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BUSINESS GUIDE

6 Leadership Traits of Strategic CFOs

Here's how elite finance chiefs wield influence now

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Here's how elite finance chiefs wield influence now

Since Jack McCullough, president and founder of the CFO Leadership Council, published his 2019 book, *Secrets of Rockstar CFOs*, the world has changed in — dare we say it — an unprecedented way. Elite CFOs have adjusted their strategies to stay on top.

In the dot-com era, tech finance leaders became adept at raising capital. The demise of Enron and WorldCom and the ensuing Sarbanes-Oxley Act necessitated better risk management and regulatory compliance. Then the 2008 financial crash left companies seeking deeper operational insights and stronger internal controls. CFOs with controller experience found themselves in demand.

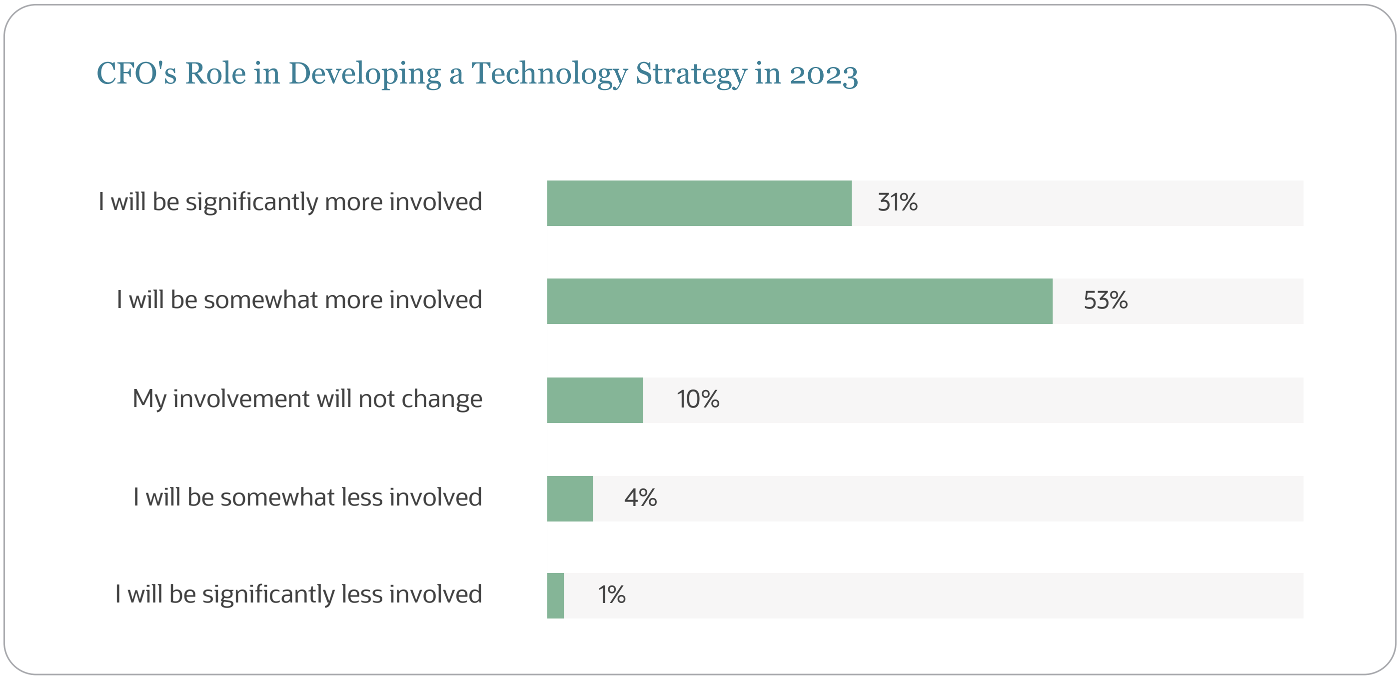
A global pandemic, the Russian invasion of Ukraine, China's zero-COVID lockdown, staggering inflation, and several bank failures are among developments forcing CFOs to adapt now. At the same time, the past several years accelerated changes already in motion for businesses and finance, in particular around technology, data, and analytics.

