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# Beyond bean counting: the CFO's expanding role

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The secret isn't counting the beans. It's growing more beans  
(Roberto Goizueta, chairman and CEO of Coca-Cola, 1981-1997).

**I**n the traditional executive suite, the chief financial officer's role was to keep tabs on the money – what came in and what went out – and then make sense of that information for the board of directors, top management, and the investment community. And while the CFO's fiefdom was large – including treasury, tax, audit, financial reporting, and investor relations – few ventured beyond these purely financial domains.

How times have changed. Today, CEOs are delegating high-level management responsibilities at such a rapid rate that CFOs are being stretched even further. Anyone who doubts that this trend has put CFOs on the hot seat can consider the following: in a recent survey of CEOs, the five most critical CFO characteristics identified were finance expertise, leadership, integrity, strategic vision, and communications skills. The same survey revealed that 40 percent of the CEOs had fired their most recent CFOs (Dalton, 1999).

Over the last 20 years in our consulting work, we have seen a lot of CFOs come and go as the bar is raised higher each year. In fact, a number of recent studies have shown that only about 20 percent of all CFOs make it to the level of CEO. We have noticed that those who survive and have a good shot at making the transition to CEO are those who move from being financial specialists to leaders of a broader set of activities that are critical to a company's success. In particular, we have observed that these CFOs take on dynamic leadership

roles in four important areas of the business. First, they have exemplary strategic management capabilities. Second, they are able to provide line management with detailed, real-time information that improves the quality of strategic decision-making and execution. Third, they transform the traditional investor-relations function into a source of competitive advantage. And fourth, their leadership transcends the finance function and carries over into all areas of the company. (See the sidebar, "Job description of the new CFO.")

In the 1920s, Alfred Sloan, founder of General Motors and generally regarded as the creator of the modern corporation, praised his CFO, Donaldson Brown, for instituting the financial controls that were central to Sloan's highly successful and oft replicated management model. Today, Mr Brown would need to do a lot more to receive such high praise from his boss. As Roberto Goizueta, the late chairman and CEO of Coca-Cola, noted, today's CFOs are being asked to grow new beans in addition to counting the company's existing beans.

### The vision thing

We have heard many CEOs lament their CFOs' lack of strategic vision and have even seen a few lose their jobs because of it. In a recent study by executive search firm Heidrick and Struggles (1998), *Fortune* 1,000 CEOs cited "not strategic enough" as one of the most strikingly absent traits in their CFOs. But what exactly is meant by

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### Job description of the new CFO

Today's successful CFO must wear four new hats in addition to being a master of the finance function:

- (1) Strategist
  - ◆ Has a deep understanding of the economics of the business and how to link it to strategic opportunities.
  - ◆ Can manage a far-ranging and complex strategic management process.
- (2) Information specialist
  - ◆ Can link IT investment alternatives to their impact on the value of the company and help make choices based on that criterion.
  - ◆ Is able to work with line management to create a fact base that supports companywide strategy development and performance management.
  - ◆ Oversees the development of an IT infrastructure that supplies the requisite strategic information.
- (3) Communicator
  - ◆ Can articulate well the company's current position (financial and strategic) and future direction.
  - ◆ Has exceptional judgement in determining what, when, and how to communicate important information externally to investors, the media, and the community.
- (4) Leader
  - ◆ Is able to contribute to, and improve the quality of, debate and decision-making at the executive level.
  - ◆ Is able to lead major change programs throughout the organization.
  - ◆ Is good at developing and nurturing strong and constructive relationships internally with business unit leaders and fellow executives.

### Tough questions for CFOs: then and now

#### Then

- ◆ What has been our financial performance?
- ◆ What are the business units forecasting our performance will be in the future?
- ◆ What should investors expect us to earn this quarter, next quarter?
- ◆ How should we finance our future growth?
- ◆ Do the books balance? Are the audits being done correctly?
- ◆ Are we paying the lowest taxes possible?
- ◆ Is our cost of debt as low as possible?

#### Now

All the above questions, plus:

- ◆ Do we know where value is created within our businesses? Do we have a process for managing value creation systematically?
- ◆ Are our corporate strategy and business unit strategies adding value for shareholders?
- ◆ How can we build a transparent understanding of our business in the investment community that leads to a fair and stable valuation of our company?
- ◆ Do we have the right goals and targets in place, for the company as a whole and within each of our businesses, to achieve the level of performance our shareholders expect?
- ◆ Is top management focused on the right agenda, i.e. the highest value-at-stake issues, to achieve our performance goals?
- ◆ What should we be doing today to increase our organization's capability to maximize value in the future?

