

THE CHIEF FINANCIAL OFFICER



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The job of CFO is not for the easily discouraged or fatigued.

If you ever took an interest in ancient Roman art and artifacts, or if you ever took high-school Latin, you may recall a deity named Janus. His special talent: He can see in opposite directions simultaneously, in one glance taking in past and future, global and local, inside and out. Today's corporate chief financial officer needs much the same range of vision.

The CFO position demands, as it always has, a high degree of technical competence in financial control and reporting. But the current environment, with its intense focus on corporate governance and transparency of information, also calls for a CFO who is an exceptional communicator. Of all the skills required in a top CFO, none is more valuable than the ability to build confidence and trust. It is as important among internal constituencies, including the CEO and the board of directors, as it is with crucial external constituencies—especially regulators, banking institutions, investors and the media. Indeed, the CFO, along with the CEO, increasingly is the public face of the corporation. In the coming years, demand will likely continue to grow for CFOs who can step up to a prominent leadership role and show the face of business at its best—successful as well as honest, ethical, and straightforward.

Through our experience conducting hundreds of CFO searches a year worldwide, we have witnessed a steady evolution and expansion of the CFO job. No longer merely a staff function, narrowly focused on the mechanics of finance, the CFO position now encompasses many different corporate activities and thus calls for an equally wide range of competencies. The CFO is intimately involved in treasury operations and tax planning, financial controls and regulatory reporting, strategic planning and risk management, organizational design and corporate communication. Above all, the CFO is one of the CEO's strategic partners—not just "running" the numbers but also providing valuable counsel on running the business.

Two people who have helped lead the development of the modern CFO, are Dow Chemical CFO Pedro Reinhard and Michele Burns, CFO for Mirant Corporation. Reinhard has more than 30 years of experience as a senior financial executive and is a leading

practical authority on corporate governance. He sits on the board of Royal Bank of Canada, which has been recognized by Canadian Business magazine as Canada's best board. In his current role, Reinhard is responsible for the complex finances of a chemical and plastics company that serves customers in more than 170 countries and has nearly \$30 billion in annual revenues. Burns, CFO for Mirant Corporation, previously served as CFO of Delta Air Lines during the most tumultuous period of the company's history. If any two people know what it takes for a CFO to be the CEO's strategic business partner, Reinhard and Burns do.

The top finance executive's role has been expanding steadily for decades, Reinhard points out. "The CFO job used to be transaction-intensive," he says. "Now it's knowledge-intensive. When I started out, the typical CFO spent most of his or her time on recording and reporting. Now the CFO is expected to contribute to a strategic assessment of the company and to developing corporate strategies—and sometimes to leading those strategic efforts."

The CFO's sphere of responsibilities has grown so large that it touches nearly every facet of corporate activity. Burns maintains, "Creating, enabling and controlling corporate infrastructure have thrust the CFO to the corporate frontline. Whether these role expansions be in strategic risk management or driving the IT advancements to achieve productivity gains, the CFO is at the forefront of each pendulum swing in business."

Therefore, it is essential for the CFO to have a close working partnership with the CEO and the rest of the senior leadership team, as well as with the board. In fact, one of the most challenging elements of this very demanding job is the work of developing and maintaining lines of communication with various internal and external constituencies. With corporate information of all kinds, but especially financial information subject to unprecedented levels of scrutiny, an organization can differentiate itself with a CFO who can communicate clearly, forcefully and above all, credibly.

EXPERIENCE MATTERS

In financial reporting, nothing enhances credibility more than experience in the field. Most CFOs whose career paths include

stints at audit firms or in the finance departments of top corporations have an assurance and confidence that just can't be faked. Burns believes, "A CFO's familiarity with the nuts and bolts of financial reporting supplements her interactions within the organization, especially with the CEO, the senior leadership team and with board members. Just as important, it sends a powerful message to nervous markets." Hurt by their embrace of everything new, untested, and untried, investors are once again seeking out the voice of experience.

