The Indispensable CFO

Five Imperatives for Helping the CFO Drive Company Strategy

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Chief bean counter. Cost cop. Gatekeeper. These are all colorful terms that have been used to describe the role of the chief financial officer. The truth is, they are as out-of-date as wood paneling or brick-sized cell phones.

As a matter of fact, the role of the corporate CFO has changed more in the past decade than any other corporate leadership position. Traditional CFOs were specialists, trained in accounting and often taxes and treasury. They were assigned to track and report revenues and profits and manage financial-control systems. They were also gatekeepers, ensuring that initiatives met acceptable rates of return before they were approved.

Super-sized CFO

CFOs today still perform these critical functions, but they also do a whole lot more. In the past ten years, the role of the CFO has expanded from specialist to generalist, from tactician to strategist, from keeper of the books to enabler of growth. Many CFOs have joined with CEOs to become principal drivers of corporate strategy.

According to a new global study of business leaders by Ernst & Young, 97 % of respondents recognise that the CFO's role has grown broader. The same survey revealed the extent of the change in expectations for the CFO. When asked to name the roles that CFOs should fulfill, the number one answer was "business partner, participates in strategy development." This role placed ahead of more traditional functions like managing financial-control systems as well as reporting and tracking financial results.

My own career at UPS parallels the evolution of the CFO role. When I assumed the CFO position at UPS in 2001, the traditional CFO model was in the process of changing to include more involvement in overall strategy development. That is because two years earlier our company had gone public and UPS was in the middle of a dramatic expansion of its business model, growing from its core small package business to the much wider market of global logistics. We were adding new lines of service and making dozens of acquisitions. By necessity, the CFO had to become less of a gatekeeper and more of an enabler of growth.

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As CFO, I became deeply involved with developing and assessing our overall growth strategy. And it turned out to be an ideal training ground for my recent transition to the office of Chairman and CEO.

External Forces

Other companies have similar stories. In general, there are several forces driving the super-sizing of the CFO role. For starters, in today's volatile capital markets, investors are putting growing weight on a company's future growth potential. In this environment, CFOs have taken on added responsibility for growth strategies. Also, globalisation has introduced new competitors with advantaged cost structures, forcing company leaders to respond with strategic competitive initiatives. Meanwhile, a growing body of compliance regulations around the world has led CFOs to become consummate risk managers.

Still, it is hard to dispel old notions, and some still doubt that CFOs have the background to become drivers of corporate strategy. More than a third of respondents in the Ernst & Young study said that CFOs are not adequately equipped in general business to assume a more strategic role.

In the face of these doubts, what do modern CFOs need to do to ensure that they remain indispensable members of the strategy team? I think there are five imperatives for strategic CFOs:

Imperative 1: Keep a seat at the strategy table

Although the CEO is the company's chief strategist, the CFO should be deeply involved in strategy formulation. This does not mean the CFO should be a proponent of any one strategy. Instead, he or she should serve as a neutral arbiter to assess the short- and long-term financial impact of any strategic initiative.

As a key strategist, the CFO performs several functions, including evaluating the financial implications, capital requirements and expected returns of various strategic options. The CFO should also help drive scenario planning. At UPS, rather than debating one central forecast, we assess pessimistic, optimistic and most likely scenarios. We look at the major trends in the marketplace and determine how they would impact our business. For all scenarios, the CFO helps us determine the source of our revenue streams and where we need to fill in the capabilities and product gaps to achieve the revenue objectives.

This kind of strategic analysis requires CFOs who are generalists and well educated on macroeconomic trends, competitive threats, customer needs and trends and the company's own products and services.

Imperative 2: Balance ROI and growth

For most growth initiatives, the CFO's measuring stick has always been return on investment. It remains so, but the strategic CFO is careful to balance ROI with long-term growth potential.

One way to do this is to allow greater latitude for success - and failure - by initially relaxing return requirements for particularly promising products, new lines of business or acquisitions. With lower hurdle rates, however, should also come greater accountability for results. The CFO must also ensure that any failures happen fast and do not drag down the rest of the company. To prevent this, the CFO should clearly define timelines for return expectations and not be afraid to discontinue investment if the project fails to meet expectations.

