What Makes a CFO "the Best"?

Market turmoil has helped increase CFO turnover and changed the financial skills in high demand….Volatility causes change, and market volatility is driving volatility at senior ranks of organizations.

—Scott Simmons, partner at Crist Kolder Associates

By Noah P. Barsky, CMA, CPA, and Anthony H. Catanach Jr., CMA, CPA

Strategic planning? Risk management? Innovation? What skills do CFOs need to handle today's unique challenges? The global environment continues to grow increasingly hostile to business, as evidenced by the expanding frequency and severity of economic booms and busts over the past two decades. Not only are markets in a constant state of flux, but they continue to challenge the capabilities of traditional financial tools. For example, IBM surveyed more than 1,900 CFOs and reported in its 2010 *Value Integrator* that the job requires these leaders to help create market value while also operating a more cost-efficient finance function. Ongoing technology shifts, globalization (regarding accounting standards, exchanges, foreign exchange rates, and taxing authorities), and the increasing impact of intellectual/human capital, culture, and intangible assets all create market turmoil. Any of these factors individually, much less collectively, would escalate CFO stress.

If you follow the business media, you know that some people have argued that performance pressures created by this market turmoil have led to CFO burnout and rising turnover rates. Yet recent research suggests that spikes in turnover also may be explained by the need for new CFOs who are better qualified to deal with the market's changing structural conditions and new strategies.

Not surprisingly, there continues to be much controversy about a CFO's skills. Ian Tyler, CEO of Balfour Beatty, is quite vocal about one aspect of the CFO's changing skill set. According to Tyler, technical ability is "completely irrelevant" as to what differentiates great CFOs and is "a commodity that you can buy." (See "What Makes a CFO Great?" by Andrew Sawers on CFO.com, May 18, 2012.) Then what does matter? Strategy! A recent Ernst & Young survey of 900 leading CFOs and finance directors appears to confirm a change from the traditional gatekeeper role to a more strategically focused CFO (at least in large companies). According to the E&Y study (www.ey.com/GL/en/Issues/Managing-finance/The-DNA-of-the-CFO---perspectives-on-the-evolving-role), today's CFO responsibilities include (emphasis added):

- Ensuring business decisions are grounded in solid financial criteria;
- Providing insight and analysis to support the CEO and other senior managers;
- Leading key initiatives in finance that support overall ***strategic*** goals;
- Funding, enabling, and executing the ***strategy*** set by the CEO;
- Developing and defining the overall ***strategy*** for the organization; and
- Representing the organization's progress on ***strategic goals*** to external stakeholders.

Clearly there has been a "strategic shift" in CFO responsibilities and skill set. Yet the idea that CFOs should expand their roles beyond traditional compliance, reporting, and control to become more strategically focused business partners has been around for more than a decade. In fact, in "The Changing Role of the CFO" in the June 2002 issue of *Strategic Finance*, Margaret Johnsson called for CFOs to adopt "new skills for a new role." She suggested that CFOs needed to "act more like CEOs," think holistically and critically about the future, pursue leadership opportunities, and become team builders. In short, they needed to be more strategic and transition their roles from "decision support to decision making." In 2003, Mark Frigo echoed similar themes, encouraging those in the finance function to "influence decisions that drive shareholder value" by focusing on knowledge that facilitates strategic and operational decision making. (See "Strategy, Value Creation, and the CFO," *Strategic Finance*, January 2003.)

Table 1: Education[1]

UNDERGRADUATE EDUCATION		
Private Institution	12	(48%)
Public Institution*	13	(52%)
*Includes U.S. military academies		
UNDERGRADUATE MAJOR		
Accounting	7	(28%)
Economics	2	(8%)
Finance	2	(8%)
Other (one each): communications, general business, geology, mechanical engineering, management science, physics, political science, sociology	8	(32%)
Not reported	6	(24%)
GRADUATE EDUCATION		
Harvard	4	(16%)
Carnegie Mellon	2	(8%)
Stanford	2	(8%)
University of Chicago	2	(8%)
Other (one each): American University, Columbia, Cranfield School of Management, Illinois State University, Massachusetts Institute of Technology, Northwestern, Southern Illinois University, University of California at Berkeley, University of Denver, University of Texas system, University of Virginia	11	(44%)
Not reported	4	(16%)
GRADUATE STUDY CONCENTRATION		
MBA*	17	(68%)
M.S. in Industrial Administration	2	(8%)
Advanced Management Program	1	(4%)
Not reported	5	(20%)

*Includes four finance concentrations and one EMBA.

