Cover Story

The spiraling complexity and velocity of doing business have dramatically altered the role of the CFO. What was once an attractive career destination and a prestigious senior management position has degenerated significantly. Intensifying performance pressure within both public and private companies is forcing an evolution of the position, rendering the job virtually impossible for one person to do.

Today's high-pressure business environment has driven the CFO from a finance position answering to the CEO into a strategic business position directly accountable to the market. Now increasingly accountable to boards, investors, the government, and other executives, the CFO has become a high-risk role whose function is to personally guarantee the company's financial health.

STRUGGLING TO SURVIVE

Facing seemingly insurmountable challenges, CFOs need to redefine their role and initiate a paradigm shift in the way they manage the finance function.

BY CYNTHIA JAMISON, CPA

This executive needs to navigate complex market conditions, meet stringent regulations, mentor a staff, service peers, appease investors, and provide day-to-day financial leadership and strategic vision. These tasks are more than enough for many financial officers, yet they don't even take into account the need to provide the CEO and board with insight, information, and counsel.

Many CFOs find the confluence of changes discouraging, if not downright alarming. And many can't meet the challenge, as the average CFO's tenure has plummeted to only 30 months. In fact, only 25% of these financial officers have been in their jobs for more than five years.

In the face of these hardships, too many CFOs are "wired" to respond by isolating themselves, working longer hours and delegating less. This is a formula that may have worked in the past, but this response is contrary to what is needed today. CFOs have traditionally been slow to delegate and trust, low on empathy and communication with their staffs and peer group, and highly suspect of change and risk/reward analyses. In this day and age, however, a new premium applies to communication, trust, reliance, and change—toward installing a system that works. Too many companies have settled for band-aid solutions—like replacing the CFO or throwing a small amount of money at the perceived problem—when they really need to create a situation and environment that will enable long-term success.

THE GAME HAS CHANGED

The burdens placed on a CFO have never been so great. Shareholders, feeling cheated by recent high-profile ethical scandals, demand more transparency and reliability in the presentation of financial performance. Board members, sensing more exposure and higher liability, want greater levels of detail and reporting (often mistaking more detail for better insight). CEOs still need operational and strategic support and execution from their CFOs, yet they often don't fully understand the pressures weighing down their financial officers, who are loath to complain and push for more department funding.

Demands are growing, and deadlines are shrinking. Heightened market activity requires extra attention, and increased regulations mean more detailed audit documentation and testing. The Securities & Exchange Commission (SEC) has compressed filing deadlines to almost ridiculous time frames—particularly given increased executive compensation reporting requirements and MD&A disclosures.

Too many CFOs try to stem this tidal wave of pressure with insufficient resources and antiquated financial and IT systems that make their jobs harder instead of easier. Compounding the issue, they often try to set an example for other executives by attempting to "do more with less." According to Tatum, LLC CEO Richard D'Amaro, this confluence of pressures is wearing down the CFO. "External investors want increased transparency, regulatory bodies demand higher standards of compliance under tighter deadlines, CEOs are looking for strategic insight and advice, and staff members are craving direction," he explains. "This doesn't even touch on audit committee demands and the fact that CFOs are being held to higher levels of personal accountability and liability. It's no wonder CFOs are leaving at higher rates than ever before."

There are many factors driving the turnover epidemic. The top six are:

1. Tightened Regulations—The unprecedented complexity and overwhelming number of reporting requirements and changes in today's regulatory environment force a CFO to spend more time focused on compliance. Requirements such as Sarbanes-Oxley, stock option expensing, revised lease accounting, and pension accounting changes pressure a CFO, leaving less time for key functional responsibilities. In addition, compressed reporting deadlines have created even more pressure. When combined with the inability to consult with audit firms and tougher SEC enforcement, most CFOs feel some level of discomfort in signing financial certifications.

2. Financial Market Conditions—More than just "keeping an eye on the market," today's increasingly volatile economic conditions require a CFO to understand the intricacies of everything from IPO activity to hybrid securities and from D&O insurance coverage to offshoring. These market dynamics require research and careful consideration, and the unstable conditions make day-to-day treasury management and operations even harder. The research to make these decisions takes more of a CFO's time, and access to external auditor guidance is restricted concerning the associated accounting implications. The increased risk—which often results in bad decisions made under pressure—takes more CFOs out of their jobs.

3. Audit Committee Demands—Audit committees under escalating pressure to more visibly oversee the financial integrity of a company require more of a CFO's time and energy. Frequent meetings, elaborate documentation, and the public's demand for greater insight and analysis mean more attention from the CFO, but inade-

"CFOs are being held to higher levels of personal accountability and liability. It's no wonder CFOs are leaving at higher rates than ever before."

quate training in new rules and interpretations makes the often-arduous process even more difficult. Audit committee members look to the CFO to train them, as well as report to them, because many audit committee members themselves are ill-prepared to operate in today's board environments. The trend is moving toward more financially literate audit committee members, but the reality is that many members have little to no experience with many of the issues pressing on today's CFO.

