6 Steps to Develop a Strategic CFO

Chief Executive NETWORK

> “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

One of the biggest complaints I hear from many CEOs of midsized companies is that the CFO at the organization “is not strategic enough.” Given the unprecedented pace of change and disruption affecting business today. This concern is understandable.

Most CEOs want an ally at the helm of the corporate ship to help them navigate around obstacles and to identify new opportunities as they guide their business toward their target destination.

Many CFOs serve this important role (and we feature three in this report), but not all—hence the grumbling. In those businesses without a strategic CFO, the finance function is usually overwhelmed by critical responsibilities that need to be executed on time: accurately filing taxes and other regulatory compliance documents, compiling timely financial reports for management and investors, and managing cash flow, budgeting, payroll, accounts payable and receivables.

“Finance often is up to its ears in manual repetitive tasks that bog down the function,” says Sandy Cockrell, global leader and U.S. national managing partner of Deloitte’s CFO Program.

These urgent and time-bound tasks often leave little room for the thinking and reflection necessary for a CFO to provide genuine business insights that drive positive organizational change. In these organizations, financial analysis is primarily confined to that which has already happened. The CFO’s job, by contrast, should be to help the CEO create the future.

Strategic-thinking CFOs can make unique contributions to assist the CEO and other business leaders by discerning both the risks and opportunities that lie ahead, as opposed to their current focus on historical data.

“Since strategy is all about looking forward, the CFO who does not offer strategic insights does not get a seat at the table when important decisions are being made,” says Greg Galeaz, a partner at PwC.

In working with hundreds of CEOs and studying best practices at top-performing organizations, Chief Executive Network has identified six imperatives—with specific action items—that can help transform your CFO into a forward-thinking strategic partner:

1. **Help 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**

1. Drive Strategy

A strategic CFO allocates a fair amount of time toward defining the company’s future, providing his or her financial perspectives on growth objectives and business performance.

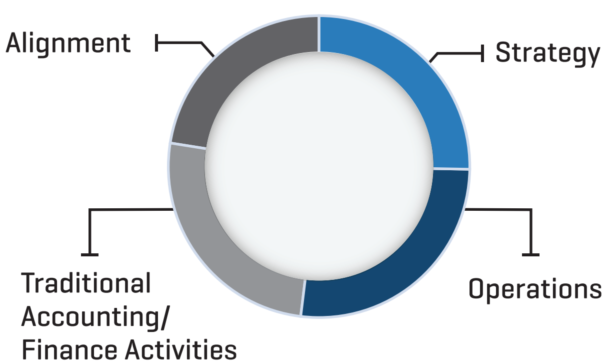
Mike DeDona, vice president and CFO at S.R. Smith, the world's leading manufacturer of commercial and residential pool deck equipment, fits this model.

"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," he says. "It's a big part of what I do."

DeDona is not alone in this capacity. According to a 2016 survey of 122 CFOs at large companies by Deloitte, more than one-quarter (27 percent) of a strategic CFO's time is spent on company strategy. 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 on aligning different groups across the business around the company's strategies, establishing a value mindset 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



Source: Deloitte 2016 Survey of 122 CFOs at Large Enterprises

Obviously, a strategic CFO is a very different breed of financial executive. "In many organizations we looked at, the CFO was charged with analyzing the effectiveness of the strategic plan before it was even put into motion," says Cockrell.

"Once in motion, they leveraged predictive analytics to make sure everything went according to plan. Simply reporting historical information is not much help in a global, 24/7 business world where change can happen overnight."

In becoming a strategic CFO, DeDona, who started his career at S.R. Smith 18 years ago as a controller and became CFO in 2006, says he endeavored to understand all aspects of the company's business. "I was definitely a numbers-cruncher in the beginning and very tactical," he explains. "But I was eager to learn all I could about the business.

Fortunately, I had a CEO who came from General Electric and brought the GE playbook with him on how we could establish and achieve our strategic goals. I learned by working alongside him."

Richard Claiborn, CFO at The VPS Companies, a privately held food processing business, cut his teeth as a "basic accountant," he says. "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," Claiborne says. "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 how to assist the CEO in fixing them."

> **"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

ACTION ITEMS

Your CFO can follow a similar playbook to these profiled CFOs and provide useful analyses and insights to help you refine your strategy, such as:

- ☑ Analyze profit trends and product line and customer profitability
- ☑ Help 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 and models
- ☑ Provide data, analysis and recommendations on other strategic decisions

2. Allocate Capital Resources

To know where to invest corporate resources for long-term strategic value as well as shorter-term repositioning, strategic CFOs arm themselves with pertinent real-time information of import to current and forward-moving businesses.

This information is not confined to the company's internal data, since so many extraneous macroeconomic, geopolitical and regulatory events can affect the success of the strategy.

