Small Company CFOs: Strategic Partners or Scorekeepers?

By John E. Eber; Pamela M. Schwer, CMA; and
Hamid Mohammadi, CPA

In this time of economic and market challenges for small businesses, what's the CFO's role in small, privately held companies? How has the role evolved? To find out, we interviewed 24 CFOs and their CEO/owner counterparts in the Chicago, Ill., area.

Their responses show the role of the CFO to be dynamic and evolving. The CEOs we spoke with generally described their CFOs as highly valued partners in the strategic process, trusted collaborators in all business function problem solving, and even organizational change agents. Nearly half of the CEOs described their CFO as operating in a COO role without the title and as leaders of the strategic management process. Nineteen of 24 CEOs interviewed described their CFOs as either leaders or full partners in the strategic management of the business. Many of the CFOs were proactive in the process of broadening the scope of their engagement, while some required significant encouragement and mentoring from their CEO. But all found their role as strategic partners to be both challenging and rewarding.

Our study demonstrates the critical and evolving role that CFOs perform in small

*Several CEOs and CFOs spoke about the challenges in getting to the current desirable level of **strategic partnering**. Some obstacles include learning the business, getting over being right, going from critic to trusted advisor, and going from problem identifier to problem solver.*

businesses and provides excellent examples of best practices for CEOs and CFOs, as well as implications for accounting educators. The improved productivity resulting from these best practices has a potential impact on the economy. The U.S. economy depends on the success of small, privately held companies. According to the U.S. Small Business Administration (SBA), small businesses employ about half of all private-sector employees and have generated 60%-80% of net new jobs annually for the past decade, with almost all being privately held.

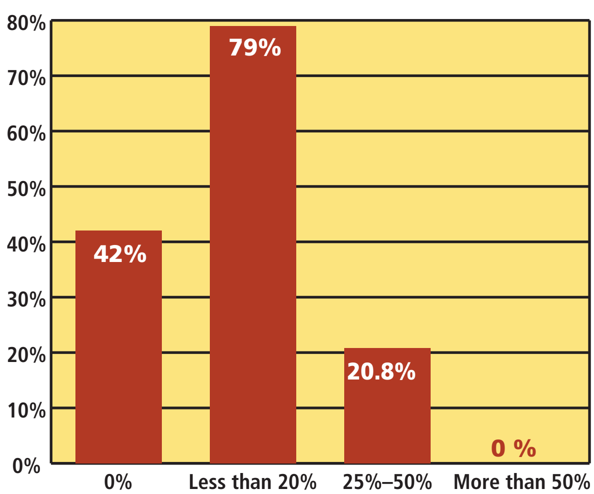
Demographics

Participants in our study were assured that companies and individuals would remain anonymous. The 24 companies range from $10 million to $120 million in sales and from 25 to 2,900 employees. For comparison purposes, we divided the companies into three groups of eight based on size:

- **Large:** $75 million-$120 million; 200-2,900 employees
- **Mid-sized:** $25 million-$70 million; 75-150 employees
- **Small:** $10 million-$20 million; 25-60 employees

While 18 of the 24 companies are multigenerational family-owned businesses, none of the CFOs are part of the family or ownership group. In all cases, the CFO is the highest ranked (or tied for the highest ranked) nonfamily/nonownership employee in the company, which speaks well for the independence of the finance function. Half are CPAs, and one-third have CPA firm experience. The CFOs of smaller companies in the study are less likely to be CPAs and less likely to have CPA firm experience. All the CFOs we spoke with have bachelor's degrees, and one-third have MBAs.

Figure 1: CFOs' Time Spent on Routine Accounting Work



Results

A significant indicator of the CFO's role is the amount of time spent on routine accounting work, which we defined as work that an experienced accounting clerk or relatively inexperienced accounting professional can do. Forty-two percent of the CFOs don't perform this type of work; 79% spend less than 20% of their time on it; and only five of 24 (four from small firms) spend 25% to 50% of their time on routine tasks. None spend more than 50% of their time doing routine accounting work (see Figure 1).

