StrategicCFO360
a Chief Executive Group community

Chief Executive NETWORK

The Strategic CFO:

6 STEPS TO BECOMING A TRUSTED ADVISOR TO THE CEO

"Finance is often up to its ears in manual repetitive tasks that bog down the function,"

—Sandy Cockrell, Global Leader and U.S. National Managing Partner of Deloitte's CFO Program

Many midsized businesses today are employing more strategically focused chief financial officers. While these strategic CFOs still oversee the nuts and bolts of the accounting department and the creation of timely and accurate financial reports, they also are being asked to make sense of the metrics of the business and to help create and execute the strategic plan.

In other words, these CFOs aren't just keeping track of income and expenses; they're processing this information to understand how best to grow the business. This valued capability is increasingly sought by large enterprises and is quickly becoming table stakes at midsized companies, as well.

The challenge for many tactical finance directors seeking to become strategic CFOs is time. "Finance is often up to its ears in manual repetitive tasks that bog down the function," explains Sandy Cockrell, global leader and U.S. national managing partner of Deloitte's CFO Program.

That often leaves little room for the thinking and reflection that is necessary for a CFO to provide genuine business insights that drive positive organizational change. A strategic CFO needs to make rapid sense of diverse business metrics—in near real-time—to ensure the company is going in the right direction and help the CEO change course, if necessary, to seize more profitable business opportunities. The problem in many organizations is that financial analysis is focused primarily on last quarter's results.

For tactical CFOs heretofore focused solely on maintaining a shipshape back office, the opportunity to become a strategic CFO at the front of the organization is appealing. Certainly, CEOs want more from their CFOs.

One of the biggest complaints I hear from many CEOs of midsized companies is that their CFO "is not strategic enough."

Given the unprecedented pace of change and disruption affecting business today, their concern is understandable: They are eager to have a copilot in the cockpit spotting obstacles and openings as they guide the business toward their target destination. In this report, we feature three such CFOs.

You, too, can become a strategic CFO. The journey is well worth the rigors of the travel. In the many companies that have enlarged the scope of the CFO's duties to include strategic business performance and risk management, the executives are viewed as the organization's second-most important executive after the CEO. "We're beginning to see the role of chief operating officer and chief administrative officer being eliminated in many large organizations, with their respective responsibilities falling to the CFO," Cockrell says.

Many tactical CFOs are eager to take on the assignment but are concerned about how they can handle the responsibility along with their other tasks. Many, however, are finding they can assist the front office and run the back office at the same time. More than one-quarter (27 percent) of a strategic CFO's time is now spent on company strategy, according to a survey of 122 CFOs at large companies by Deloitte. An equal amount of time is devoted to operations: identifying ways to improve organizational efficiency, balance costs and manage issues related to talent. Nearly a quarter of the CFO's time (23 percent) is spent aligning different groups across the business around the company's strategies, establishing a value mind-set and clear accountability.

Most surprising is that less than one-quarter of a strategic CFO's time is focused on traditional finance functions, such as accounting and financial reporting and control requirements.

Time Allocation of Strategic CFOs

In working with hundreds of CFOs and studying best practices at top-performing organizations, Senior Executive Network has identified six imperatives (with specific action items) to help tactical CFOs become strategic CFOs, transforming the position into a forward-thinking strategic advisor:

1. Drive Strategy

2. Allocate Capital Resources

3. Lead M&A Due Diligence and Post-Transaction Integration

4. Enhance Profits

5. Champion New Technologies

6. Assess Risks and Implement Controls

Source: Deloitte 2016 Survey of 122 CFOs at Large Enterprises

1. Drive Strategy

LIKE THEIR LARGER COUNTERPARTS, midsized companies must be in perpetual growth mode. Strategic plans are developed based on market opportunities and risks in different regions and product segments.

A strategic CFO allocates a fair amount of time toward developing these plans. "In the many organizations we looked at, the CFO was charged with analyzing the effectiveness of the strategic plan before it was even put into motion," Cockrell says.

Mike DeDona, vice president and CFO at S.R. Smith LLC, a leading manufacturer of commercial and residential pool deck equipment, fits this model. "I'm extremely involved in how we grow the business, working closely with the CEO on where we want the business to be three, five and 10 years into the future," DeDona says. "It's a big part of what I do."

