# CFO agility in the spotlight: Balancing current risk and future viability

CFOs have had to radically shift their focus to sustain their companies during the COVID-19 crisis and position them for strength in the aftermath. Most will benefit from improving their adaptability, resilience, learning, and foresight.

The first call the CEO makes in a crisis with economic disruption like COVID-19 is to the CFO. And the CFO is typically the second person board members call. The CFO is a crucial source of information for all internal and external stakeholders on looming questions such as: Can we survive? How long will our cash last? What are our biggest risks? How do we manage them? Are our creditors calling? Could better analysis soften the blows we're taking? Are you guarding the safe?

These questions are neither pleasant nor easy, yet far too often during this pandemic we have seen that the answers are worse than the questions—and that even when it's crucial to have answers, CFOs may have to fight to be heard. In many recent conversations with CFOs, we have heard both encouraging and tough stories about how they are operating differently and leading their organizations through difficult trade-offs. One CFO we talked to recently said he had to become bolder and more "in your face" to help his CEO meet the realities head-on. Few CFOs will face such an extreme situation, but most have shifted their focus during the pandemic from supporting growth to practical skills—such as cash flow planning, debt compliance, currency and risk hedging, scenario planning, and stress testing. Additionally, CFOs are now negotiating with vendors from landlords to banks to capital providers, bending the cost curve while maintaining access to capital and the right advisers. Some finance teams are finding shortcomings in their digital transformations, including failures to pull together data and metrics from disbursed subsidiaries. This has as much to do with getting a full handle on goods flow and currency risks as with simple cash management. One treasurer even told us that stimulus payments had been automatically sent to bank accounts the company was not aware it had.

In the face of all this, CFOs today need to be more agile than ever before to help their companies survive now and be in the best position to thrive as the crisis fades. Some are failing the test: in the past two months, CEOs and boards have asked us to find their organizations new CFOs notably more often than usual. Many others are at the core of leading their organizations through this period. Heidrick & Struggles research has shown that agility requires four skills: adaptability, resilience, learning, and foresight. In this article, we explain why each matters and how CFOs are increasing their own, and their organizations', agility.[1]

1 For more on the research underlying our view of agility, see Heidrick & Struggles, "Developing leaders for the 21st century: How leaders can mobilize, execute, and transform with agility," February 8, 2018, heidrick.com.

## **Adaptability:** Shifting priorities quickly to create new finance practices and ways of working

CFOs have reinvented their practices and core competencies overnight. Some changes have been simple: for example, since timely cash management is critical to survival, many now start their day with cash monitoring to stay on top of liquidity risks and assess the magnitude of payments outstanding from customers; they are also continuously revising cash forecasts. Some changes have been far more complex: for many CFOs, the tough reality is that they must adjust costs due to shrinking revenues and in expectation of a deep recession. Even one CFO who is hopeful that volume and demand will ultimately rebound said, "How we deliver those products and services will need to change to improve margins."

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One retail CFO had to reduce staff faster than she ever could have imagined while also changing the business model; she told us about the degree of change she had managed in developing a buy online/pick up in store solution in just 21 days. Although the solution isn't perfect, such a project would have taken up to a year before the crisis and might have been no better. A different retailer doubled down on its web business to counter revenue loss from stores, changing several key metrics. Yet another CFO who had been against a work-from-home approach in the past was surprised to see the most efficient and effective closing of the books in 14 days, all virtually, and told us, "We may never go back to the way things were. I was wrong."

CFOs are also adapting to support their partner networks and supply chains. Many are finding, for example, that business partners are willing to discuss previously non-negotiable terms on payments, both out of empathy for shared circumstances ("everyone is in the same boat") and because changing terms prevents a cascading effect of non-payments. To inject liquidity into the system and facilitate the downstream chain, one CFO particularly focused on accelerating payments to suppliers suffering most.

Following are some of the best practices CFOs are engaging in to adapt to the current environment:

**Reinvent finance practices in real time.**

The old models are not fluid or flexible enough. Successful CFOs let go of the old playbook and invented a new one overnight.

