How can CFOs lead and change through these challenging times?

At a glance

In today's economy, strong financial leadership is more important than ever.

Finance functions will need to work hard to help businesses remain competitive and well positioned for the future.

In this article, we identify - and help clarify - the new role of leading CFOs.

pwc

What would you like to grow?

leadership

In today's challenging environment, it can be hard to justify an investment in the finance function. But financial leadership is often exactly what an organisation requires. Leading CFOs know that a strong finance function is vital to helping them guide their companies through difficult times.

Today's CFOs face a complex business environment; innovation is an essential driver of excellence, and the finance department is no exception. But what form does innovation take in the office of the CFO?

Financial executives must play a leading role in accelerating strategic growth across the enterprise. CFOs are uniquely qualified to provide meaningful input to their organisations' current and future investments, participate in the broader corporate vision, and advocate and produce strategic transformation. CFOs who understand this new requirement to be a catalyst agent of change—and to lead transformation across the enterprise—can create enormous competitive advantage for their organisations.

A new perspective on the role of the CFO

Doing more with less is a cornerstone of corporate finance, and CFOs are accustomed to dealing with a constant stream of changes. Demands on the CFO's role have been mounting for years, and the necessity for CFOs to participate in the business at a broad and strategic level has never been greater. Successful organisations require their CFOs to have vision, and the ability to look beyond the core functions of finance. They also require CFOs to have the fortitude to use their financial acumen and insights to drive new value and elevated levels of business transformation and performance.

CFO turnover higher than ever

For better or worse, the office of the CFO has taken a lot of heat in the past few years. Intense media scrutiny, legal liability and the tremendous strain of Sarbanes-Oxley (SOX) compliance are a perfect storm of issues that has led to an astonishing level of job churn. In fact, CFO turnover is higher than it has ever been. Roughly half of the CFOs at Fortune 500 and Standard & Poor's 500 companies stay in their posts for less than three years, according to a study by executive recruiter Crist|Kolder Associates.

Multiple factors are at play: at large companies, CFOs have very short leashes, and underperforming CFOs are quickly shown the door. But at companies of all sizes, financial executives are simply bowing out because of burnout and poor job satisfaction.

Don't expect the overall trend to change soon. Downturns in the economy can more than double the likelihood that a company significantly changes its industry ranking in terms of its market capitalisation-to-sales ratio. The good news: companies that make it into the top quartile during a downturn sustain their market premium for an average of three years. Strong financial leadership during the difficult months and years ahead will pay dividends in competitive advantage and shareholder value.

Johnson, H., "CFO turnover hits a record high," Financial Week, Sept. 1, 2008.

The Corporate Executive Board, Executive Guidance for 2009, November 2008.

ibid.

Today's most successful CFOs embrace a broad interpretation of their role, involving themselves extensively in the management of the business and its future. They view change as a constant in finance. They view change as imperative and seize the opportunity to drive improvement. And these CFOs are in the habit of asking themselves, "What can I do to help make sure that we don't simply survive, but thrive, in the years ahead?"

Companies endowed with this formidable level of financial leadership have a clear competitive advantage over those that don't. Economic turmoil intensifies the effect; those lacking excellent financial leadership will be quickly exposed not only because they failed to prepare for such an event, but also because their lack of preparation will leave them with reactive, instinctive responses as their only defense.

Breaking out of survival mode and helping lead the pack

Excellent finance functions don't develop by chance. They are built over time by a sustained and focused program, led by CFO's who invest continually in people, processes and technologies.

Financial executives must play a leading role in accelerating strategic growth across the enterprise. However, cross-functional leadership can only be born from the experience of success inside the finance department.

But how do you recognise a tested record of accomplishment in the finance organisation?

Telltale signs include:

- The CFO has a specific, documented and compelling vision for the organisation— a clear description and plan for modifying processes, technologies, skill profiles, cost profiles and services for the enterprise
- Changes outlined in the CFO's vision of the finance function are clearly aligned with specific changes in the business and both short and long-term strategic goals of the organisation
- Finance achieves continuous improvement in accuracy, timeliness and cost-effectiveness of control and compliance activities
- The department is focused on improving the use of information, building better business partnerships and promoting growth and innovation
- The CFO continually invests in developing the technical and leadership skills of their staff
- Finance staff members are highly regarded and often sought out both internally (e.g, committees) and externally (e.g., recruitment attempts)
- The finance organisation serves as an example of managing change throughout the company, and provides insights to drive new value and elevated levels of business transformation and performance

