

The high-performance CFO

October 2012

In this series of white papers, PwC and faculty at Wharton focus on how CFOs can build high-performing finance teams. Topics include attracting and motivating the right talent; leveraging all parts of the finance organization; and what it means to be a high-performance CFO today.

 Knowledge Wharton



What does it take for CFOs to excel today? With the global economy struggling to regain its footing, finance chiefs face very different challenges from the ones they confronted just a few years ago. PwC and faculty at Wharton team up to look at what it means to be a high-performing CFO today.

A tell-tale sign of high performance, “is the ability to articulate clearly the percentage of time allocated to top priorities. Such CFOs have a very solid command of their jobs and know how those jobs have evolved.”

Jason Wingard, Vice Dean of Executive Education, Wharton

These are busy times for CFOs. But aren't they always? Most finance chiefs would struggle to recall the day when their jobs were straightforward, with one day at the office as predictable as the next. Rather, it has become a given that the CFO role often easily defies definition.

What has changed is the need for focus. Jason Wingard, vice dean of executive education at Wharton often asks finance executives to draw a pie chart indicating how they divide up their time. A tell-tale sign of high performance, he says, “is the ability to articulate clearly the percentage of time allocated to top priorities. Such CFOs have a very solid command of their jobs and know how those jobs have evolved. They know when to say no and where to put in extra effort.” In contrast to these high performers, many do not know where to begin. “The job is changing and they're overwhelmed,” he says. “They are spending a lot of time just trying to keep pace and can't get things done.”

Of course, the composition of the pie charts will vary. One CFO of an emerging market multinational spends 60% of his time focused on external issues, from presenting the company's strategy to the investor community to looking for long-term growth opportunities with the company's operating team. Only 40% of his time is devoted to measuring and managing performance. Meanwhile, the CFO of a global nonprofit organization organizes her pie chart around tasks related to people: 30% to getting to know the customers served by the nonprofit; 30% to aiding staff to develop their skills and execution strategies; 20% to helping direct peers; and 20% to fostering her own development.

Yet another finance chief, David V. Elkins of Becton, Dickinson and Company (BD), says that his pie chart has evolved constantly since he joined the New Jersey-based global medical technology company in 2008. Currently, his time is divided more or less equally into four priorities: first, reaching outward to understand the challenges customers are facing and the changing global regulatory landscape; second, forecasting performance, with particular attention to the risks associated with underlying assumptions; third, driving operational efficiencies and making sure capital is being put to good use; and fourth, developing people.

“Before 2008, I would have named the same components,” he says. “But I think we spend more time on external issues because the environment is so dynamic right now. The variability in sales operations—the health care market has lost two to three basis points of growth since 2008—means we really need to understand the nonfinancial indicators that affect the business. You get that by interfacing with your customers, suppliers and other external forces.”

One upshot, he adds, is that BD's leadership team has stepped up the amount of attention paid to profitability. “You've got to have the growth, but at the same time, it's got to be smart growth, where you're driving profitability.”

In a post-2008 world, CFOs have to contend with many more external uncertainties, requiring a sharper focus on forecasting and capital allocation.

Business partnering, long espoused, has become essential.

The pitfalls and perils of becoming a jack of all trades

However they describe their pie charts, high-performing CFOs take care not to let the pie expand or divide it into too many pieces, which can wreak havoc on top and bottom lines. “The world is so frenetic now,” says Suzzane Wood, managing director of executive recruiter Russell Reynolds Associates. “CFOs, especially CFOs in the public arena, can go from hero to zero in a moment.”

What is a warning sign for CFOs? One may be when they are asked to manage too many non-finance functions, such as IT and HR, according to PwC partner Mike Boyle. “That’s when the role starts changing and turning more into a Chief Administrative Officer job, covering more and more of the back office areas.”

That’s not to say the back office isn’t critical. It is indeed one of several key components of a finance department’s ability to drive value within a company, not to mention a reflection of a CFO’s team-building and leadership vision. (For more on leveraging every part of the finance organization to deliver value, see: “Re-energizing Finance: The Organization Challenge.”)

