

# Financial leadership in challenging times: Challenges and opportunities for today's CFOs

## At a glance

In today's challenging economy, strong financial leadership is more important than ever.

As the economy recovers, it will be imperative that financial leaders work to remain competitive and well-positioned.

With key finance leaders in place, the finance function can help drive business and accelerate growth.

In today's challenging economic environment, it can be hard to justify an investment in the finance function. But financial leadership may be exactly what your company needs. Leading CFOs know that a strong finance function is vital to helping them guide their companies through difficult times.

Today's chief financial officers (CFOs) face a complex and challenging business environment that requires tremendous business savvy. In this environment, innovation is an essential driver of excellence, and the finance department is no exception. But what form does innovation take in the office of the CFO?

Financial executives must play a leading role in accelerating strategic growth across the enterprise. CFOs are uniquely qualified to provide meaningful input to their organizations' current and future investments, participate in the broader corporate vision, and advocate and produce strategic transformation. CFOs who understand this new requirement to be a catalyst agent of change—and to lead transformation across the enterprise—can create enormous competitive advantage for their corporations.

### A new perspective on the role of the chief financial officer

Doing more with less is a cornerstone of corporate finance, and CFOs are accustomed to dealing with a constant stream of changes. Demands on the CFO's role have been mounting for years. New pressures on the finance function, conflicting demands from different stakeholders, and increased business and personal risk have eroded job satisfaction for many and made it difficult to stay with one company for long (see the sidebar, "CFO turnover higher than ever").

Then it's ironic to note that the value of strong financial leadership—and the necessity for CFOs to participate in the business at a broad and strategic level—has never been greater. Successful organizations require their CFOs to have the vision to look beyond the core functions of finance and the fortitude to use their financial acumen and insights to drive new value and higher levels of business transformation and performance.

## CFO turnover higher than ever

For better or worse, the office of the CFO has taken a lot of abuse in the last decade. Intense media scrutiny, legal liability and the tremendous strain of Sarbanes-Oxley compliance are a perfect storm of issues that has led to an astonishing level of job churn. In fact, CFO turnover is higher than it has ever been. Roughly half of the CFOs at Fortune 500 and Standard & Poor's 500 companies stay in their posts for less than three years, according to a study by executive recruiter Crist|Kolder Associates.<sup>1</sup>

Multiple factors are at play: at large companies, CFOs have very short leashes, and underperforming CFOs are quickly shown the door.

But at companies of all sizes, financial executives are simply bowing out because of burnout and low job satisfaction.

Don't expect the overall trend to change soon. Downturns in the economy can more than double the likelihood that a company significantly changes its industry ranking in terms of its market capitalization-to-sales ratio.<sup>2</sup> The good news: companies that make it into the top quartile during a downturn sustain their market premium for an average of three years.<sup>3</sup> Clearly, strong financial leadership during the difficult months and years ahead will pay dividends in competitive advantage and shareholder value.

leadership have a clear competitive advantage over those that don't. Economic turmoil intensifies the effect; those lacking excellent financial leadership will be quickly exposed, not only because they failed to prepare for such an event, but also because their lack of preparation will leave them with reactive, instinctive responses as their only defense.

## Breaking out of survival mode

Financial executives must play a leading role in accelerating strategic growth across the enterprise. But cross-functional leadership can only be borne from the experience of success inside the finance department. The CFO who has built—and is constantly improving—an effective finance function will help the entire organization thrive. But how do you recognize a tested record of accomplishment in the finance organization?

These are some telltale signs:

- The CFO has a specific, documented and compelling vision of the organization— a clear description and plan for modifying processes, technologies, skill profiles, cost profiles and services for the enterprise.
- Changes outlined in the CFO's vision of the finance function are clearly aligned with specific changes in the business and the short- and long-term strategic goals of the company.
- Finance achieves continuous improvement in accuracy, timeliness and cost-effectiveness of control and compliance activities.

Today's most successful CFOs embrace a broad interpretation of their role, involving themselves extensively in the management of the business and its future. They view change as a constant in finance. They view change as imperative and seize the opportunity to drive improvement. And these CFOs are in the habit of asking themselves, "What can I do to help make sure that we don't simply survive, but thrive, in the years ahead?"

