eBOOK

How CFOs See Their Role Changing in 2021 and Beyond

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2020 was not a great year for people who like certainty and predictability. Changes in seemingly all sectors of society made things that were once as fundamental as two and two—how we work and where that work gets done—suddenly up in the air. This year proved that the role of the Chief Finance Officer has never been more important, but it also raised the question: What exactly will that role look like going forward?

This is a group that prefers spreadsheets to tea leaves, but the circumstances have required finance leaders to peer into their crystal balls.

We spoke to seven finance leaders—from CFOs of insurance and healthcare companies to the former COO of a billion-dollar software business—during a CFO roundtable event held Oct. 27, 2020. Under the condition of anonymity, they discussed how their role is changing, the realities they're facing, and what they're focused on for the next year. What they said is off the record, but should be on everyone's mind.

How the CFO Role Has Changed

For years, a CFO's time was spent more or less equally on three primary areas: creating corporate strategy, generating value, and standardizing processes from control and compliance to transactions.

The COVID-19 pandemic, which forced practically all businesses to change the way they work, has rearranged the balance of time spent, with CFOs taking a much larger role in strategy and value-generation, pushing process initiatives to the back burner. According to a survey by Grant Thornton, eight out of 10 CFOs delayed or reshaped innovation projects because of the pandemic.

When finance leaders were surveyed in February 2020, 22% of them said they valued business strategy most out of a set of skills. By May, that number rose to 34%. Operations management similarly jumped from 8% to 28% in a few months. Data analytics and application development saw similar drops in value as CFOs focused on getting through the tumultuous days. This represents a clear shift in thinking from process to leadership and strategy.

However, despite what it might seem like, the pandemic will end at some point. The business need for financial leadership will not. So, are CFOs spending most of their time on strategy and value as a temporary change of the equilibrium, or is it a fixture of the new normal? When terms like "social distancing" and "mask mandates" are finally only a thing of memory, what features of the extraordinary changes brought about in 2020 will remain in 2021 and beyond?

The Time Is Now

2020 hasn't so much changed the CFO's world as exposed the glaring need for a strong financial executive. Many executives have been focused on strategy in the short-term to emerge from the crisis, but there is an understanding that remote work and other necessities have simply accelerated long-term efficiency plans.

Even if a CFO's time settles back into an even distribution between strategy, value creation, and process standardization, it's unlikely that the CFO's newfound leadership role will recede. CFOs can count on seeing financial reporting on their 2021 to-do list, as it always has been, but they'll probably see finance transformation or increased automation as well. They must make room for multiple priorities.

"I think there's a lot of uncertainty, but that has put in place some certainty for us," says the CFO of an insurance company. ***"There are areas that we knew we were probably on older technology, and when COVID hit, it just came to the forefront. It gave us clarity that we need to move faster in these areas that you pushed to the side and you said, 'I'll get to it later.' But the time is now."***

A Matter of Trust

Remote work forced a lot of teams to scramble to accommodate the delicate process of finance reporting, which was not particularly easy even when every member of the team was in the same building. However, working from home or away from the office appears poised to outlive the crisis that caused it, with a certain percentage of employees planning on remaining remote even when restrictions are lifted.

As it becomes increasingly clear that a hybrid model of remote and in-office work will become normalized, finance teams need to deal with the complexity of that concept. New-school technology like connected reporting platforms make remote work possible but for CFOs to effectively lead their newly far-flung teams, they need an old-school principle: trust.

"Trust is earned by delivering over and over," says the vice chairman of wealth management at a financial services company. ***"I need to be sure that [the] management team will deliver on what they've promised."***

"One of the core foundations of trust is competence in your craft. I think that is part of accountability," says an executive vice president at an insurance company. In times of remote work, trust starts with clear communication and expectations, a position shared by a number of executives we talked to during the CFO roundtable held Oct. 27, 2020.

The COO of a technology company mentions, ***"One of the things we try to do is define the boundaries and give people freedom and flexibility in the middle. Having great clarity on the boundaries of what you expect out of people is a really helpful way for you to get that empowerment and also have that accountability. One of the biggest fallacies about leadership and management is you get what you expect. That's simply not true. You get what you inspect."***

But how to inspect when checking on someone's cubicle is technically breaking and entering? Other CFOs provide an answer.

"One thing that we do on our accounting team is we have budgets at the individual employee level that the supervisor sets up on Friday of each week," says the CFO of a health care company. ***"It lays out the expectations for what's on the week ahead, and then the employee fills out the actual. That really allows us to delegate the responsibility to all the staff-level employees, down to even the staff accountants."***

Further, the CFO of an advertising agency understands that the trust goes both ways. ***"One thing that our people are sure of is that they have our support,"*** she says. ***"We increased our investment in learning and development. We have also instituted a worst-case scenario budget and a bonus if we go at least over our worst-case scenario. What we're trying to do in the midst of all this unknown is make sure that the culture remains."***

A Liquid Diet

The shocks of 2020 got CFOs thinking about liquidity, having cash on hand when times were tough. Regardless of whether their organization had debt or not, executives had different strategies that have impacted how they think about their coffers going forward.