We also asked about time devoted to the overall accounting function, including review, supervision, and all forms of financial reporting and control functions. One-third of CFOs spend 25% or less of their time on the accounting function, while 75% spend half or less of their time on it. Two individuals, both from small firms, reported spending 80% to 90% of their time on the accounting function, but two other CFOs from small firms said they spend less than 25% of their time on this function.

The CEOs confirmed the CFO reports on time allocation. For the companies where the CFO spends more than 50% of his or her time on the accounting function, all but one of the CEOs are working on strategies to free them up for other challenges. Most often, the companies looking to reduce CFO time in the accounting function are small firms seeking to hire a controller or expand and develop other professional staff.

Involvement in Strategic Planning and Management

Given the amount of activity that CFOs engage in beyond the accounting function, we looked at their specific involvement in strategic planning and major decisions across functions. The CEOs again confirmed the CFO responses. Nine of the 24 CFOs (37.5%) are more involved in strategic planning than other senior-level managers, and the CEOs describe them as leaders of the strategic planning and decision-making process. Ten CFOs (41.7%) report that they're engaged in strategic planning to the same degree as other senior managers, and their CEOs describe them as full partners in the process. Nearly 80% are engaged as either leaders or full partners in strategic planning and decision making (see Figure 2). The remaining five (20.8%), all in small to mid-sized companies, work mostly as information resources; four out of five of the CEOs for that group expressed serious disappointment that their CFOs haven't developed into more strategic partners.

We also asked the CFOs about their involvement in cross-functional issues and analysis, including important functions such as sales forecasting, pricing decisions, product development, outsourcing, and a variety of other operational planning and problem-solving issues. Sixteen of 24 (66.7%) describe their involvement in cross-functional engagement and decision making as more involved than other senior managers, and three (12.5%) describe their roles as the same as other senior managers. Five CFOs (20.8%) from small to mid-sized companies describe their cross-functional role as "limited" (see Figure 3).

Overall, nearly 80% of CFOs are involved in strategic and cross-functional decision making as a full partner or leader of the process. In addition, 10 CEOs describe their CFOs as having evolved into an informal COO role.

Figure 2: CEOs' Observation of CFOs' Involvement in Strategic Issues

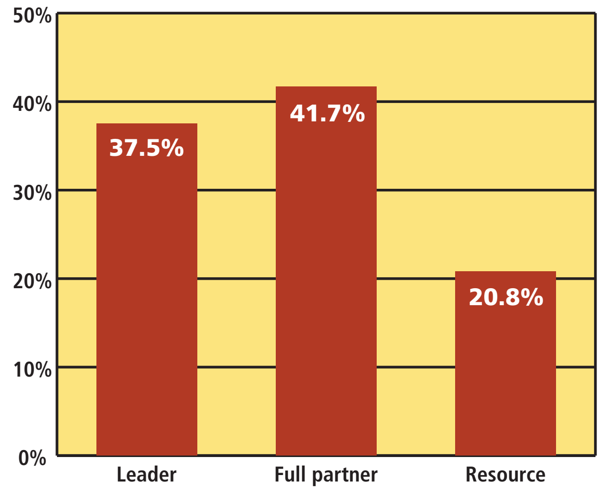
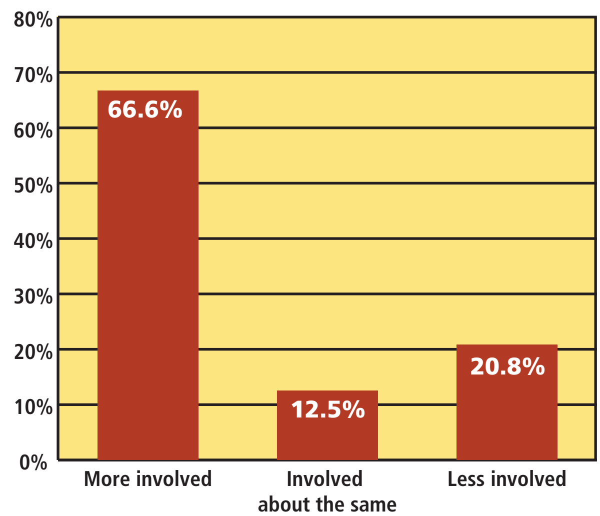