Companies endowed with this formidable level of financial

<sup>1</sup> Johnson, H., "CFO turnover hits a record high," Financial Week, September 1, 2008.

<sup>2</sup> The Corporate Executive Board, Executive Guidance for 2009, November 2008.

<sup>3</sup> *Ibid.*

These characteristics of excellence do not develop by accident. They are built over time by a sustained, focused program of financial leadership that invests continually in people, processes and technologies.

- The department is focused on improving the use of information, building better business partnerships and promoting growth and innovation.
- The CFO continually invests in developing the technical and leadership skills of his/her staff.
- Finance staff members are highly regarded and often sought out both internally (e.g., committees) and externally (e.g., recruitment attempts).
- The finance organization serves as an example of managing change throughout the company.

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In contrast, a finance organization that doesn't innovate enough also has telltale characteristics:

- Always playing catch-up
- Not anticipating or planning for changes in the business
- Lacking a clear, compelling statement of how the finance function will evolve to meet future demands
- Focusing excessively on finance control, compliance activities and transaction processing

This latter type of finance organization is one that might survive challenges. But survival should not be the standard of achievement that today's leaders should apply, even in financially troubling times.

One hallmark of a finance organization that lacks innovation is a conservative approach to new technologies and changes in industry standards. These organizations wait until change is mandated before moving toward compliance. For example, these companies may be making plans to comply with eXtensible Business Reporting Language (XBRL) specifications only now that an official rollout timeline has been announced. Not surprisingly, these companies may have not yet begun to assess the effect of—or plan their response to—emerging standards such as International Financial Reporting Standards.

Let's look at two companies where finance executives didn't just react to mandated changes but seized the opportunity to improve their own operations while also driving top-line benefits.

One major technology company elected to participate in the Securities and Exchange Commission's (SEC's) voluntary XBRL filing program<sup>4</sup> well in advance of the mandated timeline. The CFO understood that his company's own commercial

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<sup>4</sup> For more information on the Securities and Exchange Commission's voluntary XBRL filing program, see <http://www.sec.gov/spotlight/xbrl/xbrl-vfp.shtml>.

products could be leveraged to create the filing solution. The company developed a filing solution that trimmed significant time and effort from its consolidation and reporting processes and created a new level of transparency for investors. In doing so, the company also provided a valuable showcase for its products. The fact that these additional advantages were delivered as an integral part of its compliance efforts exemplifies a high level of CFO innovation.

In another example of financial leadership, a major technology company re-engineered its global financial close and reporting process using its own communications and connectivity solutions. This allowed it to connect

## Strategy is no longer enough

PricewaterhouseCoopers has studied the way that leading finance organizations within global companies approach their responsibilities. These close observations have helped us analyze and document what we perceive as the sustainable characteristics of successful, proactive finance organizations that are positioned to help their companies thrive. In short, we find that the finance executives in leading organizations demonstrate proficiency in three essential roles as:

1. Compliance stewards
2. Pragmatic strategists
3. Business partners

Finance executives must demonstrate competency as compliance stewards, pragmatic strategists and business partners.

people around the world in real time and design processes to set targets and measure performance in hours instead of days. This created significant efficiency and, simultaneously, created a tested demonstration of the value of the company's solutions.

What these companies accomplished required significant forethought. These CFOs clearly understood that an investment in the finance function can be a jumping-off point for adding value elsewhere in the business. This proactive approach to identifying and implementing change is a hallmark of a company primed to thrive.

## Compliance stewards: Providing fiscal oversight

Stewardship involves the traditional functions of the finance department, including the day-to-day requirements of accounting and periodic obligations of regulatory compliance. Sarbanes-Oxley compliance, SEC filings, transaction processing, and internal and external financial reporting processes all fall under the province of the CFO as the compliance steward.

The steward role has always been core to the success of the CFO. Indeed, it took on renewed significance with the increased scrutiny on corporate governance and controls mandated by the

Sarbanes-Oxley Act. Savvy CFOs used Sarbanes-Oxley as a heavy hammer to justify and sustain focus on long-deferred and much-needed improvements in corporate processes and infrastructure, both within their own departments and across the enterprise.