“strategic vision?” In the past, “visionary” executives relied on years of experience and a finely tuned intuition regarding where the market was going and how their companies could succeed in it. But not anymore. In today's competitive environment, with its extraordinarily high standards for decision-making and high stakes for major investments, strategic vision is as much science as art. CEOs must make decisions on a robust fact base, one that includes insights into the underlying economics of the business. With the increasing complexity of the strategic planning process, it is no wonder the already overburdened CEO is outsourcing more of this responsibility to the CFO. (See the sidebar, “Tough questions for CFOs: then and now.”)

Rising to this daunting task requires two specific skills. First, the CFO must be able to present a rigorous, fact-based understanding of how and where value is created in the company and where value creation is likely to take place in the future – something most companies (and CFOs) are unable to articulate. The fact base starts with a clear picture of current performance: where is economic profit being created[1]? Where is it being destroyed? Are our competitors profitable in these segments?

In addition to the basics, leading CFOs must work closely with business unit management to understand the strategic forces underlying the creation of economic profit and how to manage these forces. Why are we creating value in this business? Why are we destroying value in that business? Why are we competitively advantaged or disadvantaged? Is our advantage in this market driven by a superior product or service offering, a superior distribution system, or something else? Given these value drivers, what alternative strategies hold the promise of higher value?

By knowing the answers to these questions, the CFO can support the business units in the development of alternative strategies to maximize value. In addition to being on top of the company's financials, the CFO must be able to support corporate and business unit management in making tough and complex decisions in all areas of the business. In the process, the CFO becomes a strategic business partner to all line managers. General Motors' CEO Richard Wagoner was able to coax John Devine out of retirement to become GM's vice-chairman and CFO in 2001 by offering him an opportunity to play a lead role in shaping GM's corporate strategy, a role Devine had successfully played previously at Ford.

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In addition to reshaping the decision-making process, CFOs are also actively overseeing strategy development in their organizations. The Heidrick and Struggles (1998) survey reveals that 97 percent of respondents had asked their CFOs to take responsibility for developing long-term strategic planning. This shift has put pressure on the CFO to be not only a great analyst and thinker, but also a manager and leader of high-level corporate and business unit managers involved in strategic planning.

Consider Intel CFO Andy Bryant, who rose through various finance positions after joining the company in 1981 and who became CFO in 1994. His role as CFO has steadily expanded since then, and it now includes such responsibilities as managing the company's enterprise services division. But perhaps most important, he is now viewed as an integral part of the top management team that makes all of the major strategic decisions at Intel. In particular, Bryant brings the capital market perspective and disciplines to the strategic debate and helps guide his fellow executives' thinking around strategic alternatives and decisions in terms of their likely impact on Intel's market value.

The implication in these developments is that CFOs are no longer only providing input into the strategy development process but are also helping to drive that process and becoming strategists themselves. In short, the CFO's primary job used to be telling the boss where they've been; now it's to help figure out where they're going.

### **The CFO as CIO**

Companies that excel at managing information technology use IT to create "profitable differences" from their competitors, i.e. capabilities that are both differentiated and profitable. The leaders of these companies know the answers to questions such as: What are the company's proprietary information advantages? How can we successfully leverage these advantages? Bill Gates (2000), one of the past decade's highly successful CEOs, put it this way: "The most meaningful way to differentiate your company from your competition, the best way to put distance between you and the crowd, is to do an outstanding job with information. How you gather, manage, and use information will determine whether you win or lose."

As with the strategy discipline, much of the responsibility for leveraging IT has fallen on the CFO's shoulders. The CFO is being called upon to make recommendations on a broad range of critical IT investments, from whether or not a company should invest hundreds of millions of dollars in broad technology platforms to how business units can build systems to serve "markets of one."

To use IT to create profitable differences, there are two particularly important abilities the CFO must

possess. First, unlike even a decade ago, a CFO must have an intimate knowledge of where within a company's activity chain the company can establish profitable differences. In approving investment opportunities, the CFO must be able to track whether the technology will help create such differences, i.e. will it have a positive effect on the relative competitiveness of existing processes, talent, and systems in a company's core activities such as vendor relations, marketing, and manufacturing. Lacking such an understanding, CFOs are flying blind when it comes to providing much needed counsel on whether to pursue a particular project.

It is common for CFOs, when faced with investment opportunities, to fall back on familiar metrics such as ROI, IRR, or NPV to assess a project, but these measures do not shed light on the essential question of whether the technology is solving a strategic problem. It is also common for CFOs to support the development of massive ERP or CRM systems, which also may not address underlying strategic challenges. In the end, CFOs must rely on their knowledge of the business's strategic priorities if they are going to provide insight into the massive IT projects that come to the senior level for approval.

