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IF YOU ARE A CHIEF FINANCIAL OFFICER, you are probably already aware that your role is undergoing a historic transformation. You and your predecessors have always been guardians of shareholder value and financial integrity. You have also been the source of financial acumen, allocating resources for growth, choosing the metrics that define how the company measures success, and protecting the enterprise against value destruction. But now, the CFO role is expanding to include being the company's premier champion of strategic discipline as well. You are charged with ensuring value creation, and your main tool for doing so is a simple one that has long been at your disposal, but never used this way before: the word *no*.

Illustration by Javier Jaén

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No, in this context, does not mean what it used to mean. You are no longer seen primarily as a wielder of the sharp pencil, someone who holds the line on expenses to protect a tight bottom line. Instead, you are the voice of focused investment, asking the right questions and providing the right insights so that everyone understands when to say no and how to say yes. You help the company turn down many activities so that the few most important can thrive. The deciding factor is strategic value. Economies of scale and market clout are no longer the formidable barriers to entry they once were. The allocation of resources must now favor a company's most distinctive capabilities—those differentiating things it does particularly well that enable it to outperform competitors over time.

For a retail financial-services firm like Wells Fargo Bank's Consumer Lending Group, a distinctive capability could combine consumer insights and omnichannel distribution to support innovative customer offers. A distinctive capability for an industrial company like Caterpillar Inc., the world's largest construction and heavy equipment manufacturer, might involve using the data its machines generate to help customers with unique insights that improve their margin performance. For a grocery chain like J Sainsbury PLC in the U.K., it might be developing close relationships with valued suppliers. For a telecommunications company such as Verizon Communications, it could entail the seamless integration of mobile phone, Internet, and cloud-based services. And for a diversified technology company like Royal Philips NV, a distinctive capability could be creating flexible platforms that connect companies and individuals for healthcare management and the improvement of daily life.

Capabilities like these are cross-functional: They bring finance together with marketing, IT, operations, R&D, sourcing, and so on. They should also fit together into a mutually reinforcing capabilities system, giving the company an identity and proficiency that consistently lead to success.

To be a strategically oriented CFO in companies that differentiate themselves this way, you will need to develop certain skills, talents, experience, and support. You head the most interconnected function; you are thus equipped to be a critical champion of the capabilities system, making sure it gets the investment and consideration it needs. This new role also accentuates your ongoing position as a voice of reason on M&A—favoring acquisitions that fit well with the company's capabilities system, and recommending divestitures of products and services that don't. Finally, as companies become more coherent and integrated, you are called upon to facilitate change and collaboration in addition to financial tracking and compliance.

Our observations and conclusions are based on in-depth interviews with CFOs at the five companies mentioned above (plus several more), and our experiences working with CFOs in a variety of industries. The old finance functional career track is no longer ideal job preparation. And although that makes the development of a first-class CFO more difficult than it used to be, having that person in place may well be a prerequisite for winning in today's hypercompetitive markets.

The CFO Past and Present

A chief financial officer can be found in almost every company around the world today. Yet only a few decades ago, the role barely existed. For example, less than 10 percent of the major companies in the U.S. had CFOs before 1978—compared to 80 percent or more each year after 2000. In earlier years, the finance function was typically headed by comptrollers or staff managers. Their job was to ensure the integrity and control of financial information, interface with capital markets, and measure and report business results.

The late 1970s and early 1980s brought inflationary pressures, greater regulatory complexity, and shifts in corporate governance. As leveraged buyouts and conglomerate-driven acquisitions became more common, and as companies embraced such management tools as the balanced scorecard, the role of finance leader went through a major transformation. The financial information manager became business partner, raising and allocating the capital used for growth, and advising business units on potential problems and risks. The CFO of this period became a full-time member of the top management team, and also communicated directly with (or, in some cases, served on) the board of directors.

Today, the role is being transformed again—to be a catalyst for change, helping companies focus on the capabilities that drive value. "It's more of a leadership role," says Philip Rewcastle, CFO of the Consumer Lending Group at Wells Fargo, "versus the support role it was 10 years ago." Today's CFO is uniquely positioned to take on this challenge. He or she is the only leader of the full company whose role combines a high-level strategic overview (supporting the CEO) with a direct line of sight into everyday execution. Business unit presidents and local finance leaders have a similar perspective, but each of them is limited to a single part of the enterprise. Moreover, unlike most other change agents, CFOs wield the power of the purse. The more strategically they use this leverage, the more the entire company prospers.