### Pragmatic strategists: Enriching the bottom line

At its essence, strategic competency requires that the CFO focus on growing the business and returning shareholder value. The strategic CFO maintains an explicit valuation model of the business and aligns business opportunities with the necessary resources to complete them. He/she is the company's highest authority when it comes to calculating the value of return on investment for new business initiatives and establishing targets that balance revenue growth, operating profitability and cash flow. The CFO is the closest ally of the chief executive officer (CEO) and has a seat at the table whenever business strategy is discussed.

The CFO must be a leader in the creation and use of information across the enterprise, including business intelligence and performance management techniques, to provide robust planning and forecasting, predictive analytics, and results monitoring.

Taken together or individually, the functions of the compliance steward and the pragmatic strategist are necessary but not sufficient for financial leadership. CFOs who truly stand apart understand that they must also drive transformation by being a business partner with the CEO.

### Business partners: Driving continuous improvement

The CFO as a business partner is not simply wrestling with change and trying to reduce its impact on the function of the finance department. He/she anticipates changes in the business environment and uses every tool at his/her disposal to drive improvement and preparedness across the entire enterprise. This involves identifying the appropriate set of improvements—ones that are aligned with the business strategy—and putting in place measurement frameworks to gauge the success of those improvements and see that they return sufficient value. The CFO's goal in doing so is to help the organization grow profitably, attain a higher return on investment and meet objectives specific to the business as quickly as possible. As the CFO monitors these initiatives, he/she brings issues to the attention of senior leadership quickly when corrective action is needed to protect the investments. Finally, as he/she drives progress within the finance function, he/she plans to increase the positive effect of any departmental improvements throughout the enterprise.

The central theme of being a true business partner is transformation. The CFO views internal transformation and continuous improvement as critical goals, which are managed via a portfolio of projects. The portfolio itself is a critical tool. Through continual reprioritization and changes in the project portfolio, the CFO can make periodic adjustments that keep resource utilization aligned with business strategy. (Some companies understand and have mastered this competency; see the sidebar "Master business partner: an example.")

The CFO can effectively measure the business benefits and results expected from each initiative and provide updates to these projections whenever the portfolio is modified. Other critical characteristics of the business partner include:

- Using the finance function to drive strategic and tactical change across the enterprise
- Utilizing line-of-business and division controller and analyst positions as points of leverage to drive transformation
- Updating capabilities, tools and skills within finance on a continuing basis to increase efficiency

### Underestimating the value of transformation

Excellence in all three roles is necessary for a company to get what it needs out of the finance function during turbulent times, but unfortunately, excellence in the business partner role is hard to find. At most companies, the items within the business partner domain are not planned or evaluated as a

understand or believe in the value of transformation. Nor do they recognize the business partner competency for what it is: an invaluable lever with which to achieve higher levels of excellence in the other two competencies and drive greater shareholder value.

At PricewaterhouseCoopers, our experience has shown that when companies have significant problems in the steward and strategist roles, there is usually also a significant lack of experience in or attention to the business partner role. In our engagements, we help clients drive significant improvements beyond initial targets—and sustain their focus for future improvements—by helping them recognize and leverage the power of the business partner competency.

### Aggressive action required

When money is tight, it can be easy to convince yourself that it's the wrong time to invest in finance. But, in some cases, an investment in finance can be exactly what the company needs to fortify the entire organization. Leading CFOs know

## Excellence in the business partner role is hard to find.

separate competency; instead, they are presumed to exist only through the measurement of success in the steward and strategist roles. Thus, CFOs at these companies focus all their resources on stewardship and strategy and, in doing so, neglect to increase their contribution.

This relative lack of attention suggests that CFOs and other financial leaders do not

that a strong finance function is vital to helping them guide their companies through challenging times, and that sometimes they have to make the hard decision to continue investing in their own function—even when they are directing others to cut back.

