
The Role of the CFO: Has the Pendulum Swung Too Far?

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Prior to the 90s, the main focus for the CFO was fiduciary responsibilities.

In the 90s, the focus shifted more towards strategy.

Then came Enron, WorldCom, and Sarbanes Oxley. Has the pendulum swung too far?

Executive Summary

In the 1980s, I understood accounting the way many of today's CFOs understood accounting back then: "debits by the windows, credits by the door." For those unfamiliar with double entry accounting, this saying might have little meaning. To those with some accounting experiences you may remember this is the rule indicating that debits go to the left side and credits go to the right side of the "T" account. The rule was based on being seated in a room with windows on the left side of the room and a door on the right side of the room. Bean counters especially operated according to this rule.

In my early days at IBM, I was involved in financial planning for the manufacturing and development (M&D) side of the business. Prior to 1989, the company's profit and loss functions resided in M&D. At the same time I was slated to become a site controller for a \$1B M&D site, IBM shifted the P&L responsibility to marketing and services (M&S), creating a new position in M&S, which completely changed my career plan. This change enabled me to contribute to the management of the company's strategy in ways that fit my financial skills and interests. The lesson I learned through that process was that *what you do* is far more important than what title you hold. Up to that point my career focus was on becoming a site controller, but the role of the site controller changed. Many of my contemporaries became mesmerized with the site controller title, only to learn afterwards that the job was no longer what they aspired to.

What is the proper role of the CFO; *bean counter* or *witch doctor*? CFOs who see their primary role being accounting, auditing, fiscal management, and/or budgeting responsibilities, take pride in the label *bean counter*. Financial executives more interested in the strategic growth of the organization bristled at the label.

To understand the role of today's CFO, we must first look at where we have been over the years. In the 60s, 70s, and early 80s, finance executives tended to strike fear in the hearts of company employees – their primary job was to say no to company expenditures. Then in the late 80s and early 90s, a combination of things changed the business landscape. Competition became more global, first with the Japanese eating our lunch in the manufacturing and process sectors. This caused organizations to focus on collaboration, quality, and process – and making large investments in initiatives like Six Sigma, ISO9000, MDQ, etc. In the late 90s, the Y2K scare drove companies to make greater investments in software and computer systems. The role of the CFO almost changed to one of CIO. The shift from an operating view to strategic view still concerned processes, but strategic thinking began to revolve around those new technological systems.

Following the dot com bust, the idea of "eyeballs" and "clicks" as a barometer of company valuation became laughable to many. Many of those in a senior financial manager role grew up believing there has to be a revenue stream, but they didn't want to be left behind so started agreeing with the "new economy." In retrospect the concept has merit in one particular arena.

Take a moment to reflect on how villages, towns and cities form. It always starts with a group of settlers, brought together in community based on location. Location may be decided based on trading routes, access to natural resources or common interests. Once the community is in place commerce ensues. Said differently, where there is a common community, there is a place and an opportunity for entrepreneurial ventures to flourish. If we transpose this same concept to the electronic age, we start to see the value of "eyeballs" and "clicks". Social networking is built on the concept of community. LinkedIn, Facebook, and Twitter are each targeted to a specific group of like-minded people with common interests.

After 9/11, the focus shifted to cost and expense management. As the economy restarted, many CFOs took on the role of financial engineers and became the "#2 guys." As the Chief Problem Solvers, financial executives handle every aspect of an organization from making payroll and determining types of acquisitions and partnerships of value to the company to addressing technology issues and strategic initiatives. Most of the problems we deal with center around misalignment

of goals. The lack of understanding of strategic intent creates a disconnect resulting in conflict between the CEO and CFO. How does the strategic intent relate to the investment? It's a balancing act.

Roundtable Discussions Topics

1. What are your top 3 focus items for growth?
2. What is your role in that change?
3. Is there a conflict between your focus and your CEO's expectations?

CFOs now have a place at the table. They have become the supporters/confidants of their CEOs but still have to be the ones to challenge his or her ideas.

CFOs are responsible for liquidity and raising capital, and pricing contracts – they get involved with pricing up front. They are taking on more responsibility in the organization to get things done; moving from the back of the process to the front.

CFOs focus on margins rather than growth, product lines, and succession planning. The bean counters have to take on a strategic view. They need to be flexible and able to change.

CFOs are responsible for liquidity, human capital – everyone is doing more with less. They're focus has to be on strategy and the day to day operations. CFOs need to know everything – and most importantly, they need to make the relationship with the CEO work.

CFOs are talking about the human capital of an organization; that used to be an area exclusive to Human Resource executives.

CFOs are CROs (chief reality officers): they are tasked with implementing the CEOs' incredible ideas, but in a real way.

CFOs are involved with marketing – new products and new methods; finding better cost structures for R&D that work globally, and financial analysis. They have increased operational roles, almost to the point of becoming project managers, and more global responsibility.

CHANGING ROLE OF THE CFO

Driving Results Through...



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