All CEOs seek input in decisions regarding major capital allocations, such as the opening of a new factory domestically or abroad, or the millions of dollars needed to invest in new equipment and/or technology.

In this regard, they want to lean on their CFOs to conduct cost/benefit analyses, determining the revenue and cost-reduction opportunities and the expected return on investment or the net present value of the discounted cash flows from potential capital investments.

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 to generate the expected returns and toward more promising opportunities. Data is critical in this regard. Fortunately, predictive data analytics provide the 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. A strategic CFO can provide this service.

"Midsized companies want enhanced agility on where to put their 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 CFO can look at and analyze this business data in closer to real time to apprise the CEO and the board where the capital will have the best return."

More so than large enterprises, midsized companies are pressured to make sure capital is allocated to get the best return, says Agrawal. "To respond to this pressure, CFOs need transparency into the business data—where revenue is growing or not in relation to what is being spent," he explains. "This is a foundational need in effective cost management."

"Using forward-looking predictive analytics and cloud-based systems, CFOs can look around the corner at what's happening," Cockrell explains. "This is a new knowledge set for the CFO. He or she then can 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."

Strategic CFOs agree. "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 DeDona's early years at S.R. Smith, the company's IT infrastructure was aging fast. "We had no network or data analytics capabilities," he recalls. "Gradually, we became a very data-driven entity, which freed me up to think about how I could help increase our business value. I thought about ways to improve margins, using analytics to make better decisions on resource allocation. Today, I am constantly looking at the challenges and the opportunities the business confronts and how I can help to proactively address them."

"To do this, you need technology," says Cockrell. "If the CFO waits [for market intelligence], the business has to wait."

> **"This requires open and constant dialogue between the CFO and the CEO to understand what is important to the business leader."**
>
> **Don Janezic,** former CFO and currently Executive Vice President of Bigelow Tea

ACTION ITEMS

CFOs should help the CEO ensure that resources are allocated toward promising growth initiatives and pulled back from areas that are not generating anticipated returns. Obviously, the business needs to make prudent investments in technology, beginning with the enterprise resource planning system. Companies today have more options in this regard, given cloud-based ERP systems, predictive analytics tools, and finance and accounting applications to help close the books more efficiently. Not only do these platforms reduce operating costs, they also provide more detailed views of business.

CFOs also can improve resource allocation priorities in other departments such as assisting sales and marketing executives in evaluating the returns on various sales and marketing activities, and/or helping the operations team analyze if it is financially prudent to make or buy specific products and components (or insource or outsource services).

Strategic CFOs also manage the company's balance sheet and identify opportunities to reduce the capital required to sustain the business (e.g., reduce inventories by pushing more onto suppliers, manage receivables and working capital) and leverage low interest rates to improve returns on equity.

3. Lead M&A Analysis and Integration

The pace of mergers and acquisitions has slowed down recently due to high prices and widespread buyer concerns about overpaying.

This is not surprising: many M&A transactions often fail to achieve the perceived synergies, due to cultural misalignment, unappreciated legacy liabilities, integration issues and other due diligence failures.

At the same time, with slow organic growth, many companies leverage acquisitions to rapidly enter attractive markets, add new products or capabilities, or gain scale to reduce costs. Companies that build a competency in sourcing, screening and integrating acquisitions can gain sustainable competitive advantages.

A strategic CFO can help create and ensure a successful M&A program. "The CFO of a midsized company must be the eyes and ears of the CEO when it coes to sourcing deals," 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 does just that. "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 develop the product ourselves."

In addition to assessing M&A prospects through meticulous due diligence, a strategic CFO also is entrusted with effecting an efficient and seamless post-transaction integration of the two entities. "The strategic goal is to derive value from the integration," says Agrawal. "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."

> **"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

ACTION ITEMS

A strategic CFO can ensure M&A success. He or she can help quantify the synergy of the acquisition and ensure that the identified cost reduction opportunities (e.g., consolidating plants and/or suppliers, rationalizing product lines or duplicative staffs) and revenue growth opportunities (e.g., leveraging sales forces, products, channels and brands) are realized. This requires rigorous due diligence before a deal is consummated as well as vigilant post-transaction integration to realize the promised synergies.

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 and 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 other functions against peer industry groups.

Don Janezic, former CFO and currently the executive vice president of Bigelow Tea, a family-owned producer of teas, is a firm believer in the value of benchmarking. "Self-evaluation is tough but critical in all business," he says. "You only know the truth if you're open to learning it. If not, you're looking at lost opportunities." Janezic joined Bigelow as its CFO in 1986, having previously been an accountant at KPMG. In his tenure at Bigelow, the company's sales have grown from $22 million to approximately $500 million.