For example, after several years of strong growth in its core business and a very successful initial public offering, a retail chain's finance



## Master business partner: An example

At one global technology company, the CFO was so determined to drive continuous improvement throughout the enterprise that he implemented an explicit program that institutionalized his transformation agenda. He devised a formal plan for implementing improvements in the finance organization, processes and systems. The plan included specific objectives, such as training and rotation for financial staff; improvements in key processes including planning, reporting and transaction processing; and targets for the timeliness and effectiveness of key systems initiatives to support the process and organizational objectives.

Documentation and communication are clear elements of this CFO's success. The annual improvement plan, which communicated a vision of finance's direction and value

created for the organization, was packaged into an internal marketing document and communicated throughout the organization. Almost all the initiatives required the finance organization to work closely with other functions to achieve project benefits, making this level of clarity and formality a wise choice.

Success was hastened through an incentive program that rewarded individuals with compensation bonuses when critical goals were met, including individual results and overall department results. The CFO demonstrated continuing sponsorship and commitment to his improvement agenda by formally reviewing all project results on a quarterly basis and actively participating in discussions and decisions around adjusting targets mid-year in response to changes in the business.

department was stretched to the breaking point. Executive management was disinclined to invest in the function. The added burden of increasing compliance requirements for public companies finally caused the department to fail to meet its most basic responsibilities.

Severe control and process issues precipitated a crisis leading to a change in financial leadership. The new CFO quickly devised an aggressive plan of action that would not only get the basic functions of finance back on track, but also align finance with the core business, allowing executives to know what to expect and making it easy to agilely shift focus and priorities as market conditions changed. The CFO took specific positive actions, including:

- Commandeering sufficient resources for finance and related infrastructure to get on the road to recovery
- Deploying skilled contractors and consultants to provide immediate relief in meeting control and compliance requirements
- Making some very tough decisions to upgrade talent in key leadership positions
- Stemming the attrition of talented staff through compensation improvements and direct action on root causes of job dissatisfaction
- Creating a clear and compelling vision of what the finance function would become over the next few years
- Implementing a governance process for planning and managing much-needed improvements in business processes and infrastructure across all functional disciplines



Times of crisis should not be permitted to divert attention away from the importance of transformation. In fact, being skilled in the business partner role is a vital competency for weathering hard times in good stead.

The CFO's aggressive plan resulted in a new air of confidence in the finance group across the organization, which reverberated positively in many areas. The company is back on track with compliance and filing requirements and turnover is down. All indications are that this company is positioned to thrive during the challenging economic times ahead.

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### Getting transformation off the ground

Over the next several quarters—and possibly longer—you and your organization will likely continue to face challenges, even as the economy recovers. To remain competitive and be well positioned to take advantage of improving business conditions, you may need to continue to:

- Monitor market opportunities and make investments that will allow you to take advantage of strengthening demand
- Wring out every last bit of working capital by focusing on your receivables, payables and inventory management
- Exit some businesses entirely, making wholesale changes to the enterprise
- Merge, sell or acquire business units
- Migrate some business processes offshore and/or to outsourcers to reduce costs
- Equip your organization with the agility to accept and implement a continual bombardment of new

regulatory, control and reporting requirements

- Accept and adapt quickly to new financing strategies and regulatory requirements that may emerge in your industry as a response to a more challenging credit environment

It's a daunting list. In short, you will be sweating every nickel, even those already earmarked for internal process improvements. Many CFOs will ask themselves how they will ever manage such difficult feats while simultaneously dealing with an uncertain business climate and the inevitable resource constraints that accompany a weak economy.

If you are among those CFOs who embrace the business partner role in their organizations during the challenging months ahead, you will find the answer to this question more readily than your less-prepared peers will. Your long-range planning—your roadmap for the future—will provide the built-in agility your function and enterprise need from you now, allowing you to achieve high-priority objectives in spite of impediments. But this competency is meaningless in isolation: it can only exist as an extension to the better-understood roles of compliance steward and pragmatic strategist.

To increase your effectiveness, consider the three roles to be an accumulation of concerns. CFOs are accustomed to the considerations and investments required for good stewardship and strategy, but reaching effective levels of leadership in the days ahead will require close monitoring and appropriate consideration of the business partner role, too.

