The evolving role of today’s CFO

An Americas supplement to *The DNA of the CFO*
The evolving role of today's CFO

During 2010 and 2011, EY conducted two surveys of top finance executives across Europe, the Middle East, India and Africa (EMEIA). Our purpose was to learn their perspectives on the increasingly complex role of today’s chief financial officers, and on their evolution as leaders of the corporate finance function.

In the latter half of 2011, we interviewed CFOs at top companies in the Americas to learn their perspectives on our findings in EMEIA. This report is the result, and we hope you find it helpful, providing you insights into your own role as a finance executive.

Our participants

Our sincere thanks to the Americas-based CFOs who consented to be interviewed for our report:

Bruce Besanko
OfficeMax

Andrew Campion
Nike

A. J. Cederoth
Navistar International

Bill Douglas
Coca-Cola Enterprises

Kevin Gordon
Quintiles Transnational

Hank Halter*
Delta Air Lines

Ron Jadin
W.W. Grainger

Dave Johnson
Molex

Colleen Johnston
TD Bank Group

Fareed Khan
United Stationers

Fernando Liceaga
Tetra Pak, S.A. de C.V.

Luca Maestri
Xerox

Kathryn Mikells
ADT

Kent Potter*
LyondellBasell

Paulo Prignolato
Votorantim Metais

Peter Ragauss
Baker Hughes

Dennis Secor
Guess?

Tracey Travis
Ralph Lauren

Ray Young
Archer Daniels Midland

* Interviewee has since left the company.
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As CFO, I’m in a unique position within the organization, at the absolute center of the universe. The only other executive besides me that has that same presence at the center is the CEO. So I have the opportunity to interact and have a point of view on every element of our business.

And I have a unique perspective because of being at that intersection ... and seeing the numbers coming in at all times. It is a very important support mechanism to the CEO and to the rest of the business, but it’s one that is entirely unique in the organization because of this ability to play in every area.

Bruce Besanko
OfficeMax
Introduction

During the past two years, EY has conducted two major research studies to deepen understanding of the role and responsibilities of today’s CFO.

The first of these, *The DNA of the CFO: a study of what makes a chief financial officer*, was based on a survey conducted by the Economist Intelligence Unit of 669 top finance executives across EMEIA, and on a series of in-depth interviews we conducted after the survey results were delivered. Published in 2010, *The DNA of the CFO* addresses the role and responsibilities of the contemporary CFO and provides insights into these executives’ career aspirations.

A second study, *Finance forte: the future of finance leadership*, was published in mid-2011. It includes findings from a survey of more than 530 group CFOs and their direct reports in EMEIA. In our research, we sought to establish what skills will be required of individuals in the CFO role in the future, and what provisions today’s companies are making to identify and develop future finance leaders.

The CFO role at today’s leading companies is clearly evolving – and CFOs must be versatile individuals with the talent to meet a continually changing set of circumstances. The mood in today’s markets may be more optimistic than it was when our first EMEIA surveys were conducted, but it is certainly not carefree, and today’s CFOs are still attending closely to cash flows, controls, costs and risk. At the same time, they continue to seek profitable growth – both in developed markets and in those that hold the promise of rapid growth.

Insight. Intuition. Involvement in the business.

Not often does one hear a chief financial officer talk about making decisions based on intuition. And with all the talk of controlling costs in today’s economy, it’s encouraging to hear CFOs talk first and foremost about controls in the context of defending their company’s reputation and its brand.

A quality of intuition. This, along with detailed financial analysis, is one global CFO’s response to a question about managing the fundamental challenges faced by today’s top finance executives: how to ensure profitable top-line growth and improved gross margin for a global company that already operates in more than 130 countries.

Defending the company’s brand and reputation was the top priority for another CFO, who made a compelling connection between the necessity to grow globally and being able to control the attendant risks of doing business in today’s regulatory environment – making overseas investments where dangers could present themselves without adequate controls.

It’s no surprise to hear another CFO describe himself as the “chief skeptic officer.” To hear others forcefully emphasize the CFO’s vitally important critical perspective on financial performance. To hear from others who celebrate the CFO’s ability to bring departments together and break logjams to create solutions that bring value – from supply chain to IT to financial planning and analysis. From still others who attest to the vital importance of growing talent, building teams and improving communication. And more than one talks about establishing guidelines – in one participant’s words, “setting guardrails” – so that operational departments can run, and run fast.

These attributes and many more seem very much in the CFO skill set, as the role becomes increasingly strategic.

Perspectives from the Americas: a focus on the CFO

Interviewing CFOs in Canada, the US, Mexico and Brazil, we gained deep, qualitative insights relevant to CFOs throughout the Americas. Our interviewees offered a range of responses to our findings in EMEIA, speaking with candor, offering perspectives, adding nuances and – occasionally – signaling differences.
Seeking similarity, deepening insight

The DNA of today’s CFO — thought of as the convergence of career preparation, talents and predisposition, and breadth of experience — differs widely.

Our CFO interviewees bring diverse backgrounds to their roles; correspondingly, there are differences in attitude, relative affinity for certain roles and tasks, and approach. Nevertheless, CFOs in the Americas generally corroborated the findings of our surveys in EMEIA, echoing them with respect to the findings below.

**Key findings**

- CFOs now increasingly contribute to organizational strategy, and meet unprecedented demand for their unique perspective and discipline.
- The CFO remains an objective voice on financial performance but contributes to operational decision-making as well. CFOs manage or materially support information technology, investor relations, real estate and strategic M&A — and some are involved in commercial activities.
- Fundamental skills in finance are still paramount. Our respondents unanimously insist that these skills are imperative — in one’s words, “table stakes.”
- The necessity of controlling cost, managing risk and maintaining liquidity were brought to the foreground by the financial crisis — and this necessity persists.
- Job satisfaction is high — and the role is certainly considered by some as a final career destination. But the tone struck by some Americas CFOs signals a difference in their long-term aspirations. Most suggest they would at least consider taking a CEO role; some expressly aspire to it.
- Most CFOs believe they have viable internal candidates to succeed them in their role, but few organizations have identified a specific candidate. And many lack a formal plan to prepare their next CFO.
- Communications skills are an imperative, as CFOs must convey complex financial results and business performance to external stakeholders while championing specific initiatives internally.
Increasingly, leadership skills are really important in managing a finance function because organizations are large and complex. You need to make sure that you have the right people on the ground doing a great job. It’s no longer the CFO rolling up the sleeves and doing all of the heavy lifting. A huge part of it is about leadership.

Colleen Johnston
TD Bank Group
Different people and different organizations slice the pie differently. How you allocate your time is going to vary year to year, based on the business challenges that your organization is facing. But if you averaged it over a three-year period, it would probably be balanced.

*Bill Douglas*
Coca-Cola Enterprises
Broader mandate, a deeper view

An important outcome of our surveys in EMEIA was an understanding of where finance executives are currently focusing their time. We sought to corroborate that understanding in our discussions with CFOs in the Americas.

The results of our wider survey in EMEIA and the feedback from interviews conducted afterward together confirm that today's top finance executives have a broad range of responsibilities. While the emphasis certainly varies by organization – and depends in part on factors such as the organization’s competitive position and the prevailing economic environment – our research highlighted six principal activities that fairly represent the contribution of today’s top finance executives. They are:

1. Ensuring business decisions are grounded in solid financial criteria
2. Providing insight and analysis to support the CEO and other senior managers
3. Leading key initiatives in finance that support overall strategic goals
4. Funding, enabling and executing the strategy set by the CEO
5. Developing and defining the overall strategy for the organization
6. Representing the organization’s progress on strategic goals to external stakeholders

These activities collectively represent the broader mandate now borne by executives in the top finance role. While several of them can be managed discretely and represent different ongoing functions within finance, they are interdependent and mutually supportive. Our graphic depiction of these responsibilities – “the Wheel” – illustrates this mutual interdependency, and shows how these activities feed into and support one another over time.