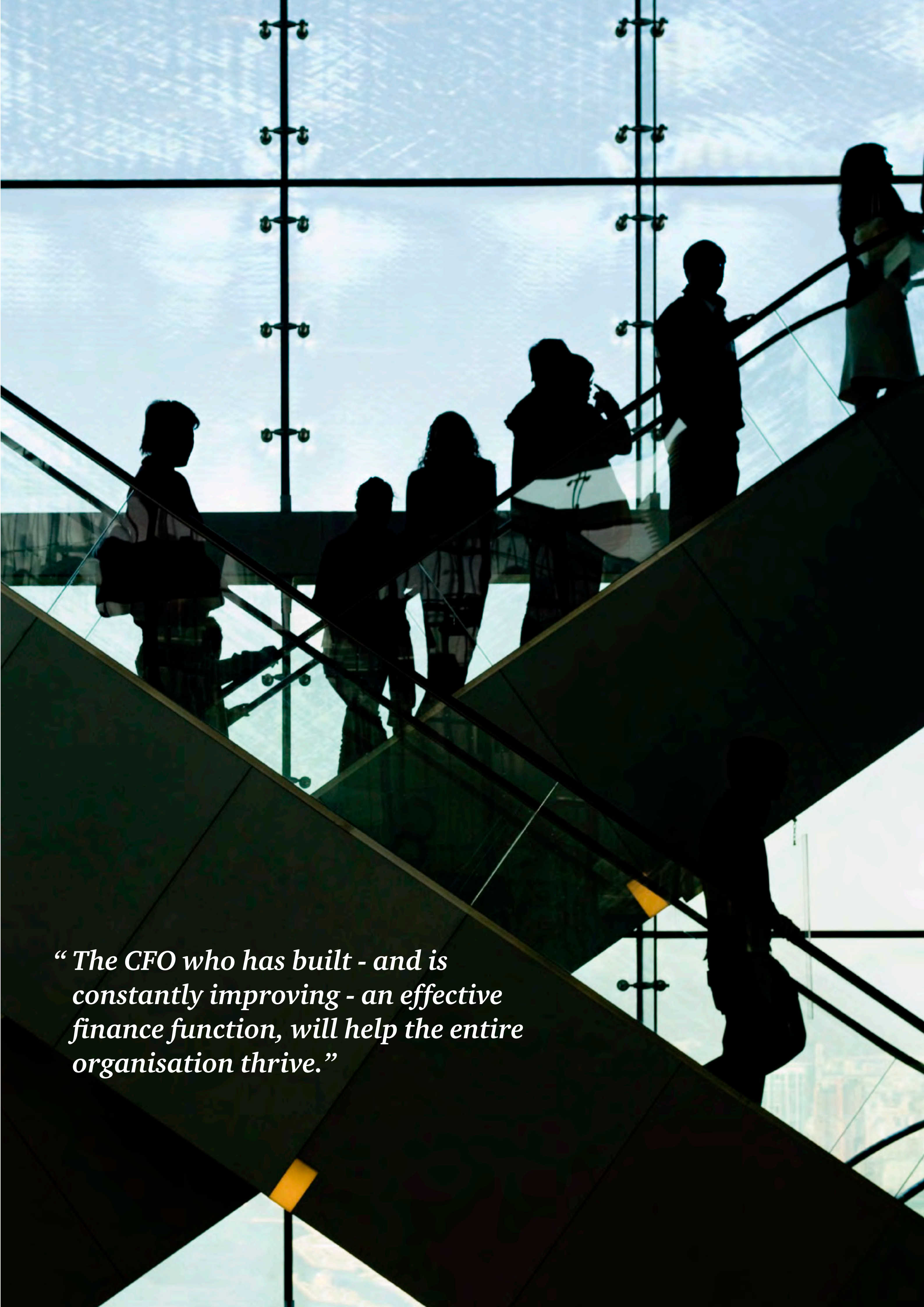
It's more than just survival of the fittest

In contrast, a finance organisation that doesn't innovate enough also has telltale characteristics:

- Always playing catch-up and doesn't deliver value to the business as required
- Is unable to anticipate or plan for changes in the business
- Lacks a clear, compelling statement of how finance will evolve to meet future demands
- Staff morale and engagement is poor; retention is an issue
- Focuses excessively on finance control, compliance activities and transaction processing

This type of finance organisation is one that might survive challenges. But survival should not be the benchmark that CFOs should apply, even during unstable periods.

Another hallmark of an underperforming finance function is lack of innovation. This generally means there's a conservative approach to new technologies and changes in industry standards. These organisations wait until change is mandated before moving toward compliance. Not surprisingly, these companies may not have begun to assess the effect of—or plan their response to—emerging standards such as International Financial Reporting Standards.