4. Peer Group Pressures—The CFO's peer group sees that the CFO is overworked and stressed, frequently misses meetings, and isn't as timely in responding to their requests as before. But they often don't know about the mounting pressures on the financial executive, who again is more likely to put his or her head down and work harder than complain and ask for more resources. Consequently, political jockeying and finger pointing often center on and around the CFO.

5. Staff Support and Management—As demands on a CFO increase, less time is available to train and supervise lower- and middle-level staff. Fewer mentoring opportunities often translate to a staff lacking the business acumen necessary to support the CFO, not to mention low morale. This, in turn, leads to higher turnover, often leaving a CFO with repeated department vacancies—and still more training of new hires.

6. Lifestyle and Legacy—Widespread media attention given to major corporate scandals has led to increased public scrutiny and mistrust of the CFO position. And long hours working for superiors, board members, shareholders, and analysts leave the CFO serving too many masters with too little time to complete any task to satisfaction. Many of the more enjoyable, strategic parts of the job are sacrificed for the tedious and high-stress work of putting out various fires in the department. Far from leaving a legacy, most are simply struggling to keep up with day-to-day demands.

THE SPHERE OF INFLUENCE

CFOs aren't the only ones who are suffering from this perfect storm of pressures, but they're often the ones who are blamed for the results. The reality is that the success of many parties is inextricably tied to supporting the CFO, and the new job description for the financial executive should include two-way communication with these parties to clarify objectives and collaborate on challenges.

CFO turnover and pressure directly affect:

1. The CEO

At rates higher than ever before, CEOs have chosen CFO termination as the solution to their financial challenges. Unfortunately, this decision is premature in many cases and misdirected in others.

In a number of instances—and several high-profile examples should come to mind—the CEO's fate is directly linked to his or her financial executive. A costly termination and a lengthy, expensive search often exacerbate the problems instead of solving them. This is especially true if the new CFO enters a situation identical to the one his or her predecessor left. It's often the function that's the problem, not the person, and many good CFOs have fallen victim to this confusion.

It's often a better move for a CEO to take the money and time that would be spent on a search and instead dedicate them to helping the CFO install a system and environment that enables success. This enhances and supports shareholder value creation and provides a more effective use of corporate assets for the long term.

2. The Board and Audit Committee

Recent ethical scandals have board members feeling greater liability, and they want a better understanding of the company's finances. Like the CEO, their futures with the company depend not only on what happens in the boardroom but on how the finance department operates.

While audit committee members *should* have a strong sense of the regulatory and compliance challenges facing a CFO, not all do. They may be even less aware of the operational, strategic, management, and internal political pressures. In addition, the many changes in today's regulatory environment drive more frequent board and committee meetings to review previously unheard-of levels of detail about operations, SEC filings, and internal controls. Many audit committee members lack training not only about these issues but also about their role. A CFO, then, is called upon not just to present but also to research, train, and educate.

Audit committee members, like CEOs, need to learn to be attuned to and educated about the current environment and pressures on the CFO. Indeed, as one aspect of a multifaceted role, a qualified audit committee chair should be a support and advocacy champion for CFO-enhanced resources and support to the CEO. After all, nothing can erode shareholder value faster than a restatement or a liquidity crisis. As an elected fiduciary of shareholder interests, the audit committee should look upon effective CFO support as good risk management and stewardship of company assets.

3. Peer Executives

Executives in other departments in the company rely on accurate and timely reports from the finance department. When this flow of pertinent information is disrupted, less than optimal business decisions are often the result.

It isn't just the finance department that's subject to operational exposure when its overworked staff can't produce quality work in a timely manner. The day-to-day operations of a company are jeopardized as people who depend on the department are caught flat-footed and make decisions based on flawed or insufficient information. This fuels the resentment and the perception that the finance department is, at best, incompetent and, at worst, sabotaging certain departments.

4. The Finance Department

CFOs often need to make a tough choice between regulatory and board-related matters and day-to-day operations. Neglecting day-to-day operations is obviously an impossibility, but a distracted, overworked, and unavailable CFO can't provide necessary supervision and counsel to a department staff.

When the CFO has less time and energy to act as a mentor, problems can arise in the departments that report to him/her. Staff may grow tired of things like a lack of work prioritization or constant fire drills—they need leadership from above. The CFO, stretched too thin, misses more meetings and is less focused on day-to-day operations and staff support.

A discouraged and overworked staff leads to higher turnover, which sets in motion a downward spiral. Higher turnover means more of a CFO's time is spent on personnel issues and training of new staff, but none of this fixes the institutional problems that precipitated the turnover in the first place.

THE SOLUTION

CFOs in increasingly untenable situations need relief. The role of CFO needs to be *redefined*, which requires a fundamental paradigm shift in the management of the entire financial function.