Figure 3: CFOs' Involvement in Cross-Functional Issues and Analysis Compared to Other Senior Managers



Making Partnering a Priority

In their April 2009 *Strategic Finance* article, "Breaking Down Boundaries," Tim R.V. Davis and Lance P. McLaughlin studied the extent to which the CFO and financial function of *Fortune* 1,000 companies had become strategic partners and identified 10 guidelines for the financial function to become a strategic partner. Their first guideline was "Make partnering a top management priority." Of the 24 CEOs we interviewed, 23 had clearly made partnering a high priority, and 19 were successfully increasing CFO strategic and cross-functional engagement, but four were disappointed in the results.

Although 23 CEOs are committed to a high level of CFO engagement in strategic and cross-functional activity, all of them could recall a time when either they or their predecessor didn't value such engagement. So why the change, and how did it come about? The CEOs most consistently identify necessity as the cause of change. The financial challenges resulting from increased competition, increased customer expectations, and a generally more complex business environment made it essential that those with financial expertise participate.

The transition of the CFO into a more engaged strategic and cross-functional role was anything but easy. At least three of the 18 CEOs who were happy with their CFO's level of engagement in strategic partnering found it necessary to replace a previous CFO to get to the current situation. Five CEOs had some level of dissatisfaction with the degree to which their CFOs had accepted the challenge of strategic partnering, and at least three are considering making a change in CFO specifically to get to a higher level of strategic partnering.

Reaching the Desired Level of Partnering

Several CEOs and CFOs spoke about the challenges in getting to the current desirable level of strategic partnering. In all cases, the change came about over a period of years. Some obstacles include learning the business, getting over being right, going from critic to trusted advisor, and going from problem identifier to problem solver.

Learning the Business

Knowing and understanding the business is both a content and process issue that's critical to high-level problem solving and strategic analysis. Staffing in the accounting function is typically lean, so it takes commitment from both the CEO and CFO for the CFO to actually take the time to learn the business. "The level of understanding needs to be pretty down and dirty," one CEO stated.

Another CEO commented that learning the business helped his CFO in two ways. First, the knowledge paid big dividends in enhancing the CFO's cross-functional problem solving. Second, and just as important, the process of asking questions and listening helped create a better relationship with other senior managers.

Getting Over Being Right

A very important attribute for a senior financial manager is to be accurate and appropriate in the critical function of financial reporting. Errors in financial reporting are intolerable. As a result, accountants, by both training and acculturation, place a high value on being right. When CFOs venture into cross-functional analysis and strategic management, their technical talent is both a strength and a weakness. Since it's a challenge for them to deal with areas of grey and multiple viable alternatives, there's a strong tendency to argue a point of view rather than to understand other points of view.

One CFO commented, "I came from public accounting. At first I was very negative and overbearing. I brought too much ego to the table. I learned a lot from my CEO's approach. It was clear that he took a team approach and expected others to do the same. I developed a respect for other managers, started spending time with them, listening and learning. Now I have developed an internal customer approach. It wasn't easy. It took time and a lot of reflection, but I've learned that it is both rewarding and a challenge to be part of the team."

From Critic to Trusted Advisor

An issue related to being right focuses on the relationship between the CFO and other senior managers. One CEO described the transition of his CFO from critic to trusted advisor and partner. In this case, the CFO was acknowledged as "the smartest guy in the room," but his approach was as a critic rather than as a team player. Negative and overbearing, he made a major transition over a period of years because he recognized he wasn't getting the desired results. With coaching from the CEO and a strong desire to succeed, he changed his approach. With his new "we are all in this together" tone, his knowledge and insight were welcomed by senior managers because he truly was the smartest guy in the room. Now he uses his strengths to enhance the team and its results.

Another CFO historically was criticized for "throwing data over the fence" without explanation or discussion, so people would ignore the input. On the positive side, the CEO said, "Things have changed over the years. The CFO and others in the finance group now go over numbers with managers, revise information based on input, and have created an environment of trust."

