business model that doesn’t change with the next nanosecond.”

MERGERS, ACQUISITIONS, SPINOFFS

At first glance, 2001 might have seemed a perilous time for Pitney Bowes to spin off its division that supplies fax machines and copiers to businesses, but that’s what it did in December of that year. The venerable firm created Imagistics International, Inc. of Trumbull, Conn., with $150 million in debt. CFO Joseph Skrzypczak admits about the timing: “Today’s business environment is terrifying. You can’t generate cash out of thin air.”

But the company has done well since then, and he relishes his position, which includes having several operational units report to him in addition to his CFO functions. As the CFO of a start-up, Skrzypczak reduced the debt to $83 million, went after market share, and worked on integrating fragmented IT systems, such as one database for customers and another financial database. He also had to set priorities on requests for more IT spending: “Departments ask for everything. I have to evaluate the ROI of each and set spending priorities based on all their requests.” Skrzypczak evaluated those requests within the context of a $40 million enterprise resource planning (ERP) investment integral to the start-up.

> “The CFO must be in charge of a sustainable business model that doesn’t change with the next nanosecond.”
>
> *—Steve Giusto, Resources Connection*

Today, working closely with the CEO, he sees to it that the ERP investment is evaluated monthly. Everyone at the firm “has stepped up their pace to make the company a success.” In the second quarter of 2003, when the company released its earnings figures, he said, “For the second quarter of 2003, we generated $33.9 million of operating cash flow and invested $11 million in capital expenditures, primarily for replenishing our rental asset base as well as for implementing our ERP technology.” He added, “We repurchased 368,000 shares of stock under our stock buyback program for a total value of $7.9 million. Since the beginning of the stock buyback program last year, we have repurchased 2.9 million shares or 15% of the shares that were outstanding when Imagistics was spun off in December 2001. We ended the second quarter with a strong balance sheet that included a cash balance of $42.2 million and debt of $73.7 million. We have maintained our debt to total capitalization ratio of 22%.”

The CFO’s traditional fiscal restraint that vanished during the dot-com bubble has reemerged in the last three years. Tom Watjen admits that during the bubble UnumProvident made acquisitions to “get into the heads of the New Economy entrepreneurs. We counted on them to run their businesses, and we didn’t want to stifle them. Part of the CFO role was to encourage an entrepreneurial spirit; they needed Unum to provide staying power, "CFOs are now strategic partners with other top managers. They used to see IT only as a cost or the gatekeeper for the CIO. Now they have become strategic visionaries learning to work with chief strategy officers, CIOs, and CTOs."

—Jon Knight, IBM Global Financing West

which was a good synergy." Now Watjen says the company takes a more conservative approach to the business. In fact, when he was vice chairman and COO he worked on a financial restructuring plan to create long-term value for the shareholders and instill even stronger financial discipline. When he was named president and CEO in September (he had been named interim in March 2003), the board said, "During the past six months, Tom has led in improving the financial strength of the company…. Under his leadership, the company raised more than $1 billion in new capital and initiated changes to improve the quality of our investments…"

WORKING WITH THE CIO

Jon Knight, business unit executive of IBM Global Financing West, has watched the CFO's role as e-business architect evolve over the past decade from his vantage point as an external consultant. "CFOs are now strategic partners with other top managers. They used to see IT only as a cost or the gatekeeper for the CIO. Now they have become strategic visionaries learning to work with chief strategy officers, CIOs, and CTOs." Like the CFO of old, today's CFO has resumed his/her traditional role as a communicator of financial strategy, what Knight calls a "sponsor" of technology projects.

And CFOs are in a good position to evaluate the technology bargains in the marketplace, helping to acquire those that fit with the company's game plan. They also become the bridge between the acquiring company and the defunct dot-coms or other companies being acquired, helping them to be absorbed. The CFO sees to it that the acquiring company best uses the smaller company's resources to generate improved ROI.

STILL REDEFINING THEIR ROLES

While helping a company survive during perilous financial times is a big enough challenge, Peter Faletti suggests that CFOs also have to be involved in change management "even in the face of Enron. During the dot-com era, CEOs surrounded themselves with too many yes men. Now the best leaders must look to their CFOs to challenge them."

Joe Skrzypczak of Imagistics International finds his professional colleagues responding in many different ways to the challenges of today's environment. "Some are still very old school—financial matters only. Many others are very active in operations. No matter what his inclination and experience, the CFO has to step up the pace of his learning curve and get beyond just watching the numbers."

Tom Watjen says CFOs need to work at the interface of the core business processes and what the dot-coms bring to the party. "In our business we still have many cumbersome manual processes that can be Web-enabled, saving everyone time and money. If the IT potentially has good ROI, we'll look to use it to fix things that aren't broken but that could be better."

Today's CFOs have to wear several hats to help their companies survive. More than ever they have to understand both the cost and contribution of the firm's back-end investment in IT equipment and to tie that to long-term revenue gains. Then there's the mixed blessing of the e-commerce environment promoting access to financial data in real time; the CFO has to act quickly and accurately on that information rather than waiting until the end of a reporting cycle to act.

Perhaps Larry Downes, author of *The Strategy Machine*, best sums up where CFOs should look for new direction: "The gap between yesterday's irrational exuberance and today's equally irrational business orthodoxy is the new frontier of emerging strategies." ■

Marlene Piturro, a journalist and managerial consultant based in Hastings-on-Hudson, N.Y, has a Ph.D. in psychology and an MBA in organizational development/finance. She has written widely about the integration of accounting and IT in various business publications. You can reach her at mpiturro@aol.com. *Copyright 2003 by Marlene Piturro. All rights reserved. This article may not be copied or distributed in print, electronic, or any other format whatsoever without permission.*