

## **Future CFOs and Current Dynamics – Not Just Another Day at the Office**

Paul L. Walker, Ph.D., CPA

James J. Schiro / Zurich Chair in Enterprise Risk Management

Executive Director, Center for Excellence in ERM

St. John's University

Tobin College of Business

New York, NY

Mark L. Frigo, Ph.D., CPA, CMA

Director, Center for Strategy, Execution and Valuation

Ledger & Quill Alumni Distinguished Professor of Strategy and Leadership

Driehaus College of Business

DePaul University

Chicago, IL

**White Paper 16-1**

## **Future CFOs and Current Dynamics – Not Just Another Day at the Office**

The business world is more volatile and has more significant disruptive forces than ever before. A Deloitte study shows hundreds of companies are experiencing huge swings in corporate value. Another study shows the average life of a Fortune 500 company has dropped from 65 years to only 15, and, in New York City, it only took Uber approximately 18 months to get the same number of drivers and cars that the local taxi organizations had accumulated over decades. Further, considering all the talk about the “Internet of Things” and the dimensions of any company’s unknown future is scary.

Turbulent times require new approaches. McKinsey argues that in such times, one answer is to bring people to the table who have a more strategic skill set. Not surprisingly, CFOs are one source of that skill set that can help a company navigate a risky and rapidly-changing environment.

### **Strategic Skills for CFOs**

Some of the new, more strategic skill sets that could prove valuable have been highlighted. One recent ACCA survey noted the most important areas of knowledge and skills sets needed for future CFOs. The top three broader business knowledge areas needed are knowledge about business value drivers, industry trends, and the risk landscape. The top three future finance knowledge areas are:

- strategy formulation,
- financial insight,
- and risk management.

Over 79% of those surveyed by the ACCA agreed that future finance areas need more emphasis on broader business risks. The same survey highlighted the top management skills for future CFOs: leadership, listening, and change management. Given the disruptive business trends noted above, change management seems imperative.

A presentation by Frigo at the 2015 CFO Summit emphasized the following strategic leadership traits of high performance CFOs:

- They Think, Act, and Communicate Strategically
- They Build and Lead High Performance CFO Teams
- They are Innovative and Creative.

A recent AICPA article added that future CFOs need to be data-enabled; they need the ability to identify the data points that are useful in understanding what drives the business. A Protiviti study concluded that improved analysis is paramount to the finance function. That same study also echoed the significance of knowledge about strategic planning, risk management, executive dashboards, and profitability analysis. McKinsey has added that growth, operations, and international skills are now more in demand for CFOs.

## **Complexity and Dynamics Challenges for CFOs**

But it is not just business disruption impacting the finance function. Other trends reveal additional challenges. One is an ever growing set of changes and increased complexity in regulations, compliance, treasury, accounting and controls. In other words, the basic knowledge that a CFO needs is getting more complex and is growing (not shrinking).

With the pressure and some trends showing a shrinking finance headcount, increasing automation, and more requests to oversee other functions within an organization, it makes one wonder why the CFO position is so coveted. The pressure definitely impacts the job but it also impacts who is worthy or sought after for the CFO position.

One study notes that tenure of CFOs is down and McKinsey reports that 25% of new CFOs are external hires (and that the % is growing), implying that CEOs and boards are searching for the right skill set and frequently not finding it within their own organizations. The Wall Street Journal recently noted that boards are getting more involved in choosing CFOs. There is an unmet need in many organizations to develop the talent and skills that can lead the future finance organization. This suggests that those seeking to be CFOs or who are currently there take the disruption and call for new skills seriously.

## **Flipped or Tossed?**

Some have argued that once someone makes it to the CFO level that the skill set gets flipped. According to the Rottman study, the thought has been that

getting the CFO's job was 80% technical and 20% leadership but, once there, it becomes 80% leadership and 20% technical; in essence, the skill set flips. However, the current trends, business disruption, and demand suggest the model is tossed not flipped. What got you there is now the minimum going forward.