In this guide, we'll take a deep dive into select steps McCullough says CFOs are taking to thrive in today's business environment and outline actionable items to take going forward.

About our expert

Jack McCullough founded The CFO Leadership Council in 2006. Formerly, McCullough was the director of KPMG's Global Innovation Center, where he worked with early-stage investors, entrepreneurs, CFOs, and other members of the venture community. Prior to KPMG, he served as CFO for 26 startups, raising more than $200 million in capital.

In addition, McCullough is the visionary behind the MIT Sloan CFO Summit, which has been recognized as the world's most influential conference for *financial leaders*. He published his book, Secrets of Rockstar CFOs, in 2019. We caught up with him to learn what he thinks are the *biggest changes* for strategic CFOs since writing Rockstar.



Strategic CFOs Drive a Cohesive Technology Plan
Top CFOs are getting more involved with technology selection because they recognize that not all past IT investments are contributing to a cohesive system that delivers a competitive advantage.

In enterprises, the past decade's pendulum swing from total CIO hegemony to functional leaders controlling tech budgets led to departments purchasing point products that are good at solving one problem and lack integration. In smaller companies, there may be scant strategic technology vision at all.

"I barely touched on technology in *Secrets of Rockstar CFOs*," said McCullough. "I made a very short reference to being intellectually curious and staying on the cutting edge of technology, but if I were to rewrite the book today, I would talk a lot more about how CFOs need to be on the forefront."

Many CFOs are taking lead roles in IT strategy creation even as they champion more investment.

In a recent CFO.com survey sponsored by NetSuite, three-quarters of CFOs said their capital spending on technology for the finance team will increase in 2023 compared with 2022. Further, 84% of CFOs say they will be more involved in developing a technology strategy in 2023 versus 2022.

Several factors are driving this. We mentioned the need to have systems that integrate — point products and data silos hinder decision-making. Another driver is an emphasis on sustainable growth. Continued inflation, high interest rates, and a tough labor market are driving a need to offset growing operational expenses and preserve cash. Technology is proving to be one powerful solution.

As CFOs look toward efficient growth, they are acutely aware of hiring. Talent has ranked high in the minds of leaders for several years as a conglomeration of factors — fewer people in the workforce, increasing wages, and a lack of needed skills — make good hires hard to attract and retain.

As HR expenses mount, CFOs are looking to technology: 83% of respondents in the CFO.com survey strongly or somewhat agreed that they will face critical hiring needs in the first half of 2023. Yet CFO respondents were overwhelmingly likely to cite hiring or retaining talent as the target of budget cuts should they be required. They're unwilling to play the "we'll pay whatever it takes" game.

Instead, over one-third of respondents are likely to increase technology adoption to address workforce issues, and 73% said they're investing in tech to eventually reduce the number of employees needed to run the business.

"The best way to combat a talent shortage is to automate the manual tasks that can be," said McCullough. "CFOs need to be embracing all the incredible automation tools that are available out there and using artificial intelligence to improve decision-making and communications. You have to use technology to make up for the fact that you can't hire quick enough."

Speed is important, but make sure automation initiatives create or sustain competitive advantage. That means they're not piecemeal and will not result in islands of disconnected data.

Takeaway Tips

- Automate resource-intensive areas of finance, like accounts payable and receivable, payroll, and account reconciliation.

  Reading: The CFO's Guide to AR/AP Automation
  AR/AP automation is the No. 1 path to cutting costs, improving customer relationships, reducing overhead, supercharging your team, and minimizing errors.

- Prioritize investments in automating multiple areas of the business, not just finance or manufacturing. For example, make tech investments that let customers serve themselves as much as possible — see where orders are, current discounts, what they've purchased in the past. They can talk to a human, but limiting the need to do so saves everyone time and money.

- Work with your company's CIO to establish a decision matrix for IT spending decisions that address these questions:

  - Is this IT investment aligned with the strategic priorities of the business? Does it contribute to our short- and long-term goals by, for example, automating time-consuming processes or increasing customer satisfaction?

  - Does this system work with the technology we already use? If not, are there alternatives that do?

