



# CFO 2.0: A View From the Top

By Ramona Dzinkowski

**W**hen I first started writing about CFOs some 20 years ago, their purview was firmly as finance, accounting, risk management, and control experts—the core of the finance function. Today, while CFOs remain true to the core, most of the research on them points to their expanded role as a business partner and strategist. McKinsey & Company identifies three characteristics that companies are typically looking for in a CFO today (in addition to finance acumen, of course). Specifically, they're identified as the generalist, with highly honed operational skills; the performance leader, with a strong track record in business transformation and business analytics; and the growth champion, characterized by significant experience in mergers and acquisitions, external networks, independent thinking, and strategic insight, often gleaned through working in professional services firms. And, as McKinsey notes, each company will weight the value of these skill sets differently.

## Common Forces and a Tug-of-War

A recent study conducted by ACCA (Association of Chartered Certified Accountants) and IMA® (Institute of Management Accountants) suggests that the success of CFOs as strategic leaders—whether it's in operations management, business transformation, or growth—will continue to be hard-won. The October 2012 study, “The Changing Role of the CFO,” shows that CFOs in all companies will operate in a state of flux, challenged by the tug-of-war between their job as senior strategist and business partner and the ever-increasing demands placed on them by greater compliance, control, and regulatory complexities. Here are the external forces that the study identified:

**Globalization.** The globalization of business has had a significant impact on the physical setup of the finance function as businesses rethink their models and location strategies. Any aspiring CFO is going to have to have global experience on his or her résumé in order to move up.

**Technology.** The proliferation of large and complex data provides the finance function with challenges as well as opportunities for analytical insight into the business. The finance function and the CFO are expected to be at the heart of this data revolution.

**Risk.** Tomorrow's CFO will come under greater scrutiny for the effectiveness of the firm's internal risk management processes and will have to meet the board's higher expectations about the adequacy of longer-term financial planning.

**Transformation.** The CFO will be expected to optimize the company's finance operations—from shared services through to the retained finance function—with the goals of better service and more insight from the delivery partner.

**Stakeholder management.** Tomorrow's CFO will increasingly need to be good at dealing with the media and at brokering the external relationships that matter most to the business. In many senses, the CFO will become the face of the corporate brand.

**Strategy.** There will be more calls for the CFO to develop more-effective processes, tools, and methodologies—scorecards, key performance indicators (KPIs), and external market indicators—to deliver and measure the success of any business course of action. CFOs will also need to more effectively drive change that integrates and attunes the finance processes of the organization with its business strategy.

**Reporting.** CFOs increasingly will be expected to ensure that their companies are reporting the full gamut of their social and economic contributions to society,

which should include the resources and externalities involved in running the business. Triple-bottom-line reporting will become more common, extending beyond the traditional financial report for shareholders and internal stakeholders to reach external stakeholders as well. CFOs will be expected to help their organizations evaluate the often conflicting trade-offs between business goals and environmental and social goals.

**Talent and capability.** CFOs will be increasingly responsible for managing the practices and processes put in place to help develop talent within the company, which was once the domain of Human Resources and Personnel. To this end, they're becoming personally involved in mentoring or coaching activities to develop specific skills and individuals. This will present both challenges and opportunities for a global finance function dealing with many languages and cultural differences. Moreover, the rise of virtual teams—linked through technology but whose members work all over the world—will make people-development strategies more complex.

## It Depends Where You Sit

The extent to which CFOs will alternate between their core functions and broader strategic responsibilities varies widely and will depend on many factors both external and internal to the firm. Size matters. Industry matters. Plus, there are a number of other variables that dictate the role of the CFO in any company.

To get a handle on exactly what CFOs are facing these days in terms of their pivotal role, we went to the source—CFOs themselves. Here's what they had to say.

**“We need to be a jack-of-all-trades.”** CFOs, particularly in small companies, are now required to have split personalities—one as the compliance enforcement officer and the other as the public spokesperson and company cheerleader, says Nancy Lala, CFO of About Communications, a small Toronto-based telecommunications provider offering phone, Internet, and hosted solutions to Canadian businesses. “CFOs need to have a strong public presence to deal with investors and lenders whether the company is large or small,” she explains. “However, CFOs of smaller companies also need to roll up their sleeves and dive into more mundane tasks. They're chief cooks and bottle washers.”

At the same time, Lala adds, CFOs have become accustomed to a constant barrage of change, particularly in the last decade or so, with the dot-com crash, Sarbanes-Oxley (SOX) legislation, U.S. bank failures, and International Financial Reporting Standards (IFRS). “I don't see this

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letting up anytime soon,” she notes. “Also, for smaller companies the focus on cash flow is a constant, and, for CFOs, cash management is king.”

**“The ‘new’ CFO has to be hands-on.”** Similarly, CFOs, particularly in private companies, have moved beyond overseeing the numbers, forecasting, and cash flow to become much more hands-on with the business. For Harold Earley, CFO of FXI Holdings, a large, privately held manufacturer of foam products for the automotive and bedding industries, being a high-level executive means getting out of the office regularly. “I’m in every one of our plants at least once a year, if not more, and the big plants probably two or three times a year,” he says. “So I’m really getting to know the people running the plants, what their issues are, and what their requirements are. That helps me make decisions a lot faster.”

In addition, Earley explains, his role as CFO is also to support and help drive the sales function. “When issues arise around capital expenditures or special projects, I spend a lot of time working with the sales team so I really understand what the competition is that they’re facing and what their challenges are.” According to Earley, the success of a senior finance executive will increasingly be tied to their understanding of the entire business. “Your ability as a CFO to work with the sales organization, with operations, with R&D, and with the business units is becoming more and more important. Sure, dealing with the numbers and external capital markets is important, but to really be able to accelerate the business, you have to be able to work horizontally,” he emphasizes.