From Problem Identifier to Problem Solver

According to one CEO, his CFO is great at identifying problems but very limited in offering solutions. "Even the problem identification is too general to be helpful. The CFO has great access to information, but division managers can't act when information isn't focused," he said. "Any mid-level accountant can identify variances. We need variances to be analyzed, narrowed down to the 20% that cause 80% of the problems, and then a team approach to solutions."

On the positive side, another CEO pointed out that his CFO has become a problem solver rather than a problem finder. He learned to manage and lead as an executive rather than as a project manager. He communicates information one-on-one in a problem-solving mode. "Here is some preliminary information I have developed. Does it make sense to you? What do you think? What can you add? How can we work together to solve the problem?" Because he has learned to communicate and solve problems, he can bring up tough issues and challenges, ultimately getting results.

Reaching the Ideal Level of Partnering

Through the study, we identified several obstacles to achieving the ideal level of strategic partnership. They include the unwillingness to take risks and getting stuck in the scorekeeper role, inability to delegate, and not getting the right person for the position.

Taking Risks and Getting Out of the Scorekeeper Role
Becoming a problem solver and owning problems involves taking risks. The information provider and scorekeeper roles are very comfortable, especially since "don't shoot the messenger" is always a good defense. Good accountants are always valued, so why go to the next level?

The answer is as simple as the standard risk/reward trade-off. A number of CEOs, however, say their CFOs want to be senior executives but aren't willing to take risks inherent in executive-level strategic management. While a few CEOs seem willing to "settle," others are contemplating change.

Delegating
Participating in strategic partnering and cross-functional analysis takes time, as does financial reporting and control. Delegating responsibility is typically essential for a CFO who wants to take on higher-level challenges.

A few small and mid-sized companies were dealing with staffing issues. Freeing up CFOs requires hiring and developing strong backups—often a strong No. 2 person—such as a controller. Some CEOs have committed to that goal, but others require additional growth to justify another position.

For others, the backup staff is capable, but the CFOs have trouble letting go. It's hard to give up the security of running the accounting function for the risk involved in the strategic decision making of senior management. CEOs most often identify mentoring and strong resolve as appropriate tools for developing CFOs who are resistant to delegating.

Getting the Right Person
Getting the right person as CFO to perform at the optimum level of strategic partnership and cross-functional analysis has its challenges. Eighteen of the 24 CEOs interviewed were very positive about their CFOs and their level and quality of participation in these critical functions. They got there by several different routes.

Two CEOs shared that their CFOs had been performing at a high level in these functions for many years. Another five commented that their CFOs grew into higher-functioning roles naturally over time and in parallel with the company's growing needs. One CFO in this group also continued through a generational change in ownership and was very instrumental in facilitating the transition.

For another five CEOs, there was a conscious strategic change that coincided with the retirement or voluntary departure of a CFO. In these cases, the outgoing CFO was focused on the scorekeeping role, but the CEO recognized the need and opportunity to upgrade the position to a fully functioning CFO.

Four CEOs shared that they intentionally changed CFOs because the previous CFO was incapable of performing the needed role or unwilling to do so. Three of these changes coincided with or shortly followed generational changes in leadership. One second-generation CEO commented, "My father's guy was an old school accountant. I needed a whole lot more to grow the company. I hired someone with a strong background who came in, learned the business from the bottom up, developed respect and trust from senior managers, and is now my right-hand person. I don't know what I would do without her." The company is doing extremely well in a highly competitive environment. Other CEOs had similar experiences. One shared that she fired a narrowly focused bureaucrat and hired someone who could help her run and grow the business.

Two CEOs shared that they got the right person through a significant development process. Neither was willing to give up the company knowledge, technical skill, and intelligence their CFOs brought to the table, but both wanted more. In these cases, the CEO was willing to mentor the CFO, and the results were very positive. One CEO undertook this challenge as part of a generational change, despite warnings that people don't change. His CFO did change and grow, and the CEO and the company are reaping the rewards.