"Sometimes the CFO has to be the person who tells the CEO and other business leaders the things that they don't want to hear," says Verizon chief financial officer Francis (Fran) Shammo. "We're there to make sure that they see the full picture, and the direction we're going is right. Is there a reasonable business case? Are the expectations real? Or is there a fallacy in this?"

Shammo adds that although "the CFO says no a lot," the core function of the job is getting from that *no* to a qualified and constructive *yes*. "The CFO has to find a solution for the business unit that reflects an understanding of its competitive environment and customer demand—while helping [the business unit leaders] recognize how this affects the company's strategy, what the story to the Street will be, and how we're going to grow overall. You've got to have a wealth of knowledge of the business to really be a collaborative partner. And that's where you gain respect."

How can you become this kind of finance leader—and recruit those who will support and succeed you? Five key characteristics exemplify the new CFO: a holistic perspective encompassing the entire value chain, insight into business drivers (and the ability to communicate that insight to others), an eye for the right kind of talent, a facility for culture change, and the integrity and interpersonal skills needed to pull all these together. Along with clarity about these attributes, CFOs (and aspiring CFOs) need a developmental path for building them, which is discussed below. These attributes are soft—not the kind of quantitative skills that a typical CPA or MBA candidate studies. But they are necessary for a CFO who leads.

Value Chain Insight

Although the CFO is typically the company officer charged with optimizing performance, many CFOs do not (or cannot) spend enough time helping business leaders understand the factors that could affect them. Realizing the true performance potential of the company requires the CFO to develop an unbiased, holistic, end-to-end view of the company's full value chain—from customer needs to back-office operations to suppliers' contributions to competitors' positioning—and pinpoint the places that need attention. The CFO should then help business leaders convert these insights into specific action items and initiatives.

Because of its connection to financial measures, the finance team is well equipped to help business leaders see their divisions not just as financial performers but contributors to the company's broader strategic portfolio. "You have to look at the business cross-functionally," says John Rogers, CFO of Sainsbury's. "Only then do you unearth big opportunities to do something better for customers."

Finance can also reinforce the idea that coherent strategic choices and cross-functional collaboration will ultimately lead to a consistent rise in stock price and shareholder value. This represents a shift of orientation. For decades, managers and shareholders have conducted a philosophical battle: Does managing for shareholder value lead to long-term growth? Or vice versa? The CFO has traditionally put creating value for shareholders first. But now, when success depends on building distinctive capabilities, the CFO is increasingly the advocate of long-term investment. "You have two eyes and a smile," says Verizon's Shammo. "You perform for your employees; that's one eye. You perform for your customers; that's the other eye. In the end, if you satisfy those two constituents, then you will have a successful business that will return value to your shareholders, and your investors will smile."

To help those in the finance function gain the insight they need, leading CFOs make sure everyone—be they one of the CFO's direct reports or an incoming intern—spends time in the business units and with customers. "Ten years ago we would have been looking at everything from our P&L to our cash flow to our business model," says Brad Halverson, group president and CFO at Caterpillar. "Now if you asked most of our business CFOs, they would tell you they are spending a lot more time with our customers, understanding how their business model works and how we create value for them. That allows them to do a better job of deciding which things we need to work on to add the most value." During the first 26 years of his career, before Doug Oberhelman took over as CEO in 2010, Halverson estimates he visited just a few customers in total. Now, he makes it a part of his regimen to visit customers each month, and he makes customer engagement a requirement for his team.

John Rogers of Sainsbury's endorses a similar policy. "Moving people around and allowing them to get that different exposure to all parts of the business is quite powerful," he says, "in creating people with the right skill set and the right breadth of understanding of the business."

