The Superstar CFO: After the Crisis

What it takes for Finance executives to excel in a changing and uncertain world

A report prepared by CFO Research Services in collaboration with SAP

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Executive summary

In 2007, CFO Research Services published *The Superstar CFO*, a survey-based study documenting the attributes that senior finance executives believed were characteristic of highly successful CFOs. Since that time, the world has been shaken by a series of financial, political, and natural upheavals that have dramatically altered the economic landscape within which global businesses operate.

For this report—*The Superstar CFO: After the Crisis*—we were interested in exploring how these changes may be affecting companies' ongoing efforts to transform the corporate finance function into a true value-added partner to the business. To examine this topic, we interviewed CFOs and finance directors at multinational companies based in four regions:

- United States: Brady Corporation, Edward Don & Company, Esterline Corporation, Dimensional Fund Advisors
- Europe: Scottish Power (UK), SNCB Holding Company/Belgian Railways (Belgium)
- Latin America: Rossi Residencial (Brazil), Cosan SA Indústria e Comércio (Brazil)
- Asia-Pacific: Ingersoll-Rand (India) Ltd., Tata Consultancy Service Ltd. (India), Lenovo (Hong Kong)

We also selectively drew on interviews that CFO Research Services was conducting concurrently with other research projects.

Our interviews provided new insights into where CFOs focused their attention during the global financial crisis, and how they are now working to help their companies prepare for renewed growth in a slowly recovering economy. The primary insights from this research are outlined below:

"The CFO roles are transforming over time to be much more focused on general business leadership. That really brings strength to your whole organization."—Sarah Urban, finance director for the Americas, Brady Corporation

- "Strengthening the whole organization" has become the mandate for finance leaders of today. Finance leaders' responsibilities span many different areas, reaching throughout the organization. The CFO of today often acts as a pivot point between the corner office and the shop floor.
- In this role, "having your finger on the pulse of the business is critical" for the finance leader, as one interviewee comments. The CFO and his or her finance staff must be attuned to the drivers of the business, and must be able to work closely with operations management as well as with executive management to chart the financial and strategic impacts of prospective growth strategies.

"We continuously look for things we should stop doing."—Ramón Fernández, finance director, Scottish Power

- In the recent downturn, finance directors intensified their effort to document and reduce costs across the enterprise. However, many of these projects were not attributable solely to hard times. Finance executives consider cost control as an important and ongoing part of the CFO agenda, and several interviewees say their projects to improve process efficiency had been started before the recession.
- At many of the companies participating in this research, finance executives were looking to expand the use of shared-services centers, in particular, to standardize transactional or administrative processes. For complex or multinational organizations, shared-services centers can be useful both for reducing process costs and for ensuring uniformity in performance data.
- Overall, the finance executives we interviewed see cost control as another opportunity to improve performance, streamline the company, and position the business for renewed growth. In a slowly improving economy, they view their companies' cost-management initiatives as laying the groundwork to support renewed growth in the business.

"Over the next two or three years, the finance organization will focus more on how to accelerate the growth of the company."—Wong Wai Ming, senior vice president and CFO, Lenovo

- With the worst of the recession behind them, the finance executives we interviewed told us that their focus had started to shift toward supporting business development and new growth opportunities. Finance executives cite a range of growth strategies for their respective companies coming out of the recession, including organic growth, selective acquisitions, or a combination of both. Many interviewees report that their companies used the time during the recession to examine both internal opportunities to improve performance and external opportunities to expand the business.

- Finance executives say that providing the right information at the right time is central to their ability to support their companies' growth initiatives. Having a credible fact base, as well as insights into what the numbers mean for the business, becomes even more important in times when market and economic outlooks remain uncertain.

- To help both executive leadership and operating units cope with the challenges posed by a volatile economy, the CFOs interviewed report overall that they spend the largest portion of their time working with others in the business on optimizing operational and financial performance. In this, interviewees emphasize the importance of meeting regularly with all the operating units to get to know the business better.

"The growth is there, but at what cost?"—B. Jayaraman, vice president-finance and controller, Ingersoll-Rand (India) Ltd.

- The finance function may devote more time than in the past to risk management, ensuring that the rewards forecast for growth initiatives are commensurate with the risks. Finance executives are increasingly cautious in their growth outlooks, and are working to ensure that management is considering the proper balance between risk and reward.

- The central issue for the CFO becomes how to ensure profitable growth without being subject to unproductive risk. A deep understanding of the business as well as the markets is essential to communicate the implications of growth initiatives to management. CFOs focus on getting to the meaning behind the numbers to support decision making.

"I think the most important characteristic of a CFO is the ability to influence the top and the middle management of the company."—Marcelo Martins, CFO, Cosan SA Indústria e Comércio

- CFOs need to be persuasive agents of change. They must have a vision for improving the company, and then build credibility with other leaders within the organization in order to "sell" the vision.

