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THE STRATEGIC FINANCIAL EXECUTIVE

Managing Risk In A Disruptive World

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REPORT

JUNE 2017

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In a dynamic economic environment of disruption and risk, the role of the financial executive or chief financial officer (CFO) in managing an enterprise's risk and creating corporate value has evolved and grown in scope. Successful financial executives must possess key strategic skills to optimize the business model and market value of their enterprise.

To describe the strategies CFOs use to manage risk and create value in today's economic landscape, and to determine how CFOs incorporate strategic risk themes emphasized in the upcoming COSO Enterprise Risk Management (ERM) framework, interviews were conducted with top CFOs, financial executives and corporate stakeholders. Additionally, a roundtable discussion was held with members of the Committee on Governance, Risk & Compliance (CGRC) of Financial Executives International.

This report highlights the findings of this research and examines steps financial executives can implement to manage risk and add value to their institutions, particularly as related to the following themes:

- Recognizing disruption, the speed of change, and the underlying sources of disruption
- Increasing the enterprise's risk IQ and capabilities
- Thinking and communicating strategically
- Developing skills to enable a forward-thinking, strategic finance organization.

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RECOGNIZING DISRUPTION, THE SPEED OF CHANGE, AND THE UNDERLYING SOURCES OF DISRUPTION

"Businesses and boards must be agile.
The speed of business has changed."
Rick Wimmer, CFO, The Pike Corporation

KEY FACTOR Risks Are Growing

Every executive interviewed agreed risks, generally speaking, are growing. But it is not just the rising level of risk that is troublesome; it is also how fast things are changing. The pace of change itself is causing disruption, such as decreasing the amount of time in which companies may identify change, interpret it, and pivot their organizations in the right direction to address abrupt changes. As a result, companies must be better prepared to identify and react to disruption.

Black swan events and fat-tail risk — both associated with major impacts that may catch a company off-guard — are increasing in frequency and are areas of concern to some financial executives. One executive noted, "It's the risks of what we don't know … the unknown unknowns" that [are] increasing." Other executives are concerned about looking in the right place to be able to see the disruption coming.

One executive commented that in the not-too-distant past, businesses always knew their competitors. Today, their competitors have changed completely, with new challenges coming from start-up companies and companies that operate outside of traditional industry boundaries. The chief executive officer (CEO) has pushed the executive financial team to be alert to changes and to new competitors.

KEY IMPACT Risks Are Changing Skill Sets And Processes Needed By Finance Organizations

A rapidly changing business world means the role and skill set of the financial executive must be amenable to swiftly adapt (for a more in-depth discussion, see Section 4). Many financial executives respond not only to change, but also to the demands these changes create for more comprehensive information, better understanding of risks, deeper market knowledge, and, especially, a new skill set. According to one financial executive, the value CFOs bring to the table is the ability to inform the board and CEO regarding matters they may not be familiar with and to provide insight to nuances they may not have seen.

Even companies that are the disruptors need to manage risk effectively. Being on the leading edge requires more than a mindset and risk-taking culture — it also demands that companies manage the risks that arise as innovation occurs and address risks and dimensions others may not have considered. Additionally, financial executives must recognize that every risk cannot be seen in advance; thus, they should create a process and intelligence system to manage emerging exposures.

KEY FACTOR Risks Are Changing Valuations

Change and disruption also affects how some companies are being valued, so boards and executives must identify and understand these value drivers. Many companies are recognizing that their value as a company is no longer exclusively about the numbers in the financials.

"I'll call it the new currency as we've looked at some of these digitization worlds, where key metrics have become things like users or monthly average users," said one internal audit leader. "Companies are being valued on that as much as they are on free operating cash flow. If you don't recognize that in how you think about your risk, you're not going to go anywhere. You have to really begin to understand what are the key drivers or early indicators [so] that you have a chance to be successful. They're not necessarily on financial statements anymore. It's a huge change from 20 years ago."

"Fifty years ago, people managed physical assets to deliver cash flows," said Corey West, Executive Vice President, Chief Accounting Officer and Corporate Controller for Oracle. "Today, you manage intangible assets to deliver cash flow. Those intangible assets can be valuable one day, and they can go 'bye-bye' the next, depending on who enters a marketplace where you're competing. I guess the importance about understanding the business you're in, the competitive landscape, and where your competition might be coming from a strategic standpoint is a lot more important now. I think CFOs need to be part of that thought process."

