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The Evolving Role of the CFO & How to Get It Right

The world of modern business is ever-evolving and highly responsive to external factors. CFOs, like their CEO counterparts, need to keep a close eye on external geopolitical, legal, and economic events, metrics, and trends for risks and opportunities while keeping an equally sharp eye on internal organization dynamics. CFOs now are torn between diversifying their expertise into new areas and delving more deeply into data, business processes, technology, and operational rhythms while integrating traditional values with the current to assure success.

The evolving role of the CFO

Being a Chief Financial Officer involves more than just statistics and financial analyses. For many years, the CFO's job description has changed from counting statistics to being a change agent within organizations. The effective CFO of the future must understand the business factors behind the numbers and take action to continuously reduce expenses and generate revenue. This invariably necessitates an understanding of big data analytics in order to translate their evaluations into strategic recommendations for the Board, including non-financial criteria. CFOs, for the most part, recognise that their responsibilities are evolving and anticipate shifting directions. CFOs should prioritize strategic leadership, organizational change, and performance management. They should spend more time on non-traditional financial activities such as strategic leadership, performance management, big data, and technological trends. Future CFO-CTO cooperation will play a crucial role in promoting better data insights and driving corporate success.

The modern CFO plays 4 roles:

Operator

Build capabilities, talent, productivity, repeatable, and reliable Target Operating Models (TOMs)

Steward

Protect key assets and disseminate information just-in-time to stakeholders

Catalyst

Catalyze behaviour across the organization to execute strategic and financial objectives while establishing a risk-intelligent culture.

Strategist

Plan and develop strategic business direction and long-term strategies to capitalize on opportunities and mitigate risks

Changing priorities of CFOs

To face today's challenges, companies require controllership processes, enterprise risk management routines, financial analysis powerhouses that can generate vast amounts of data in a flash, and the overall unwavering integrity of the CFO and their team.

McKinsey's latest Global Survey of C-level executives and senior managers highlights how the number of functions reporting to CFOs has risen from four to six, with notable increases in responsibilities for areas such as board engagement, corporate strategy and digital. CFOs are under pressure to establish the finance function as a change agent and to re-focus finance and accounting professionals' activities.

Finance departments play an important role in ensuring that the sustainability metrics offered to internal and external stakeholders are relevant, compliant, and accurate, while also supporting the overall implementation of the sustainability plan. CFOs, as critical contributors, bring distinct talents to the table when it comes to monitoring and evaluating non-financial accomplishments. This applies to risk analysis, governance, internal monitoring, measurement, prevention, mitigation, and third-party assurance.

ESG and CSR initiatives

CFOs have the big-picture perspective required to influence both financial and non-financial performance and build roadmaps to achieve their objectives. CFOs are well placed to explain to stakeholders how a company's ESG and CSR strategy management and performance contribute to overall value creation.

CFOs must identify the most important ESG concerns and metrics in order to protect their firm in the long run. Once this is accomplished, the strategist converts sustainability into monetary terms and assists in incorporating sustainability into company strategy. CFOs ensure that the organisation can deliver appealing, high-quality sustainability reports by having wide experience in this new data universe.

Digital Transformation initiatives

The responsibilities of the CFO and the controller have grown to include the promotion of business objectives, which has resulted in a tenfold increase in the urgency with which the finance department must undergo radical change and development. The number of roles reporting to CFOs has increased with significant increases in responsibilities for board involvement, corporate strategy, and digital. There is pressure on CFOs to establish the finance function as a change agent and to refocus the activities of finance and accounting professionals.

The digitalization of finance and accounting by means of technologies such as automation, cloud-based systems, artificial intelligence (AI), and data analytics and visualization is radically altering the finance function agenda. To fully take advantage of these innovations, one must adopt a new way of thinking and acquire new sets of skills geared at maximizing the value of digital and data to decision-making, especially in terms of insight and foresight to help steer the organization.

Key Performance Indicators to track (financial and non-financial metrics)

Key Performance Indicators (KPIs) are measures that show how various business drivers are functioning. And, while there is no one-size-fits-all solution for selecting the "correct" metrics for your firm, it is vital that the data utilised is consistent and reliable.

What constitutes a good set of KPIs?