We presented this graphic to our CFO interviewees in the Americas, then sought input and perspectives on the relative priority of their activities at any given time.

Our first topic of discussion with our interviewees concerned the relative priority of three different areas of focus: executing through financial analysis, enabling business strategy by leading key initiatives, and developing organizational strategy.

The CFO’s role

As a representation of where CFOs spend their energy, the Wheel was broadly endorsed by our Americas-based interviewees. Respondents agreed with the interrelationship of its varying elements, while noting that an emphasis in any one area would depend on market conditions and the progress of the company toward realizing its strategic agenda.
Generally, our interview participants agreed that CFOs contribute in all these areas, although with different areas of emphasis. A. J. Cederoth, CFO of transportation and heavy equipment manufacturer Navistar International, speaks for many when he suggests that “[The] three outer rings ... are consistent with the way I view the role,” noting:

I spend a third of my time focused on executing against the strategy ... a third enabling that strategy – be that testing the control environment, developing the people resources, analyzing the capital structure – and a third ... in the communication of that strategy, internally or externally.

Ray Young, CFO of Archer Daniels Midland, has a similar view: “In terms of what I have been doing – supporting strategy development, enabling the strategy, driving execution, people development, internal and external communications of performance – it’s a fairly accurate depiction of the role.”

Strategy dictates priorities

But different CFOs prioritize tasks differently, based on the company’s strategic direction and on how the CFO role operates internally. For Dave Johnson, CFO of Molex, the emphasis is on external reporting:

Communication with external stakeholders and investors has been the number one priority in the past year or so. Number two has been funding the organizational strategy from a treasury perspective, to enable us to execute our growth strategy. Third has been ensuring business decisions are grounded in solid financial criteria. Fourth is leading key initiatives in finance. Fifth is providing insight and analysis, and sixth is developing the strategy.

There’s little doubt CFOs face tough questions and sit in a tough role, so judging how to best fulfill the requirements of that role can be a challenge. For Delta Air Lines’ CFO Hank Halter – who retired before this report went to press – it comes down to a unique balance between where one can and cannot exert control, a balance not always easy to strike: “How do you measure success? How do you, Mr. CFO, measure your performance or the results of your contribution?” He continues:

[I]t’s tough as a CFO. In some ways you are a record-keeper; in some ways you are a strategic thinker. ... I can’t be the first point of contact to save money or spend money ... [but] I can affect the results of the company and the cash flow generation through things that I do in a corporate role, through the treasury function, for example. But it’s interesting: the CFO in some ways has to sit with his hands tied, because he or she can’t directly impact those divisions that spend the money and generate the money. It’s a unique dilemma.

For Andy Campion, CFO of The Nike Brand, all six responsibilities represented on the Wheel are important, but two take precedence: “The two priorities for me as a CFO are developing the strategy for the organization as a partner to and member of the executive leadership team and then funding and executing that strategy through financial planning and performance management.” He continues: “I would describe most of the rest of the Wheel as in support of those two priorities, with the exception being that clear communication to external stakeholders is enabled and enhanced when you couple sound, intuitive business strategy with a value-creating financial model.”

Paulo Prignolato, CFO of Brazilian commodities manufacturer Votorantim Metais, offers another perspective – one anchored in the traditional priority of financial analysis and an understanding of the business, but also informed by his experience managing divisions across different geographies: “There are always particularities in each one of the countries. But basically, [the Wheel] represents my...
day-to-day reality. ... [S]ince the crisis of 2008, I am spending most of my time in execution ... on “Ensuring business decisions are grounded in sound financial criteria.”” Prignolato continues:

Unfortunately, we do not control prices. Our focus is always on costs, and since the [economic] crisis, we have had to work a lot on cost reduction, internal controls, improvements, and risk management – hedging, mainly. The ideal situation in coming years for me would be to work more on development than execution – more time on strategic decisions. I don’t think that situation is going to change in the short term. ... Most probably, during the next two or three years, the reality will be exactly as it is today – a focus on internal controls improvement and risk management.

Controls remain critical
Unsurprisingly, given that Sarbanes-Oxley has been in effect for almost a decade, while being attentive to costs, CFO interviewees in the US explicitly emphasize the importance of controls and risk management in their responsibilities. This includes an ongoing attention to maintaining a strong controls environment and financial reporting processes, and extends to compliance with the Foreign Corrupt Practices Act (FCPA).

Luca Maestri, CFO of Xerox, notes, “As a CFO, you are responsible for making sure that the internal controls environment is adequate, that the company understands and adheres to the regulatory environment, ... internal controls, compliance to accounting standards, and so on. ... It’s an element of the job that is important for any CFO in any geography.”
For Fernando Liceaga, CFO of Tetra Pak S.A. de C.V., in Mexico City, the emphasis on controls is similarly straightforward: “The Wheel is very accurate. The only thing it needs is a role that represents corporate governance and the responsibility of the CFO to ensure and oversee compliance to corporate policies and procedures. I’m talking not only finance, but all kind of policies and procedures related to other areas of the business too, because the CFO often revises policy for other areas as well.”

Kent Potter, former CFO of LyondellBasell, which manufactures polymers, chemicals, fuels and related technology, further emphasizes the central role of a risk-aware executive:

“Every company’s experience over the last three years highlights a role of the CFO that needs continually to be emphasized: the identification of risk. Not the management of it, since once risk is identified, people either mitigate it or avoid it, but somehow manage it. But the identification of risk.

When you get people in the CFO’s role who can identify consequences of either decisions or operations at a deeper level, the management of that risk can really add value. Being able to understand the consequences of the different operating actions, that’s a big role of the CFO. It’s one that we can always add more and more value to.”

Tracey Travis, CFO of Ralph Lauren, amplifies this idea: “One of the most fundamental roles of a CFO is to ensure compliance within the organization, compliance with financial controls, compliance with financial reporting. That’s a given. ... It is important to make sure you have very good oversight over that role as you migrate into broader roles within the organization.”

Travis further points out that having a strategic role is inviting, but that:

“Regulatory environment — whether it’s Sarbanes-Oxley or FIN 48 or changes in lease accounting for us, or what’s going on with IFRS — it becomes important for the CFO to prioritize that appropriately.

Kathryn Mikells, who was recently appointed CFO at security services company ADT after stints in the same role at water processing company Nalco and at UAL Corporation — the parent of United Airlines — agrees with her peers that this central aspect is what holds the Wheel together: “One other thing I might highlight ... [that] I certainly have seen be more of a focus recently ... is overall risk management.” But, Mikells continues, this is not solely a focus on controls, and her perspective in some part touches on the strategic mandate often placed on CFOs as well:

“Risk management dovetails with corporate strategy, because part of what you’re deciding is what risks you want to own and really want to self-manage versus which risks you don’t want to own and you want to off-load in some way ... through hedging strategies and looking at your overall portfolio strategically and deciding which businesses you want to keep in focus, which ones ... help fund other things. But risk is something that had a heightened level of focus post the credit crisis and most recent recessionary period. That’s certainly somewhere I spend a fair amount of my time.

This insistence on managing risk and overseeing controls is nevertheless complementary to the CFO’s role as a driver...
of organizational strategy. For Prignolato of Votorantim Metais, risk management is the enabler; it is the strategy:

*We have to look ahead in terms of what could happen in terms of scenarios. ... We do not have a crystal ball, but our decisions should be based on two, maximum three scenarios, and then we have to help the organization make the right decisions. ... We take a systematic view of risk management and being able to evaluate what could happen in terms of our market and our industry in the future.*

This focus on the strategic implications of anticipating and managing risk anticipates the subject of our succeeding section three below – the growing involvement of the CFO not just in supporting strategy, but in helping set it.