[1]Data compiled from Businessweek.com and Marquiswhoswho.com.

Who Are the "Best" CFOs?

Given the apparent increase in CFO job responsibilities, it was only a matter of time before someone created a top

> **Today's CFOs must possess a much broader skill set than in the past—a skill set that addresses three key dimensions: strategy, process, and performance measurement.**

CFO list. In "Not Just Bean Counters" (*The Wall Street Journal*, July 31, 2012), Matthew Quinn and Alix Stuart compiled the "first ever Best CFOs list." In identifying individuals that lead top-performing finance operations, Quinn and Stuart specifically acknowledged the CFO's growing role in strategy development and execution. As Stuart explains, they used a combination of quantitative and qualitative analysis to identify CFOs who "excel at financial management and also are major contributors in setting strategy." The CFO sample was biased toward large companies since the authors drew the initial candidate pool from S&P 500 companies with market capitalizations of $5 billion or more at the end of 2011. CFOs also had to have been in their position for at least three years, and corporate financial performance was assessed for one- and three-year periods. Remaining candidates for the list were screened and ranked based on publicly available information as well as extensive interviews with finance recruiters and analysts. The ranking wasn't based on a mathematical formula.

Though Quinn and Stuart's article provides some excellent mini case studies of their top 25 CFOs and their recent successes, it doesn't provide much insight into the path to such "greatness." Consequently, we thought it might be interesting to explore the backgrounds of the "top 25" a bit more, searching for common characteristics that might guide someone to becoming a great CFO. We used a 2010 study by Rohit Sharma and Stewart Jones titled "CFO of the Future: Strategic Contributor or Value Adder?" to guide our investigation. In their examination of value-creating activities of CFOs at large public Australian companies, Sharma and Jones identified four individual-level variables that might contribute to CFO value-added attributes: experience, skills (such as accounting and finance), education (such as qualifications, degrees), and gender. Consequently, using publicly available information (*Bloomberg Businessweek* and *Marquis Who's Who*), Compustat via Wharton Research Data Services, and relevant information provided by Quinn and Stuart's article, we explored the education, experience, financial performance, and gender factors among the "top 25" CFOs.

How Does Education Affect the Top 25?

We present our findings for education factors in Table 1. Regarding undergraduate education, the choice of private or public institution doesn't appear to matter—the CFO sample is split almost equally between both types of institution. But the choice of undergraduate major does appear to be a dominant driver of CFO success as 52% of the sample CFOs reported being business majors of some type (accounting, economics, finance, and general business). That being said, 28% of the top CFOs pursued majors outside the business school.

Graduate education appears to be a significant factor for CFO success as does choice of degree-granting institution. While 84% of our sample CFOs reported some type of graduate education, more than 70% of those holding graduate degrees received them from the top 25 business schools as ranked by *U.S. News & World Report* for 2012. Not surprisingly, we also found the master of business administration (MBA) to be the graduate degree of choice among the 85% reporting concentrations in a particular area, such as accounting or finance.

Our education findings provide some interesting insights for those who aspire to large company CFO positions and success. Given today's skyrocketing tuition costs, students may want to invest in public education for their undergraduate education, deferring private institution education for their MBAs, which they should pursue at highly ranked graduate programs.

How Do Experience, Performance, and Gender Affect the Top 25?

As Table 2 indicates, the results for experience (age, certifications, and industry) are quite varied. Years of life experience clearly matter to achieving top CFO status as only 13% of the sample CFOs are younger than 50. What was more surprising was that less than a quarter of the sample CFOs reported holding any certifications. In this instance, the only certification noted and reported was Certified Public Accountant (CPA). This finding is consistent with those of Candra Chahyadi and Bahaa Absualim, who reported that large firms value CFOs with more general skills and have fewer CFOs who are CPAs than do medium-sized firms. (See "The Role of Education and Experience in CFO Career and Compensation" in the *Journal of Accounting and Finance*, October 2011.)

As for industry, two groups together accounted for 36% of the top CFOs: (1) chemicals and allied products and (2) instruments and related products.