- Key performance indicators (KPIs) should reflect a blend of strategy and operations.
- Effective KPIs need the collection of relevant data.
- Having something against which to compare this number
- Having the data as soon as possible when it is still fresh
- Confidence in the accuracy of the information used

Financial Metrics

Working Capital

1

Working capital is accessible cash. Working Capital KPI covers on-hand cash, short-term investments, and accounts receivable as well as loans, accounts payable, and accrued costs. It creates a financial health picture by analysing short-term assets and liabilities. This KPI is straightforward to compute and instantly significant for your finance manager.

Operating Cash flow

2

Operating Cash Flow is another key financial KPI. Comparing this financial KPI to total capital utilised is critical. This research determines if your business's operations generate enough cash to support your capital investments. Operating cash flow to total capital employed ratio research helps you to go beyond profits, making it a great KPI for finance directors.

Current ratio

3

Growth and expansion require a good credit rating. Current Ratio KPI compares assets, such as accounts receivable, to current liabilities, like accounts payable, to measure corporate solvency.

Payroll headcount

4

The Payroll Headcount Ratio shows how many employees your business supports for each full-time, dedicated payroll employee. This KPI aids in future staffing decisions and allows you to assess if your human resources in this area are being utilised to their maximum potential.

Return on equity

5

Return on Equity (ROE) is a financial metric that compares your company's net income to each unit of shareholder equity (or net worth). This not only measures your company's profitability but also its efficiency.

Debt to Equity ratio

6

The debt-to-equity ratio indicates how your company finances its development and how efficiently it utilises shareholder assets. The ratio of your company's total liabilities to shareholder equity (net worth) reveals how much debt you've incurred to become profitable. A high debt-to-equity ratio indicates that a company is fueling its expansion with debt and ensures accountability.

Quick ratio

7

The Quick Ratio KPI assesses your organization's capacity to use highly liquid assets to fulfil all financial commitments or current liabilities promptly. It can establish your ability to satisfy short-term financial obligations by evaluating the wealth and financial flexibility of your organisation.

Accounts receivable & payables 8

Accounts payable turnover indicates the rate at which a business pays its suppliers. A decreasing accounts payable turnover KPI might indicate that the time it takes your organisation to pay its suppliers is growing and that corrective action is required. The accounts receivable turnover KPI reveals the rate at which your business collects what is due. This KPI alerts you to overdue payments and helps you enhance payment collection efficiency.

Gross Profit margin & Net Profit margin - 9

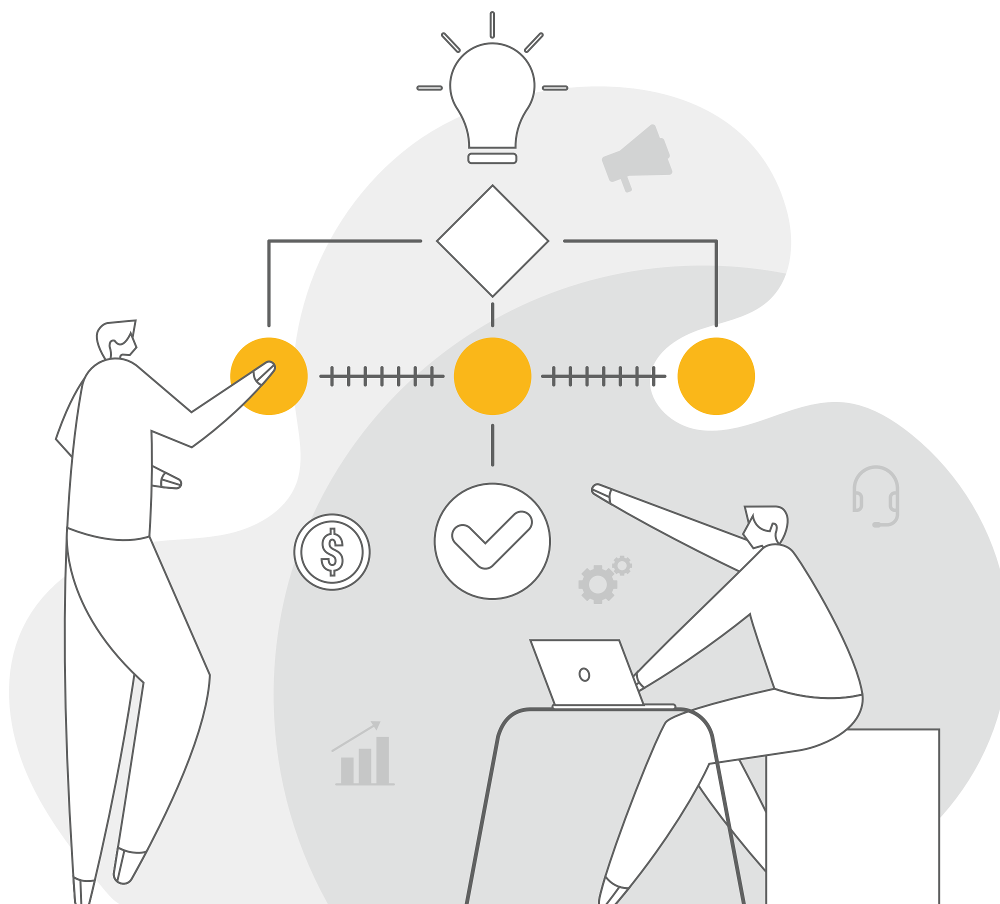
The Net Profit Margin Key Performance Indicator measures your company's profitability per dollar of revenue. This net profit takes into account not just the cost of sales but other expenses such as administration. This financial KPI provides a good overview of your company's profitability and is essential for making both long- and short-term financial choices. The gross profit margin only factors in the costs of sale when calculating the gross profit.