KEY IMPACT A More Sophisticated Process And Way Of Thinking Is Needed

To keep up with change and disruption, companies must invest in better risk management processes (discussed further in Section 2) as well as developing new skills. As one CFO noted, managing disruption and change successfully requires aligning the executive team, getting stakeholders to the table, and developing a strong culture committed to mitigating risk. Some companies are now dedicating time to understanding change by monitoring macro factors, regulatory issues, cyber risk, and other data to understand how these changes may affect their organizations. These companies are building processes to identify disruption, black swan events, new competitors, and other emerging risks.

Companies are continually moving toward the approach of aligning risk with strategy and performance. This shift begins with focusing more on business objectives and the risk surrounding the achievement of those goals, and on aligning with the overall execution in performance, with accountability structures and plans.

"We have to have a mechanism in place to be able to recognize these risks as we see them, and deal with them," said Pervez Bamji, Vice President and General Auditor for Pitney Bowes. "Now it's [something] we do on a business-by-business basis, or on an event-by-event basis, or on a portfolio-investment basis, whichever … comes to mind at that point in time, and make sure that we react to them appropriately. Sometimes the reaction works out, sometimes the risks change… and the risks themselves change, but we have to be ready to react."

KEY FACTOR Importance Of Identifying Changing Business Risks And Adapting Process

As part of this research, we surveyed financial executives to explore concerns they have regarding change and disruption, the importance of change, sources used to identify change, and the key to managing change and the related risks. All survey respondents agreed business risks will be more important to accounting and finance functions in the future. Almost all (95 percent) also concurred a risk culture is imperative, meaning that, to be successful, the entire organization must encourage all employees to be aware of and identify emerging risks.

The financial executives were also asked about timing — whether their enterprises were early or late in seeing signals of change and disruption (see Figure 1).

FIGURE 1
Identifying Changes In A Timely Manner

Only 14 percent of surveyed executives reported they were too early in seeing changes. More than 57 percent admitted they were too late in recognizing changes. Timing matters.

The implications of these results are significant. In a world of rapid change and disruption, identifying noise and changes too late can be costly. Still, the financial executive with operational and strategic experience can be critical, as indicated by 75 percent of the executives who reported their organizations sometimes had the right idea, but failed to execute an appropriate response.

Where do financial executives look for disruption? Given today's quick pace of change and the number of disruptors, that question is critical. The financial executives were asked about the sources of disruption and where they seek information (see Figure 2).

KEY IMPACT Predicting Change

Companies are looking first to any information external to the company, second to customers, and third to competitors. It is notable that non-customers ranked fifth out of six in the source rankings, which is somewhat surprising as non-customers may constitute an area where a company wants to grow, using a "blue ocean" strategy. Additionally, the population size of non-customers is typically much larger than that of a company's customer base. Each company must take a hard look at the sources they use and how predictive those sources are regarding current and future disruptions and their company's success. Subject matter experts (SMEs) should be included in these assessments.

Predictive analytics is being used more consistently as a competitive tool for looking at customers, competitors, and consumers as a whole, and for helping companies to predict how they should make investments by developing and applying new knowledge and capabilities from the vast supply of data available.