- The CFO often serves as a pivot point within the organization, bridging communication between the corner office and the operating units. At the end of the day, the CFO must be able to work closely with others in the company to translate abstract strategies into concrete steps for implementation—becoming "the best business partner" to both the CEO and the operating units.

"All of the above": The multiple roles of the CFO

In 2007, CFO Research Services published *The Superstar CFO*, documenting the views of senior finance executives on the attributes that characterize highly successful CFOs—those who can help lead their companies to great performance. The report was based on finance executives' responses to an online survey conducted by CFO Research.

Since we published *The Superstar CFO*, economies around the world have plunged into recession and started on what appears to be a slow and, in some cases, stuttering path to recovery. How different is the world of the CFO now? Has the basis for "great performance" changed dramatically or inalterably? And what is now expected of the finance function in the aftermath of the global financial crisis?

To examine these questions, we interviewed CFOs and finance directors at multinational companies based in four regions: Latin America, Europe, Asia-Pacific, and the United States. These finance executives discussed their experiences managing through the downturn and shared their views on the road ahead.

The CFO must now be the "best business partner" to the CEO, says one SVP and CFO based in Hong Kong.

A respondent to our 2007 survey wrote that "extraordinary CFOs know no boundaries." The executives we interviewed for this report confirm that the finance function's organizational scope underpins the CFO's influence. B. Jayaraman, the vice president-finance and controller of Ingersoll-Rand (India) Ltd., says, "The finance person has an overall view of the business and does not look at it just from a sales angle, a purchasing angle, or an operations perspective." The result is that "other than the CEO, the finance person will be the best judge to look at corrective measures to really improve profitability." In other words, the CFO must now be the "best business partner" to the CEO, according to Wong Wai Ming, senior vice president and CFO of Lenovo in Hong Kong.

Sarah Urban is finance director for the Americas for Brady Corporation, a specialty manufacturer with international operations. From her perspective, Ms. Urban says, "The CFO roles are transforming over time to be much more focused on general business leadership. That really brings strength to your whole organization."

"Strengthening the whole organization" has become the mandate for finance leaders of today. The scope of their responsibilities is reflected in the multiple titles borne by some of the finance executives we interviewed. Bob George wears several hats for the midsize defense and aerospace components manufacturer Esterline Corporation: vice president, CFO, treasurer, and secretary. At Medtronic Corporation, George Montague is vice president of finance and strategy. In Brazil, Marcelo Martins joined the sugar producer Cosan SA Indústria e Comércio as investor relations and M&A officer, as well as CFO. And at the food-service equipment distributor Edward Don & Company, Jim Jones formally combines operations and finance with his dual titles of COO and CFO; the IT function also reports to him.

> Especially in the aftermath of global recession, "having your finger on the pulse of the business is critical," according to one VP of finance and strategy.

Even without multiple titles, finance leaders' responsibilities span many different areas, reaching throughout the organization. Dave Martin, vice president and CFO for Dimensional Fund Advisors, describes his role as "all of the above. It's compliance. It's accounting. It's tax that gets increasingly complex. [It's] understanding the drivers of the business; trying to make sure that our headcount is growing at the right pace and not faster, in step with the firm; predicting where we are in terms of bonus and shareholder distributions; communicating with shareholders. It's all the way from the strategic to the very tactical and everything in between."

Especially in the aftermath of global recession, "having your finger on the pulse of the business is critical," says Mr. Montague of Medtronic. For some companies, the financial crisis heightened awareness of the importance of having a CFO who is attuned to the drivers of the business, with a perspective that spans the entire enterprise, across geographies as well as business units.

Realigning cost structures for growth

To guide the company through hard times, Ms. Urban at Brady Corporation says, "You need [a CFO] who is very in tune with markets, able to give early warning signals to the organization, and able to help the organization think through how to adjust quickly enough to market signals."

In the recent downturn, adjustment often came in the form of an intensive effort to document and reduce costs across the enterprise. "Every single one of our business units was affected by the downturn," says Mr. George of Esterline. "We had reductions in force. We had layoffs. We had cutbacks in hours. We had cost reductions across the corporation."

Mr. Jones at Edward Don tells a similar story: "During the toughest times, most of our profit enhancement was from cost containment—reducing and cutting. Your revenue line was fixed, so if you were going to make any more money, you had to do it on cost savings." With little or no revenue growth in sight, many companies were forced to "get rid of the fat… [and] cut it pretty close to the bone," as Mr. Jones puts it.

Following such cost reductions, Edward Don now must turn its attention back to growth, according to Mr. Jones. He says, "If you have to cut again, it would be what they call a muscle cut"—damaging infrastructure and capabilities at the core of the business. To grow profitability at this point, Edward Don will start to look to the top line once more.

However, like other CFOs that we interviewed, Mr. Jones looks beyond strict cost control as simply a survival tactic demanded by harsh economic conditions. Some of our sources point out that their cost initiatives are more than just efforts to keep the business afloat; they view cost control as another opportunity to improve performance, streamline the company, and position the business for renewed growth. (See sidebar, "Cosan SA Indústria e Comércio: A success story out of the recession," page 5.)