Non-Financial Metrics

Non-financial KPIs garner more attention within many organisations. Evidently, these aspects are crucial to the overall success of a business. A low customer experience score can reduce client retention, raise the customer churn rate, decrease sales, and have a negative impact on the bottom line. Increasing amounts of evidence indicate that staff retention and motivation are crucial to an organization's overall long-term performance. Many businesses develop systems and processes to track key nonfinancial KPIs to receive incredible insight into long-term trends and competitive advantages.

This is where strategic CFOs transition from the 'bean counters' of the past to the strategic partners of the future. Some of the important non-financial metrics are:

- Customer retention & Experience & Retention
- Business Culture
- Employee Happiness
- Brand reputation
- Process efficiency



Importance of cross-functional leadership for a CFO across the following areas:

Another quality that CEOs must possess is versatility. The CFO's mindset should be that of an enterprise-level executive with specialised financial knowledge. A CFO should be a strategic thinker, a financial expert, a great communicator, and a technology master. Let us look at the cross-functional responsibilities of a CFO in the following areas:

Technology

Almost every business unit within organisations today is impacted by technology initiatives, such as cloud migrations and system upgrades. When the CFO and CTO collaborate early on in the planning phase of an IT project, it leads to more alignment between the finance and IT objectives. This paves the way for more seamless integration of new systems and processes and guarantees that the organisation receives long-term benefits from its IT expenditures.

Strategy

The CEOs need a CFO who is forward-thinking. CFOs whose primary contribution is to report on what happened after it has occurred are ineffective. They should be active in sales, marketing, and development, as well as strategy formulation. They must be aware of the customer, the market, and the competitors. They must form their own opinion rather than merely providing a plethora of data. They should give information that goes beyond the data.

Compliance and Risk management

CFOs and CTOs are equally concerned about information security, data privacy, and cybersecurity. CFOs receive deeper insight into how IT is assisting the firm in addressing IT risks and why specific expenditures are required to secure data and users by having an open line of communication regarding these business-critical subjects. Meanwhile, CTOs can remain on top of compliance regulations and other business needs that may have an influence on how the corporation handles IT security and risks.

Collaboration of CFO with other C-Suite executives

Let's take a look at the CFO's job as an effective collaborator who works hand in hand with the other C-Suite executives like the CEO, CTO, CHRO, etc. to drive the company forward and achieve its goals.

Collaboration between CFOs and CEOs

The chief financial officer (CFO) has risen in prominence in recent years to become the second-most powerful member of the executive team. The success of a company's executive team hinges on the CEO and CFO. The relationship between the chief executive officer and the chief financial officer (CFO) has emerged as one of the most important in the boardroom.

The chief executive officer (CEO) typically relies on the chief financial officer (CFO) as a trusted business partner. Most of these responsibilities, including acting as a partner to the CFO, are now handled by the modern CFO. The CFO is responsible for understanding the business as a whole, not just the financials. The CEO frequently consults with the CFO, maybe more so than with any other executive (even the VP of Sales) and values the CFO's insight and candour. Their relationship is a true collaboration in every meaning of the term.