**From complexity to clarity**

Bruce Besanko, CFO of OfficeMax, emphasizes another critical contribution of the CFO: playing a leading role in communications with external shareholders, precisely because of the CFO’s understanding of the numbers:

*Communication with external stakeholders is a role that I play, and it’s one I frankly enjoy playing. I have found that most investors like to spend about 20% of their time with a CEO, 60% of their time with the CFO, and another 20% of their time with other business unit leaders in the company. And the reason for that is they get more of the numbers story for their models from the CFO.*

Besanko sees the focus on communicating with stakeholders as essential, noting that CFOs must be able to take complex information and communicate it simply and effectively to internal and external audiences:

*It is absolutely imperative for the CFO to simplify complexity, whether it’s from an economic analysis or a strategy point of view. You’ve got to make things simple and easy for others to understand. I think that’s a critical role as you communicate with vendors, with investors, with other business-unit leads. That’s a skill that’s absolutely essential and one that can be developed – but it takes practice.*

Besanko is not alone; his point is echoed by Molex’s Johnson: “The focus on communications in the EMEIA report is not surprising. One of the skills that is critical to the role of an effective CFO is to communicate clearly to all outside stakeholders, but in particular with investors. It’s crucial that a CFO is able to present well and be able to summarize complex material succinctly.” Nike’s Campion agrees:

*One of the things finance can do is try to make what is complex or somewhat esoteric more simple and intuitive, to facilitate cross-functional decision-making around investment and prioritization.*

ADM’s Ray Young echoes his peers in describing his recent focus in the position: “I’ve been spending a lot of time on making sure that we’ve got the right message to investors and other external stakeholders, [that] we are making good business decisions, ... and on providing analysis and support for the CEO and the senior management group.”

Delta Air Lines’ Halter agrees that today’s CFO must be “an outstanding communicator,” adding:

*[You need] someone who can articulate the business results, the business strategy, the direction of the business, and put it in layman’s terms ... standing in front of 80,000 employees and talking about financial results. A critical success factor for the CFO is being able to communicate at that level, and then to turn around and speak at a much more technical level to a board of directors or to the CEO. That’s a critical element.*

So, from supporting the business with key financial data to providing insight and perspective on the strategy set by the CEO to acting as a conduit for communicating results and the metrics that make the achievement of that strategy intelligible to all key stakeholder audiences – all these preoccupy our interviewees to varying degrees. Their varying perspectives – and the differing demands on CFOs’ time and skills – are perhaps best summarized by Delta’s Halter: “[H]ow you allocate your time is going to vary year to year, based on the business challenges that your organization is facing. ... But it’s a circular process. Once you’re developing, you execute; you redevelop, you re-execute, then it continues.”
The current and foreseeable environment is increasingly dynamic, from volatile macroeconomics that impact input costs to foreign exchange to rapidly evolving consumer preferences that impact the price/value relationship. So, increasingly our “go-to-market functions” – be it product creation, merchandising, marketing, sales or operations – are looking to the finance function to collaboratively help navigate the future from a business strategy perspective.

Andrew Campion
Nike
Looking backward – to look ahead

Reflecting the findings of our EMEIA research that the CFO’s role is no longer solely focused on examining, understanding, and reporting past results, our interviewees agree that the role has become more forward-looking.

On a traditional model, the CFO position might have been considered to be solely focused on past performance, on the numbers, and on financial reporting. But today, that mandate seems almost universally to have been exceeded, with the CFO providing not only financial planning and analysis, but information about where the business is going and how quickly it is getting there.

In the Americas, the indication from our interviews is that the percentage of CFOs involved in actually defining organizational strategy is higher than in EMEIA. Almost all our interviewees attest to being deeply involved in supporting and enabling strategy, but a good number of them suggest they are developing and setting it outright. And most work side-by-side with the CEO.

Dennis Secor, CFO of leading worldwide clothing retailer Guess?, describes this critical contribution: “The CFO role is highly influential in terms of developing the strategy of the business. It would be the one that people look at as the face of the organization – certainly with the investment community, but also [the one] responsible for more of the specific functions of running the finance function for the organization.”

Kathy Mikells of ADT notes that supporting and enabling strategy is the reason she holds the position: “I spend a lot of time in the area of strategy, M&A, and how finance can support the overall company’s strategic goals and business objectives.”

Bill Douglas of Coca-Cola Enterprises acknowledges that strategy may not be the first priority of the CFO: “We have a strategy director, so strategy does not inherently fall under my purview.” But he immediately explains that the CFO is still vital to developing the strategy: “Any time we’re doing strategy discussions, it’s always the CEO, myself as CFO, and then our strategy director. We’re the three that put our heads together.”

Fareed Khan, CFO of United Stationers, is unequivocal about where strategy sits in his job description. It’s at the very top: “We’re moving strategy under me. That’s always been the plan.” Khan suggests how such an involvement in strategy works, in that the CFO can be not only a conduit for information to investors, but also a vitally important source of valuable information from investors back to the C-suite:

> The CFO in any business is representing the strategy of the company to the outside world. It’s really helpful to listen to how analysts and investors – particularly the skeptical ones – talk about your business. It brings important clarity on value drivers, execution priorities and performance expectations. These are very valuable inputs to business leaders as they develop strategy.

Xerox’s Maestri agrees: “The contribution of a CFO to defining and executing the company strategy is very significant.”

In our survey across EMEIA, almost 60% of our 669 CFO respondents judged themselves to play a key role in “providing insight and analysis to support the CEO and other senior managers in strategic planning.” And 49% of them said they play a key role in “leading key initiatives that support overall strategy,” and in “ensuring business decisions are grounded in sound financial criteria.”
Key finding from EMEIA

20%

One-fifth of respondents in EMEIA say they play a key role in representing the organization’s progress on strategic goals to external stakeholders (e.g., investors, analysts, the media).

Just as CFOs in EMEIA appear to have a growing involvement in developing organizational strategy, so do our Americas-based interviewees. Our interviews suggest that a higher proportion of these Americas executives shouldered responsibility for representing their organization’s progress against strategic goals to shareholders.

I think it’s the most effective way for companies to extract value from the CFO. Confining CFOs to managing only the compliance elements of an organization is very limiting.”

For United Stationers’ Khan, for example, there is a certain duality to being involved in strategy. On one hand, the CFO provides an important critical eye to optimizing business platforms and planning where to emphasize the organization’s investments. On the other, she or he can use financial metrics to measure progress against the strategy – being able to link the organization’s execution against key benchmarks:

A key responsibility of the CFO is taking a portfolio approach to business priorities. Not all good ideas have to get done at once. Business leaders should be prioritizing, but the CFO has a unique role in helping prioritize across the businesses to drive the initiatives that really make a difference and also to help individual business leaders focus on the highest impact areas in their areas.

Another one is around the use of metrics ... not just the financial and operational metrics that must be there but also the big milestones along the way that track your strategy. You can look at revenue. You can look at EBIT margins, etc. But to prove the strategy is working, maybe there are other metrics like the number of customers acquired, share-of-wallet metrics, program adoption and many others that directly tie to strategy outcomes and give earlier or better feedback.

I think there is a very valuable role for the CFO to be defining what those metrics could and should be.

Khan’s perspective is broadly shared. In virtually every circumstance, CFOs attest to being uniquely positioned with regard to influencing and effecting corporate strategy, but also in judging results. These executives continually emphasize that precisely because CFOs have the ability to review, measure and explain financial results, they also can help others within the business to understand how finance enables and drives organizational strategy.