> Many finance executives view cost control as another opportunity to improve performance, streamline the company, and position the business for renewed growth.

Most of the executives we interviewed have recently examined both front-office and support processes and have consolidated activities where they could—including reducing the cost of service for the finance function itself. Ken Madrid, CFO of Crown Worldwide Group and CEO for the company's Asia-Pacific division, tells of the "restructuring and realignment effort" his company recently underwent: "We had to streamline our organizations, and, as a result, there was some consolidation of the operational footprint. That also affected the back office, [where] we centralized some functions…. We tried to move more transactional activities to larger organizations that have the bandwidth to absorb them, and leave operational or business decisions [decentralized]."

Delivering value through shared services

At several of the companies where we conducted interviews, back-office consolidation was accomplished by developing shared-services centers for transactional types of activities. (See sidebar, "Brady Corporation: Finance transformation through shared services," page 6.) Several interviewees say that their companies either started up shared-services centers or have been expanding the use of their existing centers. These companies are pursuing shared services not simply to reduce costs, but also to improve control over financial information and support growth in the business by standardizing processes.

Cosan SA Indústria e Comércio:
A success story out of the recession

Cosan SA Indústria e Comércio, founded in 1936 in Brazil, is the third-largest sugar producer in the world, and through recent acquisitions has also become the fifth-largest ethanol producer. Marcelo Martins joined Cosan in 2007 as CFO and investor relations and M&A officer, bringing a background in M&A from the banking industry, combined with CFO experience working for an industrial conglomerate, to a commodities business.

Mr. Martins comments that he was brought in specifically to develop M&A activities and to further integrate the businesses of the company. He believes his transactions expertise also stood the company in good stead at the beginning of the economic downturn.

"Quite interestingly, I think we are one of the companies that profited the most from the volatility [in 2008]," he says. "We made a very bold move, deciding to raise money in the equity market in 2007, when the crisis started to hit the international markets. We were the last company to do an IPO in Brazil in 2007, and we raised $1.2 billion at that time."

Not only was that money "enough for us to get through the crisis," as Mr. Martins puts it, but it also helped grow the business and diversify even in the midst of a souring economy. Some large companies such as Exxon Mobil became very concerned with the future of their businesses in the region, Mr. Martins says, and decided to sell their businesses in Brazil just at the time when Cosan had the funds available to take advantage of the move. "We transformed the company" in the middle of the economic crisis, according to Mr. Martins, by buying a business that had a much different profile from Cosan's. Subsequently, Cosan entered into discussions with Shell, resulting in the merger of Cosan's sugar ethanol business and sugar distribution with Shell's distribution business in Brazil. The result: Cosan became a global leader in biofuels, successfully growing its business while diversifying to reduce the concentration of risk in a volatile economic environment.

"It all resulted from our decision to capitalize when we thought the crisis would start to hit the market," Mr. Martins concludes, "and to make the necessary moves in a moment when the future was very uncertain." Today, according to Cosan's CFO, the company is 10 times bigger than it was in 2008.

> "It all resulted from our decision to capitalize when we thought the crisis would start to hit the market, and to make the necessary moves in a moment when the future was very uncertain," says one Brazil-based CFO of his company's growth.

For example, Cássio Audi, CFO of the rapidly growing Brazilian real estate development firm Rossi Residencial, says that his company has centralized back-office work as it has diversified and grown its business lines. Rossi Residencial's shared-services center now provides services for more than 100 cities in which the company operates, up from only 15 cities just five years ago. "So, on the one hand," he says, "we are minimizing operational risks by being more diverse geographically, while on the other hand, we are centralizing the financial aspects of the business to be more efficient and to provide services in a well-controlled manner with the lowest-possible risks."

Similarly, Esterline has begun exploring the shared-services model for its decentralized operating model, based on eight autonomous business platforms. Esterline bases its evaluation of performance across the entire company on the same two year-over-year growth metrics, and so it looks to its developing shared-services center to provide a common basis for discussing performance and strategies for all the business platforms.

Brady Corporation: Finance transformation through shared services

For several years, Brady Corporation's shared-services center housed only accounts payable and cash-application processes for the company's U.S. operations, says finance director for the Americas Sarah Urban.

Then, two years ago, Brady Corporation made a concerted effort to embark on a "transformation of our entire global finance organization," says Ms. Urban. The company started a project to expand the use of its shared-services center to a wider range of finance activities across more geographic areas. After evaluating several locations for cost and capabilities, the company eventually settled on India, with additional support from the Philippines. "We had built a shared-services center in Manila for telemarketing," explains Ms. Urban, "and had already started to use that facility for some accounts receivable because they have good voice capability." It simply made sense, she says, to capitalize on the existing facilities the company had in Manila.