The second IT-related ability the CFO needs to possess is how to manage and integrate the growing array of information systems in the company. The CFO is now expected to provide up-to-date information on markets, emerging customer needs, competitors, and current operations. The successful CFO needs to take a proactive role in the development of IT infrastructure that will support the company's future information needs. To take an active leadership role in IT, the CFO must understand the functionality – both existing and potential – of the various information systems at the corporate and business unit level. To make matters more complicated, most existing information systems are unable to generate the necessary information in a satisfactory way. For example, to quickly gather information on the economic profit (EP) contribution of products and customers by region is virtually impossible in most companies. They are also unable to do realistic financial forecasting and scenario planning using current information. In the end, it is the CFO who has to produce this information for high-level decision-making.

The Boots Company, the UK's oldest, largest, and most profitable pharmacy chain, has over 1,400 stores throughout the UK, Europe, and Asia. Under the leadership of group finance director David Thompson and David Stead, finance director of the pharmacy business unit, Boots has developed an exemplary financial information system. The system provides weekly reports at a very fine level of detail including a real-time "pulse-check" on performance, as well as the market's reaction to new products and promotions. Managers are able to look at both sales and gross margin

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information across individual products and stores and compare them to weekly targets. The system also produces monthly reports that are organized around major categories (dispensing, healthcare, etc.) and that track sales, gross margin, market-share movements, competitor activity, and progress against key strategic and operational initiatives by category. These reports provide a clear picture of the overhead cost structure and the drivers of variances, allowing management to gauge economic profit within and across the categories on a timely basis.

Working together, the corporate finance chief and the line managers at Boots were able to create a system that supports both the strategic decision-making process of the business units and the information needs of senior management. By building a sophisticated system to gather, analyze, and distribute critical financial information and combining it with an already dominant retail network, Boots' CFO has given the company one of its most unassailable sources of competitive advantage.

### **The baying hounds**

Investors are putting increasing pressure on companies to provide more and higher quality financial and strategic information. How high are the stakes? On January 24, 2001, McDonald's announced that it would miss consensus quarterly earnings estimates by one percent (or less than 3 percent of the earnings estimate). The company's stock price dropped 6 percent that day and later ended the week down almost 14 percent. Perhaps it's no surprise that the company's CFO, Mike Conley, recently announced his intention to retire at the relatively young age of 53.

The demands on CFOs to oversee and manage the increasingly volatile relationship with the investment community are enormous. Three main forces are driving the expanded role of the CFO in investor relations. First, the rise of the small investor and the recent bull market have given birth to an entirely new generation of media outlets – print, television, and Internet-based – that demand access and information on a regular basis. Second, the investment management business has become more competitive, meaning that both buy-side and sell-side analysts are more aggressive in pursuing information to gain an edge. Third, SEC's Regulation FD (Fair Disclosure), which went into effect in October 2000, prohibits the selective release of price-sensitive information, which means that anything important you tell one analyst or investor you have to make public information immediately.

All of these trends have put CFOs and their investor-relations staffs in a pressure cooker of deciding when and how to release information to the investment community and media. CFOs have to be able to explain not only the numbers, but also the nature of the business, its

ong-term strategy, and non-financial information, as investors have learned to incorporate these higher-level questions into their buy and sell decisions. A successful CFO must also possess extraordinary public relations skills and understand the implications of upcoming announcements for all of the company's major stakeholders – including employees and the community – and not just the shareholders. The CEO might be the one in the television interview, but it is the CFO who does the less glamorous but equally important work in frequent meetings with major investors and analysts.

One CFO with whom we have worked excels at investor relations. During her time as CFO of Boeing and then Lucent, Deborah Hopkins was as much in the public eye as her bosses were. Particularly in the early days of her tenure with both companies, she was instrumental in selling radically new corporate strategies and management models to investors and the media. At the end of her first three months at Boeing, in March 1999, she led a major investors' conference in Florida where she presented, for the first time in the company's history, a clear picture of where Boeing created and destroyed value. She used this foundation to make the case for where management wanted to take the company, and how it would get there. The turnaround at Boeing continues to this day, over a year after she left the company.

### **Leadership beckons**

The fourth area where today's successful CFOs are different is in the area of organizational leadership. CEOs often give their CFOs as much management scope across the organization as they have themselves. For example, CFOs are leading major change initiatives, often involving outside consultants, which go to the very heart of how organizations are structured and managed. Today's CFO is not only being asked to have an informed view of the direction of the company and each of its businesses, but also to provide guidance and direction to line managers on how to accomplish their contribution to company goals.