**Value speed over perfectionism.**

Many CFOs want all the i's dotted and t's crossed, yet in a crisis it is more important to balance attention to every detail with acting quickly. CFOs can protect against risk by taking some chances while they are still viable—and must realize that inaction is a decision in itself.

**Deploy a devil's advocate.**

Surviving a crisis requires leaders to hear divergent views, break old models, and reimagine ways of working better suited to the moment.

**Be empathic yet honest.**

This is the time for CFOs to engage, whether or not that is part of their regular leadership style. People not demanding CFOs' attention may be avoiding them for fear of hearing bad news or adding to their burdens, yet CFOs who are authentic, engaged, and caring will send a positive message to the whole organization.[2]

2 For more on the role of authentic leadership in the crisis, see Rose Gailey, "Leading through the crisis by counting on purpose and values," Heidrick & Struggles, March 31, 2020, heidrick.com.

## **Resilience:** Leading with purpose to address fear, dislocation, and tough choices

One retail CFO we talked with lauded his CEO for "not allowing us to let go of the mission," which should help the company maintain strong customer and employee loyalty—perhaps even more so coming out of the crisis. Some companies have used their organizational purpose to guide decisions that had to be made quickly to preserve economic objectives and ensure business continuity. Others have used their purpose to think through accommodations to provide flexibility with deadlines, address fear, or sustain psychological or physical safety. CFOs are deeply involved in all of these decisions and can speed access to funds and resources, for example, to build barriers for cashiers at essential stores or for the IT function to set people up to work from home.

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CFOs are charged with making trade-offs that can affect the resilience of the entire organization. One CFO, for example, made the conscious decision to cut costs across the board to get some discretionary income, and another told us about trying to balance a focus on the long term with dealing with the fact that some locations are at risk in the short term.

Following are some of the best practices CFOs are engaging in to ensure they and their organizations become more resilient:

**Lead with purpose.**
Connecting tough crisis finance decisions to the organization's larger purpose, and making trade-offs transparent and clearly driven by broader purpose and aspirations, can give stakeholders more context and help them better accept hard calls.

**Prepare for setbacks.**
CFOs are more aware than most of the risks, trade-offs, and potential unintended consequences of short-term crisis decisions. Though avoiding perfectionism is crucial to adaptability, CFOs must also prepare themselves and the organization for the fact that some actions just won't work as planned.

**Take accountability.**
CFOs who hold themselves and others accountable can better retain trust across the organization. This includes focusing on what the CFO can control and avoiding a culture of blame when things go wrong.[3] It also involves fortifying the finance organization across tax, treasury, insurance, controllership, and other areas.

3 For more on avoiding a culture of blame during the crisis, see Steven Krupp, "From blame to gain: Leading with agility in a crisis," Heidrick & Struggles, April 2, 2020, heidrick.com.

## **Learning:** Testing ideas, experimenting, and iterating in real time

The speed of change is requiring all leaders to learn and exchange information faster than before the crisis. Some CFOs are learning from clients or partners that may be changing more quickly, while others are watching how things unfold in countries where the pandemic peaked earlier, to learn from the successes and failures of those governments and companies. CFOs are also concerned about growing friction between nations that might hamper the free flow of goods for some time and how their own organizations will need to get creative if industries get destroyed or revamped.

One CFO told us that she posted a COVID-19 FAQ on her investor relations webpage and used responses to it to learn about shareholders' concerns, allowing her to create a feedback loop in which investors are continuously updated. CFOs are also looking to the past—particularly to the 2008 financial crisis—to see how uncertainty played out, how long it took to bounce back, and how similar challenges were handled.

Finally, CFOs are learning from their own data. One CFO, for example, oversaw the development of a system that uses employee data to track productivity throughout the workday. This tool showed a 1.3% increase in non-productive time, and the company's leaders adjusted targets to address it.

Following are some of the best practices CFOs are engaging in to speed learning:

**Be transparent.**

No CFO has ever faced a crisis or uncertainty of this magnitude, and they are all learning as they go. CFOs should be up front about what they do and don't know, be vulnerable, and put a premium on being curious and open to new learning for themselves, the team, and the organization at large.