The transition was planned as a two-to-three-year project, and is on schedule and entering its final year, Ms. Urban continues. She says that Brady Corporation is working through the inevitable complications as they arise—for example, she notes that it is harder to increase scale in both Europe and Asia, with their diversity of rules, regulations, and languages. In this regard, Ms. Urban says that while they led with the finance transformation, other areas of the business will now need to transform as well. Moving back-office processes to a shared-services center—and attempting to use the same processes for everyone—"just uncovers all the holes in your processes around the globe," she says, and forces companies to "optimize processes on the front end in order to make things right on the back end."

Ultimately, Brady Corporation's consolidation of transactional activities into shared-services centers has been good for both the business and the finance function. Ms. Urban's team members are getting more out of their own jobs as the scope of their responsibilities has expanded into more value-added areas. "[The move to shared-services centers] changed my job in good ways," she says. "It has really allowed my team to have more scale, not have to worry so much about transactions, and be able to give better support to their business leaders. We've been able to spend more time on the things that actually drive business decisions rather than managing accounts receivable and accounts payable." The move has also helped the finance function to become more efficient; they've been able to reduce headcount, while doing more with less. "[One finance manager] can now support multiple businesses effectively," Ms. Urban explains.

As a result, Ms. Urban notes, "we are able to spend much more time helping to drive business decisions." Even with the lower headcount, she explains, business lines "get more time from us rather than less, and they get better reporting and analysis."

The move to shared-services centers, says one finance director, allows finance to "spend more time on the things that actually drive business decisions."

“We are minimizing operational risks by being more diverse geographically, while [at the same time] we are centralizing the financial aspects of the business to be more efficient and to provide services in a well-controlled manner with the lowest-possible risks,” says a Brazil-based CFO.

Laying the groundwork for growth

The cost-conscious mentality reinforced by the downturn frequently has lasting effects. Several of the CFOs interviewed say that, by streamlining routine finance processes, they can devote more of their own time and that of their staff to value-added activities. Mr. Audi at Rossi Residencial puts it this way: “Here, in the home-building industry, you have to prepare the ground before starting to construct. That’s what we did in the financial department” by developing the shared-services model for its geographically diverse businesses. Similarly, Mr. Jayaraman from Ingersoll-Rand (India) says that, by controlling transactional processes well and reducing the potential for fraud, he can spend more of his time providing analytical support to the business and less on strict compliance matters.

At a minimum, as Mr. Martin at Dimensional Fund Advisors notes, getting its process infrastructure in place has allowed the company to “continue to grow and not be worried about systems and the back office.” Dimensional Fund Advisors undertook what Mr. Martin describes as a “major initiative” over a five-year period to outsource additional processes and upgrade to common systems across the business.

“Here, in the home-building industry, you have to prepare the ground before starting to construct. That’s what we did in the financial department,” says the CFO of a Brazilian company.

The path ahead: Building on a foundation for growth

With the worst of the recession behind them, the finance executives we interviewed told us that their focus had started to shift toward supporting business-development and new growth opportunities. In this regard, they view the cost-reduction and process-standardization work accomplished during the recession as providing the foundation for their companies’ growth. With good processes in place to manage back-office activities for financial transactions and compliance reporting, they feel they can devote more of their own time and attention to working with the companies’ business units, as well as with their CEOs, on improving both operational and financial performance to support growth.

“Over the next two or three years, the finance organization will focus more on how to accelerate the growth of the company” than on cost cutting, says Mr. Wong at Lenovo. “So, I would say that my day-to-day duties will focus more on optimizing operations and financial performance—really looking at how we improve our gross margin, or how we will be able to keep our margin but then increase our volume.”

Finance executives cite a range of growth strategies for their respective companies coming out of the recession, from targeting growth from existing accounts to rolling out existing businesses in new or emerging markets. Depending on the company, they may focus on organic growth, selective acquisitions, or a combination of both. Regardless of the specific strategy, these CFOs say that their effectiveness and that of the finance function is best measured in terms of “how we actually mesh with the overall growth strategy,” as Mr. Wong says.

Even through the toughest times, finance managers kept a forward-looking view. At Brady Corporation, Ms. Urban says, “Our approach to markets didn’t really change [because of the recession]. I would say initially our CFO and CEO did see the recession coming a bit in advance, and we made plans to significantly reduce cost structures immediately ahead of the expected drop in revenues.” At the same time, she continues, “we spent some of that time during the recession period building up the knowledge within the company for where we would go next and obtaining a deep understanding of those markets.”

She notes that Brady Corporation “made sure that we still funded our growth engines, which are new product development, acquisitions, and other new-market business development.” As a result, she concludes, “Now we know which markets we would like to increase investment in,” as market conditions improve and, in particular, acquisition targets are attractive once again. (See sidebar, “Putting cash at the service of growth,” page 8.)

Putting cash at the service of growth

Maintaining liquidity was a primary concern for most companies during the recession, with many building up cash reserves both as a buffer against volatile revenue streams and because short-term credit sources had become increasingly difficult to access. With companies once again starting to prepare for growth opportunities, funding strategies remain at the top of the agenda for CFOs, with many thinking about the best ways to put their cash to use.