“ The CFO who has built - and is constantly improving - an effective finance function, will help the entire organisation thrive.”

proactive organisations

Finance executives wear many hats, including that of compliance steward, pragmatic strategist and business partner.

Building a proactive finance organisation

PwC has studied how leading CFOs within global companies approach their responsibilities. These close observations have helped us analyse and document what we perceive as sustainable characteristics of successful, proactive finance organisations that are positioned to help their companies thrive. In short, we find that the finance executives in leading organisations demonstrate proficiency in three essential roles:

1. Compliance Steward: providing fiscal oversight

Stewardship involves the traditional functions of the finance department, including the day-to-day requirements of accounting and periodic obligations of regulatory compliance. SOX, Regulatory and Stock Exchange filings , transaction processing, and internal and external financial reporting processes all fall under the province of the CFO as 'compliance steward'.

The steward role has always been core to the success of the CFO. Indeed, it took on renewed significance with the increased scrutiny on corporate governance and controls mandated by SOX. Savvy CFOs used SOX as a heavy hammer to justify and sustain focus on long-deferred and much-needed improvements in corporate processes and infrastructure, both within their own departments and across the enterprise.

2. Pragmatic Strategist: enriching the bottom line

At its essence, strategic competency requires that the CFO focus on growing the business and returning shareholder value. The 'pragmatic strategist' maintains an explicit valuation model of the business and aligns opportunities with necessary resources to complete them. They are the company's highest authority when it comes to calculating the value of return on investment for new business initiatives and establishing targets that balance revenue growth, operating profitability and cash flow. The CFO is the closest ally of the CEO and has a seat at the table whenever business strategy is discussed.

The CFO leads efforts in the creation and use of information across the enterprise, including business intelligence and performance management techniques, to provide robust planning and forecasting, predictive analytics, and results monitoring.

3. Business Partner: driving continuous improvement

The CFO as a 'business partner' is not simply wrestling with change and trying to reduce its impact on finance. They anticipate changes in the business environment and use every tool at their disposal to drive improvement and preparedness across the entire enterprise. The CFO's goal in doing so is to help the organisation grow profitably, attain a higher return on investment and meet objectives specific to the business as quickly as possible. As the CFO monitors these initiatives, they bring issues to the attention of senior leadership quickly when corrective action is required to protect investments and the organisation.

The central theme of being a true 'business partner' is transformation. The CFO views internal transformation and continuous improvement as critical goals, which are managed via a portfolio of projects. The portfolio itself is a critical tool: through continual reprioritisation and changes in the project portfolio, the CFO can make periodic adjustments that keep resource utilisation aligned with business strategy.

The CFO can effectively measure business benefits and results expected from each initiative and provide updates to these projections whenever the portfolio is modified. Other critical characteristics of the 'business partner' include:

- Using the finance function to drive and influence strategic and tactical change across the enterprise
- Utilising line-of-business, division controller and analyst positions as points of leverage to enable transformation
- Updating capabilities, tools and skills within finance on a continual basis to increase efficiency

Taken together or individually, the functions of the 'compliance steward' and the 'pragmatic strategist' are necessary, but CFOs who truly stand apart are those that understand the significance of being a true business partner with the CEO to enable and drive transformation of the finance function, and ultimately the company at large.

Underestimating the value of transformation

Excellence in the ‘business partner’ role is hard to find.

Excellence in all three roles is necessary for a company to get what it needs out of the finance function but it’s hard work, and often hard to find. At most companies, the items within the ‘business partner’ domain are not planned or evaluated as a separate competency; instead, they are presumed to exist only through the measurement of success in the steward and strategist roles. Thus, CFOs at these companies focus heavily on stewardship and strategy and, in doing so, neglect to increase their contribution.

Our experience has shown that when companies have significant problems in the steward and strategist roles, there is generally a significant lack of experience in, or attention to, the ‘business partner’ role. In our engagements, we help clients drive significant improvements beyond initial targets—and sustain their focus for future improvements—by helping them recognise and leverage the power of being a ‘business partner’.

Times of crisis should not divert attention away from the importance of transformation.

Getting transformation off the ground

To remain competitive and position the organisation to take advantage of business conditions, CFOs should:

- Monitor market opportunities and make investments that allow the organisation to take advantage of strengthening demand
- Wring out every last bit of working capital by focusing on receivables, payables and inventory management
- Exit some businesses entirely, making wholesale changes to the enterprise
- Merge, sell or acquire business units
- Migrate some business processes offshore and/or to outsourcers to reduce costs
- Equip the organisation with the agility to accept and implement a continual bombardment of new regulatory, control and reporting requirements
- Accept and adapt quickly to new financing strategies and regulatory requirements that may emerge in your industry as a response to a more challenging credit environment

To increase your effectiveness, consider the three roles an accumulation of concerns. CFOs are accustomed to and cognisant of the investments required for good stewardship and strategy, and aware that reaching high levels of leadership in the days ahead will require close monitoring and appropriate consideration of the 'business partner' role, too.