Leveraging Business Drivers

All CFOs define the metrics that track performance, which means defining the ways in which success is recognized. Since the numbers reveal trends, risks, and

Questions for a Strategic CFO

- What do *yes* and *no* mean in your company? Are you doing enough to favor investments in your value proposition and your most distinctive capabilities?
- How are you spending your time? Are you devoting enough of your attention to matters outside the conventional finance boundaries—working on strategic issues and engaging with external stakeholders?
- Do you have data-driven perspectives on all aspects of the value chain in your business? In which areas do you feel least comfortable?
- What are the key drivers of your businesses? How consistently are these measured and infused into performance management in all businesses and functions?
- How are you developing finance talent that can look across the business? How are you retaining your best talent?
- Does your company have a performance-driven culture? How are you and the finance function reinforcing or influencing this culture?

opportunities, these metrics also determine the company's awareness of the outside world. A strategically oriented CFO can thus ensure that the whole company focuses on a few key business drivers that convey a broad understanding of the value proposition and how the company fulfills it. They are among the company's principal levers for articulating and delivering its strategic agenda.

Some well-established financial metrics, including margins, EBITDA, and share price, are ill suited for strategic decision making. They are too internally focused, or they are lagging indicators that show progress against preset expectations rather than showing how to create value in the future. Leading CFOs develop industry-specific and company-specific metrics that better orient behavior toward customer value, link the business planning cycle to developing better capabilities, or encourage the prudent use of assets and other resources. A few of the many possible examples: OPACC (operating profit after capital charge), market share as a percentage of market potential, revenue-weighted asset/resource utilization, and market favorability rating. These metrics should not be treated as static; the finance function must continually revise and refine them as needed to match changes in consumer behavior, technology, regulation, and other external factors. In fact, continually evolving your metrics to ensure you are focusing on the right factors is itself a distinct managerial proficiency that finance must own and develop.

"I think the hardest thing in business is actually finding out the right things to work on," notes Halverson of Caterpillar, where OPACC is a key metric. "If your measures don't drive focus on customers and competitors, then you probably have the wrong measures. When you look externally, the clarity of what you have to do becomes a lot simpler."

To identify and track value drivers for each busi-

Successful CFOs take advantage of the deluge of data now available on business activity: market and company data, financial results, and data gathered online.

ness, successful CFOs draw on all the sources of information available: enterprise-wide operational data, capital market trends, and access to vast amounts of financial and nonfinancial data. They take advantage of the deluge of data now available on business activity: market and company data, financial results, and data gathered from online employee and customer activity. At some companies, the IT function reports up through the CFO. At others, the CFO works in partnership with the CIO to develop analytics capabilities, thus arming the businesses with the data and operations insight needed to enhance performance.

"One thing that has helped," says Wells Fargo's Rewcastle, "is the quality and sheer volume of information that's available now, versus what was available 10 or 15 years ago. Even when it's not purely financial information, it flows through finance, and finance is the linchpin for interpreting and synthesizing it. I look for our finance teams to be at the table helping our business partners understand their key drivers. It's especially important to cut through all the data—not to throw a hundred metrics at them, but to make sure we all stay focused on the things that are impactful, and that we can affect."

When a company is facing complexity and uncertainty, scenario planning based on key business drivers is a very useful technique for the finance function. For example, Wells Fargo's Consumer Lending Group, whose performance is sensitive to a key and highly unpredictable business driver—interest rates—develops business plans for a range of relevant scenarios. As interest rates fluctuate throughout the year, the group rapidly adjusts its operations to match the volumes driven by the realized rates. Wells Fargo's use of scenarios helped it weather the housing crisis and global economic downturn more effectively than its competitors.

Caterpillar's finance function has introduced a similar scenario process for assessing individual businesses' performance against the "profit curves" in their respective markets. Every business develops plans across a range of volumes—a base case, an optimistic case, and a downside case. "Those plans are linked together, and each business understands what they're expected to deliver if sales are up or down, for this year and a three-year time horizon," says Halverson. "It drives transparency and helps managers make sound decisions—for example, about whether to put an expensive capital asset in play."

Attention to Talent

Every one of the leading CFOs we interviewed stressed the importance of developing finance team talent. They invest a great deal of their time in recruiting, meeting personally with team members at a variety of levels within the function, and making sure people recognize that the company is committed to their success. That's because the caliber of the finance staff is crucial to the success of the company.

"The way to a great company is through great people," says Caterpillar's Halverson. "But attracting the right people is only the beginning. You have to genuinely want people to be successful. That means taking ownership of the development process and spending significant time with people, to make sure they finish each year better than they started it. And, when they're ready for their next challenge and that next job within the company, you help them find it—even if that job's not with you. Through all of this, take the time to recognize their achievements. We can all spend more time doing that."

