CEO LOUNGE

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# The Anatomy of Rebuilding & Recovery

A CEO LOUNGE INITIATIVE

## The Many Faces of the CFO

*In conversation with*

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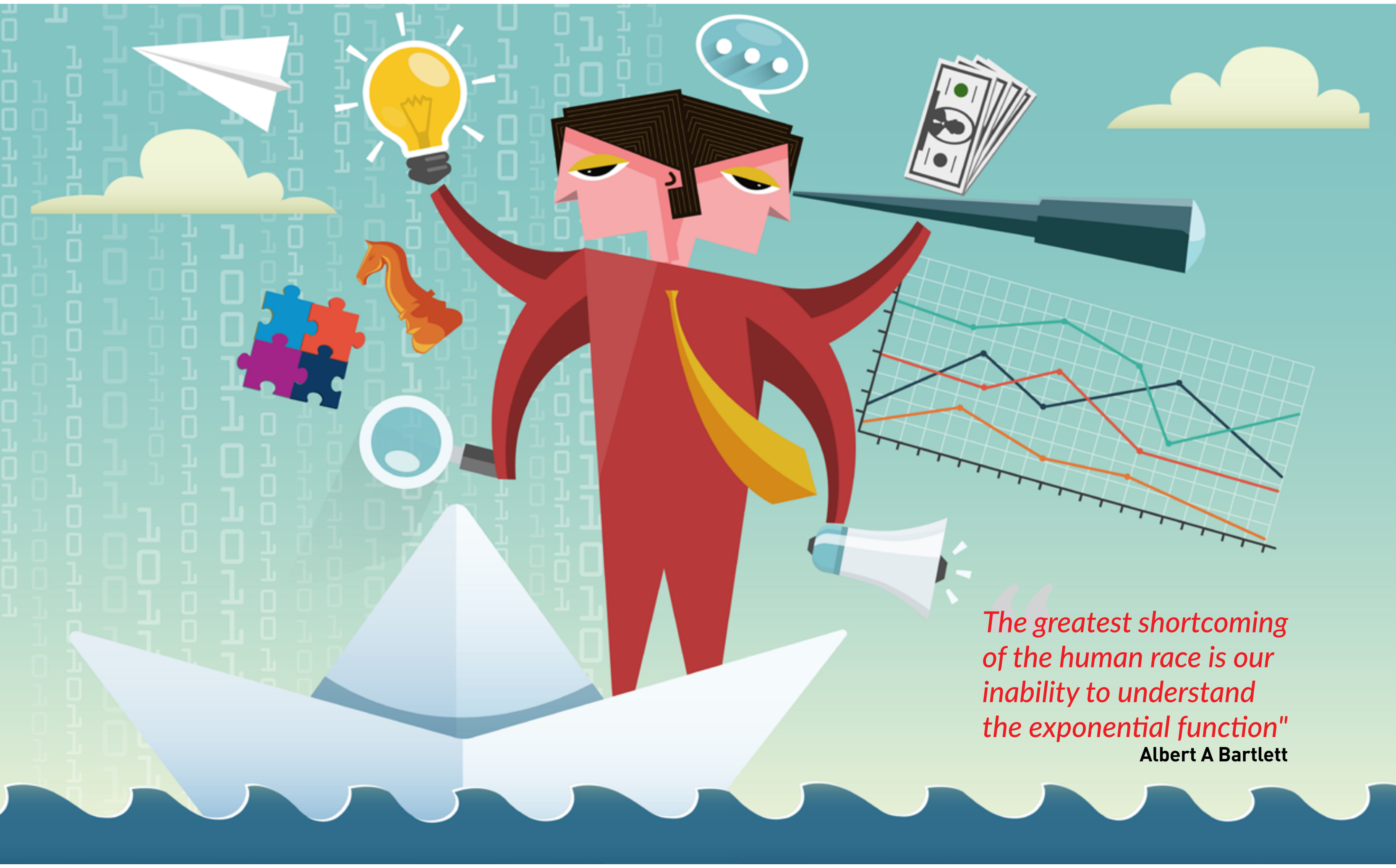
# The Many Faces of the CFO



*The greatest shortcoming of the human race is our inability to understand the exponential function"*
**Albert A Bartlett**

***No longer just number crunchers, the role of the chief financial officer (CFO) is changing dramatically. Transitioning from conservative lords of ledgers to prolific jacks of all trades, today's CFOs are expected to have a unique, ringside view of the entire business. The modern CFO develops insight-driven action plans that fall in line with the business growth proposition. Through strategic foresight, risk classification and identifying the right opportunities at an opportune time, the CFO is a navigator, empowering her CEO to make informed decisions. In this whitepaper, we discuss the changing role of the CFO, evolving into the second key C-suite executive forming a leadership power team with the CEO.***

Words by **Divya Sista**

Today's CFO is at the helm of much more than just business financials. Entrusted with managing the life blood of any company — capital — CFOs today are concerned with much more than just company finances. According to an Ernst & Young survey, the role of a CFO, already widened to include skillsets beyond traditional finance, has been the most impacted by digital disruption.[1] It has subsumed to include consumer- and market-facing responsibilities, technology evaluation, micro-strategies and formulating a robust risk management framework.

