“Are you running your business without a CFO? Seriously?”

By Jonathan C. Daiker, CPA

The role of Chief Financial Officer (CFO) —and the structure in which CFOs operate—varies significantly across organizations. Market complexity, revenue sources and budget size are important factors that drive how the CFO role is configured—and how the role evolves over time.

The past decade has seen dramatic changes to the role of CFO – an evolution from a “bean counter” who reported the numbers and controlled over-all costs to a dynamic, strategic member of the management team. The responsibilities of today’s CFO have gone well beyond the finance function as more time is expended on strategy and operating issues and less on budgeting and accounting. Increasing business pressures, government regulatory intervention, the tight economy and a need to measure the operating performance of a company in order to stay ahead of the competition has transformed the “green eye-shaded” CFO into a key business partner of the CEO.

"The average tenure of a [*Fortune* 1,000] CFO right now is less than three years,” said Michele Heid in 2007, co-managing partner of the finance practice at Heidrick & Struggles. "Five years ago, it was closer to five years." In today’s dynamic environment, even a temporary vacancy at the CFO position can leave a company vulnerable to considerable adverse exposure. An interim CFO can fulfill a vital role in keeping a company on track, both in terms of day-to-day operations as well as longer term strategic objectives during these transitions. According to The CFO Expert, Samuel Dergel, even if a company is truly serious about hiring their next CFO and makes the search a priority, it could take up to 3 months to complete the search. “Can a company afford to leave this position unfilled for up to 3 months or more”?

In order to answer that question, let’s look at some of the responsibilities of the CFO on which organizations have become very dependent.

Cash flow is of utmost importance for all companies, and a tight economy really exacerbates managing the cash flow situation. To be successful, today’s CFO needs to manage both sides of the balance sheet.

On the asset side, managing the company's accounts receivable balance becomes critical. How many days' sales are outstanding compared to a year ago, compared to industry standards, compared to the company's best ever? Has the company's aging deteriorated? What can be done to accelerate collection? How much will it cost? What has been written off and why? Does the credit extension policy need revision in light of economic conditions? *No business can afford to lose sight of any credit extension factors and the collection of outstanding accounts receivable balances. Who is the key to all this? ----the CFO and the financial staff.*

Again, on the asset side of the balance sheet, a potentially huge use of cash that needs to be managed is inventory level. In a tight economy, consumer spending habits change. In response, production output probably needs to be reduced. However, cutback production too far and sales may be missed. A lot of analytical work needs to be done by the CFO and the financial staff to understand which SKUs are moving on a regular basis and which ones have started to stagnate. If production is cut, what facility is most efficient and has the capacity to meet new needs? What are the economics of the labor agreements in the plants where downsizing would occur? *No business can afford to lose sales, build inventories without demand or make bad decisions on plant cutbacks. Who is the key to all this? ---- the CFO and the financial staff.*

One last area of concern on the asset side of the balance sheet is capital improvements. Even in good economic conditions, capital investment decisions are somewhat subjective. There are always a lot of assumptions that need to be made and challenged. A tight economic environment only intensifies the decision making process. And when funds requested are for an intangible like software, assumptions are difficult to challenge and evaluate. *No business can afford to forego ROI and Payback analysis at any time, let alone in a tight economy. Who is the key to all this? ---- the CFO and the financial staff.*

Turning to the right side of the balance sheet, accounts payable and accrued expenses can be an important source of funds from a cash flow perspective and require more scrutiny and management in tough economic times. Understanding vendor agreements and negotiating better terms are responsibilities of the CFO and the financial staff. *No business can afford to leave a stone unturned if the goal is to maximize cash flow and minimize borrowing. Who is the key to all this? ---- I think you know the answer!*

One of the CFO’s primary responsibilities in all economic environments is ensuring there are adequate funds available through loans, lines of credit or equity. These agreements require continual monitoring to avoid default. Also, determining if market conditions are right for a refinance or equity offering are equally important. *No business can afford to default - the market waits for no one, so be ready to refinance when appropriate. You know who is the key to these transactions.*

The tactical responsibilities detailed above all support the day to day activities of cash flow management which by itself is a full time job. And that is before the control and reporting aspects of the CFO’s responsibilities are considered. When you add all the regulatory responsibilities that are now part of the CFO’s portfolio, the CFO is truly moving from “bean counter” to “jack of all trades”.

The CFO’s responsibilities go well beyond finance into balancing compliance and risk management with overall business performance. A CEO needs the CFO to take a leading role in shaping strategy that drives bottom line results while managing risk. Market conditions are continually changing and the CFO needs to recognize change as it relates both to control as well as business performance.

The executive team needs to seize opportunities as they arise. Understanding and monitoring evolving business drivers and developing models that portray the “what ifs” of new market conditions requires diligence as well as consistency. Management needs to know the deeper sense of how business will be affected by various scenarios. The CEO is no longer relying on marketing and business development to make these decisions without having applied the financial analysis tools of the CFO and the financial staff. *No business can afford to approach these scenarios in a haphazard way, as a wrong turn could cost the company millions of dollars and a potential loss of market share. Who is better equipped to address these issues?*

Increased business pressure and the tightening of purse strings are causing the CFO and CIO to work more closely together to leverage technology to cut costs and improve processes. The need for real-time operational and financial data and analyses is being demanded by management and the need to respond to the fast pace of today’s market conditions. Processes need to be streamlined to adapt to the ever-changing business and market demands to meet key business goals and improve the bottom line. Again, these decisions are more subjective and can negatively impact the bottom line if the appropriate analysis and due diligence are not performed. *Here, again, you can’t afford to proceed down the process improvement path through technology improvements without the scrutiny and challenge of the CFO and the financial team.*

With the changing focus of the CFO's responsibilities and financial management in general, the CFO is becoming a strong business leader. More involved with the evolution of the company's culture, concerned with the development and mentoring of the financial team, the CFO must now instill financial acuity into the whole organization. Assisting the CEO and other key management personnel with talent management is only the tip of the iceberg. Today's CFO must instill a sense of confidence and credibility with all stakeholders….employees, customers, partners, business analysts, and shareholders.

The CFO's role is no longer one just of stewardship, statistician and historian. The narrow purview of years past of reporting, compliance and controls, while still part the CFO's responsibilities, has evolved into strategist, visionary, technology leader and communicator. The CFO role has become the glue that holds everything together and moves the organization forward---balancing compliance and risk management with business performance goals. CFOs have emerged as the key business partner to the CEO. CFOs require an understanding of the company's markets and the evolving business drivers, as well as broad knowledge of the organization and the relationships between functions. And CFOs require the communication skills to recognize the concerns of all stakeholders and assure them that the accountability and integrity of the company and its management is not being compromised. A business that wants to become or remain a market leader and create value for the shareholders/owners cannot afford to be without the strong business leadership of the CFO for any period of time, including the candidate search window, without jeopardizing the company's performance. *That is why an experienced Interim CFO can add value in a time of change, provide steady and seasoned direction in a turbulent business situation, and continuity and counsel to the CEO, executive team and eventually to the new CFO. Every business of substance could use some CFO assistance whether it's full-time, part-time, or on an interim basis.*

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