**“Knowledge is power.”** Each year, CFOs have to manage increased levels of complexity around technology, data analytics, the impact of the cloud, and the need to transform financial management systems to meet the demands of changing operating environments. Dorinda Abendschein, senior vice president and CFO of Brink’s Inc., a Virginia-based global leader in security services, believes that finance has become the natural home for

data analytics, data management, and security. As a result, CFOs will increasingly interact with teams of data specialists as part of their role and, along with it, a new organizational culture.

For the evolving finance function, “data security and data security management are going to become a big conversation as more and more companies use this as a way to define their road map,” Abendschein says. Finance was just a natural “organic” place for that to reside, she explains. “At Brink’s, I have a group of what I call ‘data scientists,’ who report to the CFO’s office but sit outside the traditional finance organization. They have a different culture and a different way of approaching their jobs—more of a think-tank mentality—but they’re strongly integrated with traditional finance leaders because they’re really good at managing large amounts of information.”

As the reliance on new technology and the ability to gather and maintain ever-growing amounts of data increase, the lines between finance, information technology, product development, and risk management are blurring. As Abendschein explains, “There’s no more ‘that’s a finance job, or that’s an IT job, or that’s a risk job,’ but rather the investment in these new information capabilities is going to be collaborative and owned by all.” Brink’s, for example, strategizes through integrated boards as well as a big data council, all of which are made up of leaders from IT, risk management, and finance. “Our risk management leader, for example, needs to know when we’re innovating into a new market or new area and how this will impact his role or his team’s role in managing that risk,” Abendschein notes. “Because each of the leaders sits on the other’s board, they have a clear understanding of how those decisions are going to influence the greater whole.

“For me as CFO,” she comments, “I find that I collaborate very, very closely with our leader of risk and very closely with our CIO [chief information officer] and our innovation leader in managing these decisions.”

## **A Beautiful (Financial) Mind**

With respect to the evolving role of the CFO, Abendschein notes that CFOs are having to push their purview beyond finance to understand the impacts and implications of information technology. “Going forward,” she says, “it will be really critical for CFOs to understand that because data is more available now than ever before, they’re going to become increasingly accountable for understanding broader operating environments and correlating and analyzing data to inform both strategic and operational decisions.”

All the while, she says, CFOs will witness a natural transformation of management structures in companies away from hierarchical silos to matrix organizations. “Most companies have evolved into some level of a matrix structure over the years simply because businesses have gotten more complicated. But I think the matrix will now take on a different role, which will also allow people to collaborate on decision points more so than just around a customer segmentation or sales model.”

As a result, the finance professional is going to have to be broader based, have a stronger level of business acumen, and be more customer-focused internally. Business leaders are looking for people who can understand and create algorithms and correlate large amounts of information, and finance professionals tend to be very good at this, Abendschein suggests. “I’m seeing more and more opportunities for senior finance leaders who have creative minds, who aren’t afraid of large amounts of information, and who can boil it down to get interesting data very quickly,” she adds.

## Managing Compliance in Growth Companies

For larger public companies, compliance will continue to dominate the CFO’s agenda. Alex Davern, CFO of publicly traded National Instruments, a Texas-based producer of automated test equipment and virtual instrumentation software, has witnessed a dramatic change in the regulatory environment over the past 10 years. “From where I sit,” he says, “the compliance burden has exploded massively since 2003 with the first implementation of the Sarbanes-Oxley Act.” Although complying with SOX has become less of a burden over time, Davern says companies everywhere continue to get bombarded by incremental new regulations: “In the U.S., for example, with the 2010 Dodd-Frank Act we’ve seen a significant ramp-up in enforcement activity. So it goes without saying that we take compliance very, very seriously at National Instruments.”

Against this backdrop, CFOs have had to keep an eye on managing the business. “For a CFO to be a business partner and help run a large corporation like National Instruments, the reality is that they can’t allow themselves to become a compliance executor,” Davern emphasizes. “It’s been necessary for the CFO to delegate that role down to a very effective set of managers who will handle those compliance challenges. CFOs need to be very conscious that these challenges are properly managed and executed, but they need to free up the vast majority of their time to focus on the growth of the

business, the execution of the company’s vision, and on driving value for shareholders. So they have to be responsible for compliance, but they also have to effectively delegate that in order to be able to execute their own job as CFO.”

## Crisis Management and the CFO’s Role

For other companies, the financial crises have greatly intensified the compliance role of the CFO. According to Colleen Johnston, CFO of TD Bank Group, the amount of disclosure and the scrutiny of it have increased markedly. Johnston says, “That’s probably been one of the most significant impacts on the finance function. The need for excellence in financial reporting has never been greater. From a business standpoint, organizations have to figure out how to manage this higher regulatory and compliance standard without completely overwhelming the business model. So given my role as an advisor to our CEO, getting the right balance between risk and control—and at the same time grow the revenue base—is something I really think about.”

Meanwhile, as the focus on regulation and control increases, CFOs also have to be even more focused on achieving lasting business results. “The reality,” Johnston notes, “is that we’re in a much slower growth environment globally. That means that as the whole regulatory and compliance burden increases, organizations like ours have to look for ways to improve core productivity because it’s getting tougher to achieve positive operating leverage. That’s a role where clearly the CFO is very, very involved—making sure that we manage the productivity agenda going forward.”

According to the ACCA/IMA study, CFOs around the world will be facing common phenomena that will impact their roles for years to come. Despite these universal forces, diversity by industry, operating environment, strategic directives, and myriad other factors will continue to make each CFO’s role unique and the future role of the CFO ever harder to predict. Stay tuned for further articles and studies that will attempt to find common ground between CFOs in a wide range of industries while describing their unique roles within companies from around the world. **SF**

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