The other CEO who is working to develop the CFO is happy with the process to date but would like to see the delegation process accelerated a bit. One specific strategy that helped was moving the CFO's office from the accounting department to the executive offices. The CEO said it has helped from both a symbolic and practical standpoint because it sent a physical message to both the CFO and accounting staff. After all, you're less likely to get involved or be dragged in if you physically aren't there.

Cultivating Relationships

For CFOs to be effective, they need to be able to develop strong, trusting relationships with a number of groups—especially other senior managers, the CEO and/or owner, and, in family-owned companies, the family members.

Several CEOs, in describing their CFO's strengths or

Successful CEOs are right most of the time, and they get used to being right, but failure to challenge them when they aren't right can lead to groupthink and potential disaster.

weaknesses, spoke about the importance of having a good relationship with other senior managers. A key issue for CFOs trying to work with and earn the trust of senior managers is that there's a risk associated with CFOs who are overly concerned with being everyone's friend. Successful CFOs have the trust and respect of their peers and are able to work as part of a team, but they also are able to challenge other senior managers with data and issues that are negative in nature. The key to walking this fine line successfully is the willingness to be part of the problem-solving process. That's the challenge.

The relationships between the CFO and the CEO/owners in the companies we studied are fascinating. Challenging the CEO is one of the most critical roles the CFO plays. In all but a few companies, the CEOs shared that this was a critical role often unique to the CFO. In a few cases, the CFO shares this role with other senior managers, and, in at least two cases, the CEO sees the CFO's unwillingness to challenge the CEO as a serious problem.

Successful CEOs are right most of the time, and they get used to being right, but failure to challenge them when they aren't right can lead to groupthink and potential disaster. As one CEO noted, "I don't like being challenged when it happens, but I always come back to reality and appreciate it." Another said, "Someone needs to be the grownup when it comes to taking on unacceptable levels of risk. It is a good thing that my CFO is willing to take on that role when I get overly excited about a new opportunity."

A complication of the relationship between the CFO and CEO or owner is the extension of that relationship to the rest of the family-ownership group. Nearly half of the CFOs commented on the family-ownership group, with one CFO suggesting that training in family counseling should be part of the job specifications. Some family members are employees, while others are board members or involved as significant stockholders. The key success factor is recognizing that family members need to trust the CFO and his or her independence in financial reporting. Yet according to CEOs and CFOs alike, it's critical that the CFOs are trusted as guardians of the family's wealth and as individuals who protect the family against unwarranted levels of risk. Family members want their dividends. This is no small task.

Applying the Results

CEOs, CFOs, and educators can learn from the results. CEOs who want to maximize the enterprise value of their CFO need to start by hiring for the entire skill set. If you hire based solely on accounting expertise, you can't expect to get the needed communication skills and strategic perspective by accident. Provide the resources for adequate staff to free your CFO from routine tasks and help manage the accounting function. Finally, send the right signals. Make sure that your CFO knows that you expect a team approach but still want to be challenged when needed.

CFOs who seek a broad role and true executive-level responsibilities need to start by learning the business and gaining the trust of other senior managers. Be a team player who seeks solutions to problems. Accept the risks associated with the less-concrete challenges of strategic management, which requires getting out of the concrete safety of the scorekeeper role and the focus on being right.

Educators should consider how the findings of this study might inform what they teach, how they teach, and how they partner with local business executives. Integrate functional decision-making issues into accounting courses whenever relevant. Include projects that develop team-building and communication skills. Finally, develop strategic alliances with local business executives to ensure that curricula, internships, and co-curricular career development activities focus on the CFO's dynamic role in the 21st Century. **SF**

John Eber is a professor of accounting at Saint Xavier University in Chicago, Ill., and a member of IMA's Fox River Valley Chapter. You can reach him at (773) 298-3601 or eber@sxu.edu.

Pam Schwer, CMA, is an associate professor of accounting at Saint Xavier University and a member of IMA's Fox River Valley Chapter. You can reach her at (773) 298-3632 or schwer@sxu.edu.

Hamid Mohammadi, CPA, is an associate professor of management at Saint Xavier University. You can reach him at (773) 298-3621 or mohammadi@sxu.edu.