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MAXIMIZING A CFO'S CONTRIBUTION TO ORGANIZATIONAL VALUE

By Dan Doyon & Michael McLin

In addition to their traditional responsibilities of "running the numbers" and "reporting the news,"

TODAY'S CFO SHOULD BE GUIDING AND INFLUENCING DECISION-MAKING

by using financial context as an integral driver

AND ACTIVELY PARTNERING WITH THE CEO TO GROW THE COMPANY.

CFOs of today should be leveraging financial reporting, producing data analytics to achieve more profitable growth, and designing business strategies – all with the goal of gaining a competitive advantage in the marketplace.

This article will explore why CFOs must expand their traditional finance role to become more collaborative with the CEO and bring more business value and insight to the table.

The CFO of the past was conservative, avoided risk, and spent most of their time crunching numbers and overseeing financial reporting, cash flow, and budgeting. However, the CFO of today requires new tools and skill sets.

Today's industry-leading CFOs are looking beyond their traditional finance role to become more collaborative and insightful business partners, boosting their relevance and value to the business. CFOs are using financial leverage, tax planning, investment advice, and a variety of other tools to bring additional value to their organizations.

Train Nonfinancial Managers to Perform Like Financial Managers

Most CFOs fall short of taking financial information and generating tactical information that nonfinancial managers can easily understand and turn into actionable tasks. Industry-leading CFOs use simple automated reports and charts to take complex financial information and make it easily used by company managers.

By doing this, nonfinancial managers will gain the crucial skill of being able to read and interpret the financial information and reports that the CFO makes available on a regular basis. It will also demystify the subject of finance and provide other managers with a set of common financial terminology used in the company – enabling the CFO to communicate with their colleagues and internal contacts more effectively.

This means nonfinancial managers should be able to understand the:

- Scope, role, and importance of finance
- Responsibilities of financial managers
- Difference between accounting and finance
- Relevant key performance indicators (KPIs) for their role
- Job cost
- Earned revenue and profit

Train project managers and supporting staff to understand percent of completion, margin fade and gain, and cash flow. If they know these concepts, they can manage them more effectively and avoid typical pitfalls.

One tenet of the most successful contracting companies is financial aptitude, and if a CFO develops this in managers, then they can communicate in meaningful ways to implement financial strategies.

Leverage Information Technology

Today's CFO role is also being transformed by information technology (IT), both inside and outside of the organization. CFOs who successfully leverage new technologies and serve as change agents throughout this transformation will become the key source for data-driven decision-making, enabling them to help their companies become more agile, dynamic, and successful.

Cloud-Based Solutions

Cloud-based solutions enable teams to quickly process massive amounts of data without the costs and limitations of on-premises infrastructure. In most cases, these cloud solutions can be the "super glue" that forms the connection to both on-premises and externally-hosted software and service solutions. CFOs in leading companies are implementing this relatively low-cost technology to quickly bring IT solutions online and make them available to their management teams as a tactical competitive advantage. The days of custom (and expensive) Crystal Reports are all but gone.

Automation

A 2017 McKinsey study showed that finance trends are pointing toward a predictable end: 40% of activities (such as cash disbursement, project revenue management, and general accounting) can be fully automated and another 17% can be mostly automated.[1] The specific accounting tasks that are best suited for automation include general accounting operations, accounts payable, accounts receivable, financial controlling and reporting, payroll, and the tax function.

By automating these functions, the finance team frees up significant time and resources to oversee automated processes, handle automation exceptions, mine data for trends and opportunities, and focus on driving strategy and change throughout the company.

Forecasting & Predictive Analysis

Automated and self-service analytics and reporting allows staff to dedicate more time to predictive analysis. With data analytics, companies gain access to valuable real-time data. In many instances, companies do not have easy access to data because the information they need is in nonintegrated systems that do not communicate with each other. Data analytics provides a way to easily understand and interpret this real-time data and to make informed, tactical decisions and identify growth opportunities. CFOs who can leverage analytical data strategically will help their companies become market leaders.

Pushing Forward

As technology increasingly becomes a critical implementation strategy for the CFO, its effectiveness is still driven by the input factors, such as accuracy, availability, and consistency of data and on the integration of technologies. Many companies still struggle to put these connections in place and, as a result, continue to use many manual and spreadsheet-based processes. To succeed, CFOs must push forward with new initiatives using software and technology, and they must adapt to new technology and fully utilize enterprise resource planning (ERP), accounting, and cloud-based solutions.

Banking & Bonding Relationships

Leading CFOs build a strong relationship with their company's banker early on and do not wait until credit is needed to get started. To help nurture the relationship as soon as possible, the CFO should provide the business banking manager with financial statements and meet with them to review the documents on a quarterly basis, at a minimum.