A strategic CFO also is asked to discern and assess hidden risks affecting the strategic plan, such as a competitor's new product or rising geopolitical tensions in a particular area. The problem in the past was the lack of real-time data to assess current and future business opportunities and challenges. Most CFOs and the specialists in financial planning and analysis (FP&A) who report to them have tended to evaluate only historical business data to build the company's forecast, drawing insights from information that, in some cases, was months old.

"Simply reporting historical information is not much help in a global, 24/7 business world where change can happen overnight," Cockrell says.

Why look in the rear-view mirror when you can look through the windshield? By leveraging predictive analytics, CFOs can make sure the strategic plan is proceeding accordingly. If bumps lie ahead, analyzing their potential impact is insightful information. The CEO can be apprised of ways to manage through the impediment or be advised of alternative routes to avoid obstacles and/or seize new business opportunities.

"This requires open and constant dialogue between the CFO and the CEO to understand what is important to the business leader," says Don Janezic, former CFO and currently executive vice president of Bigelow Tea, a family-owned producer of teas, and a firm believer in the value of benchmarking.

He says, "In such situations, the CFO has to bring issues forward that might not otherwise be deemed important."

Janezic adds that many CEOs tend to be self-assured and assertive people—a recipe for over-confidence. "They may think they've got it all covered, but it's the CFO, trained in the social science of finance, who is best able to bring different observations to light," he says.

Those who do will find themselves regarded by their CEO as a key strategic ally. Such is the case with Janezic, who launched his career as an accountant at KPMG before joining Bigelow Tea as CFO in 1986. Since then, the company's sales have grown from $22 million to approximately $500 million.

Richard Claiborn, CFO at The VPS Companies, a privately held food processing business, also cut his teeth as a "basic accountant," as he puts it. "As I moved from more junior positions to senior ones in my 36 years in the industry, I became a strategic advisor to the CEO, to the point where we were joined at the hip."

How did he achieve this close association? "As I pored over our financial results, I gradually began to understand the business, learning the topography of what was going on, as opposed to just crunching numbers," Claiborn explains. "I began to see what was behind the numbers—the big picture of our strategy and how all the pieces came together to deliver the results we wanted. It was this intimate knowledge of our tactics that gave me the confidence to identify bottlenecks and to assist the CEO in fixing them."

▶ ACTION ITEMS

- All CFOs can follow a similar playbook as these profiled CFOs:
- Analyze profit trends and product-line
- and customer profitability
- Help CEO determine which businesses
- to invest in, harvest or exit
- Analyze which activities to outsource or bring in-house
- Assess the pros and cons of alternative distribution channels
- Provide data, analysis and recommendations to the CEO on other strategic decisions

"Not all CEOs are financially insightful, which is why they need to have a strong CFO in place."

—Don Janezic, former CFO and currently Executive Vice President of Bigelow Tea

2. Allocate Capital Resources

TO KNOW WHERE TO PRODUCTIVELY invest corporate resources for long-term strategic value as well as shorter-term repositioning, strategic CFOs need to access real-time information of import to current and forward-moving business goals.

This information does not exist entirely in the company's internal data, since so many extraneous macroeconomic, geopolitical and regulatory events can affect the success of the strategy.

In today's blisteringly fast global business environment, where business can change overnight, CEOs need to be able to know when to shift capital resources away from business bets that are failing and toward promising opportunities. In making major capital allocations like the opening of a new factory domestically or abroad or the purchase of new equipment and/or technology, they need their CFOs to conduct cost/benefit analyses, identify revenue drivers and cost-reduction opportunities, and project the expected return on investment and/or the net present value of the discounted cash flows from potential capital investments.

"CEOs at midsized companies want enhanced agility on where to put the company's resources," says Ankur Agrawal, partner at McKinsey & Company. "To do that, they need to be able to access market insights on a daily basis." A strategic CFO "can look at and analyze this business data in close to real time to apprise the CEO and the board where the capital will have the best return, he adds.