FIGURE 2
Sources For Seeing Trends And Disruptions

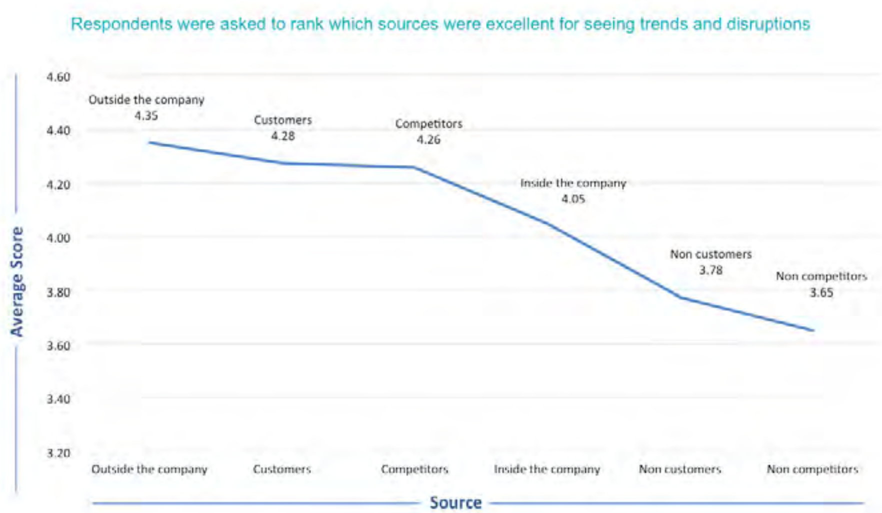

FIGURE 3
Keys For Unknown Events

Key Takeaway Points And Challenges

Interestingly, executives reported that seeing change was not the most important key (see Figure 3).

The most important key was reported as linking the change to the business model and strategy. This is explored more in Section 3. The next most important keys were interpreting the change, being resilient, and assessing the change.

Action Steps For Financial Executives

1. Periodically rethink and redefine your real competitors. Look outside of the normal channels.
2. Get involved in the identification of signals of change facing your organization.
3. Ensure that you are looking at the right sources of change and disruption.
4. Build a sophisticated process to identify noise and potential changes.
5. Consider your company's customers as a key source of information, not just about current sales but about future change and potential disruption. One CFO commented, "Most important is building strategic relationships with customers. We must be more nimble to the customer." Similarly, asking non-customers why they don't do business with the firm can provide valuable insights.
6. Include many small and medium enterprises (SMEs).
7. Be conservative with quantitative impacts.
8. Have contingency and resiliency plans based on the size of a disruption.
9. Factor in reaction time. It is more important for some areas than others. Identify when it is critical for your organization.
10. Survey the landscape. Look for disruptors in technologies. Look for disruptors in other industries that might indicate changes in your sector.
11. Build a method to link change and disruption to the business model and to your enterprise's current strategy.

"The pace of change is what's disruptive. You must stay relevant. You must innovate to combat being irrelevant."

Scott Frisch, Executive Vice President, Chief Operating Officer, AARP

INCREASING THE ENTERPRISE'S RISK IQ AND CAPABILITIES

Some risks are seen not as a point on a map, but as an impact on the business that can have a long recovery period that may require several financial adjustments and business realignments.

KEY FACTOR A First Step

Building a process to capture noise and convert it to meaningful signals is critical in today's high-velocity, disruptive business environment. Boards need assurance that risks in setting strategy have been managed adequately. One tool that would help to assuage their concerns is a noise-to-signal process tied to innovation and strategy. Such a process allows the board to know that the leadership team has made an attempt to think through trends or events in the environment that might impact business objectives, competitive position, and success.

KEY IMPACT Identify Known And Unknown Strategic Risks

ERM processes that have not built in strategic risk analysis still may be full of incredibly rich information related to the three dimensions of strategic risk and disruption in the market. The financial officer must realize that an ERM process that simply identifies all risks and labels some as strategic is not the same as conducting a thorough strategic risk analysis. The older approach is less likely to identify strategic risks related to all three dimensions stressed by COSO.

KEY FACTOR Leveraging COSO And Other ERM Frameworks

ERM is evolving and becoming more strategic in its efforts and results. Part of this is caused by the belief by many excutives that the leading risk is strategic risk. Financial executives cannot afford, nor can their companies or business models, to wait for ERM processes to address these risks. Rather, they must take the lead on strategic risks and the changes that impact them, increasing their risk IQ. Given the efforts of COSO to highlight strategic risk dimensions, executives should expect board members to ask more strategic risk questions and be prepared to address them when asked.

The ERM exposure draft developed by COSO points out that strategic risks can be sourced as follows:

- Strategy and business objectives not aligning with mission, vision, and values,
- The implications from the strategy chosen, and
- The risk involved with executing the strategy.

Thus, executives and board members should seek or reconfirm their knowledge related to these strategic risk dimensions. To get this right, financial executives should look to leverage their current ERM processes to determine what strategic risk help and analysis is being developed. Some advanced companies already use strategic risk analysis tools such as workshops on strategic disruption, black swan events, and emerging trends practices.

KEY IMPACT Optimizing ERM Data

Financial executives should analyze the data generated within the ERM process. What does it reveal about how well the strategy is on track, or whether the right strategy is in place? The executive should look for connected or correlated risks. An enterprise-wide (portfolio) view of risks is always more valuable. More advanced ERM processes can help to uncover new business models and opportunities, and to identify noise if they are tuned correctly.