The most successful CFOs we know tend to start their tenure with an unsparing gap analysis of their own team. They often get directly involved in recruiting new talent; in providing formal training, mentoring, and personal coaching for promising staff members; and in rethinking the competencies required for promotion. These days, along with the expected level of financial acumen, those competencies might include strategic thinking, strong leadership and communication skills, or operational insights. At Wells Fargo's Consumer Lending Group, says Rewcastle, finance leaders emphasize "the ability to tell a story with a strategic viewpoint. It's not just explaining the variances—what happened last month or last quarter. That's a minimum expectation. We also look for the ability to interpret trends, and to provide actionable insights to business leaders about what those trends mean, and how they might affect the business three months or two years from now. We need leaders who can think two, three, four steps ahead, but also juggle multiple priorities and understand the interconnectedness of all the different pieces."

Fran Shammo of Verizon has implemented a sweeping transformation of the finance function, in part to change the way talent is developed. The career path at that company, for example, now involves rotation through a variety of geographically disparate and operationally diverse assignments. "If you never get to the wireless division or a regional office," says Shammo, "you don't gain the perspective of the customer. If you focus only on the numbers, you're not looking at the competitive environment or customer need, and you could lead the business down the wrong path." (See "Verizon's Finance Talent Transformation," page 10.)

A similar practice is in place at Sainsbury's. "The role of the traditional finance professional is long gone," observes Rogers. "I don't think you can be a successful CFO today without having done one of the other operating board roles." He adds that "it's very important to transfer finance people out of the [function] and into the business. For example, I spent more than two years as property director, responsible for our land and buildings. Our director of logistics used to be my director of group finance. Our directors of trading and supply chain also used to be in the finance function. We parachuted them in and gave them the right air cover and support, and it's really developed their skills and credibility and made them much better finance people."

Cultural Engagement

In the culture of any organization, the chief financial officer is already influential. People are keenly aware of everything he or she says and does—and more importantly, they are cognizant of where he or she pays attention. Many CFOs respond to this visibility by maintaining a low profile, saying or doing little as a public figure within the organization. But the most effective CFOs use their influence to help make the organization stronger and more flexible in general, and more resilient in the face of shifts and disruptions. These CFOs move beyond encouraging people to use resources efficiently to more sophisticated efforts such as helping build the kind of culture where people naturally want to invest only in projects linked to the capabilities that matter most. Cultural engagement is a stretch for many numbers-oriented, analytically inclined CFOs. But if they can master the skills, it gives them great impact.

"We often say around here, 'You need to know your numbers,'" notes Wells Fargo's Rewcastle. "Financial literacy has always been a core capability. But we're shifting the emphasis of our performance measurement culture. It's not just the result that matters—'I got this done'—but how you got that done. Did you build consensus? Did you do it in a collaborative way? We're building this view of what's important into the leadership competencies we expect, the training we provide our people, and so on."

You know you've changed a culture when behavior changes throughout the organization. This typically takes both hard measures—such as new incentives—and soft skills, such as the ability to conduct conversations that bring everyone along to not just comply with the new incentives, but make a full commitment to them. You and the other finance executives should lead open discussions about market trends and business performance, about specific opportunities and risks, and, yes, about business failures—not to assign blame but to learn from them. Part of your job is to create a safe and transparent environment for acknowledging errors and getting to the root causes of underperformance.

To instill a high-performance culture, the most effective CFOs set an example of the right kind of leadership. They use all the planning and performance management processes of the enterprise—strategy development, annual budgeting, resource allocation, investment planning, and periodic performance reviews—as opportunities to set and reinforce behaviors consistent with the company's stated strategy and performance expectations. The business units are used to hearing *no* within the context of these interventions, so finance needs to change the message. You must thus set a pattern so that *no* is used primarily for projects without strategic relevance, and is followed up with coaching and guidance to help people align their projects to the distinctive capabilities on which your company relies.

Integrity and Presence

To the outside world, CFOs have long been regarded as the financial gatekeepers of the corporation, the guardian of shareholder value. Now they are also the internal conscience, ensuring that all projects are aligned to create enduring value, and that people aren't distracted. As John Rogers of Sainsbury's says, "It's absolutely critical for a CFO to have a natural integrity. You need somebody who's capable of walking that…tightrope between supporting the individual businesses and making the right decisions for the overall enterprise. It's quite a delicate balancing act."