In recent interviews conducted by CFO Research Services for different reports, finance executives cite a wide range of strategies they employed to manage liquidity during the recession and now, as they come out of it. Here is a sampling of what they told us:

- "We're spending more than we did last year, which is more than we did the year before. But over the last 36 months, we've been restructuring and refocusing ourselves. I think going forward, we will be looking to invest in new manufacturing plants, both in terms of existing facilities—extending their production lines—and building new facilities. We expect to reinvest to support further growth in the business." (Group finance director in a UK manufacturing conglomerate)
- "Definitely, we are not going to pay back debt during 2011." [that is, so that they can use their cash to invest in growth, either organic or acquisitions] (CFO in the Mexican housing-development industry)
- "A couple of years ago, during the crisis, we consolidated our debt and paid that down, so we're very conservative from that point of view." (Asia-based CFO of a global transportation and logistics firm)
- "Two years ago, you would have conserved the vast majority of your free cash flow. I think now we feel comfortable that our debt levels are such that we would look to spend the majority of our free cash flow." (CFO in the food and beverage industry in Mexico)
- "Currently, one main focus of our cash-management strategy is on optimizing liquidity flows for working capital purposes as we experience noticeable volatility in working capital from price swings in the raw-material markets; we increasingly cover working capital requirements from internal sources by extending and fine-tuning groupwide liquidity pooling and through centralized reallocation of the company's cash resources. Doing this, we have been able to significantly decrease our dependence on external funds. We expect free cash flow generated in the upcoming months to be primarily used to further improve our capital-structure ratios, that is, reduce external indebtedness." (Chairman of a German environmental services firm)
- "Over the last few quarters, the focus has been to build your cash balance because you don't know what sort of environment you're preparing for.… Our preference is liquidity and safety [that is, over short-term returns].… We are sitting on cash and every incremental dollar we can sweat out of the system. For example, we used to be a little more relaxed about customers paying us. Now we have a daily tracking system." [that is, to accelerate payments] (CFO of an Indian technology services firm)
- "Sitting on cash is not the smartest thing to do, with interest rates so low today.… We'd rather have our cash going to new acquisitions or new assets." [building/investing for growth] (CFO based in Singapore in the international agribusiness industry)
- "We've increased volume, which increases our needs for working capital and investment plans." (Finance and accounting director for an automobile manufacturer in Argentina)
- "At the end of 2008…we doubled the amount of liquidity that we were holding simply as a precautionary measure, to make sure that there's zero doubt that we will be liquid and able to pay all of our obligations on time.… Other than that, we have all along had a very conservative cash and liquidity management system; we haven't changed anything in that." (CFO of a German IT leasing and financing firm)
- "Right now, I'm in the process of renegotiating [our credit facility] and extending it to make sure that we have full flexibility in the years to come.… Of course, a company should do something with its cash, and we are using ours for inorganic and organic growth, which is the most important thing to do. But the rest we can distribute to the shareholders, because it does not make sense to keep it on my balance sheet." (CFO of a German telecommunications provider)

Committing the time with operations to drive performance

Central to finance executives' ability to support their companies' growth is providing the right information at the right time. Mr. George from Esterline says, "The financial leaders are key players in this whole process, in terms of having the metrics available, the information, the various sensitivities analyses, the models, and the way these moves can benefit the entire organization."

In particular, finance can help both executive leadership and operating units cope with the challenges posed by a volatile economy. For example, Mr. Montague at Medtronic says, "In this business cycle, the uncertainty has created what many would consider to be unprecedented risk as you think about managing a business…. The uncertainty regarding your sales has increased the need for finance to play a role in helping people understand what it is that's driving our sales."

"The key challenge" in this, says S. Mahalingam, CFO at Tata Consultancy Service Ltd. in India, "is getting the information on time or quick enough." The companies that have spent the time to shore up their financial reporting and accounting infrastructure and processes are better positioned to deliver the right information at the right time.

Ms. Urban provides a number of core financial questions that she uses with operations management to focus on the drivers of growth at Brady Corporation: "Are our margins improving over time? Are our selling costs as a percent of sales improving over time? Are we getting more effective and efficient with our resources? Are our processes improving over time? You should see all of these improvements in your income statement trends, and in working capital trends as well. My team helps drive working capital improvements in inventory, accounts receivable, and accounts payable. We also help challenge and validate sales strategies, but our primary role is driving the effectiveness and efficiency of our businesses."

Overall, the CFOs interviewed report that they spend the largest portion of their time working with others in the business on optimizing operational and financial performance. Interviewees estimate that they spend as much as 60% of their time in this key area. Mr. Martins at Cosan says, "Certainly, I think that overall we will be able to spend more time optimizing our operational and financial performance, which has to do more with our ability to run our business properly, to run our mills properly, and to develop new markets so that we will be less dependent on some specific markets to which we are exposed today. So I think over time, once we're a little bit less subject to the volatility of the commodities, and once we're less concerned with the efficiency of our cost of funding, we tend to spend more time with optimizing our operational and financial performance."