The danger is that monitoring administration functions can consume too much time. More effective CFOs develop top lieutenants to manage the back office. “Good CFOs hire, train and develop the right people to cover

those areas, and will weigh in on leading-practice models. Surprisingly, some CFOs see their time as managing the checkbook, looking at liquidity and making sure they report up the numbers to the SEC. That’s an underwhelming CFO,” he states.

In the long run, the company and the CFO are better served when the finance leader plays two pivotal roles, says Boyle. The first role is that of business partner—that is, having an active stake in analysis and strategic decision making. Despite the heightened compliance and control demands that were required by Sarbanes-Oxley in 2002, finance executives were making strides in that direction, Boyle notes. But when the downturn began in 2008, cost-cutting measures set in and CFOs defaulted to the role of critic rather than collaborator. The budgeting and forecasting functions became siloed once again—much to the detriment of firms, Boyle adds. “Having an experienced CFO to really help evaluate how you’re going to navigate the next couple of months, year or five years is absolutely critical.”

The other role is what Boyle calls the “pragmatic strategist.” As he sees it, “More and more CFOs are being asked to evaluate, in a pragmatic way, what the strategies are and what risks those strategies entail.” CFOs can only excel in either role if they fully understand what drives their companies’ performance and have the systems and people with the expertise to adapt when assumptions start changing.

CFOs must meet a growing array of demands on their time.

Experts advise CFOs to allocate their time strategically, serving a mix of internal and external stakeholders.

Managing the crossfire

Playing both roles means entering into plenty of tough discussions throughout a company. The vantage point of finance offers CFOs a view into every part of the company, which board members and even other C-level executives may lack. “Sure, we need to have control, reduce complexity, increase efficiency and fill that fiduciary role. Those are all givens,” says PwC partner Gary Apanaschik. “But I also think that the high performance CFO needs to provide the board and CEO with an organizational view of operational performance, and needs to drive [any necessary changes associated with that performance].”

For at least the past decade, CFOs have defined themselves as guardians of shareholder value, almost to the exclusion of other concerns. However, the increasingly complex world demands greater attention to other stakeholders, from employees to external stakeholders like investors, regulators, customers and suppliers. “External stakeholders really want to know there’s good governance in place, and they are looking to the CFO to provide that assurance, along with reliable, predictable results,” says Apanaschik.

Globalization is also having an impact on the growing array of stakeholders engaging with CFOs, in part because of the rise of corporate social responsibility, adds Wharton’s Wingard. “No longer can they just make a strong business case for doing

business in [a new market]. Now they have to make a strong social case. Beyond legal requirements, they have to invest in the local stakeholders, and think about how doing business will affect them.” Wingard calls it “making the social business case,” one that involves CFOs stepping into public policy arenas, and in a sense, becoming an ambassador for their companies. Much like the CEO, “the CFO has to act a lot more like a politician, and be conversant in global policy,” a role that cannot be delegated, he notes.

Wood sees this ever-expanding sphere of stakeholders as a top concern for CFOs. “They’re getting caught in the crossfire with all the internal and external stakeholders—you’ve got the activists, shareholders who want cash back, shareholders who are thinking long term. How do you manage all the various agendas that are often outside your control?”

Wood and others point out that there is no one-size-fits-all strategy for CFOs wanting to rise to the challenge. Any finance leader who aims to do so must excel at managing internal and external relationships. In other words, CFOs must think of their roles as essentially relationship driven. That can be hard for anyone who is more accustomed to working in a silo; instead, finance executives must be just as adept at leading discussions in the boardroom as at investor or press conferences.

People and leadership development is a pivotal part of the CFO's role.

While career paths vary, top CFOs do stints in as many areas of their companies as possible, and encourage their finance leadership teams to do the same.

Leveraging leadership and the corporate culture

Such a shift in emphasis requires CFOs to concentrate on the “softer” aspect of their jobs: people development and corporate culture. Starting back in early 2000s, with the explosion of corporate scandals that began with the likes of Enron, CFOs got a wake-up call. No longer was it good enough to stay focused on the numbers. Stakeholders are looking to CFOs for much more. Notably, they want CFOs to be the guardians of their companies’ integrity—financial and nonfinancial—ensuring, in the words of BD’s Elkins, “that we’re doing things the right way.”