Data is critical in this regard. Fortunately, there are new automated tools like predictive data analytics that offer t he means to sift through millions of data sets to extract the golden nuggets of information. This insight can direct the development of new or enhanced products designated for particular markets and geographies. Such insights are the case at S.R. Smith. "Gradually, we became a very data-driven entity, which freed me up to think about how I could help increase our business value," says DeDona. "I thought about ways to improve margins, using analytics to make better decisions on resource allocation."

Tactical CFOs can do the same. "Using forward-looking predictive analytics and cloud-based systems, CFOs can look around the corner at what's happening," says Cockrell. "He or she can then quickly get the CEO up to speed on what the situation actually is across the business that very day, allowing for more agile, informed and confident decisions."

The obstacle in many organizations is the traditional record-to-report process, which obliges accountants to do basic bookkeeping until the end of the accounting period, at which point they're laboring to close the books. Technology can assist this strategic purpose, as well. Automated, cloud-based finance and accounting (F&A) digital software tools provide for continuous accounting processes, allowing companies to virtually close the books in near-real time. "To do this, you need technology," says Cockrell. "This is a new knowledge set for the CFO. But if the CFO waits, the business has to wait."

▶ ACTION ITEMS

CFOs must ensure that resources are allocated toward growth and pulled back from areas that are not providing projected returns. CFOs have more options today in this regard, thanks to cloud-based predictive analytics tools, and finance and accounting applications that provide visibility into real-time financial data across the business. Not only do these platforms reduce operating costs, they also provide more detailed views of business. CFOs can improve resource allocation priorities in specific departments such as assisting sales and marketing executives in evaluating the return on various sales and marketing activities and/or helping the operations team analyze whether it makes more financial sense to make or buy products and components (or insource or outsource services). Strategic CFOs also manage the company's balance sheet and make specific recommendations to reduce inventories and working capital and leverage low interest rates to improve returns on equity.

3. Lead M&A Due Diligence and Post-Transaction Integration

A MERGER OR AN ACQUISITION is often a great way for a company to rapidly enter a promising new market, acquire key capabilities or gain scale and reduce expenses. However, many M&A transactions fail to live up to expectations.

Chalk up the failures to inadequate due diligence—not enough attention accorded the risks of cultural misalignment, unappreciated legacy liabilities and/or post-transaction integration issues.

A strategic CFO can help alter this outcome—and should, given that a key fiduciary responsibility is to wisely invest the company's capital.

Agrawal says, "In this role, the CFO needs to identify and evaluate opportunities to make sure the target company is aligned with the organization's strategy and is, in fact, healthy from a performance standpoint."

DeDona sees this as one of his many responsibilities as a CFO. "It's my job to look to diversify and grow our revenue inorganically through acquisitions, as well as organically through new product development," he says. "We've made four acquisitions in the past seven years, all of them through cash flow. In each case, I analyzed whether we should buy the company for its product line or to develop the product ourselves."

Midsized company CFOs also can apply their expertise to the integration of the two entities. "The CFO's role is to ensure proper resources are being devoted to the integration, in addition to having oversight over this process," Agrawal says.

In this regard, Janezic says that many CFOs struggle with their inherent tendency to control costs, which may have an adverse impact on the strategic value of the transaction. "Spending for value cannot be overlooked in matters related to M&A integration," he says.

In other words, the value of an acquisition should be as much about strategic growth plans as it is about (reduced) business expenses. "The strategic goal is to derive value from the integration," he says. "The CEO and the board want confidence that the acquired entity will become part and parcel of the corporate brand to positively influence sales and talent recruitment."

▶ ACTION ITEMS

A strategic CFO can ensure M&A success. They can help quantify the synergy of an acquisition and ensure that the identified cost-reduction opportunities (e.g., consolidating plants and/or suppliers, rationalizing product lines and/or distribution) and revenue growth opportunities (e.g, optimizing sales efforts by leveraging the combined organization's sales forces, products, channels and brands) are realized. This requires thorough due diligence before a deal is consummated, as well as vigilant integration after a deal closes to realize the promised synergies.

"Self-evaluation is tough but critical in all business."

—Ankur Agrawal, Partner at McKinsey & Company

4. Enhance Profits

A STRATEGIC CFO SEEKS continuous analysis of the organization's cost structure based on real-time events to optimize profit margins.