CFOs can apply 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 regions and market segments. According to the technology research firm Gartner, companies that successfully 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 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.

> **"Self-evaluation is tough but critical in all business."**
>
> **Ankur Agrawal,** Partner at McKinsey & Company

ACTION ITEMS

A strategic CFO must be clear about the levers to achieve higher profits and articulate clear goals around opportunities to pare costs, as well as opportunities to increase price realization. In this regard, CFOs must work closely with the CIO, CTO and other business leaders to reduce labor and other costs through automation, as well as product and process improvements. At the same time, the strategic CFO must work with the sales and marketing organizations to set optimal prices, leveraging pricing technology in this quest.

5. Champion New Technology

More and more organizations are entrusting technology acquisitions to their CFOs, with CIOs and CTOs providing line reporting to the finance head.

Cloud-based software tools, a few of which we've already touched on, can reduce labor costs and capital expenditures while augmenting workforce efficiency and productivity on the plant floor and in each department, including finance.

Cockrell pointed to the increasing adoption of cloud-based robotic process automation tools as a case in point. RPA effectively performs the rote, repetitive and tedious manual work typically executed by the finance staff. It does this by extending automated functionality to processes, systems and data beyond the reach of interfaces to facilitate the integration of disparate financial systems with other F&A software applications.

One-third of finance leaders in a recent survey by Genpact Research state that RPA tools and applications are having a positive operational impact in 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.

Yet another technology is predictive data analytics, which is specifically designed to assess relevant real-time business data to predict where to place tomorrow's bets.

"Thanks to cloud-based digital technology tools like 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. The CFO is now not only at the table, he or she is in the cockpit," Cockrell says.

A strategic CFO should ally with the CIO and CTO in making the economic case for technology investments in other areas of the business, such as in operations, sales and marketing. Many organizations invested millions of dollars and an extraordinary amount of time 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 so on, according to Gartner. These solutions are ERP-agnostic, meaning they can plug into Oracle, SAP and other ERP systems.

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

ACTION ITEMS

As part of the annual budget process, a 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 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 large businesses have erected enterprise risk management processes to make it easier and more efficient to identify, assess, prioritize, mitigate and transfer risks. ERM also inculcates a culture of risk ownership.

But managing risk is now "table stakes for a CFO," Agrawal says. "Where CFOs can provide strategic value is to help the organization understand what kinds of risks they should be taking," he says. "Big rewards can come from taking big risks, but knowing which risks are opportune to drive growth. and which can or should be hedged or insured against, is the challenge. The CFO should take on this task, with the CEO a partner in this assessment."

> **"Managing risk is table stakes for the average CFO."**
>
> **Ankur Agrawal,** Partner at McKinsey & Company

ACTION ITEMS

Ask your CFO to prepare an annual risk audit that outlines each risk the company faces, the 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 then can work with the CEO to determine which investments to make and the appropriate levels of insurance to mitigate these key risks.

The Road Map

All well and good, but how can your organization's tactical CFO become more of a strategic one? For one thing, many CFOs are doing work that can be better done through technology and by others in the finance organization, such as the controller or FP&A and line accountants. These options give CFOs what they need most to be strategic—time.

Another way is to mentor the individual in the nuances of business operations and strategy. DeDona's CEO at S.R. Smith brought with him valuable management experience from General Electric that DeDona was able to incorporate in his career progression.

Outside training also can help finance officers take on more strategic responsibilities. Leading business schools like Wharton, Harvard and Dartmouth offer CFO-focused curricula.

Another extremely effective tool is peer networking with non-competing CFOs. Early on in his career at Bigelow Tea, Janezic 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. Each of us sees our primary role as a strategic one. And we are eager to share ways to become more strategic."

Sitting on the fence is not a solution. A key fiduciary duty of the CFO is to have a firm grip on the business forecast when talking to investors, shareholders and owners. If better tools and processes can provide more accurate projections, the assumption is that the CFO is deploying them.

"If the CFO is doing things the old way because that's just the way things have always been done, they're not getting the best return on investment [from the finance organization]," says Cockrell. "Whether your company is large, midsized, or small, you have to be nimble these days. Otherwise the world will change under your feet and you won't even know it."

WAYNE COOPER is CEO of Chief Executive Network/ Senior Executive Network and Executive Chairman of its parent organization, Chief Executive Group. He is passionate about helping CEOs, CFOs and other business executives succeed and create economic opportunities for others. Wayne is an experienced CEO who has successfully built seven companies. He is a graduate of Stanford University and Harvard Business School.

For more information about the Senior Executive Network's Manufacturing CFO Network,
visit **www.SeniorExecutiveNetwork.com**
or contact Wayne Cooper, at
wcooper@chiefexecutive.net
Telephone: **(203)930-2702**