For Colleen Johnston, CFO of Canada’s TD Bank Group, “The highest value-added part of the role is really on the analytics side, the advisory side, being a trusted business adviser, and being able to bring insight and wisdom to the CEO, the board and the senior executive team.” And Johnston argues something else about the skills necessary for the role, adding:

Increasingly, leadership skills are really important in managing a finance function because organizations are large and complex. You need to make sure that you have the right people on the ground doing a great job. It’s no longer the CFO rolling up the sleeves and doing all of the heavy lifting. A huge part of it is about leadership.

Nike’s Andy Campion argues that the top finance executive brings something else: business intuition that can better inform and enable management decision-making. For Campion, the CFO sits at the nexus of finance, operational management, and
strategy: “As a finance executive, you have to be able to incorporate the collective intuition of general management, as well as your own intuition, as to which business strategies are more likely than not to cut through from a consumer perspective.” He continues:

You cannot analytically prove that you can grow a business, but you can analytically refine or support an idea and turn that idea into a viable plan. It’s very easy, analytically, to prove that lower operating overhead would improve profitability. However, in the revenue and gross margin zone, the most important line items on the P&L, you must be able to couple intuition and analytics. For example, a finance executive must have an opinion as to the impact of pricing on volume or the potential consumer demand for an innovative new product being introduced in the marketplace.

From the perspective of CFOs in the Americas, involvement in corporate strategy is an integral part of the job. So is the imperative to help manage an organization’s capital agenda – helping make decisions about preserving, optimizing, investing and raising capital. CFOs now contribute directly to the direction of the business as well as reviewing and reporting on its performance.

It seems only logical that since CFOs now contribute more significantly to organizational strategy and operational success, these top-level executives rely not only on financial analytics but on a degree of reflection and insight as well – to understand not only where the business has been, but where it’s heading.

In their own words

Establishing priorities, capitalizing on opportunity

Tracey Travis Ralph Lauren

Ralph Lauren’s Tracey Travis strongly emphasizes the importance of the CFO’s input into strategic decision-making and the contribution to an organization’s capital agenda:

“The CFO’s role in strategy development and prioritization is one thing I would add to the Wheel. ‘What short-term strategies are going to yield good results for the organization?’ and ‘What are the longer-term ones, and how do you resource those appropriately?’ Helping to identify areas of growth that the company may not have thought about. Helping to prioritize what should be accelerated. … How do we align resources and prioritize to make sure that we can capitalize on those nearer-term opportunities that will yield more profitable results?

“The other part of the strategy discussion is capital structure. … Many companies now are sitting on a fair amount of cash – much of that cash being overseas. What does that mean for companies in terms of utilization of the cash? How do you get the best shareholder return from your strategic plan? … How you redeploy that cash from an investment standpoint is something I think the CFO plays a much heavier role in, as part of the strategy discussions, than perhaps other members of the team.”

See more at ey.com/CFO
By virtue of my position in the company, I can bring people together to solve cross-functional issues much more readily than others in the organization. I can bring people together and can be a catalyst as a decision-maker.

Bruce Besanko
OfficeMax
Greater reach into operations

Top finance executives have a growing influence in enabling operations, in some cases even reaching into business decision-making on the commercial side.

Survey results from EMEIA left little doubt that the skills and leadership offered by the chief financial officer mean that their contribution and support to operational departments has increased, in large part because they are recognized and valued for the perspectives they bring from the analytical and financial side of the business. As OfficeMax’s Besanko suggests:

“When I play a role in operations, the perspective I have that’s completely unique is this focus on the P&L, the ability to see things through numbers. I don’t want to give the impression that the business units and their business presidents don’t understand, because they do. But they don’t have a specialty in it, and that’s one of the things that I bring as the CFO. I can get underneath the data to help really understand drivers of the business that may be a little more difficult for others to see. That unique perspective of having an intersection between the numbers and the business is something a CFO brings.”

Nike’s Campion offers a complementary perspective focusing on where to invest and how to enable the business. “[F]inance can and should facilitate decision-making around investment and prioritization.” Campion suggests the CFO must ask:

“What are we trying to enable from an infrastructure, a business operations or a consumer perspective? In a strategic CFO role, you’re uniquely positioned to understand what the business is trying to accomplish and then communicate that to the senior-most leaders of specialized functions such as IT or tax. ... In other words, begin by communicating the goal in layman’s terms so the broader team is better able to collaboratively prioritize investment, rather than establishing arbitrary or unilateral investment parameters.

TD Bank Group’s Johnston offers another way of looking at the CFO’s operational role, tied to what she calls a “productivity agenda”: “The CFO should own the productivity agenda for the organization. ... You can cut a wide swath through the organization in terms of the active role that you can play in areas like IT, strategic sourcing, project management – all of those disciplines. They may not necessarily report to you, but you have very much a vested interest in how they’re run, and how they contribute to top-line growth.”

Johnston’s perspective is mirrored by that of Navistar’s Cederoth: “Understanding the roots of our business is pretty important in my role. The vast majority of my job entails the ability to challenge the operations in a constructive way so that we continue to identify opportunities to improve our results. The textbook fundamentals of finance, while they are applicable to my situation, have to be modified to fit the unique characteristics of Navistar.”

Key finding from EMEIA

56%

Fifty-six percent of the EMEIA respondents said that other managers across the business routinely turn to finance for advice on strategy. More than 60% say the visibility and respect accorded finance has improved in the last three years. This perspective is largely corroborated by our participants in the Americas, who also suggest that CFOs play an important role in providing a financial perspective on operational challenges, and can prompt internal changes or help drive initiatives that improve the business.
Xerox’s Maestri asks the question: “Why is it that the CFO ends up being involved in more operational roles?” and then offers this answer:

One of the factors is the increased complexity of running a large enterprise. ... The concept of “global” has changed tremendously over the last ten years, and so the stretch and the reach that certain senior positions have today is very different. As a result, everybody needs to contribute in more than one way to the success of the company. When I think about what it means being global today versus ten years ago, it means having good understanding of different cultures and business environments truly across the world.

So, from an executive who has spent his career with global corporations, we learn that success depends not only on productivity, not only on finance fundamentals. Today’s top financial executive is a vitally important business enabler for operational departments. This is true for several reasons, according to our respondents. First, it’s because the CFO can act as a touchstone for financial analysis, planning and insight on performance. Second, it’s because as an individual who can bring the independent perspective of one who talks frequently to the C-suite and to investors, the CFO is a conduit for information about organizational strategy. Third, it’s because of his or her ability to bring a critical lens to bear on the underlying dynamics of the business.

But mindful of the importance of the CFO’s unique focus on finance and controls, Ralph Lauren’s Travis adds, “It’s beneficial all around as long as there’s an understanding that it is a broadening of scope, not a shifting of scope.” This is a worthwhile note as our CFOs variously emphasized the importance of keeping an eye on core financial performance and on controls. TD’s Johnston is one such leader, pointing out that, “There’s a uniqueness to the finance role. I think there’s sometimes a logic to saying, ‘Let’s broaden out the role because a CFO has skills that are easily transferable to other corporate areas.’” But Johnston offers a caution as well:

My own experience with CFOs who do that is that they still spend 90% of their time on finance, and another 10% on all of the other corporate areas. And I think that can sub-optimize for an organization. ... There’s a uniqueness to the role that in my view, it can be diluted if a CFO tries to broaden the role too much.

A similarly cautionary note was struck by Peter Ragauss, CFO of oil services company Baker Hughes, who adds, “If the CFO is too involved in strategy, then it’s not owned by the business or the CEO. So there’s a balance: almost a Laffer Curve, if you will, on the CFO’s relevance to the strategy discussion.”

“You can have too much, and you can have too little,” adds Ragauss. “There’s a sweet spot.”
An accounting background is important – ideally, some type of auditing or accounting background. Understanding financial statements and financial disclosures is really important. But obviously, the highest value-added part of the role is really on the analytics side, the advisory side, being a trusted business adviser, being able to bring insight and wisdom to the CEO, and to the board and the senior executive team.