Of course, it's not just investors who appreciate the value of experience. More and more CFOs are coming to the post fresh from operational assignments—in fact, some of the most prominent large-company CFOs are former CEOs of small or mid-size companies. Coupling a sound foundation of financial mechanics with practical expertise, these executives have established finance as a key role in the strategic process, linking business, financial, human resources, and information systems strategies into a comprehensive whole.

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Team-building is one of the most valuable skills that operating experience can teach financial executives. CEOs and boards are looking for CFOs who can assemble strong teams to produce financial reports, conduct internal audits, run

tax and treasury operations, oversee pension and venture capital investments, handle mergers and acquisitions, and manage relations with creditors and shareholders. In particular, companies will be competing to field best-in-class financial reporting and compliance teams, and they will look to CFOs to lead the effort. CFOs also have a responsibility to attract and develop a line of leadership succession within their group. Shaping a culture of excellence, integrity and accountability, articulating a vision and focusing the team's energy—these are all vital components of a CFO's skill set—and are as vital as technical proficiency.

There's another group that claims much of the time and attention of today's CFO: the senior leadership team. Organizations have grown so complex and the business environment so competitive, that corporate management has become, of necessity, a matter of networks. Recognizing that collaboration isn't just a good idea, it's the only way to tackle the challenges confronting business, a growing number of senior corporate leadership teams are meeting monthly or even more often for intensive strategy reviews.

"At Dow," says Reinhard, "we spend a week together every month on the various issues we have to deal with, whether it's margin compression in our mainstay chemical business or integrating our acquisition of Union Carbide. As much as anything, it's a chance to share tacit knowledge—what works, what doesn't. That

cross-fertilization is what you get from a network, a 'boundaryless' team, if you will, that you can't get from a strict hierarchy."

Burns contends, "In times of crisis, the seamlessness of the leadership team is critical. The CFO's capability to quickly grasp and communicate the short- and long-term financial ramifications of decisions is paramount."

Corporate boards can be management's most valuable resource in turbulent times, and CFOs should be prepared to work intensively with directors. The days of the once-a-quarter call from the head of the audit committee are over. With renewed energy for their fiduciary duties, directors are taking an active interest in details of strategy, compensation and financial reporting. As such, many CFOs are now speaking with the head of their audit committee on a frequent basis. Once again, the work of managing the relationship with the board calls for top-notch communication skills and the ability to foster collaboration. The best CFOs embrace the opportunity to interact with board members. They welcome the increased scrutiny as an opportunity to improve corporate performance and enhance the long-term value of the enterprise.

CONTINUALLY ADDING VALUE

Constructive engagement with the board is just one way CFOs fulfill their overriding mission, which is to increase long-term shareholder value. "As CFO," says Reinhard, "you're always looking at the interplay between the company and the financial markets and seeking opportunities to add long-term value." And there are always opportunities, he says, either through productivity enhancement or a more proactive approach toward risk management, or improved allocation of capital, or better decision support. "It's the CFO's job to add value," he points out, "even in adverse environments."

Over the next few years, even the best-run organizations will have to contend with numerous attempts at legal and regulatory corporate reform. CFOs have found themselves at the center of their organization's corporate governance reform efforts. By working to make the process collaborative, CFOs can help government produce genuine reform rather than rules that stifle innovation or otherwise burden business.

By now it should be plain to see that the job of CFO is not for the easily discouraged or fatigued. It is a high-capacity position that calls on a wide range of skills and competencies. Not so long ago, many CFOs were basking in the glow of ever-increasing stock prices and ever-improving earnings. More than a few forgot that old proverb: "Never confuse brains with a bull market." But today, the job of CFO doesn't look easy or glamorous. Nor should it. The CFO of any corporation holds one of the toughest jobs in business, and it's getting tougher. At the same time, though, the CFO is continually moving closer to the strategic center of the corporation. The organization of the future is taking shape today, and as a strategic partner of the CEO, the CFO is a key collaborator in the transformation. 