It is here that a CFO’s leadership acumen comes to the fore. Leadership has been the subject of several research studies undertaken by Wharton management professor Sigal Barsade. Among them is the role of corporate culture—that is, a company’s unwritten norms and values. “In companies with strong cultures, employees can say right away what their values are. But in many companies, they can’t,” Barsade says.

Leadership teams often “under-leverage” culture, according to Barsade. “Culture helps you through the good times and the bad times,” she notes, and CFOs and other C-level executives “need to initiate the discussion about values and ask, ‘Are we really staying true to our values? Are we holding ourselves accountable?’ They need to have that conversation frequently and in a very systematic way. It should be deeply integrated in how they make decisions and how they behave.” A strong company

culture is more than words, however. “Communication isn’t going to be enough if it’s not tied to the way the CFO is behaving, or how employees get rewarded within the organization,” she adds.

At BD, Elkins is bringing to his finance organization some of the cultural lessons in employee development he learned at his previous employer, one of the world’s largest pharmaceuticals companies. In his 12 years at that firm, Elkins held a wide mix of roles, from manufacturing to business development, in Asia, Europe and then back home again in the US.

“People gave me stretch goals, and I kept growing,” he recalls. It’s an experience he has aimed to replicate with BD’s finance group, “moving people into different roles, giving them new responsibilities, but ensuring that there’s a support network around them so that they really grow,” he says. “You can’t afford to leave people in one role for 10 years. If someone starts in treasury, move them over to tax or internal audit. In the future, that will give you more flexibility in moving people around.” At the same time, he also regularly considers changing reporting lines within finance, so that perhaps, say, a cash management activity being done in treasury can move under corporate control, “and develop people that way.” Such flexibility can be made possible by providing training programs and articulating well-developed career paths for employees. (For more on strategies to make the most of your finance team, see: “People Performance: How CFOs Can Build the Bench Strength They Need Today, and Tomorrow.”)

CFOs also need to be proactive regarding their own development early on, Elkins notes. How? “Seek advice from other people who are already performing the CFO role,” he suggests. In his first year on the job, Elkins sought out two or three CFOs whom he could bounce ideas off regularly. One question he initially posed to them was: “If you could give yourself any advice when you were first starting out, what would it be?” He adds that he also found “great value” in speaking with board members and joining industry roundtable discussions to connect with peers “who were all going through the same macroeconomic issues.” The upshot: “Rely on people around you and consistently seek feedback,” he says.

Is it a natural progression for CFOs to move into other C-level jobs—to even the CEO? That depends, replies Elkins. At BD, senior finance executives have indeed moved into other roles. One became president of a business unit, another, chairman of the board.

On the other hand, there’s plenty to keep the top finance role attractive for the likes of Elkins. “At BD, there is not a material decision made that someone from the finance organization has not had an influence on, and there’s not a decision I make for which I don’t seek the input of my team. That’s a very rewarding place to be.”



To have a deeper conversation about how this subject may affect your business, please contact:

United States

Bob Bishop

Chicago
(312) 298-2037
robert.l.bishop@us.pwc.com

Paula Cook

Chicago
(312) 298-5615
paula.m.cook@us.pwc.com

Gary Apanaschik

Hartford
(860) 241-7210
gary.apanaschik@us.pwc.com

Ed Ponagai

New York
(646) 471-6443
edward.ponagai@us.pwc.com

Mike Boyle

Boston
(617) 530-5933
mike.boyle@us.pwc.com

Knowledge@Wharton

Knowledge@Wharton is the online business analysis journal of the Wharton School of the University of Pennsylvania. The site, which is free, captures relevant knowledge generated at Wharton and beyond by offering articles and videos based on research, conferences, speakers, books and interviews with faculty and other experts on current business topics. The Knowledge@Wharton network—including Chinese, Spanish, Portuguese, Indian, Arabic and High School editions—has more than 1.7 million subscribers worldwide.

The Wharton School

The Wharton School of the University of Pennsylvania — founded in 1881 as the first collegiate business school — is recognized globally for intellectual leadership and ongoing innovation across every major discipline of business education. The most comprehensive source of business knowledge in the world, Wharton bridges research and practice through its broad engagement with the global business community. The School has 5,000 undergraduate, MBA, executive MBA, and doctoral students; more than 9,000 annual participants in executive education programs; and an alumni network of 88,000 graduates.