"I'm most concerned about liquidity not only from capital markets in the traditional sense, but maybe some of the unthought capital providers: insurance companies, property insurance," says an energy company CFO. ***"I wish I didn't have debt in mounting and short-term maturities. But longer term, it's keeping these other nontraditional and unsecured creditors in the fold, supporting the business, that is really the existential threat...With COVID, we drew down on our revolving credit facility, put more cash on the balance sheet. We've been spending that cash this year, given the issues the company has faced."***

"Unfortunately, we're in a situation where my company's private equity owned and we have significant debt on the balance sheet that has to be refinanced," says the CFO of a health care business. ***"Having gone through this pain of COVID for the last six months and making sure that operational metrics are going the right direction was a big boost in all of the conversations that we're having today on the refinancing."***

Many of the CFOs started planning for the worst case scenario only to be pleasantly surprised when they beat projections. Such protection against disaster was seen as central to a CFO's ongoing role.

"We are prepped for significant risk events to our enterprise," says one insurance executive. ***"For instance, one of the things that we had in play was, look, we need to have liquidity for a 1 in 500 year event—so we were pretty fortunate to be in that position."***

"I don't want to see the base plan. I want to see the worst case plan, and I want to make sure we're covered during the worst case point," says the technology COO. ***"Cash is king. It always will be. And I do think that with the capital allocation side, it is a great time to review all of it, prove where necessary, and ensure you're doubling down on the ones that can provide you with the most growth and help your longevity."***

Enter Innovation

Few of the executives we spoke to anticipate their expanded leadership capacity receding in the future. However, the focus on process that has been paused during 2020 must come back to the fore in 2021. The same survey respondents who said they had shuttered plans for technology projects in 2020 recognized the need to keep innovating even during the pandemic.

"We are known as an innovator in our industry, and we don't want to lose that," says one insurance CFO. ***"So we continue to invest in our proprietary technology and capitalized spending is something that we're going to be continuing at an elevated level."***

If CFOs are being asked to provide more leadership as well as standardizing processes at an increased rate, how do they plan on achieving all their goals when the amount of time in the day remains so frustratingly stuck at 24 hours? Many CFOs have found promise in automation.

A majority of Grant Thornton survey respondents confessed that automation projects were not being delayed, suggesting that efficiency was a goal few departments could afford to wait on. Programs that reduce manual tasks like a connected reporting platform were keys for making better use of the finance team's time.

"We've been really focused on automation in the past year," says one healthcare CFO. ***"The hope is to free up those resources, elevate and train those people so that they can perform higher level functions and let the machines do the easy work."***

The energy CFO insists on finding a balance between efficiencies and cost-cutting measures adding that collaboration between other executives and the historically siloed finance department is a must.

"More partnering. It's less competitiveness than us versus them," says the energy executive. ***"Finding ways to work together and driving synergies to me is critical. It's a non-cash way to get huge transactions done that can benefit all shareholders and all stakeholders."***

The Need for Speed

Perhaps the most important tool in the new CFO’s bag is the ability to move forward quickly. This isn’t a call for recklessness, but an understanding that successful teams are those that can do due diligence fast.

“Part of [our journey] has been to incorporate enterprise risk management into our strategic and innovation thinking,” says one insurance CFO. ***“We make it part of everything you do to ensure that you're not only looking at things that can take the company down, you're also looking for the things that can make your company huge. We're trying to tie those pieces together in a very explicit way.”***

“In times of uncertainty, I do think it's great for the CFO to really look strategically at [mergers and acquisitions] and recommend some companies to look at to either partner up with, buy, merge, consolidate, whatever it may be,” adds a technology executive. ***“This is a very strategic time when the big no longer eat the small. It's really about the fast eating the slow.”***

And the fast are those with more up-to-the-minute data.

"One of the things we felt we needed to do is take our [sales and operations planning] process, convert it from something that used to be monthly to more of a daily and weekly basis," one healthcare executive says. ***"Right now, it's almost like looking at it every day and making sure that we react to it...We are right now in the throes of a budget session, so it's like trying to do three or four different budgets and figuring out which one is the best one to go to. It's a daily, weekly exercise as we go after the end of the year."***

That need for data *now* is another reason the CFO of the near future must find a way to automate outdated reporting processes that make flash reports inefficient or unreliable.

The New Bottom Line Is the Front Lines

So what does the future hold for CFOs? In one way, it looks a little like more of the same—except it's *a lot more*. CFOs will continue to be called on for immediate leadership on business strategy, tasked with generating value for their organizations, and should anticipate a renewed focus on better processes.

Finance professionals have always been about balancing the books. Now they must balance long-term strategy with short-term execution.

"The great CFOs I've worked with are really as much on the execution front as they are the strategy," says the technology COO. ***"Strategy without execution is hallucination. I believe we've got to have great execution that complements great strategy. I've always worked with great CFOs that were able to help make sure that we didn't get out of balance, focusing on one more or optimizing for one more than the other, particularly in these times of uncertainty."***

2020 was a year of great change. A good leader is able to recognize that it was also a year of setting up tremendous opportunity. With more finance executives taking important strides in their organizations' leadership, that may prove to be 2020's legacy on the role of the CFO.

These are the things to think about going into 2021.

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