The effects of using performance as a sampling criterion can be seen in Table 2. Eighty-eight percent of the top CFOs work for companies that reported return on equity (ROE) greater than 10%, and 44% reported ROE between 20% and 29%. We could argue that the top CFOs (the transformational CFOs) are the ones who reverse their companies' fortunes from bad to good, but it's unclear if this group of top 25 CFOs includes any who meet the transformational criteria. Finally, the *WSJ*'s top CFO list suffers from a bit of gender imbalance as 76% of the CFOs are men.

In our review of the literature related to the changing role of the CFO, we thought it was interesting that so little was written about the need for strength of moral character, honesty, transparency, or ethical decision making. As a result, we reviewed the companies of the top CFO list for significant restatements (accounting errors) and/or accounting irregularities for financial statements issued from 2008 through 2011. We found no evidence of reporting problems during this period, which suggests some level of "accounting quality" in the finance functions these top 25 CFOs oversee.

All the evidence we just discussed suggests that these top 25 CFOs are well educated and experienced and have guided their companies to some level of success and positive financial performance via their strategy-based skills. Still, adding a strategic perspective to the mix may not be enough in today's challenging global environment.

Table 2: Experience and Financial Performance

AGE[1]		
40–49	3	(12%)
50–59	17	(68%)
Over 60	3	(12%)
Not reported	2	(8%)
CERTIFICATIONS[1]		
CPA	6	(24%)
Not reported	19	(76%)
STANDARD INDUSTRIAL CLASSIFICATION[2]		
2800 – Chemicals and Allied Products	5	(20%)
3800 – Instruments and Related Products	4	(16%)
3500 – Industrial Machinery and Equipment	2	(8%)
5300 – General Merchandise Stores	2	(8%)
5200 – Building Materials and Garden Supplies	2	(8%)
7300 – Business Services	2	(8%)
Other (one each): 2911, 3674, 4011, 5531, 5812, 6211, 6324, 6798	8	(32%)
MOST RECENT COMPANY RETURNS ON EQUITY[2]		
Greater than 50%	1	(4%)
30%–49%	3	(12%)
20%–29%	11	(44%)
10%–19%	7	(28%)
Less than 10%	2	(8%)
Not reported	1	(4%)

[1]Data compiled from Businessweek.com and Marquiswhoswho.com.
[2]Data extracted from Compustat via Wharton Research Data Services.

Increasingly, market pressures also require "the best" CFOs to be masters of *process improvement* and *performance measurement*.

Why Should CFOs Care About Process?

Back in 2002, Margaret Johnsson also recognized the need for CFOs to enhance their understanding of process to address the challenges posed by new technologies, business models, supply chain reengineering, and the like. In fact, she called on CFOs to act as "intrapreneurs" to "connect disconnected parts of the company" to create value. More recently, Kurt Kuehn in "Seven Habits of Strategic CFOs" (*Strategic Finance*, September 2008) identified a number of key process factors for CFOs in their "new roles as corporate change agents," including:

- Developing a better understanding of customer needs and tailoring financial systems and cost management initiatives accordingly, and
- Defining separate return expectations for each line of business and managing them holistically (i.e., less rigidly).

Specific process skills CFOs need are highlighted in Andrew Spanyi's "How to Be a Transformational CFO" (*Strategic Finance*, December 2011). Spanyi argues that the transformational CFO must connect an organization's processes with its customers' needs by satisfying the needs of its customers, facilitating interdepartmental collaboration, and improving business processes. And just this past year, Liz Mellon, David Nagel, Robert Lippert, and Nigel Slack asserted in their book *The New CFOs* that a CFO must have a process focus. They said that, after getting their strategy straight, CFOs must make decisions about resource allocation, process design, and continuous improvement initiatives.

Can today's CFOs afford to ignore processes? Absolutely not. After all, an organization uses processes (such as the business model) to execute its strategy. And for those CFOs still focused on scorekeeping, how can you know what to measure if you don't understand the process?

Table 3: CFO Reading Resources from *Strategic Finance*

"The Changing Role of the CFO" by Margaret Johnsson – June 2002
Financial managers must act as intrapreneurs recognizing opportunities to connect disconnected parts of the company in ways that create value.

"Strategy, Value Creation, and the CFO" by Mark L. Frigo – January 2003
In order to leverage that financial discipline, the CFO needs a strong understanding of how a particular strategy and its value drivers contribute to value creation.