Collaboration between CFOs and CTOs

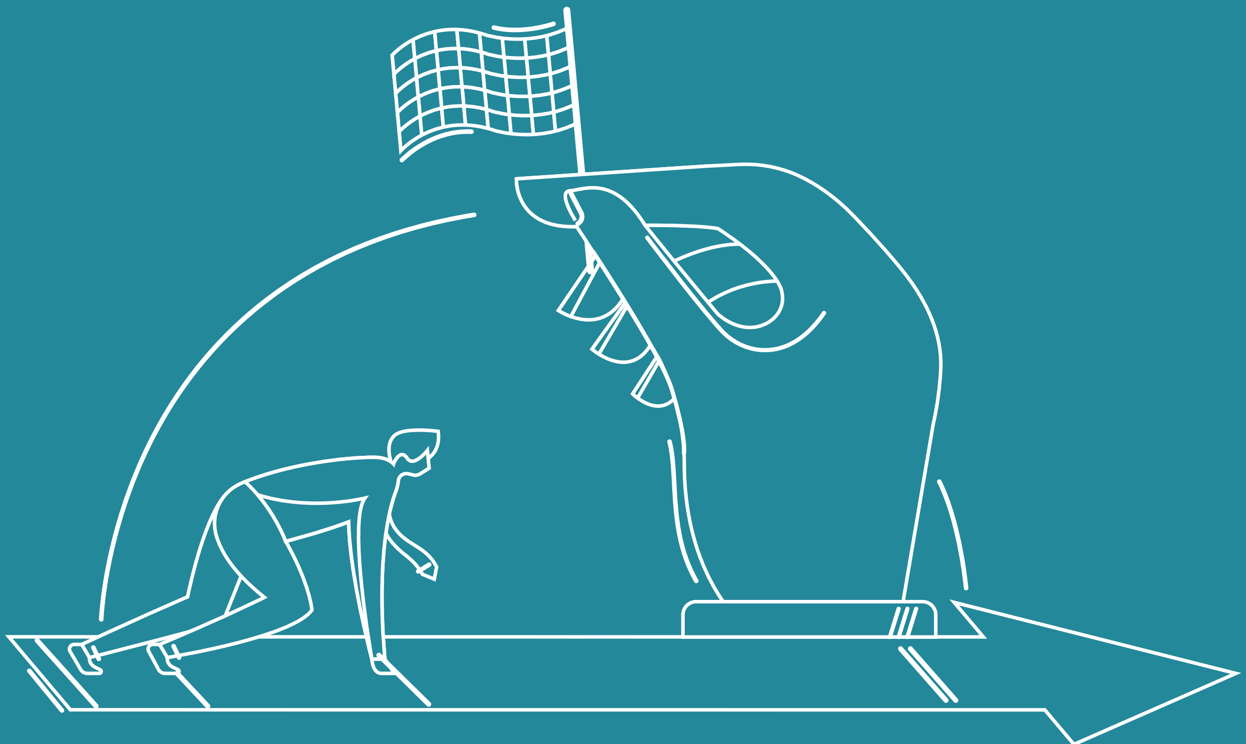
COVID-19 brought about a change in the working relationship between the CFO and the CTO for the majority of businesses. From the perspective of digital transformation, CTOs are more involved in shaping the organization's investment budget. Greater than ever, the modern CFO understands technology and its ability to generate profits. CFOs are paying greater attention to digital transformation projects as a result of the pandemic-induced enormous shift to remote employment and altering business and customer experience models. CFOs and CTOs must synchronise their strategy in order to prioritise business-enhancing projects.

CFOs and CTOs will need to collaborate to remain on track strategically and determine the optimal IT strategy to not only assure business continuity but also drive change. IT and finance departments must interact more closely to establish a business-driven IT Roadmap that reduces costs, maximises ROI, and enhances the organization's value.

Collaboration between CFOs and CHROs

Bringing together the individuals in charge of the company's finances and employees is one of the greatest methods to quickly identify business challenges and develop effective, non-traditional solutions. This collaboration directly links human performance to business success, giving objectivity to the examination of human resource initiatives and their influence on corporate finances.

It is increasingly vital now, with the market and workforce evolving. The corporate sector is still adjusting to the recession's lasting impacts, as well as the invigorating and disruptive influence of startups and tech titans alike. Linking the management of people and finances allows companies. Many of the most significant issues that organisations have encountered in recent years have been connected to talent. A stronger partnership between the CFO and the CHRO may benefit almost every aspect of their respective roles, as well as the business as a whole.