Colleen Johnston
TD Bank Group
With finance still fundamental

Any emphasis on setting or enabling organizational strategy comes with caveats — chief among them the absolute necessity of cost and risk management and financial controls.

Key finding from EMEIA

66%

In our 2010 study in EMEIA, cost management ranked at the top of issues that had become more of a priority to top finance executives than before the financial crisis. Fully two-thirds of respondents in our survey believed that managing costs had become more critical, putting it at the top of a list of issues where the focus has increased. Others following closely were improving risk management and managing cash flow.

In 2010, when CFOs in EMEIA were polled on what issues were more important than they had been three years before, a focus on emerging markets ranked at the bottom of the list. This was perhaps a predictable result when executives were still managing the fallout from the financial turmoil of 2008-2009. But confidence appears to have returned; our more recent research in EMEIA and in the Americas points to a resurgence of interest in investing in higher growth markets.

Today’s companies see the strategic and operational contribution of the CFO as desirable if not indispensable. That said, it is impossible to overlook the necessity of the core skills in finance that are fundamental to the CFO’s role.

Almost universally, our participants point out that any responsibility to assist in developing strategy or enabling operations must be leavened by the recognition that financial results enable strategy, that overseeing risk management and controls remains the fundamental responsibility of the CFO, and that core skills in finance remain of paramount importance — in the words of W.W. Grainger’s Ron Jadin, “table stakes” for the position.

As Besanko puts it, “Funding, enabling and executing the strategy set by the CEO is a must-have. You can’t have a business without it. Whereas helping define the strategy and develop the overall strategy for the company, that’s a nice-to-have. It’s something I should be partnering with the CEOs and the business-unit presidents to do.”

United Stationers’ Khan seconds this position: “You have to have the basics. You can’t be an effective CFO if you don’t have controls in place, where you can’t close the books or you have issues with external or internal reporting.”

Potter adds another voice to this chorus, offering that: “The CFO ultimately is responsible for the financial infrastructure within the enterprise that … provides the capabilities to do all these other activities. I’m very sensitive to that basic role, and as soon as people start taking that for granted, the underpinnings of financial control may be left behind.”

Xerox’s Maestri points out that despite the many requirements placed on the CFO and their likely suitability to meeting those requirements for the organization, it is possible to overlook the fact that:

Core skills in finance are the foundation. They are non-negotiable; you need to have them to even be considered for the role. Over time — because the strategic element has increased, because the operational element has increased as well — [what] companies are looking for in a CFO is a leadership role that is broader. ... Together with the core financial skills, companies are looking for operational experience, strategic experience, and people management. But if you’re no good at financial analysis, you cannot be the CFO. That goes without saying.

Notwithstanding his caution that a CFO not stray too far from the finance infrastructure and its controls, Potter acknowledges the growing impetus toward engaging CFOs not only in strategy but in operations across the business. Potter characterizes the CFO as an innovator able to work across divisional lines: “The
The CFO’s contribution

Two

The CFO’s contribution

How much did the financial crisis impact sensitivity to the role of financial controls? Certainly, awareness of the necessity for such controls is acute. Three-fourths of respondents in our survey in EMEIA say controls are more important now than they were three years ago. And there’s no lack of agreement from CFOs in the Americas, who suggest that no matter how broad the CFO’s role might become, risk management remains essential.

more you can innovate and contribute, the more receptive people in the organization are going to be to having the CFO and his or her team get involved in their business.” And from the perspective of a CFO who worked for a recently combined European and US entity, he adds:

One of the things that I do see in American business – maybe more so than in Europe – is that really effective CFOs aren’t inhibited by an organization chart. … They find themselves working across boundaries more and more, and getting their teams to do so. Effective finance organizations are those that truly do collaborate well, and organizational distinctions become blurred.

Surely it is this focus on opportunities for the CFO to contribute more widely, collaborating across organizational lines to achieve the objectives of the business, that makes the CFO’s role so attractive and rewarding – a key factor in job satisfaction and for some, an invitation to play an even greater leadership role. Could that greater role be as a CEO? It very well could, as our next section discusses. ■

Key finding from EMEIA

75%

How much did the financial crisis impact sensitivity to the role of financial controls? Certainly, awareness of the necessity for such controls is acute. Three-fourths of respondents in our survey in EMEIA say controls are more important now than they were three years ago. And there’s no lack of agreement from CFOs in the Americas, who suggest that no matter how broad the CFO’s role might become, risk management remains essential.
There’s no reason why the CFO role can’t be as rewarding as a career as a CEO’s. ... [T]he only difference for somebody is ultimately you’re not going to make the final decision. If you’re okay with that, you can take the role in a lot of directions, maybe even more so than a CEO can.

Fareed Khan
United Stationers
Careers in perspective

Our survey across EMEIA saw extremely high job satisfaction in the CFO role—a finding in accord with the leadership position these executives hold.

One further finding intrigued us. Our survey results in EMEIA suggest that only a low percentage of these executives aspired to the CEO role. When that finding was presented to our Americas-based interviewees, responses were varied; but it can fairly be said that while our respondents in the Americas are extremely satisfied in their current roles, they are markedly more likely to aspire to taking a CEO position at some point.

Of course, it is hard to meaningfully extrapolate a finding from a more limited, qualitative set of 19 interviews in the Americas that would challenge a statistical finding based on a survey of almost 700 executives across EMEIA. But it does seem worth noting that no fewer than half of our CFO respondents in the Americas would consider a job as a CEO if the right opportunity came around, and of those with backgrounds from outside finance—in operations, in strategic M&A, even in commercial roles—the percentage is higher.

Painted in broad strokes, two groups of CFOs emerged in our Americas interviews: one whose members are thriving in the role and seem content to remain in it, the other whose members—while fulfilled, engaged and clearly thriving—would consider other opportunities in future, including a role as CEO.

Molex's Dave Johnson confesses to being in the former camp, saying: “I was initially surprised that the CFOs in the EMEIA study had such little interest in the CEO role. However, I am also very content as a CFO and after speaking with many other public company CFOs, I believe the majority have similar views. I don't know what the percentage is but probably 80% are very happy where they are. Some may want to move to a larger CFO role, but I think by and large people are satisfied and fulfilled by the challenge of the position.” And Johnson adds:

_I would agree with the results from EMEIA that many CFOs are content, especially if they have a good relationship with their CEO. I think this is a key factor. If you feel like your opinion is heard, that your contributions are impactful, and that you are a core part of the team, then the CFO can be satisfied knowing that he is playing a very significant role, even though it is not the number one role._

This group would also include Delta's Halter, who declared unequivocally, "I don't have aspirations to be CEO. I would prefer to not be CEO, and I'm very satisfied with this being the final title." (As indeed it proved: Mr. Halter announced his retirement shortly before this report went to press.)

Key finding from EMEIA

By and large, our survey respondents in EMEIA were not only highly satisfied in their roles, but also more likely to aspire to higher positions in finance than to becoming a CEO. In fact, only 10% of EMEIA finance executives responding to our survey suggested they aspired to a CEO’s role; only 2% suggested they’d aspire to being a COO.

See more at ey.com/CFO
W.W. Grainger’s Jadin is another CFO contented in the role. But he goes beyond expressing contentment to explicitly announcing he has no aspiration to the CEO role. Instead, he is energized by his involvement in running the business at the highest level, in tandem with a CEO with whom he is closely aligned:

I like not competing with my boss for his job, not even thinking about it. It’s the freedom of [saying], “I am in a job I love.” We’re at a $14 billion market cap; when I came in we were at $6 billion. … I tell [my CEO]: “Jim, I want to be the CFO of a $20 billion company, and I want that company to be Grainger.” And he says, “Me too.”