Regarding downside-type risks, recall that more infamous risk debacles ended up revealing that, at some point, many people knew about the risk but somehow, the risk information never reached the right parties, including the board. These surprises were exposures that the board and leadership should have known about. Financial executives should watch for seemingly meaningless risks that keep appearing.

Financial executives should apply a financial perspective to these risks. When viewed this way, some risks may be seen not as a point on a map, but as an impact on the business that may have a long recovery period and may require several financial adjustments and business realignments. Successful executives realize that they must do more than see change and plot the exposure on a risk map.

KEY FACTOR Seek To Understand And Interpret All Relevant Risk Data

The data obtained must be understood to be useful. Financial executives mentioned repeatedly a need for the ability to connect the dots and interpret the data. It seems especially important to recognize the limits of the data collected. Although more data are available today than ever before, those data can be uncertain. One executive pointed out that if you wait until you have "certainty" in data, it will be too late.

Incomplete data must be used, and this influences how projects are evaluated. Additional data can be added, such as intangible items associated with the decision and other non-financial numbers that might drive long-term competitive position and valuation. The financial executive is, in many cases, in the best position to manage the data limits and to pull in other value-oriented information.

KEY IMPACT Sharing The Data Collected

To further enable better decision-making, the financial executive should adopt a shared analysis approach. This applies to risks that require a deeper dive and may confirm the difference between what the business thinks is true about the risk versus what is actually true. The key lies in sharing the data, not just collecting and analyzing data then sharing conclusions. Financial executives should partner with the business and help them to understand the analysis and risks. "Telling people doesn't necessarily persuade them that you're right," said West. "To be successful, you've got to take it further. You've got to actually share that data with them. You've got to share that analysis with them, so they could be persuaded that what you're seeing is, in fact, correct. It should be the basis for a decision. I think we (financial executives) have a tendency sometimes to share conclusions and not necessarily share analysis and persuasive analysis."

Key Takeaway Points And Challenges: Show The Business How Better Decisions Can Be Made

Some of the financial executives involved in seeing change and disruption were not involved in ERM processes, while others were either involved or directly responsible for them. In one company, the chief audit executive ran the process but the top financial executive was not directly involved. We are now seeing more audit executives linking their risk assessments with the organization's overall strategy. Despite this organizational difference, the views of the financial executives interviewed regarding identifying disruption and new risks were basically the same. In essence, they shared a common concern for making the business successful (whether or not they were involved in the ERM process).

To manage business risk and the resulting change successfully requires a raised risk IQ. One key to accomplishing this is to ensure that risk is connected to the business. Microsoft, for example, uses numerous ERM-focused employees in many areas of their business to attempt to cover a broader view of risk and to ensure that the businesses understand and manage the risk. These are not just full-time ERM employees, but include function domain risk experts as well who can help raise risk awareness.

Another key to connecting risk to the business includes showing business owners why managing risk is important to them and how it helps them to make better decisions. This can be done by knowing their business areas and learning what outcomes they are trying to drive. As one financial executive noted, use the meetings wisely. Think ahead and plan. Financial executives must earn the right to hold these meetings across the business units. Apply rigor, use the financial mindset, and, again, help them to make better decisions.

Action Steps For Financial Executives

1. Check with your board to determine what information they need about each of the three strategic risk dimensions.
2. Develop a plan to address those needs.
3. Compare your current risks with the three dimensions. Do they all fall into one of the dimensions (perhaps strategic execution risk)? Adjust for any areas that have no associated plans or tools.
4. Review how strategic risk is addressed currently in your ERM process.
5. Know the answer to: What tools have we applied to know that our strategy is the right one? What tools have we applied to determine if we are aligned? What tools have we applied to strategic execution risk?
6. Work with the ERM team to improve the risk IQ and broader risk thinking in the organization.
7. Ensure that risk thinking is seen as part of business thinking.
8. Review the smaller recurring risks for potential surprises. Look for a larger pattern or theme that could signal additional risks.
9. Develop tactical strategies for known risks. Take the risk beyond a map and consider the longer-term budgeting and financial implications.
10. Identify the assumptions in the risk profile rankings. One executive noted that his organization assessed a risk as low, based on assumptions of input product prices remaining at low levels. Huge long-term investments were made and, unfortunately, incorrect pricing assumptions proved costly.