Integrity is not just a matter of probity; it requires skillful communications, and the kind of authentic leadership style that is sometimes called presence. You have to set a tone of transparency and candor, forming trusting relationships in all directions: with the CEO, business unit leaders, regulators, and the board.

Perhaps the most important relationships you build are those you have with other functional leaders. The old days, when you competed for resources and a seat at the table, are gone. Today, you cannot be successful unless you collaborate closely with the chief information officer to manage data, with the head of human resources to shape the culture, with the business unit presidents to invest in the right places to create value, with the chief operating officer to gain the most value from operational investments, and with all of them to

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design and build cross-functional capabilities. Spend time with these leaders developing ways that they can use finance to improve their effectiveness and distinguish worthwhile projects from lower-priority, less strategic distractions.

In all cases, you have to be able to convey hard truths, even if it's with a soft touch. "Transparency and truth are table stakes for this role," emphasizes Verizon's Shammo. "If you took a tally of some of our investors and sell-side analysts, they'd tell you, 'Well, Fran tells you the way it is,' and I take that as a compliment, because I never want to be accused of sugarcoating or leading them down a path that is not absolutely accurate and factual."

Verizon's Finance Talent Transformation

Verizon began a large-scale change initiative in 2011 to improve the effectiveness of its service delivery, and to gain the flexibility to adapt to rapid changes. As part of this transformation, Verizon CFO Francis (Fran) Shammo overhauled how the company deployed, assessed, and developed its finance talent. "In the past," Shammo recalls, "you came to a telco, you stayed in that telco job for 25 years, and you retired. That doesn't work anymore in today's competition. We really need to keep the excitement alive within finance, and help our people feel good about coming to work every day, because they're learning something new and having impact."

Verizon's finance talent transformation included five elements:

- **Specialization.** Verizon set up two company-wide centers of excellence (CoEs) for finance activities, replacing the old structure, which had separate finance groups for wireless, wireline, and corporate. Team members now specialize in finance processes within these CoEs.
- **Career paths.** Verizon created online tools that explained specifically what finance employees needed if they were to progress to the next level or move laterally—for example, a CPA degree, leadership skills, or training credits. In addition, the team mapped explicit career paths and now emphasizes career development in every employee's evaluation.
- **Rotation.** Today, high-potential people move through varied assignments, and are thus exposed to new skills, especially those that deepen their understanding of the business.
- **Training.** In-depth learning and development programs emphasize how everything done in Verizon affects an outside customer, and how the finance organization, its processes, and its systems work. The company also supports continuous "upskilling"—encouraging people to increase their skills through external education.
- **Recognition.** The finance team augments its incentive compensation by recognizing and celebrating individual achievements throughout the year. Any certification, for example, is accompanied by a signed personal letter from Shammo, congratulating the recipient on a great achievement.

The Finance Function at Philips

In August 2010, when Frans van Houten took over as CEO of the global diversified technology company Royal Philips NV, he and his leadership team launched a broad companywide transformation initiative called Accelerate!, designed to unlock the potential of the company. The chief financial officer, Ron Wirahadiraksa, raised a call to action with the finance function, emphasizing the leading role it would play. "We have a powerful global brand—incredible innovation capabilities, unique assets, and leading market positions," Wirahadiraksa explains. "Our challenge is not about finding value but about unlocking the value inherent in our company and putting our CAPs [capabilities, assets, and positions] to their most productive use. It is important for [the finance function] to play its unique role to help shape that focus."

Finance has been engaged in various improvement efforts across Philips. Accelerate! provided the impetus for Wirahadiraksa and the Philips finance leadership team (PFLT) to bring these initiatives together in a comprehensive effort directly linked to the company's strategic goals. It addresses an ambitious scope, affecting the finance operating model, processes, systems and data, and talent and culture agenda. Among the many results is a stronger focus on fundamental value creation, with clear alignment against a standard set of metrics for all of Philips.