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The Challenges that CFOs are facing in 2022 and beyond

If one were to sift through the sort of challenges that could keep CFOs awake at night during 2022 and into the next year, one could say that these could arise from all directions. Here are four examples of issues that CFOs would need to tackle:

Problems with the Supply Chain

Businesses have struggled to return to normal supply and demand following the pandemic. Manufacturing clusters in developing markets or other low-cost territories will no longer make sense. The CFO will need to be actively involved in the redesign of the firm's supply chain, as changes will affect the cost structure. As the CFO is frequently responsible for directing ESG reporting and compliance, he or she will bear at least a portion of the responsibility for ensuring that the company's supply chain meets stakeholder requirements. Using systems and technologies, the CFO and finance team should enhance their ability to predict supply chain disruptions. This enables them to monitor external signals, connect them, and understand how the disruption will impact the firm's operations and finances.

Hiring and retaining

CFOs face a significant hurdle when trying to fill positions in their departments with qualified applicants. The capabilities that chief financial officers (CFOs) demand from their teams have evolved as their responsibilities and expectations have grown. According to Forbes, nearly 80% of CFOs place added emphasis on technological literacy when assessing candidates. Given the surplus demand for qualified resources, hiring people to fill skill gaps is more expensive and may require changes to the business environment, such as letting people work from home or at least having more flexible hours. Despite staffing problems and rising market uncertainty, finance teams and leaders are being asked to provide better insight into cash flow and more accurate estimates while working with fewer resources.

Technology

Financial process automation and digital transformation are progressing more quickly than CFOs anticipated. CFOs should examine business workflows and processes to combine various technologies to streamline numerous end-to-end processes. They should also take into account how technology can improve employee performance and experience, as well as the customer experience to close the skills gaps. Investing in digital competencies is a must to ensure profit from technology investments.

Budgeting and Planning

Most CFOs think that in the wake of the Covid-19 pandemic, financial planning will need to be more fluid and adaptive. When it comes to making sound business decisions, top-level executives frequently consult with their companies' finance departments for advice. To meet the rising demand for comprehensive cash forecasting, finance departments will need to enhance collaboration through the use of new technologies and processes. And even the most comprehensive cash flow forecasting technologies can only provide estimates; actual cash flow will always be unknown.

Increasing Cybersecurity threats

As part of the CFO's responsibility to be the business's fiscal guardian, these executives are frequently in charge of risk management, which includes detecting and preventing fraud and investing in cybersecurity. CFOs need to be well-versed in the criticality of safeguarding sensitive data and the possible expenses that cyberattacks might incur. The remote workforce adds a new layer for CFOs to control possible fraud and cybersecurity concerns, while cloud computing becomes more appealing due to its security benefits.

How can CFOs balance their transitional responsibilities with the new CFO mandate?

- Being intentional about investing in value-add activities
- Embracing digital technologies
- Putting talent at the front and centre
- New challenges in keeping Finance team motivated
- Assert strategic and proactive leadership

Today, CFOs are stepping into CEO roles when the CEO position is temporarily or permanently vacant. This change has come about because CFOs are no longer confined to an office behind closed doors; they are actively engaging with customers, assisting with supply chain management, driving technological advancements, learning the ropes of marketing, and most importantly, understanding the human resources that power the entire enterprise

With high expectations from the CFO and finance function, many CFOs tend to get overwhelmed and lose interest. This is where a well-equipped CFO handbook comes in. This is where a comprehensive CFO manual comes into play. Practus remains a shining beacon and a visionary thinker in this field. Our CFO handbook provides all the basic components and a strong CFO will prepare the right formula for their circumstances from within the basic framework that the CFO handbook provides.

As CFOs embark on their journey towards building/reshaping their organizations, a step-by-step guide like the Practus CFO Handbook can be an invaluable resource and should be leveraged to avoid common pitfalls and benefit from community learning.

Contents of the Handbook

1. A vision and mission statement aligning finance function with the rest of the organization
2. Role and context and organization structure/positioning/focus of the CFO
3. Functional subdivisions in the finance function and key performance indicators (KPIs), key result areas (KRAs)
4. Multi-dimensional view across geographies, verticals, and functions
5. Partnership with Chief Experience Officers (CXOs) inside and outside the organization particularly with the enterprise risk teams, business development and legal/compliance teams
6. Team structures and inspiring best-in-class performances
7. Building the core–controllership, compliance, analytics, and growth
   Building a culture of unyielding integrity

People-oriented, customer-savvy, and technologically ambitious, CFOs are the backbone of any successful business. The role of the CFO requires continual investment in professional development, both for the individual and the team. The CFO's arsenal should always include tools like regular benchmarking, training, well-being surveys, education, and re-education. Contact us to get a copy of the CFO Handbook.

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