Another way to balance ROI with growth is to manage returns by portfolio. Many larger companies consist of portfolios of different business lines with different cost structures and rates of return. There can be synergies and interdependencies among the different products and business lines that make setting rigid return expectations for each of them more complicated.

For example, at UPS, our small package and freight businesses are synergistic. Shipments that start out as freight can end up feeding into our small package network. Conversely, satisfied small package customers can eventually become freight customers. However, our small package and freight businesses have different cost structures, capital requirements and return expectations. Reducing investments in one business because returns are lower could ultimately hurt the other.

The point is, strategic CFOs manage return expectations holistically, as part of the overall portfolio, so that ROI does not become an enemy of overall company growth.

Imperative 3: Invest in capabilities rather than buying new revenue

There are two primary ways to grow a business: build, by expanding capabilities or adding new products and lines of business in-house; or buy, via mergers and acquisitions. Whether they build or buy, strategic CFOs know that lasting growth comes from adding capabilities rather than buying revenue and market share.

Organic growth is often preferable, especially when the new capabilities are an extension of the company's core business. Chances are that the tools, processes and expertise will already be in place to ensure that the new capabilities and products can be brought to market in a reasonable time and at a reasonable cost.

When the desired capabilities represent a departure from the core business or will take too long and cost too much to build in-house, acquisitions can be the preferred option. A strategic CFO will often make acquisitions to gain new capabilities because they tend to last. Bumps in revenue or market share are not necessarily as enduring. Geographic diversification is another approach that complements the capabilities style of acquisition.

Once the decision is made to acquire, the next question is whether to buy a big, premium company or a smaller "fixer-upper." Trophy acquisitions tend to fetch premium prices and there are sometimes challenges in merging company cultures and business models. Buying smaller, more affordable companies that might come with some problems may require more effort and persistence. But it can pay off bigger in the long term. These considerations must be weighed before making a commitment.

Imperative 4: Be a window, not just a mirror

The CFO is often a mirror for company leadership, assessing the financial implications of company strategy - and then reporting on progress toward strategic goals. But, sometimes, the feedback loop can become too insular, creating an echo chamber of self-reinforcing views inside the company. The strategic CFO needs to play a dual role as both a mirror and a window.

As a window to investors, the CFO needs to be a representative voice for the external investor market, helping interpret what the market wants. With this external viewpoint, the CFO can introduce investor insights that might challenge company strategies and be a catalyst for change.

This mirror-window duality requires a delicate balance. The CFO must communicate the demands of the market to company leadership. But he or she must also avoid letting the short-term desires of the market derail effective long-term strategies for company growth. After all, investments that can temporarily depress earnings now might produce bigger returns in the long term.

Imperative 5: Align around customer value

The surest way to build shareholder value over time is to create additional value for the customer. Often, this means selling differentiated products and services, tailored to the needs of different customer segments, offered at competitive prices and supported by a superb customer service organisation. Companies generally do not cost-cut their way to growth - they grow by offering their customers a superior value proposition. That is why strategic CFOs are getting more involved with customer-focused growth strategies.

CFOs need to ensure that company investments and financial systems are fully supportive of customer-facing organisations like sales, marketing and customer service. Cost-cutting initiatives must be carefully examined to ensure that they do not end up harming the customer experience.

Aligning around customer value has other implications. CFOs traditionally have not had much contact with customers. Strategic CFOs need to get out of their offices and meet regularly with customers to understand their needs and escalate the resolution of any outstanding problems.

Discard those out-of-date notions: CFOs are no longer bean counters or cost cops. Much more is expected of them today. If they want to remain indispensable leaders who help to drive their companies' growth strategies, CFOs will embrace the imperatives of customer-aligned, long-term growth. ■

About the Author

D. Scott Davis is Chairman and Chief executive officer of UPS, the world's largest package delivery company and a global leader in supply chain and freight services. Prior to his current position, he was the company's CFO from 2001 to 2007.