So we’re aligned. And there’s a lot of excitement and personal value I get out of having an alignment with the CEO and … a leadership team running [toward] our shared goals. … And then we move fast. It’s not like we’re going to make all the right decisions, but we’ll fail fast, too, and we’ll get smart, and we’ll move on. That’s very empowering for me, and the influence I have on the business beyond finance is very energizing. It doesn’t report to me, but I have a lot of influence.

Kent Potter, now retired as the CFO of LyondellBasell after a career at Royal Dutch Shell, notes that CFOs can depend on being able to architect their own career – and, as a corollary, can create their own degree of satisfaction:

Everybody can define the CFO’s role as broadly as [their] capabilities permit. … I’ve seen CFOs within their own discipline do things that I’ve found truly amazing and other CFOs that are content to limit their scope. … You can define the role as broadly as you want.

Others are less emphatic. Since Johnson confessed to being “surprised” by the relative degree of contentment of his peers, we wondered if this apparent paradox might signal a more aggressive stance on the part of US-based executives toward taking a different role at some point in the future.

So it proved: there is more willingness to consider a future role as CEO on the part of our Americas-based respondents than is suggested by the relatively low percentage in EMEIA who express such an interest.

But the distinction between CFOs satisfied with the role and those who would consider the possibility of taking a different one – including as CEO – is not drawn with clear, bright lines. Aspirations span a range between two poles. While Khan of United Stationers states plainly, “I personally aspire to be a CEO or run a business again,” the picture becomes more nuanced when he
states, “For a good CFO, it can be the best of both worlds, because you can be part of the business and you can get involved in the business in certain ways. You also stay at a very high level.” He adds:

You interact with the outside world about the company, and there’s no reason why the CFO role can’t be as rewarding a career as a CEO’s. ... [T]he only difference for somebody is ultimately you’re not going to make the final decision. If you’re okay with that, you can take the role in a lot of directions, maybe even more so than a CEO can. You can focus more on strategy. You can focus on operations, and you can shift that a lot.

Kevin Gordon, CFO of Quintiles Transnational, offers: “I have great satisfaction with my ability to influence decision-making from a leadership perspective, in this CFO role. That’s very rewarding, and continues to be very challenging as everything changes in the marketplace and in the world. But if I had the opportunity to actually apply those skills in a leadership role from a CEO perspective ... I would be interested.”

Baker Hughes’ Ragauss shares his view on where CFO and CEO roles intersect. “Many do see it [the CFO job] as a final career position, but I think that your viewpoint and your input to the business is not that dissimilar from what a CEO does.” Ragauss doesn’t rule out that CFOs are well suited to the CEO role, adding, “I’m more optimistic about the transition potential,” adding:

The roles are not that dissimilar, and if you gain experience as a CFO, and you are somewhat strategic, and you are visible to the organization, then it’s natural that the organization would view you as a potential candidate.

And Maestri says, “I certainly would be very happy to consider the CEO role in the right circumstances, in terms of a business model that is interesting, a company that is global in nature. It wouldn’t be any type of CFO role, but at the right company, I certainly would consider it.” He adds:

The CEO position requires certain skill sets and personality traits which are different from those of a CFO, and therefore ... not everybody that is in a CFO position necessarily wants to be a CEO. It almost depends on your personality, what you want to do in life and what you like doing. ... There’s a different set of skills that people may or may not want to explore.

ADM’s Young offers that of the CFOs he considers his peers, “My sense is that the majority – maybe two-thirds – view the CFO [role] as being their ultimate objective, and maybe a third would say this is one additional step toward another more senior position.” He adds, “There are CFOs who have spent the majority of their lives in the accounting, controlling and reporting areas. For them, becoming CFO may be the crowning achievement of their career.” But Young counts himself as in that latter third – of CFOs who could aspire to a further role:

Often, the CFO’s role can evolve towards a greater general management role. A lot of it is the function of the background. ... For a lot of us who have been in general management and who have run operations before, we view this position as another stepping stone to move into a broader role, whether it be a key operating role, a key strategy role or even ultimately a CEO role.”

Clearly, individuals’ opinions about their future roles differ based on circumstances, personal preference and the point at which a CFO is in his or her own career. But across the spectrum of different perspectives, it is clear that in this regard ambition drives aspiration – not any present dissatisfaction in the role.
Beyond the CFO role?
The range of activities in which CFOs can meaningfully participate correlates directly to their career satisfaction and their readiness to remain in the role.

Delta’s Halter suggested that the scope of the position as CFO is more important to relative satisfaction than simply its title: “I would not be satisfied to learn that my title’s going to be CFO and nothing else, and my day-to-day responsibilities will never ever change. That would be troubling.”

Ralph Lauren’s Travis echoes Halter when she offers that, “I would not be satisfied with a very narrow finance role, just doing financial reporting and analysis, although I love reporting and love analysis and providing financial insight into the organization. I think at this point in my career, I have the capability to do far more than that. ... For a long time, my role has been broader in different organizations. ... That is a key part of my job satisfaction.”

That’s a familiar refrain from other interviewees, including Xerox’s Maestri:

*The CFO job in general is very fulfilling because it provides an incredible amount of intellectual challenge and an incredible amount of autonomy. Those are two huge aspects of job satisfaction.*

This can mean that CFOs are self-selecting for the job. Greater involvement of CFOs in the business has a corollary benefit for the executives and the organization: it rewards the individuals in the role while allowing the company to build a stronger team. Says Travis: “You attract a higher quality of individual ... as you expand the role and make it more involved in overall management and the strategic future direction of the company as a whole, as opposed to just reporting and controls.”

Travis’ sentiment is paralleled by ADT’s Mikells:

*The CFO role has broadened over time, making it much easier for people to be fulfilled within that role. I really enjoy being a CFO and have personally benefited from working with CEOs who view the role broadly, enabling me to get a wide and diverse experience. I think many CFOs have seen their job change and expand over time and have seen both the CEO and the board put more responsibility on their shoulders.*

Mikells’ words ring true indeed. If CFOs increasingly take on strategic and management responsibilities that normally accrue to the CEO, why need they aspire to leave their positions? The very closeness of the CFO to the CEO is a job quality consideration for some, as well. As Votorantim Metais’ Prignolato states: “CFOs can develop to be excellent managing directors or CEOs ... not only because of ambition but also because of competence and the preparation that they have gone through. ... More and more, the CFO has become a strategic...
partner and is providing more useful guidance and support to other senior management members.”

For Nike’s Campion, that process is ongoing: “Much like any other functional leader at the enterprise level, be that the head of sales or the head of marketing, they would see a strategic CFO as someone who, over time, has developed the leadership attributes, intuition and skill set to progress into general management or cross-functional leadership roles.” Travis links flexibility in the CFO role to the overall development of a top-quality finance function, adding:

“[T]he good thing about the CFO becoming a larger player in terms of influence within the organization and with the executive team is it allows other members of the finance organization to step up as well. So the controller or the SVP of finance, however you’re structured, gets the opportunity to play a broader role.

It’s not just the chief executive role to which a CFO can aspire: “CFOs are incredibly well positioned to be on boards and audit committees,” says TD Bank Group’s Johnston. “If you look at boards generally, there’s always a skew towards the C-suite, in particular, CEOs. But you do need people on your boards who have more subject-matter expertise, who can function at that higher level in terms of providing the governance and strategy side of things but also who can provide more content assurance to a board. So I think CFOs are perfectly positioned.”

Navistar’s A. J. Cederoth was pensive when asked what the future might hold. He is fully engaged with his role on one hand, but also is aware that he has quite some time ahead in his career during which to explore new horizons:

“I’ve been in this role for almost three years. I do find the opportunities when I’m able to act as senior advisor and strategic partner — be that to the business units or to the CEO — far more satisfying than when I’m simply trying to contain the decision-making process, or the spending process, or consolidate the financial statements. When I can help shape the direction of the business and help those that are executing the strategy, I find that very satisfying.

