WHO'S TRAINING YOUR CFO?

By Jim Wilkinson

The Financial Function: A Changing Environment

The business landscape is changing when it comes to accounting and finance. Today, companies are looking for a different set of skills in their accounting and financial managers than they did 25 years ago. CEOs are inundated by data but have access to little useful information.

CEOs are charged with the responsibility of growing their companies. Consequently, most CEOs have either a market or an operations background. Financial skills are a hit-or-miss proposition. In order to meet their goals, CEOs need team members with talents that complement top-level leadership's weaknesses.

When it comes to filling a void in financial acumen, a CFO is the solution. Unfortunately, a lot of CFOs focus on reducing costs, not growing sales. Eventually, they run into conflict with the goals of their organizations, as well as with their CEOs.

What CEOs want today is an operations financial manager. They want CFOs to get their hands dirty, working with the operations team to drive change throughout the organization. They do not want mere numbers. They want a team member with leadership skills who can influence others in the company from a financial perspective.

CFOs are charged not only with improving productivity in the accounting function but also with driving the financial performance of the company as a whole. Unfortunately, most accounting types are resistant to change. Consequently, they run the risk that the company's needs will outgrow their skills.

The Impact of Computerization

What is driving the need for change in financial managers? The answer is the computerization of the accounting function.

Since 1970, technical advances in computing technology, coupled with the rapid commercialization of those technologies, have revolutionized the global economy. Moore's Law, put forth by Intel cofounder Gordon Moore in 1965, states that the number of transistors on a microchip will double every two years, resulting in a rapid increase in computing power and declining costs of access. For the past 40 years, Moore's Law has held true.

This rapid computerization of society has impacted the accounting and financial functions. Think of how the introduction of computers has changed your business. How many companies still have a receptionist dedicated to answering the phones? Because of auto-attendant features and voicemail, quite a few receptionists these days are doing double duty as clerks.

An accounting department that might have required six or more accountants to function 30 years ago can now run successfully with only two! In addition, the creation of the internet means that access to real-time financial data in a company has never been better. All of those trends change the focus of the accounting and financial functions from processing data to analyzing it.

The CFO's Role in the 21st Century

The role of the CFO today is complex and requires far more than just a technical and accounting skill set. In the past, CFOs spent 75 percent of their time on accounting and the rest on analyzing the results, but now the focus has reversed. In order to be considered successful, CFOs are now required to spend the majority of their efforts improving financial results.

CFOs must be able to think outside the functional role they play. To provide substantial value to companies, they must be able to understand company operations, grasp how those operations connect to profitability, and communicate that knowledge both within the finance

and accounting functions and to the rest of the organization.

The role of the controller is to report the financial results of the organization and ensure that those results comply with finance law. In contrast, CFOs must be forward looking rather than mired in the past. In other words, controllers report the numbers; CFOs drive the numbers.

CFOs must be tacticians, strategists, and executive officers. They must be persuasive inside and outside the company. Like commanding generals, they must lead the company to success.

The Lifecycle of a CFO

How do most companies address their increasing need for financial management as they grow? Typically, they ignore the need until it becomes a problem. This avoidance of the issue results in what we call the "lifecycle of a CFO."

Hiring a CFO is expensive and requires a major commitment to overhead. Consequently, companies typically wait to hire a CFO until the lack of financial leadership is acute and threatening the company's growth and profitability.

Once the decision is made to hire a CFO, he or she will have to begin by focusing on problem clean-up. Because these problems have often existed for years or more, cleaning them up generally requires 12 to 18 months of effort.

The second year generally finds the CFO having successfully improved the company's financial function and on the hunt for new challenges. The CEO, pleased with the CFO's performance, looks for additional responsibilities to delegate to his or her new star. These challenges typically include human resources, information technology, insurance, or operations.

At some point, the CFO exhausts the available opportunities to make an impact on the company and moves on to another position in search of more pay or new responsibilities. In order to grow, the CFO must seek out new challenges or risk the company's outgrowing him or her.

Should the company delay in replacing the CFO or choose the wrong person for the job, another financial crisis could arise once again, threatening profitability and cash flow. And so, the lifecycle of the CFO begins anew!

Getting the Company to the Next Level

How does a company break the CFO lifecycle and retain the talent in which it has invested?

As a company's revenue grows, at certain points the financial function demands a new set of skills. The needs of a company with revenues of between $5 million and $10 million are different from those of a company with revenues of $40 million to $50 million. The controls and processes that worked at $10 million no longer work at $50 million in revenue.

The need for financial-management skills versus accounting skills increases once a company reaches $5 million to $10 million in sales. Bank compliance becomes an issue. The company might be required to have a financial audit or review. The bank will surely have debt covenants in place that require the marriage of the financial results in order to stay in compliance. Managing the banking relationship becomes critical when your outstanding debt exceeds $1 million. Finally, managing cash flow and profitability becomes more complex at this level.

Getting Your CFO to the Next Level

Three ways exist to develop a CFO. The first involves on-the-job training. Unfortunately, the outcome of this process is a function of time and experience quality. Is your CFO candidate exposed to challenges and problems that stretch his or her capabilities, or is the candidate doing the same job year in and year out?

This problem illuminates the other variable: time. Do you have 10 to 20 years available for someone to accrue the experience needed to handle the company's growth? Is the CFO getting 10 years of the same job or being groomed for development?

The second avenue for growth is for a candidate to work under a CFO, much like the apprentices of old. This approach is problematic because, as we mentioned earlier, most companies don't need to have multiple accountants on staff, thanks to computerization. So from whom do they learn—the CEO? Most CEOs come from a sales or operations background, so they aren't very effective financial mentors. That situation is like the blind leading the blind.

That leaves us with a third alternative—obtaining an outside coach for the CFO candidate. An effective coach can help a CFO candidate develop his or her leadership and financial acumen much more quickly than will trial and error alone. Coaching can fill the mentorship void left as a result of accounting's computerization and enable the CFO candidate to gain 10 to 20 years' worth of experience within a few years. Simply put, coaching is the apprenticeship of the 21st century.

A good CFO should make you money. Investing in your CFO candidate should not only extend his or her tenure; using coaching to bring him or her up to speed more quickly should also allow the company to grow more rapidly and profitably. **N**

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