Compliance

Most important, the CFO should monitor and stay compliant with any loan agreements and covenants. Any violations could create serious problems with your banking relationship. The CFO should directly manage the compliance procedures and know the bank's tolerance for unexpected results – both positive and negative. Proactive communication is also better than reactive. If you know you are not going to be in compliance one month, giving your bank a heads up before the end of the month indicates that you are proactively managing the situation.

Review Results

CFOs should review the company's results to demonstrate the ability to manage the business as well as the bank's confidence to maintain a positive relationship. Sharing a rolling 12-month profit and loss, balance sheet, and cash flow forecast with the company's banker is also important, as it keeps the banker aware of your current risks, growth, and capital needs. Additionally, you can become more proactive with your bank when requesting additional financing.

Secondary Banking & Bonding Relationships

Many companies lack a secondary banking and bonding relationship, which could create a company crisis if a bank decides to reduce current lines of credit. CFOs should blunt this scenario by nurturing a secondary "fall back" relationship. Remember, bankers do not operate like equity investors, as they have a much lower tolerance for risk. A secondary relationship is also helpful to assess whether you are getting the most out of your primary.

Financial Team Succession Planning

Increased expectations on the CFO means increased demands on the whole finance function. The most successful CFOs surround themselves with the best talent they can recruit and try to retain them by focusing on coaching, mentoring, and leadership development through all levels of the finance department. They plan for individual succession of key roles in the organization and ensure the best combination of the analytical and leadership skills for the company.

CEOs put a heavy value on people skills, but many see their CFOs as lacking in this area. While 97% of CEOs say talent management is the one of the most important factors in improving the finance function, only 33% give their CFOs a passing grade in this area.[2]

The CFO must be prepared to scale their resources and team. As more reporting and business intelligence analytics technology is becoming available to finance teams, they should be preparing staff to implement and integrate solutions to take advantage of these new tools.

Monitor Key Performance Indicators

KPIs provide immediate access to accurate information about the financial health of the organization. They help CFOs instantly see such basic information as availability of credit, cash balance thresholds, how long it takes to get paid, margin averages by job type or size, and how the company's productivity is trending.

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In 2020, KPIs became even more important for the CFO because of the sudden and wide-ranging impact of the COVID-19 crisis. The steep decline in productivity and financial mitigation impact caused by the global pandemic has forced CFOs to focus on cash flow rather than earnings before interest and taxes. KPIs helped CFOs monitor these metrics and, due to this unusual time and lack of some information, they adjusted the types of KPIs and frequency in which they reported to management.

With the increased level of remote workers, company financial performance, productivity, safety, and quality have come to the forefront. Quality assurance KPIs help management minimize rework and defects as well as minimize quality improvement costs, while management is focused on improving customer interaction and satisfaction. Both reactive and proactive metrics should be considered for maximum impact on improving performance.

Defining expectations means addressing both the quantity and quality of the work output and measuring against those baselines. Whichever metrics are used, make sure they are automated, published regularly, and monitored for results so the correct action can be taken, as necessary.

Industry-leading CFOs commonly use the following KPIs:

- Cash flow indicators
- Labor productivity
- Schedule variances
- Work-in-progress metrics
- Cash demand (liquidity indicator)
- Margin variances
- Unapproved changes
- Committed cost
- Backlog
- Scorecards

Nontraditional Tasks

This shift to a more powerful finance function means the CFO must take on some nontraditional tasks. To focus on driving the strategic agenda throughout the company, the CFO will have to understand what areas require the greatest investment and where resources must be allocated to push the greatest value.

This means working hand in hand with other critical members of the management team, not just the CEO, to develop an integrated approach to the business and a broad understanding of the organization's entire value chain.

This may include working with human resources to help drive the talent agenda; working with IT to drive technology transformation throughout the organization; and working with operations to optimize efficiency, procurement functions, and project management.

Conclusion

The CFO of today is a more forward-focused leader – the CEO's most essential strategic partner, influencer, and change agent.

CFOs should create and chart the path to align with their company strategy and foster change, in addition to performing their traditional finance functions.

CEOs are known to seek increased capacity and capabilities at a lower cost from their finance function, but now the CFO is increasingly assessed in terms of their capacity to deliver on the strategic needs of the business and the total contribution to, and the ability to gain a competitive advantage for, the company. ■

Endnotes

1. Chandra, Kapil; Plaschke, Frank; & Seth, Ishaan. "Memo to the CFO: Get in front of digital finance – or get left back." McKinsey & Company. July 5, 2018. *www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/memo-to-the-cfo-get-in-front-of-digital-finance-or-get-left-back*.

2. "The View from the Top." KPMG/Forbes. 2015. *images.forbes.com/forbesinsights/StudyPDFs/KPMG-TheViewfromtheTop-REPORT.pdf*.

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