  - Is it duplicative — if we run one collaboration platform, why pay for another?

  - Do we already subscribe to or own tech from this vendor? If it's an on-premises system versus cloud, do we have the talent to support it?

  - Does it have a clear ROI that will be documented, measured, and actively managed?

Strategic CFOs Are on Top of Cybersecurity Compliance

Finance leaders have become cybersecurity decision-makers, says McCullough, because they're responsible for financial integrity and have the skills to evaluate insurance policies and regulatory mandates.

"Cybersecurity is such a critical issue — CFOs have to be on the forefront," said McCullough. In fact, the CFO Leadership Council's sessions on cybersecurity are the most highly attended.

In a survey conducted by professional services firm Jackson Wells, over 35% of CFOs say cybersecurity is among their highest concerns, and 60% are deeply involved in their company's cyber risk responses and strategies. Yet an Accenture poll showed fewer than two out of five CFOs and CEOs worldwide believe that their companies' cybersecurity adequately shields more than 75% of their operations.

Again, a partnership with the CIO is key.

> "The most successful efforts are done arm-and-arm between the CFO and the CIO or CISO."

Jack McCullough, President and Founder, CFO Leadership Council

For smaller firms, hiring a third-party security provider is an excellent use of funds. Only the largest enterprises can afford to bring this talent in-house. At the very least, look for consultants to advise on purchases.

For example, getting the "right" cybersecurity insurance is more complicated than it sounds. Research shows that a significant number of companies have opted to purchase these policies. However, as ransom demands become higher and threats proliferate, the relatively nascent cybersecurity insurance sector is running into a problem: There might not be enough money to cover losses, particularly if state-sponsored attacks increase.

To address the exposure issue, some insurance companies are making tweaks to the fine print. Global insurance provider Lloyd's of London recently added language to its cyber insurance policies that excludes coverage for state-sponsored attacks, for example.

It's also important to note that every cybersecurity insurance policy requires your organization to meet a minimum set of expectations regarding IT processes, such as asset inventory, patching, vulnerability management, and incident response. If you don't follow policy requirements exactly, you won't be covered.

This is not a time to go it alone. Consultants can review policies and may have insight into which insurers have paid out and which haven't. And this is just one example of where it pays to seek help.

CFOs should also assess the appropriate amount of spending to mitigate risks by benchmarking the organization's cybersecurity investments relative to peers in the industry. These percentages can vary greatly by vertical and the risk inherent in a particular business, so it's crucial to calibrate this assessment properly.

McCullough says spending data is available from consultants such as ThoughtLab Group, Avasant, the Security Industry Association, and Gartner. He is also a proponent of relationship building, through associations like the CFOLC, to network with peers about how they handle security and how you compare.

On average, companies worldwide allocate at least 12% of their IT budgets to information security.

Takeaway Tips

- Don't go it alone. At a minimum, get a third-party assessment of security measures. Better yet, ask experts to help craft the cybersecurity plan you need.

> "Talent knows companies that don't invest in tech are not going to be here for the long run and that they aren't going to be able to develop their own skill sets. You want the best talent; invest in technology as a way to attract them."

Jack McCullough, President and Founder, CFO Leadership Council

- Consider cloud systems to replace aging on-premises software. SaaS vendors spend significant money on security — more than even very large companies could afford.
- Read cybersecurity insurance fine print carefully — all policies are not created equal. Besides legal fees and recovery expenses, good cyber insurance should help pay for:
  - Notifying customers about a data breach;
  - Services to help affected customers deal with disclosure of personal information;
  - Recovering data that may have been encrypted; and
  - Repairing damaged computer systems.
- Quantify risk. When it comes to cybersecurity, board members and other business stakeholders want a dollars-and-cents mindset. Measuring IT and cyber risk exposure in monetary terms helps with risk prioritization as well as resource and budget allocation.

  Don't have cybersecurity on the board's agenda? It should be.
- Train your people. Attackers go where the money is, making the finance team a prime target of phishing and other social engineering exploits. Work with the CISO or your security consultant to create tailored training and protocols for employees who handle financial data to defend against accounts payable fraud and other threats.