The tools in this quest include streamlining and/or reengineering processes, securing better terms and conditions with key suppliers, determining the financial rationale for doing different tasks in-house versus outsourcing them, moving technology applications and entire systems and networks from the on-premise environment to the cloud, and automating rote, repetitive and time-consuming manual processes.

Other ways to keep costs down include the use of lean manufacturing, just-in-time principles and smart manufacturing techniques. To ensure world-class expense practices, Agrawal advocates that CFOs benchmark all of the finance organization's expenses, as well as the company's business unit and department functions against peer industry groups.

Like all companies, midsized businesses are under pressure to make sure allocated capital achieves its purpose. The challenge in many organizations is the historical nature of business data, making it difficult to draw back capital for reinvestment elsewhere.

"CFOs need transparency into the business data where revenue is growing -or not- in relation to what is being spent," says Agrawal. "This is a foundational need for effective cost management."

Janezic is well aware of the need for visibility and the difficulty in acquiring it. "You only know the truth if you're open to learning it," he says. "If not, you're looking at lost opportunities."

A strategic CFO also must support and advise business leaders throughout the organization to ensure they are effectively managing capital investments to achieve anticipated returns. Working closely with these colleagues, the CFO can assist discussions on how to further reduce costs, such as streamlining or reengineering processes, securing better terms and conditions with key suppliers, determining the financial rationale for doing different tasks in-house versus outsourcing them, and/or moving technology applications and entire systems and networks from the on-premise environment to the cloud. To assess expense practices, CFOs should also benchmark the costs against peer industry groups.

Janezic is a firm believer in the value of benchmarking. "Self-evaluation is tough but critical in all business," he says.

CFOs also can put their talents to the other side of the profit equation—pricing. Leveraging price optimization software tools, they can track the prices that competitors are charging in different geographic regions and market segments. According to the technology research firm Gartner, companies that deploy price optimization software can gain a reliable 2 to 5 points in gross margin increases.

CFOs also can champion the building of a pricing infrastructure to establish and strengthen pricing activities. McKinsey & Company advocates that companies build such infrastructures to effect more deliberate decisions around pricing and to create mechanisms that appropriately measure and reward pricing excellence. The return is worth the investment. By segmenting customers and products and testing price elasticity to optimize pricing, businesses can achieve higher price realization. The financial leverage is enormous—a 5 percent price increase in a company with a 10 percent net profit margin will realize a 50 percent increase in profit, according to McKinsey.

▶ ACTION ITEMS

CFOs must be clear about how to achieve higher profits, balancing the opportunities to reduce costs with the potential to charge more for products and services. In these regards, CFOs must work closely with the CIO or CTO and the other business leaders to evaluate buying or leasing applications to optimize pricing, as well as technologies to reduce manual labor through automation (more on this in the next section).

"The CFO of a midsized company must be the eyes and ears of the CEO when it comes to sourcing deals."

—Ankur Agrawal, Partner at McKinsey & Company

5. Champion New Technology

A TACTICAL CFO IS responsible for green lighting investments in technology hardware and software. A strategic CFO does this and more, ensuring the business value of these investments—the touted return on investment to reduce labor costs or enhance process efficiency and worker productivity through the rapid dissemination of various technologies.

A good place to start is the CFO's own accounting/finance department. There are many cloud-based software tools that streamline accounting processes, such as the recent array of robotic process automation (RPA) solutions. RPA assumes the rote, repetitive and tedious manual work typically executed by accountants. One-third of finance leaders in a recent survey by Genpact Research state that RPA applications are having a positive operational impact within their organizations, with more than half positing that RPA will have the greatest impact of all F&A accounting tools over the next two years.

Predictive data analytics is another technology in wider use among midsized businesses. "With predictive analytics, CFOs now have transparency into the business in near-real time, giving them the ability to advise the CEO on how to adjust the strategy and tactics," Cockrell says.

A strategic CFO should also ally with the CIO or CTO and the respective department heads to make the economic case for technology investments in other areas of the business, such as in operations, distribution, supply chain, sales and marketing.

Many organizations invested millions of dollars and an extraordinary amount of time in implementing on-premise ERP systems. At present, the fastest growing financial technology category is cloud-based corporate performance management solution suites providing enhanced capability across the enterprise—in supply chain management, finance and accounting, HR, operations and other parts of the business, according to Gartner.