### **Expectations and the Road Ahead**

Expectations are changing and CFOs must keep up or face being replaced or marginalized. CFOs must determine what is on the road ahead and which skill set they'll need to be successful. One key lesson from the changes and disruption appears to be that today's CFOs consider that what got them to the CFO function or what made them successful once there (even last year) might not be enough going forward. One CFO notes, "I believe the role of the CFO is fundamentally changing, it is a far more strategic role that has been recognized in the past. A CFO has a particularly unique view into an organization in that they look left, look right, up and down and generally have more SME knowledge than any other C executive... I see the CFO as the right hand person to the CEO and more than ever before have a better chance of succeeding the CEO. The CFO's chief responsibility (in my view) is the management of risk throughout the business not just through the financials."

Darren Heffernan, CFO Trintech.

## References

- Odgers Bernston and University of Toronto Rottman School of Management. 2015. *Developing the CFO of the Future*.
- Deloitte. 2014. *The Value Killers Revisited: A Study in Risk Management*.
- Frigo, Mark. L. 2015. *Developing a Focused Growth Strategy – the Role of the Strategic CFO*. Presented 5/15/15 at the CFO Summit.
- IMA and ACCA. 2014. *The Future of the CFO Function*. Accountants for Business Global Roundtable.
- IFAC. 2013. *The Role and Expectations of a CFO*.
- McKinsey & Company. 2013. *Today's CFO: Which profile best suits your company?*
- McKinsey Quarterly. July 2012. Becoming more strategic: three tips for any executive. Michael Birshan and Jayanti Kar, page 6.
- Perry, M. *Fortune 500 firms in 1955 vs 2014*. Available at:  
<http://www.aei.org/publication/fortune-500-firms-in-1955-vs-2014-89-are-gone-and-were-all-better-off-because-of-that-dynamic-creative-destruction/>
- Protiviti and FERF. 2015. *The Rising Tide of Finance Challenges*.
- Wall Street Journal. March 31, 2015. *Boards join in on CFO picks*.

## Bios

**Dr. Paul Walker** co-developed one of the first courses on Enterprise Risk Management (ERM) and has done ERM training for executives and boards around the world. This training includes helping boards develop risk oversight practices, benchmarking ERM practices, advising organizations on ERM process development, and identifying unknown risks. He has also researched ERM at the headquarters of companies such as Wal-Mart, Microsoft, DuPont, Intuit, Harley-Davidson Inc, Raytheon, and others. He has written extensively on risk and ERM including the books *Improving Board Risk Oversight through Best Practices*, *Making Enterprise Risk Management Pay Off* and *Enterprise Risk Management: Pulling it All Together*. He has also coauthored several articles on ERM including: *Is your Board Ready for ERM*, *The Strategic Advantage of ERM*, *Managing Risk: An Enterprise-Wide Approach*, *A Road Map to ERM*, and *ERM and the Strategy-Risk Focused Organization*. Dr. Walker was a consultant to COSO on their Enterprise Risk Management framework. In 2014, Dr. Walker was nominated to the COSO ERM Framework Advisory Council. Dr. Walker was also selected as a 2011 Deloitte CFO scholar. You can reach Paul at 212-284-7011 or [walkerp@stjohns.edu](mailto:walkerp@stjohns.edu).

**Dr. Mark L. Frigo**, CMA, CPA is director of the Center for Strategy, Execution and Valuation where he leads the *CFO Strategic Leadership Initiative* in the Kellstadt Graduate School of Business, the founder of the Strategic Risk Management Lab and Ledger & Quill Foundation Distinguished Professor of Strategy and Leadership in the Driehaus College of Business at DePaul University in Chicago, Ill. Author of seven books and over 100 articles, his work is published in leading business journals including Harvard Business Review. Dr. Frigo is a Certified Public Accountant (CPA), a Certified Management Accountant (CMA) and holds a Ph.D. in Econometrics. He is co-author of best-selling book *DRIVEN: Business Strategy, Human Actions and the Creation of Wealth* which is used by CFOs and management teams to drive superior performance and *Strategic Risk Management: A Primer for Directors and Management Teams* and forthcoming book by Stanford University Press. Dr. Frigo presents keynotes, executive education programs, and executive workshops throughout North America, Europe and Asia-Pacific. He serves as an advisor to CFOs, executive teams and boards in the area of strategy and strategic risk management. You can reach Mark at (312) 362-8784 or [mfrigo@depaul.edu](mailto:mfrigo@depaul.edu).