Ms. Urban also says, "A lot of my time is spent helping to drive business improvements over time and pushing to improve core processes in our different businesses." She goes on to describe the structures that Brady Corporation has put in place to facilitate these interactions: "My [finance] teams have people that support all of the operations for each business from sales and marketing to the plant. They help drive business improvements in all of these areas. They are also responsible for reporting and analysis, and they make business decisions on a daily basis."

As for her own role, she says, "I make regular site visits to meet with people at the local facilities and gain a deeper understanding of their current business issues and successes. This gives me more context to determine where we need to push harder for business improvements in the areas of sales, cost, or process, and which successes we can replicate in other businesses."

Ms. Urban also holds a monthly series of meetings with the Brady Corporation Americas leadership team. There, she says, "we review past performance and talk about expected future performance. If there are any gaps between our expected future performance and our targeted results, we discuss how we are going to close those gaps. We also talk about longer-range plans. How are we going to achieve our strategy in the one-year, then two- and three-year time frame?"

Several other interviewees note that they spend a good portion of their time visiting the various operating units and meeting with business managers throughout the organization. (See sidebar, "The mobile CFO," page 10.) They say it is important to maintain "extremely good contact with all the forces that shape the financial destiny of the company," according to Mr. Mahalingam, and to "understand the drivers of the business so that you can move on the levers quickly," according to Mr. Martin. "You're going to spend time on really understanding what is behind the numbers," says Mr. Fernández at Scottish Power, "and then making decisions. And that means speaking with people."

At Esterline, Mr. George states plainly, "Our financial people are not scorekeepers. They are expected to know their business. They're expected to know their operations, so they're on the shop floor or they're visiting their satellite plants. They're getting to know the dynamics of their business." At the end of the day, Mr. George notes, "I cannot be providing good counsel or good advice to our CEO, our board, or our executive team if I do not understand the business." (See sidebar, "Esterline Corporation: Collaborating across the organization," page 10.)

The mobile CFO

In our 2007 study, a respondent complained that "the details of day-to-day activity in the finance function often overshadow higher-value activities and keep CFOs from providing leadership, discipline, and guidance on mission-critical activities." The CFOs interviewed for this report comment that they are using mobility technology to help them boost their contribution to value-adding activities and achieve a better balance in their work lives.

CFOs are very comfortable using mobile technology to help them keep closer to operating units or geographically dispersed locations—largely as a means for enabling them to stay in touch with their own offices and information systems while visiting different operating units. They view mobile technology primarily as an information-delivery tool, rather than an information-processing tool: "We don't use the iPads or the mobile technology to operate the financial system, but to access the reporting documents," says Michel Allé of SNCB.

Mr. Wong at Lenovo in China notes, "Traveling is merely part of our job. We have to go to visit offices, talk to our colleagues to understand the problem, and talk to the customers, and the mobile technology enables us to have the information available so that we are able to make a sensible decision much easier."

As part of the evolution of the finance function, CFOs also are looking into greater use of self-service capabilities: "As we reduced the number of finance staff that we have (and it's not just finance, it's other functions, too), we can't have finance people providing all of the information to everybody in the organization. We need to migrate to a self-service model," says Brady Corporation's Sarah Urban.

For Mr. Mahalingam at Tata Consultancy Service Ltd., however, the point of improving access to information is not just to make his job easier, but to make his contribution to the business better.

Esterline Corporation: Collaborating across the organization

At Esterline, don't bother looking for any functional silos. "We are a very collegial, team-oriented organization, so if you're an individual contributor or a silo type, you're probably not going to be very successful within the Esterline organization," says Bob George, who holds several finance titles at the midsize defense and aerospace component and system manufacturer. The company expects contributions to come from all of the functional areas, and it expects senior leaders to be working together as a team as a matter of course.

This means that finance works hand-in-glove with the technical and manufacturing functions on both business development and performance management. On the revenue side, long-lived assets are the core of the business, and complex financial modeling is needed to project a contract's cash flows and rates of return.

"In our business, we look at time frames that extend out 30, 40, and even 50 years in terms of aircraft and airframe life spans," says Mr. George. "When Boeing or Airbus sells a new plane to a flagship carrier, that carrier will fly that plane for an extended period of time, and then that plane may move to another part of the world where it will continue to be flown for years. Then, at some point, it may be converted into a freighter, where again its life will be extended even further."

What this means for Esterline, Mr. George explains, is that "those airframes go through a whole series of retrofits when new technology becomes available. For example, we do a lot of work in the cockpit." Consequently, when a new project or a new program is being developed, the decision on whether or not to bid is something that is not taken lightly, he says, given the time frames involved. "The financial person has to work with the head of engineering to look at potential options for development or to run models for internal rates of return and cash flow on projects," according to Mr. George. "The models are very, very sophisticated, so the financial involvement there is pretty intense."