Chief financial officers who reap true, meaningful personal and professional satisfaction from their role undoubtedly will be the ones who lead the business in adapting to whatever changes lie ahead.

PwC not only understands the tremendous burden of this mandate, but we also can provide experienced guidance on getting there. Our recommendations include:

### Assessing your readiness

When it comes to getting things done, a good manager knows his/her capabilities, priorities and the balance of the two. In the steward and strategist roles, this means being confident that your finance function is equipped to meet the deliverables of today and tomorrow and is positioned to build shareholder value continually. But in the business partner role, this calculus is more nuanced. How do you know that your plan is adequate to execute growth and innovation both within the finance department and outside it? (See the sidebar, “Assessing your readiness,” for our self-assessment questions.)

### Investing in people

A leading CFO uses key personnel within the organization as leaders of transformation, and he/she equips them with the training and tools needed to understand his/her agenda and rally support for it throughout the company. The CFO requires a highly skilled, engaged finance team at a time when the number of highly disengaged employees has more than doubled over the past two years.<sup>5</sup> Do what it takes to acquire, develop and retain exceptional staff.

### Providing tools to support smart work

Not only will your key personnel marshal support for your agenda, but they will also be called upon to help model a “work smarter” attitude in the finance organization.

This model often requires an environment supported by performance management and business intelligence tools. When the going gets very tough, longer hours alone will not solve the problem.

### Leading improvement

Learn the lessons of companies that don’t plan and manage continuous improvement and end up with partial or total failures of much-needed initiatives. People’s attitudes, fears and preparedness are critical variables that must be predicted and managed.

These are challenging times in which to be a CFO—at any company. But those CFOs who reap true, meaningful personal and professional satisfaction from this role undoubtedly will be the ones who lead the business in adapting to whatever changes lie ahead. No one else, save the CEO, has the full complement of critical insights that can drive the business in the right direction.

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<sup>5</sup> The Corporate Executive Board, Executive Guidance for 2009, November 2008.

## Assessing your readiness

Careful attention to the compliance steward, pragmatic strategist and business partner roles is mandatory for true success as a CFO in the months and years to come. Your responses to the following questions can illuminate areas where you should consider sharpening your focus:

Are you adequately prepared for the worst challenges that may come your way in the steward role? Ask yourself:

- Do you respond proactively to changing compliance requirements?
- Do you leverage new compliance requirements as a platform to drive improvements in underlying processes?
- Have your investments in control and compliance (e.g., Sarbanes-Oxley) improved your insight and ability to manage the business?
- Are you constantly evaluating your performance in the delivery model for your core financial services (i.e., transaction processing, accounting and reporting, planning, analysis) and implementing improvements to deliver them better, faster and cheaper?

Is your strategy for adding value to the corporation thorough enough to hold up under volatile market forces? Ask yourself:

- Do you maintain a valuation model of your business, and do you plan key business initiatives based on their effect on shareholder value?
- Are you improving each element of working capital?
- Are the value drivers of the business linked to performance measures, goals or incentives?
- Is finance engaged with the business units in driving product, service, sales and other planning investment and profitability modeling?
- For major initiatives within finance and across the enterprise, do you establish and monitor performance against specific financial objectives and regularly evaluate and report on progress on both costs incurred and benefits realized from them?

Have you planned the future of your organization so thoroughly—yet with such built-in agility—that the core business is continually enhanced and never hindered by finance processes and capabilities? Ask yourself:

- Do you have and communicate a clear and compelling vision of how finance will operate in three to five years, as compared to today?
- Have you defined a roadmap for investments beyond current improvement projects?
- Do you have a consistent approach for identifying and planning for future business models, goals and initiatives?
- Do you maintain a prioritized portfolio of projects, and do you revisit this prioritization frequently as business conditions change?
- Does your improvement portfolio have explicit initiatives encompassing your core processes, technologies and continuing investments in your people?
- Have you evaluated the risk of not completing some projects because of limited resources, and do you have a contingency plan to mitigate any adverse effects?

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