**Run small experiments.**

A crisis creates opportunities to invent and innovate. Although people don't always see the finance function as a source of innovation, given that the function is reinventing itself in real time, learning fast via trial and error will help it find the right path—as will, as the saying goes, "not putting all your eggs in one basket."

**Conduct after-action debriefs.**

Experiments yield sustained learning only following a thoughtful after-action review. Finance leaders can help make this an egalitarian exercise—what the military calls a "stripes off" conversation, where anyone can speak truth to power and the CFO is not to be feared. Ask, "What can we learn from this?" and "What more can we do?"

**Correct course based on disconfirming evidence.**

The key here is the dispassionate search for disconfirming evidence. The human tendency is to seek information that reinforces our forecast, and even the most analytic CFOs can fall prey to such confirmation bias when they are the ones who have made the plans.

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## **Foresight:** Anticipating and being prepared to pivot through the rapidly changing crisis

CFOs have an outsized role in projecting and forecasting future financial performance. These projections have typically been purely financial models, built off past performance and based on assumptions of business as usual. Even through past crises, CFOs modified these models a bit and did their best. Now, unprecedented numbers of companies have pulled their financial guidance—preexisting assumptions just don't work, and modifications that might have offered a guide in the past are insufficient for precise forecasting through COVID-19. CFOs need new approaches to looking ahead.

In projecting future financial performance, preexisting assumptions just don't work, and modifications that might have offered a guide in the past are insufficient for precise forecasting through COVID-19.

One CFO told us that although the crisis highlights a need for scenario planning, in reality, "we need to shift from an annual plan to a rolling forecast, to adapt and react quicker," because uncertainty is now the norm, not the exception. Another told us early in the crisis that her team was modeling four different cases for return to work, from six weeks out to six months out.

Whenever a return to the office becomes possible, CFOs are wondering how they prioritize bringing the workforce back to the office, especially if everyone is operating efficiently from home. At least one CFO thinks "back to normal" is at least 12 to 18 months away. Another told us, "We have been reexamining our space usage for about one or two years already. Although COVID-19 is a terrible crisis, it has given us more tools to make an informed decision, particularly on productivity levels." Options such as performing temperature checks on people entering an office building, which is not cheap and requires negotiation, may also shift costs.

Following are some of the best practices CFOs are engaging in to gain as much foresight as possible:

- **Scenario plan 6, 18, and 36 months out.**
  The best way to move beyond point forecasts, and typical planning assumptions or financial models, is to stretch the organization's thinking using scenario planning, which can force leaders and teams to look further out and seriously consider a range of possible futures.[4]

- **Balance short- with long-term planning.**
  Stress-test crisis-mitigation plans and financial projections against likely future scenarios to anticipate unintended consequences or blue-skies-ahead opportunities, and make sure that short-term decisions don't hamper long-term resilience.

- **Conduct a pre-mortem.**
  Before implementing crisis decisions, investments, or cuts, brainstorm what could go wrong. Deploy contrarian thinkers to challenge assumptions and provide counterpoints. In a worst-case scenario, teams will discover a flaw. In the best case, teams will know what to monitor going forward given all the uncertainty.

- **Think options and seek diverse viewpoints.**
  Most CEOs think in terms of options, but not all are well prepared in advance with contingencies. Under pressure, people default to binary thinking, such as go or no-go, A or B. Foresight in a crisis requires instead A, B, and C. And in developing multiple options, diversity of thought will be disproportionately important given the novel nature of this crisis and the speed at which it is moving. CFOs will gain the most insight when they intentionally seek multiple perspectives and take in the breadth of data that their organization has to offer to see from as many angles as possible.

4 For more on scenario planning during the crisis, see Yulia Barnakova, Eric Skoritowski, and Scott Snyder, "COVID-19 and the future of work: Four scenarios," Heidrick & Struggles, April 14, 2020, heidrick.com.

CFOs are core to their organizations' sustainability, vitality, and growth in the best of times. Now, ensuring the financial viability of companies in the short and long term is harder than ever. As CFOs continue to navigate the unknown, we hope these insights will help them and their organizations thrive through the crisis and beyond.

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