The same thing is true with the business-unit cost structures, where finance works closely with operations on continuous improvement. "We're an organization that focuses very heavily on lean manufacturing," says Mr. George, "so the finance organization is expected to contribute the metrics and to measure our improvement. How do we know we're making progress? Where is that progress coming from? Significant involvement in all of those areas is expected from the finance organization."

The challenge of balancing risk and opportunity

Mr. Jayaraman at Ingersoll-Rand (India) says, "The growth is there," but he goes on to ask, "At what cost?" This is one of the key questions for finance executives during the recovery period. The finance function going forward may devote more time than is typical to risk management. Another hard lesson from the recession is how deeply felt the impacts can be when risk is not considered adequately. As one interviewee notes, "To some extent, it's keeping the company out of trouble."

But Mr. Wong at Lenovo brings up a broader perspective on the use, and indeed the necessity, of detailed, in-depth risk analysis. He comments on the need to be even more rigorous than during the downturn: "The risk management obviously is important, especially when the external environment is very volatile…. We spent a lot of time making sure that growth is not subject to an unnecessary level of risk." Looking ahead, he says, "we can see risk management as an issue, but more importantly under the umbrella of growth."

For Mr. Fernández, this translates into striking the proper balance between risk and reward for Scottish Power. His goal, he says, is "not necessarily to be very safe, not necessarily to be very risky, but to be at the right point where the company needs to be." Or, as Mr. Jones from Edward Don points out, "As we go back into this more stable economy, we've got to get back to bullet-proofing the business from disaster recovery and business continuity."

For Mr. Wong, the central issue for the office of the CFO becomes "how we ensure much faster growth without being subject to a huge amount of risk." Here, getting the right information is critical. "There may be some very good growth areas in emerging markets," he says by way of an example, "but, of course, emerging markets are probably at a relatively high level of risk compared to mature markets. How do I ensure that the company is not subject to unnecessary risk in order to get high growth? We obviously need to have a very good quality set of information—not just a simple P&L, and really be able to read the meaning behind the numbers."

Finance is in the best position to provide that assurance through rigorous reporting from a credible fact base and insightful analysis into what the numbers really mean for the business. "I think it's just always giving the business a good snapshot of where you are and understanding the levers," says Mr. Martin at Dimensional Fund Advisors. "Here's where we are today, and here's where we're trending over the next year or two years. Here's what's driving the expense increases, and here's what's driving the revenue increases." Laying out the facts "helps people focus," he notes. "What are the material things we really need to be focused on? You've just got to make sure that you don't get too distracted by those things around the edge, those minor new-business segments that, at the end of the day, will never be more than 2% of your revenue."

However, Mr. Allé at SNCB in Europe notes that it can be difficult to measure the impact of successful risk management, because success is defined in terms of what doesn't happen: "The biggest impact of the CFO is eliminating, mitigating, and managing the risks. And, unfortunately, when a CFO is successful you don't see the impact of these actions very much, because the risk doesn't materialize. So it's quite difficult to measure."

Having a deep understanding of the true drivers of the business is critical for effective risk analysis, to understand better how the avoidance of risk can affect the course of the business as much as the acceptance of risk. As an example, Mr. Allé cites his experience during the recession. In 2007, SNCB was anticipating losses in its treasury department from the growing difficulties of major financers. "We worked hard to anticipate the potential risks" from SNCB's counterparties, he says, "so that we could reduce to the minimum the losses for the company." As a result, SNCB was able to avoid even more severe consequences.

"The biggest impact of the CFO is eliminating, mitigating, and managing the risks. And, unfortunately, when a CFO is successful you don't see the impact of these actions very much, because the risk doesn't materialize. So it's quite difficult to measure," says a Belgium-based CFO.

Living in two worlds: Bridging strategy and execution

Mr. Fernández at Scottish Power discusses finance's role in helping to actualize the company's strategy for operations: "To me, the role of CFO is first of all to help define the right strategy together with the CEO, and seeing that investments and operations follow that strategy. In summary, to keep the company where it should be."

But just having the answer does the company little good; the answer needs to be heard and internalized throughout the organization. Mr. Martins at Cosan in Brazil says, "I think the most important characteristic of a CFO is the ability to influence the top and the middle management of the company. It derives from his abilities to draw respect from his peers. It's not only his technical expertise, but also the ability to understand the problems of the company—both the need of the company to rationalize and become more efficient, and from the long-term, strategic view of the business of the company." For this reason, Mr. Allé at SNCB says the CFO should "have the capacity to interact with colleagues [who have] different views, different skills, and different ambitions."

Ms. Urban agrees that CFOs need to be persuasive agents of change for managers who have different skill sets. "Finance leaders, more than anybody else, need to understand the data," she says. "They also need to have a vision for how to improve the company that is supported by that data. They need to have credibility with all of the other leaders and functions within the organization to bring everybody along with them." To do that, she continues, "we end up socializing new concepts and helping people to see the issue, whether that's through relationships, data, a specific way to look at a problem, or examples. We need to work together with all other functions in the organization to move along the path toward continuous improvement."