Another key to connecting risk to the business includes showing business owners why managing risk is important to them and how it helps them to make better decisions.

THINKING AND COMMUNICATING STRATEGICALLY

95 percent of financial executives agree the most important key is linking change to the business model and strategy.

KEY FACTOR Identify "New" Risks

Change and disruption create new risks, change the risk portfolio, and may raise the significance of other risks. Some changes will be enormously important; others will have minor implications. This is exacerbated when the company responds and changes direction, creating an ever-changing risk portfolio. Annual risk assessments quickly prove inadequate in this environment. Additionally, there is no history or experience with identifying and managing some of these new risks. One key is to manage these risks without choking innovation or new businesses. As noted above, financial executives should partner closely with the business, enabling them to transition through the changes and new business models.

KEY IMPACT Developing The Mindset Of A Businessperson

This partnering should not be viewed as building ERM. In fact, ERM does not need any of the credit. This is about seeing risks from change, managing the risks, and seizing the business opportunity.

"It's that, as soon as we identify a risk and it elevates to the level of an enterprise risk, which means significant impact and significant likelihood, we don't have any secrets there," noted one executive. "The mitigation plans go directly into the business unit strategy, the functional strategy, the geographic strategy, then the identity of that as an ERM risk mitigation activity disappears at that point. It is simply the strategy of the business."

These changes are easier when the financial executive has this same mindset as the business. "I think you've got to be a businessperson first," said Oracle's West. "I try to approach my job from the top down, thinking about the business, trying to understand what it is that we're trying to accomplish as a business, understanding how we execute operationally, product development, sales, all those things, just trying to have a global view of how we run the business."

KEY FACTOR Understand The Ways Your Company Is Responding

Some CFOs view innovation as identifying how to be more efficient, how to rethink getting the product to the market, or how to target markets differently. Many have developed innovation labs to work on these innovations. Other companies, such as Microsoft, want to be seen as innovative companies that take risks and create new business models. This view leads to encouraging employees to take risks, but to do so in a thoughtful way. Knowing how the organization is responding tells executives where to incorporate strategic risk thinking.

KEY IMPACT Strategy And Vision

The key to understanding the changes and new risks to the business model is to keep the strategy and vision in mind. Consider what the company is selling — a car or transportation or the ultimate driving machine? Software or integrity? A solution or safety? It is critical to understand the core of what you are offering. Managing the risk to software sales is different from managing the risks to integrity. A Microsoft executive echoed the importance of this type of thinking, stating, "This changed the way a lot of people looked at this."

As noted previously, 95 percent of financial executives agreed that the most important key is linking change to the business model and strategy. One financial executive called it the "whole purpose" of identifying the disruption and subsequent risks. The risks facing these strategic visions must be uncovered, managed, assigned resources, and have action taken to improve them. Companies must take a hard look at whether any current ERM process or other risk efforts are addressing these strategic risks. This could require a separate strategic risk analysis.

KEY FACTOR Strategy and the Business Model

With the proper strategic thinking, noise and signals can help your organization to know where the market is heading and where to compete. One financial executive described the thinking, stating, "It's the customer, the global economy, and all those sorts of things that we have to consider. We've got foreign currency that we hedge for, we've got contracts with escalations causes in them. All of those are things that we have to have some embedded knowledge that we can source and integrate together to understand the outcome and impact to our businesses. Not only on existing business, but does it shape the future business that we want to capture?"

KEY IMPACT Rethinking Business Models

Financial executives should use the trends and risk data to rethink the business model and the approach to getting the product or service to the customer. If global data and trends from organizations, such as the World Economic Forum, suggest water shortages or a growing population, executives should incorporate this information into their business models and future strategies.

For current business models, the question might be which one is most at risk and how you (or a competitor, even a competitor you have not thought of) can replace that model. Executives can also ask what new business models and risks, for the company and its customers, arise as a result of these changes.

As another example, with a move toward sustainability, is there a "blue ocean" dimension in which you are not competing? For example, a linear model suggests making a product, selling it, having the customer use it, and having the customer eventually dispose of the product. A new model would be circular and more sustainable. In that approach, companies could work directly with their customers to rethink processes and reduce or eliminate waste.