These cloud solutions are ERP-agnostic, meaning they can plug into Oracle, SAP and other ERP systems. There also is an explosion of new technologies in each function (e.g., automation equipment and software) that explosion promises to improve efficiencies, speed and quality.

Across the organization, CFOs must be involved in discussions about how best to acquire promising technologies—to buy, rent or build internally—given the rapid evolution in cloud-based solutions. In these deliberations, the focus should be on speed as much as costs.

"Access to real-time data is crucial to any business, and the company that has this information first, ahead of its competitors, is able to act more decisively and thoughtfully on this information," says DeDona. "We're leveraging data analytics to make better resource decisions, including whether we would be better off doing something in-house or buying it."

This wasn't always the case. In his early years at S.R. Smith, its IT infrastructure was aging fast. "We had no network or data analytics capabilities," DeDona says. "Today, I am constantly looking at the challenges and the opportunities the business confronts and how I can help to proactively address them."

A strategic CFO must work with each internal group to assess the value and ROI of such technology investments, while ensuring the company adequately budgets the capital needed for system implementation, process change management and training costs.

▶ ACTION ITEMS

As part of the annual budget process, a strategic CFO should query business unit and functional leaders about promising new technologies and categorize them according to maturity (e.g., Bleeding Edge, Coming of Age, Mixed Results and Proven Winner). The CFO can then work with each department head to determine the costs and benefits of each promising technology–today and in two or three years. This vetting process will help the organization determine the highest priority technology investments and the right entry point for each initiative.

6. Assess Risk and Implement Controls

ALL CFOS ARE EXPECTED to oversee the management of risk in their organizations. Many midsized companies have built enterprise risk management (ERM) processes to make it easier and more efficient for them to identify, assess, prioritize, mitigate and transfer wide-ranging strategic, operational and financial risks. ERM also inculcates a culture of risk ownership.

"Managing risk is table stakes for the average CFO," says Agrawal. "Where CFOs can provide real strategic value is by helping the CEO understand which risks the company should be taking. Big risks can provide big rewards, assuming these risks are understood."

▶ ACTION ITEMS

The CFO should prepare an annual risk audit that outlines each risk the company faces, its potential business impact, and the options and related costs to remedy these risks at the 80 percent and 99.9 percent confidence levels. The CFO can then work with the CEO to determine which investments to make and the appropriate levels of insurance to mitigate these key risks.

The Road Map

Many formerly tactical CFOs have become strategic CFOs by taking one step at a time. Here are a few ideas to consider in this journey:

- Reassess current technology and closing practices. Determine which work that is currently being done manually by the F&A organization can be relieved through the use of continuous accounting processes leveraging account reconciliation software and other tools and what the cost vs. benefit is of applying automation and other technologies to these processes.
- Spend more time with the CEO to understand his or her goals and the reasons for the strategic choices, while proactively providing data, analysis and ideas to help improve the company's growth and profitability.
- Consider outside training from leading business schools like Wharton, Harvard and Dartmouth that offer CFO focused curricula, as well CFO peer networks like the Senior Executive Network's CFO Network.
- Be global in thought and deed, breaking away from analyzing purely historical internal business data to inform proactively on today's state of business, the operating environment and exogenous events that can shape the company's future.
- Develop the financial support staff to become more "forward facing," freeing up time by eliminating mundane, repetitive tasks that can be more efficiently and cost-effectively addressed through automation and allowing your staff to focus more on analysis and planning.

Many CFOs have found that peer networking has helped accelerate their learning curve to become more strategic-minded-and-focused CFOs. Among them is Janezic. Early on in his career at Bigelow Tea, he joined a group of other CFOs in the food industry. "We'd meet every Thursday evening to discuss each other's challenges," he says. "I realized they were experiencing many of the same problems I was experiencing, as well as other issues that would soon come my way. I learned things I needed to know—things I wouldn't have learned had I not talked with other CFOs. You only know what you know."

Janezic became such an advocate of peer networking that he sought ways to share challenges and best practices with CFOs from other sectors of the manufacturing industry. "I joined the Senior Executive Network's Manufacturing CFO Network," he says. "Each of us sees our primary role as a strategic one. And we are eager to share ways to become more strategic."