  Read: CFOs: To Boost Cybersecurity, Sweat the Small Stuff. Over time, it's the little things that get you: a few bucks here, a stolen customer there. Expending too much mindshare and money on catastrophic cyberattacks is a common mistake.

Strategic CFOs Get Involved in HR Strategies

Finance and talent are deeply intertwined. In fact, elite CFOs see themselves as champions of the company's talent.

"Ultimately, all of our most important assets are people," said McCullough. "And the challenges are really a lot more difficult than they were even a few years ago."

For the first time in history, there are five generations in the workforce, including the most diverse one to date: Gen Z. Each cadre has different wants, needs, and expertise. Other factors on top of that — rising wages, labor shortages, increasing hiring costs, and a lack of needed skills — further complicate the ecosystem.

Part of being a talent leader is the traditional stuff: Creating career growth and development opportunities, embodying a positive company culture, effectively managing your own reports. But where CFOs can really shine is in bringing metrics and data to bear on what can be a squishy area of the business.

For example, while turnover is a favorite metric to track for HR, it's a lagging dissatisfaction indicator. When an employee has left, it's too late to be proactive. Rather, finance leaders at companies looking to reduce turnover and its associated costs should provide HR and executive colleagues with metrics to track and the means to do so easily. For example:

- Track absenteeism by type: Planned and approved, such as vacation; involuntary but approved, for example, taking care of a sick child; and unplanned and unapproved. This last bucket includes employees being chronically late or not showing up for shifts and is an indicator of disengagement, overwork, or personal struggles.

- Identify and engage high-performing employees. Top talent can easily find new positions. Lose the stars and you're left with average and low performers. It's worth quantifying exactly what makes a top performer and expending resources to keep them productive and happy.
- Research benefit and compensation trends, with the aim of providing employees with industry-acceptable pay and shaping new-hire requisitions to make sure departments are budgeting properly for their desired qualifications. Some creativity is in order, such as combining salary and other incentives based on the employee's performance.

Giving an average performer a little extra comp and training is less expensive than a new hire. And don't skimp on employee-facing technology.

Takeaway Tips

- Prioritize digital initiatives that automate rote work. Employees, especially younger ones, want to see their employers making technological investments so they are freed up to take on challenging, exciting, meaningful work.
- Show commitment to talent development through mentorships, one-on-ones, and by sharing stats on internal career progression.
- Make employees part of the company's vision. Clearly communicate how tasks relate to the organization's overall mission.

Strategic CFOs Are Adept Fundraisers

As market volatility continues, CFOs who need to raise capital face a rough road. Many investors are pumping the brakes on new commitments as they retreat from the "growth at all costs" mindset of recent years and look to invest in a smaller number of companies with solid, sustainable revenue and clear paths to profitability.

Some aren't looking at all, instead choosing to focus time and capital on supporting their existing portfolios.

"There were record numbers of companies going public in recent years and, when you look at them, a lot of them you could objectively say shouldn't have gone public," said McCullough. "They just weren't ready. They didn't have a provable, sustainable business model."

As companies vie for funding, CFOs who are masterful storytellers have a real advantage. Cautious investors want finance leads who are capable of building relationships, evangelizing, and handling the unexpected.

A CFO who can make just as strong a case as the CEO is a game changer.

> "CFOs need to be at the forefront of the process. Don't underestimate the role that you as a CFO play in the capital markets. Investors want a good, competent, trustworthy CFO. And there are only so many of them these days."

Jack McCullough, President and Founder,
CFO Leadership Council

Learn More

Better Together: Unify Finance & HR on a Single Platform. Reconciling HR and payroll information with financial information and keeping it up-to-date can take up a lot of time. By unifying them into one solution, manual tasks are eliminated while real-time reports and dashboards provide new workforce insights.