Another version of the same business model should be considered. There are some basic business models that have generated the most new revenue. Financial executives should apply those models to their current products and services to look for opportunities. As a simple example, if a product is sold to a customer but there are high risks associated with the product, can the model be adjusted so that the product is rented, thereby encouraging the customer to return the product at higher rates than before? That is rethinking and changing the business model.

One executive described the results. "That has tremendous implications for how we design products and how we value what is currently known as waste and gets thrown into a landfill. For example, one of the things that we do is we take a leading position in our electronic materials business … so it can actually be disassembled at the end of the day as opposed to being disposed in some pile in west China. That's a very different kind of business model."

Some financial executives get various business units together a couple of times a year to have a conversation about not just risk, but about business models as well. One executive based his questions on risks and changes, and asks, "What do you see?" or "How can this risk derail the company?" or "What are the opportunities associated with this risk?"

Exercises like these should be extended to the customer's business model. At one organization, the business and risk team meet with customers to review the changes and disruptions that the customer is seeing, in turn asking, "What does this mean for the current relationship between us?" They do not discuss products so much as how to move forward. The financial executive explained, "Those models … will be obsolete at some point. We want to be in the replacement. That's risk management. It's also innovation."

Other important customer business model risks should be addressed. What does your product or service enable customers to do? Why do they buy? Another important question addresses what happens to your customer if you cannot deliver on your strategic plans. Many executives agreed that these risks can be significant (and perhaps larger than other risks currently identified). "Staying close to your customers to know their strategies and interpreting and understanding the (change and disruption) data has been huge for us."

Another executive emphasized the customer business model importance, stating, "I think … it's an understanding of the business model … as much as the business model of our customers. I think that last part is extremely important."

KEY FACTOR Do Not Give Up On Strategy Execution Risk

Although it is not a new idea, companies need to be reminded that they should track key strategic goals as well as risks. One CFO tracks a lot of metrics around the main strategic goals – everything from relevancy, renewals, innovation, and others. The importance of this cannot be underestimated. The new ERM exposure draft from COSO lays out that there are risks around executing strategy. This is not to be forgotten.

Tracking performance around executing strategy is not to be put aside as companies try to manage disruption and innovate on their own. One CFO stated, "If you understand metrics and what drives the business, you can run any company." In some cases, learning to measure strategic execution can be extended to future strategies and business models. By identifying the future business dimensions that may be important, companies can begin to measure them and see if, in fact, that market starts to take off.

KEY IMPACT Measure Strategic Development Risk And Assumptions Risk Analysis

Several executives mentioned that they run experiments and test strategy continually to assess risk. They take a new business model and test it, assessing the risk in different countries and settings. Know and verify the risk. Think enterprise-wide; the risk may be more than financial. Testing avoids the risk of placing large bets before an idea has been vetted.

Understanding the competition is important here. In some areas, speed to market may be more important. One executive explained the risk and redesign link, stating, "Of course, we're not going to invest a whole lot of money, usually, until we can validate those concepts, but it's a constant redesign process. This is part of our risk mitigation program."

Key Takeaway Points And Challenges

Financial executives are in a unique position to take advantage of an integrated approach that sees changes, identifies the risks, and links them to the business model. Because the financial executive may also be involved in investment strategy decisions, there is an opportunity to rethink the assumptions in those choices.

As changes and risks are thought through, along with the business model impact, that evaluation process could challenge investment assumptions. Companies may not get the future right, but there is a clear link between disruption that is coming, future trends, and investment assumptions. As one executive noted, "Everything being integrated helped us tremendously to see the risks from a different perspective."

Action Steps For Financial Executives

1. Ensure identified risks are incorporated into the business units.
2. Have regular sessions to rethink derailment, opportunities, new business models, and the related risks.
3. Understand the business's view of the risk. Engage them. Listen to their point of view.
4. Bring in SMEs, futurists, and others to validate the potential business model and strategic risks.
5. Review trends in cross-functional business teams to determine their impact and opportunities.
6. Measure each dimension of strategic risk.
7. Test new strategic risks.
8. Flush out the financial implications of major risk assumptions.
9. Track identified risks to the strategic plan.
10. Have regular sessions to focus on leveraging the risks into new business models. Do this also with your key customers.

> Companies may not get the future right, but there is a clear link between disruption that is coming, future trends and investment assumptions.