“So I hope that my actions may lead to the opportunity to potentially succeed to the CEO position? I’m very much a financial person. I’ve had opportunities to make that move over to the operational side in the past, and have deliberately focused on staying on the financial side. But I have between 15 and 20 years left in my career, and I have a hard time envisioning that I would spend them all as the CFO.”
I need top talent. The only way for me to attract and retain top talent is to tell them, “I’m going to help you become a CFO.” I just hired someone who’s on the fast track. Why would he come to Grainger? Well, I’m telling him, “I’m going to help you become a CFO somewhere. These are the jobs I’m going to put you through if you do well. I can’t guarantee you’re going to become a CFO at Grainger, but our shared goal is for you to become a CFO somewhere. And we will have a party the day you tell me you’ve become a CFO.”

Ron Jadin
W.W. Grainger
Who succeeds? Preparing the next CFO.

Given the broad strategic and operational responsibilities now discharged by the top finance executive alongside her or his traditional role, preparing the next CFO has become a key organizational commitment. All our interviewees agreed on its importance.

Once CFOs do move to another role – whatever choice they might make – their company needs a successor. Two factors affect the choice of such successor: first, whether they have viable internal candidates, and second, whether any one of them has the requisite experience for the role.

What should that experience look like? A minimum, of course, is deep skills in finance. Another imperative is a breadth of experience across the business.

“There are certain jobs that if you’re on the bench for the CFO, you need to get experience in,” according to W.W. Grainger’s Jadin. “The controller job, the US VP of finance job, a VP of international finance.” A. J. Cederoth offers: “I believe the distinguishing factor for why I was selected for this job position was the breadth of my experiences across multiple business units: experience with manufacturing, long-term funding, investor relations, accounting, and financial services. A breadth of experiences that allows me to be effective across a complex business.”

Again, here, reflecting the findings of our surveys in EMEIA, CFOs in the Americas insist on the importance of a promising CFO candidate being broadly familiar with multiple aspects of the business, even including direct commercial experience, but certainly exposure to international markets. As noted by Molex’s Johnson, “From my perspective, international experience is essential – not just visiting foreign plants, but really spending quality time overseas and understanding different business practices and foreign cultures. This is so important to companies who are expanding overseas, and that really covers most companies today. So, in a global business like ours, international experience is one of the key requirements.”

Adds TD Bank Group’s Johnston, “In today’s global economy, executives will always benefit from having had more breadth of experience, and more different types of experiences in terms of culture, geography, functions for that matter – doing something outside of finance.” Luca Maestri goes further: “Certain building blocks and certain skill sets need to be checked against as people develop within an organization.” He continues:

International experience is important because it exposes you to different cultures, a bit outside of your comfort zone, and you get tested – an element of adversity. Start-up roles are great because of the personal development that comes with them; the set of issues that you deal with in a start-up environment is so different from the typical ongoing business. And exposure to senior management is very important because it allows you to develop your communication skills, your confidence level.

So, the prerequisites for the role are various, but include working outside...
the home market, and even outside finance. And not this only: according to United Stationers’ Khan, today’s CFO also needs to understand technology:

One of the key things for me is ... CFOs in particular really understanding business process redesign and understanding how technology factors into it, because these issues come up all the time. There’s a greater need now for the CFO to understand the IT implications of the business strategy as well as infrastructure. One, because these are massive investments that people routinely get wrong. And secondly, I think you can’t unwind controls from technology from reporting. It’s just too integrated.

And, signaling again the importance of a candidate’s involvement in operations and the extent of their experience in such a role, Mikells of ADT adds, “CFOs have to be strong business leaders, and one of the best experiences you can get is to have to view things from the other side of the table. I personally think a very good experience for people to have is to work within business operations in some form or fashion.” To Mikells, that means experience in diverse roles across the operating business:

I had the great benefit of having numerous different jobs at United, both in the finance organization and less traditional but still somewhat financially oriented roles in the company, that really helped me to develop my skill set beyond the finance area and increased my business acumen generally. ... I got to spend time in corporate real estate.

Prignolato agrees: “The world has become more complex. The finance background is very important; however, since the CFO is becoming more important, we have to add ... different types of knowledge, such as operational and commercial and strategic. In the past, CFOs were not involved in those kinds of decisions and discussions. Now we are. That’s why our background and the background of future CFOs has to be more complete.”

So, a question to potential CFOs – and a challenge to the companies seeking to foster them. Where will the next-generation CFO come from? What skills and experience will they need for the job?

“Experience in other functional areas is extremely important. When you develop people within the finance function, ensure that they actually experience the direct contact with the marketplace. You need to have the customer interface. It’s truly important.”

“If you hadn’t worked in the commercial side per se, but you had been in various finance corporate roles, such as the controller, the VP of financial planning and analysis, FP&A, where you have extensive work day-to-day analyzing and understanding the results of the commercial [side] ... that is critical. It’s hard to picture a CFO without either direct commercial experience or very strong ancillary experience working in the commercial side.”
We have to add different types of knowledge, such as operational and commercial and strategic. In the past, CFOs were not involved in those kinds of decisions and discussions. Now we are.

Paulo Prignolato
Votorantim Metais

different types of knowledge
Another recent study in EY’s Master CFO Series: A tale of two markets: telling the story of investment across developed and rapid-growth markets, offers a window into the challenges faced by companies that operate in established and emerging markets at the same time – and that must therefore reconcile two fundamentally different business propositions. Companies face slower growth in mature markets, even though operating efficiently and managing risk can be easier. They realize faster growth in emerging markets, but encounter other risks, including less sophisticated cultures of compliance, unpredictable or more volatile markets, different regulatory requirements and other challenges.

Xerox’s Luca Maestri commented that today’s businesses must be able to operate on every continent, and that as a corollary, the CFO must understand international markets and their challenges. Maestri well appreciates that: “Growth rates make for a very different job profile as a CFO.” He offers a useful distinction between the CFO’s approach to strategy in emerging markets and that in more mature ones:

The other aspect that is fundamentally different is that business practices – including the compliance environment – can be more challenging. In markets like India or Korea or Africa, the business environment and business practices are significantly different from those of a mature market.

That’s where as a CFO you play a key role – how you deal with those different circumstances and where you draw the line to ensure at all times the company and its people are protected.

This theme was echoed by United Stationers’ Khan: “In general, a CFO would definitely need a global perspective or at least the ability to manage global pieces. When you get into financial markets or banking, treasury activities, cash management, optimizing taxes – the more global your business, it becomes very complex to do it right.”

For Kevin Gordon of Quintiles Transnational, a contract research organization with operations in 60 countries, the CFO’s role is vital to ensuring the success of overseas expansion:

Whether we’re entering new emerging markets, ... investing in new facilities in particular countries, ... getting involved in the development of new service offerings with particular customers, it’s an important part of my role to ensure that the capital structure is there to enable it and that we drive to it from an execution standpoint.

Molex’s Johnson notes that “We have 75% or more of our sales outside the US. ... At least within Molex, international experience is probably one of the most important non-financial experiences that have helped me.” Says Johnson:

It is important when you are working through issues in foreign countries to understand and appreciate the cultural differences. Whether it is working with auditors, bankers, customers or your own employees, you have to listen and adapt to the local environment. Working overseas also gives you a different perspective on the global economy. If someone is very successful in corporate accounting but has never had the experience of working for a plant or at the division level, we try to give them some relevant experience, either in the US or overseas. And for someone who is at a more senior level and moving up quickly, we will almost always insist upon an overseas assignment.