Aggressive action required

When money is tight, it can be easy for organisations to think it's the wrong time to invest in finance. However, in some cases, an investment in finance can be exactly what the company needs to fortify the entire organisation. A strong finance function is vital to guiding companies through challenging times, and CFOs may find themselves making the hard decision of whether to continue investing in the finance function—even when other business uints are being told to cut back.

Times of crisis should not mean organisations divert attention away from transformation programs. If the CFO is a true 'business partner' the organisation is far better positioned to weather hard times and help ensure a positive outcome for their organisation.

Our recommendations

CFO's who reap true, meaningful , personal and professional satisfaction from their role undoubtedly will be the ones who lead the business in adapting to whatever changes lie ahead.

PwC understands the magnitude of an organisation's expectations and can provide experienced guidance on meeting and exceeding these. Recommendations include:

Assessing organisational readiness

When it comes to getting things done, a good manager knows their capabilities, priorities and the balance of the two. In the 'steward' and 'strategist' roles, this means knowing whether the finance function is equipped to meet the deliverables of today and tomorrow and that it is positioned to build shareholder value continually. This means knowing if the organisation's plan is adequate to support and execute growth and innovation both within the finance department and outside of it.

Investing in people

A leading CFO uses key individuals within their organisation as transformation champions, and equips them with the training and tools needed to understand the agenda and rally support across the business. CFOs require a highly skilled, engaged finance team, and as such they need to keep staff – specifically top talent – front of mind at all times; doing what it takes to acquire, develop, retain and build a cohesive, informed and engaged finance organisation.

Providing tools to support smart work

Key personnel will help rally support for the agenda, and model a "work smarter" attitude across the finance organisation.

This model often requires an environment supported by performance management and business intelligence tools. When the going gets very tough, longer hours alone will not solve the problem.

Leading improvement

Learn the lessons of companies that don't plan and manage continuous improvement and end up with partial, or total failures, of much-needed initiatives. People's attitudes, fears and preparedness are critical variables that need to be predicted and managed.

CFOs who reap true, meaningful, personal and professional satisfaction from this role, will undoubtedly be the ones who lead the business in adapting to whatever changes lie ahead. No one else, save the CEO, has the full complement of critical insights that can drive the business in the right direction.

Where to now? Next steps…

Responses to the following questions can help CFOs develop a focused plan:

- Does the organisation respond proactively to changing compliance requirements?
- Are new compliance requirements leveraged/ used as a platform to drive improvements in underlying processes?
- Have investments in control and compliance (e.g., SOX) improved insights and the ability to manage the business?
- Does the organisation regulary evaluate its performance in the delivery model for core financial services (i.e., transaction processing, accounting and reporting, planning, analysis), and implement improvements to deliver them better, faster and cheaper?
- Is the organisation's strategy for adding value to the corporation thorough enough to weather volatile market forces?
- Does the organisation maintain a valuation model of the business, and does it plan key business initiatives based on the effect on shareholder value?
- How does the organisation improve each element of working capital?
- Are the value drivers of the business linked to performance measures, goals or incentives?
- Is finance engaged with the business units in driving product, service, sales and other planning investment and profitability modelling?
- For major initiatives within finance and across the enterprise, does finance establish and monitor performance against specific financial objectives and regularly evaluate and report on progress on both costs incurred and benefits realised from them?
- Have finance planned the future of the organisation thoroughly – so the core business is continually enhanced?
- Is there a clear and compelling vision of how finance will operate in three to five years, as compared to today and has it been communicated?
- Is there a defined road map for investments beyond current improvement projects?
- What is the approach for identifying and planning for future business models, goals and initiatives, and is it applied consistently?
- Is there a prioritised portfolio of projects, and is it revisited and maintained frequently as business conditions change?
- Does the improvement portfolio have explicit initiatives encompassing core processes, technologies and continuing investments in people?
- How does the organisation evaluate the risk of not completing some projects, and does it have a contingency plan to mitigate adverse effects?

pwc.com.au

Next Steps

To have a deeper conversation about how we can help, please contact:

Martin Green

0412 866 617
martin.green@au.pwc.com

Steve Kranes

0439 260 295
steve.kranes@au.pwc.com

Daniel Bruce

0417 674 245
daniel.bruce@au.pwc.com