DEVELOPING SKILLS TO ENABLE A FORWARD-THINKING, STRATEGIC FINANCE ORGANIZATION

"The team that spends all the time in the rear-view mirror reporting what went wrong is not successful."

Bob Verbeck, senior vice president, finance, and corporate controller, The Boeing Company

Understanding disruptive risks, building risk IQ, and linking it to the business model and strategy is not the end game. Successful financial executives take the next step and look forward at future value creation. Decisions made with this risk information are aimed toward greater business models and future strategy. "Enterprise risk management consists of a set of forward-looking tools for senior management," said Jeff Pratt, General Manager, Enterprise Risk Management, with Microsoft.

Understanding these changes could require an organization to take some big bets on future changes. Yet one executive noted that financial executives must learn to fail faster and not hold onto plans so tightly. The executive should stay on top and not be afraid to exit businesses before they collapse – a decision that some executives mentioned they never did before the current disruptive environment.

This stance might take some courage. One executive explained, "It does take a while to get to that level of thinking, but we've really remade the company over the last 10 years or so. That's all integrated with the risk management. It's all about seizing opportunity and mitigating the risks."

Organizations are better able to react quickly because they have rethought some key aspects. To move an organization forward successfully requires a conversation about changes, strategy, risks, business model, and the future. As the conversation begins at the executive or board level, it enables the executives to allocate attention, prioritize resources (to the appropriate things), or change the goals. As one CFO added, "Resources must be allocated to things that will drive the business forward." This last part is crucial.

Pulling this information together can help a company to see whether its business model and strategy align with the expected future environment. It may also help a company determine whether they are aligned with their expected (future) customers' business models and risks. Without this degree of analysis, companies are always playing catch-up and only meeting their customers' current needs. Another critical insight here – one financial executive noted that misalignment could also indicate that a company has lost its internal capabilities (as opposed to not just seeing the future). Losing those internal capabilities and core competencies can be a death knoll to a business.

FIGURE 4
Financial Executives Skills vs Needs

Evaluate your own skill set and compare it with your organization's needs. Financial executives who spend most of their time on activities related to Box 1 when the value added is in Box 4 need to rethink their approach. Determine where you could add the most value, and compare those activities with the activities on which you spend most of your time. Ask other leaders and the board where they would like you to be more involved.

KEY FACTOR **Skill Sets**

The themes make it clear that, although knowledge of accounting, finance, Securities and Exchange Commission reporting, and related skills may have helped financial executives move to the top, that knowledge is not enough to keep them successful and able to add the to their organizations. "The more senior role that you play in the organization, the more time you should spend looking forward versus looking in the rearview mirror … it's really about proactively determining where you are going with your responsibility, your business, so on and so forth," said Bob Verbeck, Senior Vice President, Finance, and Corporate Controller, The Boeing Company. "The team that spends all the time in the rearview mirror reporting what went wrong is not successful."

The big challenge, as always, is allocating time. While accounting and finance may have taught these executives to capture data, change and disruption are demanding that they see markets, future business models, and value. The scary (or fun) part is that what they adapt to today may change again tomorrow, meaning that their skill set might be continually evolving. As one executive noted, financial executives must find and dedicate time to their skill set; they must view it as a necessity and an investment. (See Figure 4).

Appendix A summarizes the skills mentioned during our interviews and found in other background research. Some executives feel that, with all the changes happening, knowing when to delegate and when to hire SMEs is important. Others added that they feel a need to stay current and be well-read on changes. Others reported that being humble is a key, as is having the ability to "free-form" the thinking (no constraints type of thinking). Free-form thinking should aim to address big strategic and business model questions. One CFO noted that he applied this thinking and asked questions, such as, "How can we leverage change to drive this place forward?" Executives may want to compare their current skill set with this list. For each skill, assign a number from 1 to 5 for how important the skill set is to your organization. Then honestly assess your team's current skills using the same numeric sale. Any large gaps should likely be addressed.

KEY IMPACT Using The Skills

In addition to formal training and skill sets, several financial executives noted that they spend a lot of time on customer engagement, industry relationships, and interacting with other business executives. These on-the-job and in-the-field times are invaluable. Success in a disruptive world is not sitting at your desk. Others noted that they have delegated some traditional finance and accounting tasks to others in their department so they can spend more time on strategy and forward thinking.