W.W. Grainger entered the Chinese market five years ago, and CFO Ron Jadin well appreciates the risk of conducting business in new markets even as the organization embraces the opportunity. Notes Jadin: “The foundational aspects of the CFO role have to do with protecting the company’s brand and reputation – so FCPA, ERM, risk management,
internal controls, SOX, all those things are table stakes. ...” He continues:

_These regulations protect our reputation and brand. As we become a more global company, we want to make sure everybody understands this is how Grainger does business, and we can’t do it any other way. That’s critically important for us, because we could enter a new country or purchase a business that_ is less than 5% of company sales _but risk destroying 100% of our brand equity if something goes wrong._

Today’s top executives manage a portfolio of investments that offer different profiles for risk and return across the enterprise and, concomitantly, have different time frames for realizing returns. That creates challenges for CFOs, since they are not only responsible for providing financial reporting, but also must articulate a coherent and plausible narrative for company shareholders.

These executives’ understanding of the necessity of conducting business globally — and the awareness of its risks — suggests another later finding of our Americas-based survey: that without international experience, the CFO candidates of tomorrow have a gap on their resumés.
Key developmental areas for aspiring finance leaders

Our original research, validated through our interviews in the Americas, suggests that candidates for the CFO position today must present a skill set vastly more varied than the traditional career path has entailed. Aspirants should look to:

- Gain a breadth of finance experience; diversity is more important than vertical focus
- Develop commercial insight; consider stepping outside finance
- Build a balance between traditional finance and other skills
- Look for leadership opportunities and team-building skills
- Gain international exposure, especially in emerging markets
- Participate in or lead finance transformation initiatives and major change programs
- Seek M&A experience – both in transaction planning and post-merger integration
- Get exposure to the market and its stakeholders; communications skills are a differentiator
- Proactively build effective relationships with the board

in different jobs as they progress through their career. Then, if needed, we would supplement them with outside training.

Other companies rely less on a formal succession plan and more on an individualized review of key finance personnel. Sometimes, this entails evaluating talent and leadership ability on an as-needed basis, as at Secor’s Guess?: “The way [management] would view it, and I share this view, is they’re looking at the role and the characteristics of the person in this role. They’re trying to determine: ‘What can I teach? If there are gaps, what gaps can I teach, and what are the gaps that I can’t?’”

Secor characterizes Guess? as having a “founder culture,” where decision-making on the development of personnel and their promotion into key positions is established on a sense of their aptitude and a trust in their abilities. He explains:

“There’s a lot of trust in individuals. People here will be allowed to take on responsibilities that perhaps on paper or in any other company, they might not be able to get an interview for. ... But the founders here will see something in their background or in the way they manage themselves, or a personality that they think would be a good fit somewhere else. I don’t know if this is unique to us or founder companies in general, but I see it differently here than I’ve seen in other organizations. Here it’s clear: it’s because the founders have that relationship, and there is a significant level of trust. So, experience is a factor. Knowledge of the business is a factor – indeed, it is vitally important for candidates to deeply understand the business, its objectives and the key drivers of its strategy. And in some important decisions, trust is perhaps the most critical factor.

Achieving all this may feel a tall order – and doubtless it is. But at other companies, too, the development pipeline is full, and CFOs
do not seem concerned about who succeeds them in the role. Confidence in the pipeline runs high, according to Tetra Pak’s Liceaga, who adds: “I do see people that could succeed me. And we do, as a company, have formal programs to train personnel and to identify potential successors.” But, he adds: “[W]e have learned that very little experience, or even knowledge, can be obtained through academic training. ... We try to get valuable people involved in projects that are out of their comfort zone. ... [I]t is also very important to ratify the traditional finance structure in the organization.”

Says ADT’s Mikells, “It’s very helpful to have that broad understanding of who all the people are that fit within the finance organization, so that as we look to develop them in terms of their careers, we have visibility to everyone, and we can ensure that people get a broad set of experience.” She adds:

*Just in terms of new hires into the company, ensuring that the finance organization has a very collective and cohesive approach to how we’re bringing brand new, young talent into the company and how we’re populating them both within the corporate finance group and within the finance functions that sit within divisions. And, again, making sure that we’re rotating those people appropriately so that they’re continuing to get every good experience development and career development.*

TD Bank Group’s Colleen Johnston shares the opinion of many that with the tremendous expectations and responsibilities placed on the CFO, having a highly qualified team is critical. So is grooming future leaders:

“Leadership development is something we take very seriously, ... It isn’t enough to be a star performer yourself. It’s really not about how good I am. It’s about the strength of my team. The key is being able to go out and recruit and then retain the best people. What do the best people look like? They have that great blend of strong technical skills, and smarts. Work ethic comes into play; you need a lot of capacity to do this job. But relationship skills, the ability to think, to be a good business partner, to think strategically about the business.

“[T]hen I think you have to give people in the organization the breadth of exposure to different opportunities. We do look at who we think are our top performers, those that have succession potential. What I like about what we do is that we actively engage our existing executives in thinking about succession for their role. ... [Y]ou have to create that sense of ownership around succession and around grooming the right people and giving them the breadth of experience that they need.”
The thing that keeps a CFO objective is staying relentlessly focused on shareholder value creation ... [and] really understanding all of the drivers of how you create financial value. All too often even the most senior of executives overweight their focus on the short-term or on internal expectation setting. However, the CFO must consistently be a reminder that creating shareholder value is a function of delivering sustainable, profitable growth that exceeds appropriate external stakeholder expectations over the long term.
Changing horizon, longer view

In all cases, CFOs’ involvement in their businesses is broad, their contributions to their organizations are manifold, and the scope of their responsibilities is growing.

It would be surprising if so versatile a group of individuals were to unanimously agree on the scope and direction of the CFO role. And they do not. At the same time, it would cause concern if these executives did not share a similar perspective on the mission and mandate of the contemporary CFO. But they do.

Today’s chief financial officers are engaged, focused and strategic. They are thoughtful and entrepreneurial on behalf of their organizations – even visionary – but they remain focused on maintaining the integrity of the finance function. The CFOs we talked to are also versatile. They echo one another on the critical importance of managing and mitigating risk, ensuring the integrity of controls, and making intelligent choices about investments both international and domestic. With room for debate and latitude for differences by industry and size, it is reassuring to report that our interviewees agreed that:

- Compliance and controls have become more complicated in a global environment and remain a vitally important responsibility – one that CFOs must continue to focus on even as they are invited to take on other roles inside their organizations.
- A strong team is important, developing the skills of the next generation of financial leaders is an ongoing process, and giving direct reports a variety of experience is important.
- CFOs must not only address the needs of external stakeholders but also must translate complex ideas for different audiences internally, making facility in communications part of the requisite skill set for any top finance leader.

Above all, our interviewees emphasized the critical importance of a focus on business value. Every discussion we had points to the growing importance of the CFO as a contributor to corporate strategy and success. Every answer demonstrates deep involvement in the operating business – and their tremendously high level of satisfaction in their current roles.

And every answer these executives offer reflects their vision of the business, the versatility and diversity of their experience, and value of listening to the CFO’s voice on topics ranging from organizational strategy and business growth to operations. ■

What’s next?

In today’s business world, stasis is not an option. None of the participants in our interviews are standing still in position. All of them think actively about the future, and about evolving or expanding their contribution to the business.

Whether you are currently a CFO or aspire to such a position and seek to continue to develop your skills and understanding of the role, we hope the insights shared by our interviewees will help you plan your next steps.
Care to learn more?

EY will continue to address issues facing the contemporary CFO and future finance leaders and to provide helpful insights as you fulfill your responsibilities to the C-suite, the board and to shareholders.

To discuss these findings or discuss insights relating to our research, please contact your local Ernst & Young client service partner or send an email to:

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What lies beneath?
Explores the CFO’s role in entering rapid-growth markets and examines the true costs of investment. Where others primarily see opportunity, the CFO must recognize complexity – the costs both manifest and hidden

A tale of two markets
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