What Strategic CFOs do Differently?

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According to Yale University's Professor Foster, companies are getting bumped off the S&P 500 at an accelerating rate. Back in 1958, a company could expect to stay on S&P 500 for 61 years. Now, the average is just 18 years.

Since 2002, Google, Amazon, and Netflix have joined the list; while Kodak and the New York Times have fallen off the list. Fast paced technological innovations are creating a tsunami of changes in the business community. The behemoth companies that we know today could well be very different for our future generation.

Against this backdrop of fast changing business environment and technological advances, together with increasing regulatory complexity and globalisation, how has the role of the Chief Financial Officers (CFOs) evolved in ensuring the sustainability of their companies? Are they ready to embrace the challenges as well as opportunities to maintain their relevance?

From Stewardship to Value Creation

As we move into a tighter business environment, more emphasis will be placed on the company's next strategic steps. A CFO needs to get more involved in strategic decisions, and early in the process, since these have financial consequences. As one CFO had put it, "Finance should provide a window into the future through which an organization can best prepare itself".

The strategic CFO provides the CEO with business insights that serve as the foundation of value creation. He is expected to find ways to contribute to the success of the business and its competitive position. He advises the CEO not only on the financial aspects of where the company is heading but also helps formulate courses of action, for example, by helping align business portfolios, strategies and risk management with the changing business environment.

The strategic CFO adopts a more dynamic approach towards his role by re-aligning the traditional activities of finance in more effective ways to support the business in making the right decisions. The present approaches to forecasting and planning are often overly focused on the financial outputs, with their effectiveness judged by the accuracy of their prediction, rather than the actions to improve results. For example, in assessing new business opportunities, can the finance process create an effective way to allocate funds to new opportunities which can create value? Performance targeting or tracking should also move away from arbitrary internal benchmarks or comparison with previous years to judging objectives and performance against competitors and market movements. Doing so will provide a more rounded evaluation of company's progress and future priorities.

From managing risk to building resilience

The strategic CFO will also learn to manage uncertainty and enhance the company's resilience, other than trying to control risks. The focus has been on putting appropriate controls in place to ensure that finance can report accurately and on time, and working with risk management to develop the risk management and control framework.

The notion that risk can be simply managed by putting enough controls in place may be outmoded. Market shocks have proved that even companies with significant and effective controls in place can still be severely impacted. Hence, building a company's resilience is as important as managing its risk. Resilience enables the company to both manage uncertainty as well as capture the upside of opportunities. Do finance processes promote agility which in turn increases resilience? Increasingly, the CFO will need to include agility in his company's finance processes to create and seize opportunities and to transform the organisation in response to shifts and shocks in its environment.

From maintaining status quo to catalyzing change

A strategic CFO should see himself as an agent of change. He has to foster change in how finance and the others work together. These changes relate to the operating culture in the company. To think and work strategically, finance has to increase focus also on financial planning and analysis, and shift from the present focus on controls, closing accounts and consolidation. The CFO can shape his finance function to create value by making sure that his company has better insights which support both operational and strategic decisions; namely, a finance function which is more of a "shaper" than a controller.

The strategic CFO will embrace technology to play his role effectively. It is likely to be a matter of time before technology also helps make strategic decisions in a rapidly changing and complex environment, on the basis of data on markets, competitors, customers and prices. Companies that do not embrace this technology will probably be out of business because of competitive disadvantage. We witnessed this with companies that neglected the emergence of the internet. We are likely to see it again with the emergence of data-driven society.

Technology such as big data and analytics provides the CFO with the ability to combine data within the organization with external sources, and cull real-time insights, in light of the latest trends, developments and competition in the market. This enhances the flexibility and speed to proactively respond to changes in a dynamic market. This is in addition to the potential for improvement of risk management, service quality, and optimization of organizational costs.

In addressing complex questions which require contribution from multiple disciplines and external data as inputs, the CFO is well placed to play a major role in transforming information into knowledge that leads to better decisions. To do so, he must be ready to take on the additional challenge of helping the business to draw together all these information and turn them into meaningful and actionable insights, especially in companies which have grown and become more fragmented.

From reporting to communicating

CFOs are increasingly seen as another public face of the company, alongside the Board and CEO, in stakeholder communication as they discuss business issues such as key business drivers, as well as risk and governance related matters, supported by relevant metrics. Some of these are better dealt with by the CFO.

In this role, the strategic CFO will shift from reporting to communicating as stakeholder groups seek to understand not only the current profitability of the company but also the sustainability of such profits and its impact on the economy and society. With financial and non-financial issues being covered and a focus on long-term value creation and sustainability, the CFO may need to see how he can enhance corporate reporting. Integrated reporting represents one such opportunity. Integrated reporting takes a holistic view of corporate reporting, with the objective of communicating a complete story to stakeholders. It may be worthwhile for the CFO to start thinking early about the issues in communicating the whole story and the required infrastructure and resources to do so.

Staying ahead of the curve

“The CFO is a role for resourceful individuals who have the courage and ability to look beyond traditional domains, and who are prepared to invest for the future to stay ahead of the curve,” said Mr Lee Fook Chiew, Chief Executive Officer, Institute of Singapore Chartered Accountants.

Beyond the financial aspects, the CFO of tomorrow will help shape strategy, drive innovation, harness technology, and, most importantly, create value to support and sustain the business over the long term.

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