One of the most important skills that came up was in asking the right questions. In fact, many of the other skills enabled the financial executive to develop and practice this skill. One executive explained, "I'll tell you, a lot of it, though, is just trying to use your brain and think about the right questions to ask. What you report and what you analyze is in response to a question you're asking either someone else or yourself. It's really those questions that are the most important thing. If you're not asking the right questions, you're probably not looking at the right things. Taking the time to think about what the right questions are for the business is probably the most important thing."

Throughout this study, many ways to use these skill sets were discussed, but one area stood out. Financial executives should use these skills to enable the CEO and board to make better decisions. "When CEOs wants to do something, don't say no. Say, 'Here are the risks,'" explained one executive. The successful financial executive must exhibit this new attitude, rather than an attitude of "no" or "do not." This attitude helps to manage risks and to illuminate outcomes while highlighting potential solutions and alternative ways that a risk could play out.

Key Takeaway Points And Challenges

Many financial executives have used new skills to enable the board to have the right conversation. The executives also noted that boards expect the office of the CFO to be objective, to bring empirical data to bear on decisions, and to represent leadership. Others noted that decisions brought before the board must be based on facts and data only, and must exclude opinion and ego.

In addition to formal training and skill sets, several financial executives noted that they spend a lot of time on customer engagement, industry relationships, and interacting with other business executives.

Financial executives have an opportunity to help their organizations manage risks in a disruptive world. This requires taking a close look at how the finance organization can develop its capabilities to accomplish this key task. Developing the skills that enable a forward-thinking, strategic finance organization is crucial.

Responses to our interview questions (see Appendix B) indicate that it is critical for financial leaders to think and communicate strategically, with a clear view of the enterprise's existing business model and how it could change in terms of risks and compelling opportunities. "Don't get too comfortable," advised Joseph Reitmeyer, Chief Financial Officer for Lennox International, Inc. "Understand the core business model, the life blood of the company. Know the keys to success and keep an eye on this."

Adopting some of the ideas and action steps developed based on responses to questions in this study may help financial executives and CFOs keep a step ahead of the competition amid a rapid pace of disruptive change.

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Appendix A: Historic and Forward-Looking Skill Sets

HISTORIC SKILL SETS	SUCCESSFUL SKILL SETS GOING FORWARD		
Accounting	Strategist	Futurist	Connector of dots
Finance	Business person	Deep data diver	Interpreter of signals
Strategy	Business models	Skilled communicator	Storyteller
	Risk acumen / risk IQ / enterprise risk management	Good listener	Ability to be persuasive
	Filterer (*going through lots of data to filter what's relevant to the business model*)	Expert questioner	Collector of the right data
		Diplomat	
		Arbitrator	
		Team builder	
		Visionary	

Appendix B: Questions Asked During The Interviews

FINANCIAL EXECUTIVES OR CFOs

The following questions were used during our interviews.

1. How are disruption, change and risks impacting your organization today?
2. What are the best methods and needed skills for seeing and evaluating these changes?
3. What are the best methods for understanding the potential impacts of the changes on an organization?
4. What skill sets are needed by CFOs to manage new strategy and these risks?
5. What tools are needed and does your organization have them in place?
6. How can the COSO ERM framework be leveraged to build the company's core risk capabilities?
7. How can COSO be leveraged to build capabilities around strategic risks?
8. Is your enterprise risk management and strategy setting integrated? If not, could this integration of ERM and strategy setting assist in determining the amount of risk exposure the organization has taken based on its strategy?
9. How does the CFO use their skill sets and tools to interact with the CEO to build a proper business case for improved decision making in operational and strategic decisions?
10. How does the CFO use their skill sets and tools to better interact and communicate with the board?
11. Has the board provided an accepted level of ERM oversight and if not, what might they be missing?
12. How does the CFO use their skill set and tools to communicate the strategy and risks to investors and other external stakeholders?

BOARD OR AUDIT COMMITTEE MEMBERS

1. Has senior management provided the necessary information so you could provide the necessary oversight of the ERM process and if not, what information do you believe you would need?
2. Does senior leadership provide the entity's portfolio of risks and the organizations risk appetite?
3. Has senior leadership discussed the most significant risks along with a risk mitigation plans, and are you confident and comfortable with the plan and approach?

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Financial Executives Research Foundation (FERF) gratefully acknowledges these companies for their support and generosity.

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ISBN # 978-1-61509-222-2