Takeaway Tips

- Keep strong relationships with existing investors through frequent and thorough updates.
  - Transparency is key: Communicate both wins and losses.
  - Prioritize frequent conversations through video or in-person meetings.
- Less glitz, more practicality. For new investors, make sure you are showing the strength and sustainability of your business model with a clear path to growing profits.
- Recognize investors' values beyond finances. Many can make introductions to potential customers or suppliers. In some cases, they find pre-sales beta testers of your product or service. Ask for what you need.
- When seeking funding, make sure you have data that is both complete and up-to-date, the tools to produce compelling visuals, and the ability to construct a narrative. This is where cloud-based ERPs shine. It's no coincidence that since 2011, 66% of tech IPOs have run on NetSuite.

Today's Strategic CFOs Are Strong Communicators

The "CFO as storyteller" trend is emergent for a reason — numbers people are good at turning data into insights.

"More than ever, people are turning to CFOs for leadership and communications," said McCullough. "Especially in times of uncertainty, it tends to inspire a lot of trust and confidence."

Yet while communication skills are more valued now as the finance team works to manage risk, research shows that CFOs may need to up their communication games. In a NetSuite survey, non-finance executives and managers were fairly critical of their CFOs' communication skills, rating them about 19% lower than they rated themselves.

In response, finance leaders are improving their soft and communications skills. Work to deliver data on company performance in a format that is easy to understand. Providing the numbers with clear context on the why and how behind them will make a business case for the path forward.

Takeaway Tips

- Tailor messaging to your audience by learning their priorities and data needs beforehand. Don't overdo it with numbers. Choose a small bucket of salient and relevant metrics that punctuate a point you're trying to make.
- Combine data points to create business insights. Cater to visual learners, and complement your narrative with dashboards displaying relevant KPIs.
- Think forward. CFOs are no longer simply reporting on the past. Connect what has happened with what it means for the future.

  Read: 4 Skills CFOs Need Now and How to Strengthen Them. The CFO's job is no longer just about the numbers; soft skills are more in demand than ever. In this business guide you'll find tips from top CFOs who excel at communication, collaboration, data analysis, and FP&A.

Strategic CFOs Bring the Strategy Mojo

According to McCullough, advancements in technology have removed many of the traditional, backwards-facing financial tasks from the CFO's plate. Instead, their unique position and capabilities are making them a key strategic figure in the organization.

"Ten to 15 years ago, CFOs would tell you what happened; the best CFOs could even tell you why it happened," said McCullough. "But now, they're supposed to not only tell you what happened but tell you what's going to happen."

Specifically, the forward-looking expectation mixed with the uncertainty of the past several years has made forecasting and scenario planning critical areas of strategic contribution for finance leaders. According to a 2022 survey by PwC, 47% of CFOs said their top priority is building predictive models and scenario analysis capabilities.

Exploring the implications of business drivers, analyzing macro trends, and weighing uncertainties will help reduce the risk of becoming too focused on one possible future.

"CFOs are now expected to do the best they can to make reliable forecasts," said McCullough. "And then they need to develop their team and their own skill set to adapt extraordinarily quickly to changing circumstances."

Takeaway Tips

- Balancing strategy with traditional CFO tasks can be overwhelming. Build an effective team and hire a strong controller.
- Implement an integrated planning and budgeting tool to make forecasting and modeling what-if scenarios quicker and easier.
- Get the right data. To create better, more accurate models, finance needs historical sales and sales pipeline stats, headcount and expected growth, actuals from the general ledger, and much more.
- Limit the scenarios you model. Consider probable outcomes — from "low impact on our business" to "potential bankruptcy." Start with a broad slate of what-ifs, then narrow your set before running comprehensive analysis.
- Get to know all areas of the business, and forge partnerships. Peer insights into how their departments tick will let you create more realistic models.

Read: How Top Finance Leaders Engineer Resilience Into Their Operations. Smart CFOs are making moves like baking customer and supplier health into cash flow calculations, developing tiered forecasts with corresponding cuts, and reconsidering their metrics mixes.

The Bottom Line

The traits that make for a successful finance leader are different than they were several years ago — and likely won't be the same several years from now. With their responsibilities being broader and more diverse than ever, CFOs are juggling their traditional responsibilities while taking on a more pivotal role in their organizations' strategic agendas.

The best ones relish the strategic challenge.

As McCullough succinctly put it, "CFOs used to record history. Now they make history."

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