Why not hire a chief operating officer instead? After all, a COO is supposed to support the CEO's efforts to manage across the organization. Unfortunately, for some CEOs, a COO can be part of the problem. The COO stands between the CEO and the businesses, potentially blocking the CEO's line of sight into the organization. Increasingly, CEOs want to get closer to the businesses and customers and remove any barriers that keep them from the front lines. CFOs with leadership capabilities can provide valuable assistance in this role, because they provide considerable leverage in managing the company without creating organizational barriers.

In order to play this leadership role effectively, CFOs must have two characteristics that were not as essential in the past. First, they must have a strong sense of how

to structure and manage the organization in a way that provides clarity, focus, and accountability – clarity about where and how value is created, focus on the drivers of value and the highest value-creating opportunities, and accountability for managing value deep in the organization. Through their understanding of the economics of the business, their involvement in the strategy development process, their relationships with key constituencies such as the board of directors and the investment community, and their close advisory relationship with the CEO, CFOs are able to offer a unique perspective on how to organize the business to meet these requirements.

The second essential leadership characteristic is the ability to develop and nurture strong and constructive relationships inside the organization. These relationships are essential if a CFO is going to strike the difficult balance between supporting and guiding line management's strategic and operational endeavors, while not threatening their autonomy as a business unit or their relationships with the CEO. Relationship building requires good listening as well as good speaking skills, a keen sense for the rhythm and pace of the organization, an understanding of how things are done, and a knowledge of how to win over people, rather than running over them.

For example, at Nordstrom a distinctive culture has helped deliver superior customer service consistently in a large network of upscale department stores. These capabilities are as much a part of a CFO's success as being able to close the books on time. (See sidebar, "A changing of the guard at Nordstrom.")

### Conclusion

To perform in such an environment, CFOs will need to have extensive educational and professional experience before taking the top finance job. A total of 66 percent of respondents to a 1998 survey of *Fortune* 1,000 CFOs were MBAs, compared to only 44 percent just ten years earlier[2]. Increasingly, CEOs are looking for CFOs with operating experience in addition to sterling financial credentials. For example, before her tenure as CFO of General Motors Europe, Boeing and Lucent, Deborah Hopkins held senior operating positions at Unisys Corporation. Hopkins' successor at Boeing, Mike Sears, was a line manager for most of his career before ascending to the CFO role, most recently as president of Boeing Aircraft & Missile Systems. Hopkins' successor at Lucent, Frank D'Amelio, ran Lucent's switching group (a \$6 billion business) before becoming CFO.

In short, we have witnessed in the last 20 years a dramatic shift in the role of the CFO in most large corporations from an overseer of accounting and finance functions to something much more – an advisor to the CEO on the most important decisions facing the company. This is especially true in the areas of strategic

### A changing of the guard at Nordstrom

One of the first things Blake Nordstrom had to do when he took over the reins of The Nordstrom Company in September 2000 was to look for a new CFO. Through his initial investigations he quickly learned that he was going to have to set the bar very high. "Once I determined what I was looking for – what we needed – I was struck by the challenge of finding such an individual," says Nordstrom.

He then began a nine-month process of seeking out someone who had not only the ability to manage the responsibilities of a modern finance department, but who also knew how to develop strong working relationships with fellow executives and with the business units. "I knew that poor relationships with the business units and along the executive corridor can quickly dilute even the most skilled CFO's effectiveness. We want finance to be a resource that is sought out for its expertise and support, not something that is imposed on the businesses," Nordstrom said. "I want an individual leading it who will work closely with our executive team, as a partner in our decision-making process."

In May 2001, Nordstrom gave the job to Mike Koppel, who had been the company's controller and interim CFO during the search. Says Nordstrom: "Mike has clearly shown his ability over the past year to excel at the functional requirements of the job. What made him the easy choice for me, though, was his demonstrated ability to forge strong, constructive relationships with his fellow senior executives, at the center and in the businesses. I looked long and hard at outside candidates – really did my due diligence – but the answer kept coming back to Mike for those reasons".

planning, information management, investor relations, and organizational leadership. Successful CEOs quickly realize that having a CFO who can help manage these challenges is not only desirable, it's indispensable. How high are the stakes? The day after Jerome York announced in 1995 that he was resigning as the CFO of IBM to become the CFO of Chrysler, Chrysler's stock gained \$1.3 billion while IBM's stock fell an equivalent amount. It is clear that when Wall Street analysts consider top management's ability to deliver, it is not only the CEO that they are looking at – but also the CFO. ■

### Notes

1. Economic profit is net income minus the cost of capital employed. We recommend EP over traditional financial measures as it is closely linked to value creation (see McTaggart *et al.*, 1998).
2. CFO surveys conducted by Heidrick and Struggles, 1998 and 1988.

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