This "evolution of the CFO" requires four steps:

1. Continually reassessing the organizational life cycle

The stage of a company's life cycle determines its needs. A company preparing for a merger and integration has very different financial leadership needs from a business looking for turnaround management or bankruptcy specialization. Different challenges require different skill sets and an evolution of the company's financial organization and structure. It's up to the CFO to lead this charge, to diagnose what stage the company is in, and to anticipate the next two stages. Because forward thinking is an absolute must in today's environment, the CFO function needs to lead the way with strategic plans and vision. A CFO's credibility is closely tied to a strong focus on strategy, and correctly diagnosing the stage of the life cycle guides decisions on investments to make and programs to advocate. This becomes a perfect platform, then, for CFOs to reestablish themselves as strategic lead thinkers while simultaneously preparing the way for organizational requests and changes to better position the finance department (and the company) for success. Too many CFOs are replaced because they were too mired in the day-to-day demands from regulatory pressures or board requests to think strategically about the company's future. A stronger finance department will be more able to deal with the pressing demands, freeing up the CFO to think about the long term.

2. Realizing that success means strong management skills

Managing a function—not just a job—requires that an effective CFO adjust quickly, transitioning from skeptical to open-minded, from compliant to independent, and from risk averse to risk minimizing. The sandbox is bigger, and a CFO's success will largely be tied to strong communication, the ability to work well with others, and, most importantly, the ability to show bold, aggressive leadership in the face of change. A CFO can no longer put his or her head down and plow through a rough stretch—getting others emotionally and intelligently involved is necessary for a long-term solution. The more people a CFO can get on board, the greater the company's chances of success.

3. Becoming an advocate for the financial health of the company

CFOs, often champions of cost-cutting measures, must embrace a parochial mandate for investment to support their function. Going to the CEO and board and insisting on additional funding goes against the cost-cutting tendencies ingrained in many CFOs, but ensuring a company's financial health won't happen without CEO and board support. It's up to CFOs to sell them on this point. Paramount to advocacy is the spectrum of demands—from IT systems and infrastructure, to added external and internal resources, to additional training and support. All are important and interrelated in applying the "fix."

4. Creating your own "CFO Suite" complete with...

◆ *External operational leadership*—Outsourcing should be geared to senior-level executives with specific expertise who leverage their intellectual capital to implement solutions targeted to the client's needs. Long-annuity contracts will disappear because the external source disappears once the work is completed. And these won't be people the CFO needs to baby-sit. If a company brings in seasoned executives who have extensive experience managing the current stage in the company's life cycle, the CFO will be able to hand projects to them.

◆ *Enhanced systems and processes*—Intelligently designed information flow can ease regulatory reporting, audit committee concerns, and peer requirements. "Band-aid" solutions abound in this high-pressure business world, and it shouldn't be a surprise when a company learns they're disposable and short term. Long-term solutions will require IT investment, but making a strong commitment on the front end will save time and money in the long run. These solutions include ensuring data integrity, developing automated processes, and strengthening cross-functional linkages for day-to-day support of operations. Again, CFOs need to ignore their innate tendency to keep costs down and push for support and funding.

◆ *Outsourced specialized staff*—A team with highly specialized skills tailor-made for a client's needs, including merger and integration work, bankruptcy specialization, turnaround management, and many more, will be required but will change throughout a company's life cycle. The sooner a company has its own processes in order, the more quickly it will be able to identify which tasks it can outsource. Over time, the business will rely less on full-time employees to take care of the heavy lifting.

◆ *Peer group support*—The CFO needs to communicate up, down, and across the organizational structure with frequent updates. As an effective leader, the CFO should become less of a "doer" and more of an ambassador across the organization. An "I never complain" CFO would do well to facilitate not only empathy and buy-in from peers but reaction and insight as well. A company's financial health affects every employee, so every employee should be invested in ensuring its health.

"The complexity of a business life cycle requires an incredibly diverse set of financial management skills," says Lisa Ross, founder and president of FAO Research. "Bringing in a team of experienced executives to support the CFO distributes responsibilities to ensure that both strategic and operational duties are done effectively and on time."

THE FUTURE

CFOs today face a deck stacked against their success. Newspaper headlines each week detail the latest turmoil and announce the casualties. It's becoming obvious that no one person can go it alone. With the market conditions and business cycles changing so rapidly, even executives who think they're sailing smoothly now may soon find themselves struggling to stay afloat. And those who are already under fire need to get help before it's too late.

But the game isn't impossible to win, and there's a growing list of resourceful leaders who have made their companies stronger in these challenging times. The key to success is creating an environment that enables success through an educated and effective system that functionalizes the job, advocates for change, and embraces external resources. ■

Cynthia Jamison, CPA, is Tatum LLC's national director of CFO Services, a role encompassing product development, external marketing and public relations, internal leadership of some 450 CFO partners, and high-level client contact. During her prior seven years as an engagement partner, she held several CFO positions across a variety of industries, including a publicly traded telecommunications company, a software company in the CRM/ERM space, a privately held insurance brokerage facing unique crisis conditions, and an Internet payroll company, among others. You can reach her at (888) 828-8611 or Business.development@TatumLLC.com.