To Mr. Jones at Edward Don, the effective CFO operates in two worlds. "I think you've got to be a partner with the CEO and the board," he says. "Second of all," he continues, "I think you have to be comfortable on the loading dock. You've got to be able to walk out there and have the people respect you, talk to you, and tell you what's going on. You have to run the gamut from the lowest grade of job all the way up to the boardroom, and you had better be able to communicate among all of them."

At the end of the day, Mr. Jones says, the question for the CFO is, "How are you going to execute and get people to follow you?" His answer is straightforward: "You have to have some respect. You can be strategic and abstract, but get it down to the 15 steps you want done. Hold people accountable, and then execute on it."

Conclusion

The interviews we conducted for this report reveal that finance executives believe the ideal CFO is creative, adaptable, influential, and persuasive. They view their mandate as extending throughout their organizations, from the shop floor to the corner office.

For the CFO today, change is simply a constant. As Mr. Fernández at Scottish Power comments, "I think what we're seeing is change, change, change all the time." Whether that change is the collapse of financial markets, debt crises in Europe, civil unrest in the Middle East, or a devastating natural disaster in Japan, CFOs work closely with business-unit and executive leadership to map the financial and strategic consequences of change.

During the recession, this meant restructuring organizations and streamlining processes to lower costs as revenues stagnated. Now, as markets start to recover—although slowly and uncertainly—CFOs are building on the gains their companies have made during the recession to plan for renewed growth.

A CFO in Europe says a CFO needs to "interact with colleagues [who have] different views, different skills, and different ambitions." As another CFO notes, "You've got to be able to walk out there and have the people respect you, talk to you, and tell you what's going on."

In these efforts, CFOs know they must work hand-in-hand with all the business units to develop a deep understanding of the real drivers of the business. They provide the numbers and analysis that allow business units to optimize performance in line with corporate growth strategies. They also see themselves as the stewards of profitable growth, protecting the bottom line and ensuring that the rewards for new directions the company takes are commensurate with the risks.

In all this, today's CFOs continue to develop their financial expertise, their understanding of their companies' markets and businesses, and their relationships throughout the enterprise in order to remain—as one of our interviewees puts it—"the best business partner" to both the CEO and their operations colleagues.

Sponsor's perspective

These are interesting times for CFOs and their teams. Although some companies may still have work to do, many have automated their core end-to-end processes in transactional areas such as payments, receivables, and the financial close, and many have also successfully complied with a barrage of compliance and regulatory requirements. These companies have gotten themselves in good shape to deal with whatever may be around the next corner. During the recession, finance executives diligently controlled expenditures, paid off debt, and conserved cash. The execution was brilliant, and the outcome was impressive.

Now, the board and the investors whose interests they represent have moved on to a new agenda, and so must finance executives. The days of earning plaudits just for being a safe pair of hands are probably over.

Boards are likely to want to use the piles of cash built up during the recession to fuel growth, and that will not be easy. In North America and Europe, consumer confidence is low and governments are cutting back on public spending, so the arena for growth will undoubtedly be in Asia-Pacific and the BRIC countries. This will present many organizations with new challenges and additional risks that will require considered planning and excellence in execution.

The last few years exposed a number of fundamental weaknesses in financial and performance management systems. These include inflexible budgeting tools that did not allow the enterprise to re-forecast as frequently as it needed to cope with the volatility and uncertainty of the times, as well as product and customer profitability reporting that failed to help the business understand the real "cost to serve" and make informed decisions that drove the bottom line. At the same time, a series of spectacular corporate meltdowns convinced many business leaders that risk in all its forms needs to be brought out into the open, and they have begun to demand that system-wide processes such as planning and budgeting incorporate "risk-adjusted" performance management that will enable the organization to manage without surprises and better deliver on the promises made to stakeholders.

With the return to growth and a renewed willingness to invest, many finance executives are now addressing these shortcomings and preparing their businesses, their teams, and themselves for the challenges ahead by investing in SAP solutions for enterprise performance, risk, and compliance management. People in business today expect information to be available whenever and wherever they need it without significant delay, and, increasingly, the solutions provide business users with self-service reporting over the web or through mobile devices so they can make decisions wherever they happen to be. Very soon, performance management will be enabled in real time by making use of in-memory calculation engines that can process massive amounts of data in milliseconds, giving managers instant answers to complex queries.

The CFO has always had to be adept at keeping the plates spinning: ensuring compliance, managing risk, and improving productivity in transactional processing. None of these will go away, and all will demand finance executives' continued attention. But in the next decade, the most respected finance executives are likely to be those who have helped their organizations grow and delivered sustained value for investors.

For more information, visit http://www.sap.com/lines-of-business/finance.epx

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