"We have taken the value creation principle beyond finance," says Wirahadiraksa. "Across the company, ROIC [return on invested capital] is a metric we study in every performance review with the business. If we cannot satisfactorily answer how something we are doing adds significant fundamental value, we don't do it, period." This laser-like focus is helping the company make business choices with greater agility and decisiveness—including Philips's announcement in September 2014 that it would separate the diversified company into two focused businesses (HealthTech and Lighting Solutions) to accelerate value creation.

Among the distinctive features of the finance transformation is the importance given to the leadership, people, and culture agenda. Philips finance professionals are coached to see themselves as stewards of the performance culture—both in their personal behaviors and in their role as financial custodians. This effort has been supported with customized finance talent and leadership development programs, and with a visible investment of Wirahadiraksa's personal time. The results have been encouraging. "One of my proudest days in the job," he says, "was when our finance middle management came to the PFLT with recommendations for improvement that went beyond even where we thought we could go. They were bringing us along instead of the other way around. That told me we were doing our job as leaders."

Wirahadiraksa is now developing the next set of transformation actions for the finance function, including lean-based performance management and more efficient end-to-end processes. "When you're focused on value creation," he says, "it requires that you continually reinvent yourself and keep challenging yourself. Our transformation is not done."

Becoming a Strategic CFO

If you are already a chief financial officer, or a senior leader in finance, you can move the function in a more strategic direction by starting with your primary role as arbiter of the firm's investments. When you say no, people listen. But do they recognize that you are speaking for the long-term distinctive value of the company?

If not, then the first thing to do is change the way you use the word *no*. Articulate a clear difference, based on the strategy of your business, between projects and practices that create value, and those that merely draw resources while enabling the company to tread water. Does everyone see that difference the way you do? If not, how can you make this distinction clearer?

You may want to conduct a series of conversations about strategic cost allocation, looking at each of the investments in a division or group. We sometimes refer to these as *Fit for Growth** exercises. Some costs are closely

* *Fit for Growth* is a registered service mark of PwC Strategy& Inc. in the United States.

linked to distinctive capabilities, and should be seen as investments to be nurtured and increased. Other costs include table stakes—required for participation in an industry—or "lights on" expenses, needed just to stay in business. Because these costs are not differentiating to your company, they should be managed for efficiency and cost reduction. A final group of costs are not required at all; they simply draw capital and distract decision makers. They should be quarantined and cut back, or the parts of the enterprise related to them should be sold to another company where they will fit more closely with the strategy.

Metrics also deserve attention. Work within your own finance organization to clarify and simplify them into a few metrics that matter. Use customer-oriented performance indicators—for example, number of repeat customers, warranty costs, and measurements of customer satisfaction correlated against a few financial measures—to provide a clear idea of how well the company's strategy is working. Encourage the use of those metrics in everyday decision making across the various lines of business.

Overhaul your IT infrastructure, but not in isolation. Sometimes IT and data analytics are blamed for failing to produce results. But it's not the data that differentiates a best-in-class finance function—it's the insights and capabilities derived from it. You can give two people the same raw information, and one will see the patterns, the anomalies, and the defining insights. The other will not. With the right team in place, and a strategic orientation, you will find yourselves championing and building the IT system you need.

Craft a strategy and vision for the finance function. Show how you expect to improve performance within that function, and how you can enable the company's performance. Include descriptions of the end state for the finance function: its operating model, talent, systems, metrics, and data. Include your use of analytics to drive business decisions and to find opportunities for growth.

If you're the CFO, this is the time to embrace the changes in your job. As Verizon's Shammo says, "You're not just the green eyeshaded accountant walking in the room, telling them no. You're the person working with them to find another, better answer for the customer and for the company." In short, your job is to articulate the kind of constructive no that isn't a no at all—but rather, by moving people to a more strategic focus, represents a superior kind of yes. ✚

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Resources

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Dirk M. Zorn, "Here a Chief, There a Chief: The Rise of the CFO in the American Firm," *American Sociological Review*, June 2004: A Princeton social scientist tracks the history of the chief financial officer position, and its roots in the regulatory and economic changes of the 1970s and 1980s.

The *Fit for Growth* Index profiler, strategyand.pwc.com/global/home/what-we-think/fitforgrowth/ffg-index/ffg-index-profiler: A self-assessment tool that allows you to evaluate your firm's readiness for expanding strategic value compared to competitors in your industry, and that visualizes the potential payoff from managing costs more strategically.

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