"The CFO as Predictor of Corporate Performance" by Tom FitzGerald and John Collins – September 2006
Long before a crisis hits, long before it shows in the financials, or in the KPIs, the signs are there…

"Seven Habits of Strategic CFOs" by Kurt Kuehn – September 2008
The CFO plays several key roles: bringing the perspective of investors into strategy discussions; evaluating the financial implications, capital requirements, and expected returns of various strategic options; and helping drive scenario planning.

"How to Be a Transformational CFO" by Andrew Spanyi – December 2011
By embracing three fundamental beliefs, a CFO can connect the processes of an organization with the needs of customers.

"The CFO as Business Partner," Christopher Dowsett's review of *The New CFOs* by Liz Mellon, David Nagel, Robert Lippert, and Nigel Slack – June 2012
CFOs in today's business world face increased challenges to not only manage the financial aspects of their organizations but also to serve as trusted advisors and strategic partners helping to drive growth and profitability.

Does Performance Measurement Matter Even More Today?

Back in 2003, Mark Frigo suggested that CFOs must play a major role in strategic performance measurement and understand the valuation and performance measurement methods that facilitate decision making. With the recent global financial crises, the CFO's role in predicting corporate performance couldn't be more relevant. In

"The CFO as Predictor of Corporate Performance" (*Strategic Finance*, September 2006), Tom FitzGerald and John Collins describe the critical role that performance metrics can play in identifying troubled companies (i.e., phase I decline). To predict financial distress before it manifests itself in the financial statements, they argue for new metrics that capture activities of critical functions (talent management and lean operations), performance blockers (distrust, complacency, and bureaucracy), and performance generators (decisiveness and accountability).

But the market's current obsession with innovation creates an even greater need for CFOs to rethink performance measurement. In fact, in the November 2012 issue of *Financial Executive*, Edward Hess asks, "Is the CFO an Enabler or Inhibitor?" He says that "measuring innovation success requires a different process than measuring manufacturing or compliance success." He also suggests that CFOs must create and manage two financial systems—one for operational excellence and the other for innovation. Since innovation requires a different mindset and processes, it makes perfect sense that new performance metrics would be required.

What Makes a CFO "the Best"?

As with most questions, the answer is simple, but execution is a bit more difficult. As we just illustrated, today's CFOs must possess a much broader skill set than in the past—a skill set that addresses three key dimensions: strategy, process, and performance measurement. To be value creators under challenging conditions, CFOs clearly must understand the plan (how the company intends to create value for its customers and differentiate itself in the marketplace). They also must be process experts so that they can oversee the creation and maintenance of the company's business model (i.e., value chain). Finally there's the more traditional CFO role: CFOs must create key financial and nonfinancial performance metrics to provide feedback on the business model as well as to meet any regulatory reporting requirements.

How can a rising financial professional acquire these skills? The reading lists provided in Tables 3 and 4 reference many of the points we made in this article and are a good start. But, remember, your own unique individual organizational context will drive the weighting of the mix of your CFO skill set. In some cases, the smaller your organization, the less likely that strategy and process will play major roles in your responsibilities, but performance measurement will. Conversely, large company CFOs will find themselves delegating their performance measurement duties to controllers and chief accounting officers while they focus on more strategic issues and related processes. Regardless of size, *strategy, process,* and *measurement* will dominate the CFO skill set for the foreseeable future. **SF**

Table 4: Further CFO Reading Resources

IBM, *The New Value Integrator: Insights from the Global Chief Financial Officer Study,* Executive Summary, IBM Corporation, Somers, N.Y., 2010.

Rohit Sharma and Stewart Jones, "CFO of the Future: Strategic Contributor or Value Adder?" *JAMAR*, Winter 2010, pp. 1-16.

Candra Chahyadi and Bahaa Abusalim, "The Role of Education and Experience in CFO Career and Compensation," *Journal of Accounting and Finance*, October 2011, pp. 26-35.

Liz Mellon, David Nagel, Robert Lippert, and Nigel Slack, *The New CFOs*, Kogan Page, Ltd., London, England, 2012.

Myles Corson and Tomohiro Miyagawa, "Global CFO—From Scorekeeper to Strategist," *Financial Executive*, November 2012, pp. 21-23.

Edward Hess, "Is the CFO an Enabler or Inhibitor?" *Financial Executive*, November 2012, pp. 25-29.

ACCA and IMA, "The Changing Role of the CFO," November 2012, www.accaglobal.com/en/research-insights/finance-transformation/changing-CFO.html.

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