## MEET THE CFO 2.0

As the chief of finances, the primary functions of the CFO have traditionally been to steward and operate the business — protecting vital assets, complying with financial regulations, communicating results, taxation and creating a financial action plan.

Captain of the company's financial ship, the CFO's sphere of influence has spread to hold everything from data analytics to digital transformation and finding the right talent. Adapting to changing realities, the CFO's role now includes being a strategist and a catalyst — providing direction to the company and creating a risk-smart culture through creative, economically sound approaches.

## THE FINANCE AND STRATEGY ALLIANCE

The CFOs of today are known to flex different muscles. Against the backdrop of almost every industry, company and business today lies performance. It is measured in the context of transformation and the CFO must don the hat of the change agent. Cross functionality, steering agendas home, and strategising growth become key responsibility areas.

"The most successful CFOs have always been business partners. The context for a CFO has always centred around factors like leadership, collaboration between horizontals and verticals, going beyond book-keeping, and having a holistic view of the organisation's goals. If the orientation of business demands change, every functional leader has to work with the CEO and realign their functionalities with new situations and contexts," remarks Pramod Gupta, CFO, Arvind Fashions.

As Gupta rightly points out, for the CFO, being an effective strategist implies earning a spot at the strategy table, which is not a given. It demands tuning into an orientation that is not only context-appropriate, but also a continuous reflection and adjustment to stay in line with the business growth story.

Another significant know-how is blending vital financial data like cash inflows, sundry debtors with non-financial indicators like customer

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satisfaction and even brand identity. This is precisely the inflection point where finance starts adding strategic value. When links are established between tangible finances and intangible or tangible non-financials, the resultant matrix could be a powerful tool for change management. That said, creating this value matrix can be quite a challenge. At the outset, digital and data may seem the obvious answers, but digital transformation is an entirely different beast to tame.

## HOW, WHEN AND WHO WILL BELL THE DIGITAL CAT?

Digital transformation, taking the business online, tech-disruption, automation — are all initiatives that are driven by both intent and need of the inevitable. However, this is one area that everyone knows is the only way forward, but everyone also often struggles.

"The pandemic for us was a rude wake up call. Suddenly, we realised that we cannot deal with a large number of vendors. The fragmented nature of our supply chain, which was very physical and analogue, became clear," mentions Sandeep Batra, CFO, Crompton Greaves.

There is financial merit and resolve from the CFO to invest and make teams more digital. But how does she decide on the extent of digitalisation, the economies of scale, and impact on other channel revenues?

"While going greener and digital were on our agenda for quite some time, with the board suggesting that we focus on capex, it simply didn't materialise instantly because of the nature of our industry. Automation will take time, our products aren't hi-tech, labour is cheap, and it wasn't like we were institutionalising technology. So, the economics were not exactly favourable in going entirely digital in our case, at least on the manufacturing front," Batra explains.

Striking the digital balance, especially in uncertain times can be challenging, and the CFO now has to carefully examine impact, gauge value addition and introspect if it could be a viable business continuity plan. This translates directly into investments of time and grey cells into newer avenues while monitoring pre-existing financial responsibilities.

From the CFO's standpoint, this can be broadly classified into four distinct technology/ tool categories to help financial verticals fulfil their responsibility in the company's digital journey:

- **Advantage automation:** Automation is a large value-driver in the CFO's new role, serving as a precursor to more digital initiatives to build upon. This could be anywhere between moving from excel spreadsheets to Alteryx systems, or something simple like digital invoicing so the team does not have to invest time. Any process that can take care of itself accurately with minimal oversee is a win.
- **Data visuals and dashboards:** The market is flush with data visualisation tools. They can be extremely helpful, especially in the FP&A (financial planning and analysis) area. A data visualisation software and a dashboard analyses data and demonstrates multiple views to help make an informed decision.
- **Financial data analytics:** An offshoot of the FP&A, analytics can be combined and compared with the budget to help draw a progress sheet or determine the drivers of variance. Data analytics is an arsenal no business can afford to not invest in.

  "Actionable insights from data are more important than just data. Investment that drives basic processes should be a priority. The only way we can reduce dependence on people is through technology or tools that give you data converted into actionable insights," Batra rightly affirms.
- **Cross-functionality and integration:** Every functionality is driven by financial economics. It becomes pertinent to therefore integrate systems across verticals to make it agile, responsive and nimble. This could mean integrating traditional ERP systems with the supply chain while drawing data from them, homogenising the technology and tools across teams, and help them communicate for better deliverables.

"Omni-channel has been the buzz in FMCG and retail. But it entails much more than just setting shop online. It involves a herculean task of assimilating, discovering and creating visibility for all the inventory everywhere in the business," points out Gupta.

"Digital transformation is therefore also about the fulfilment engine, prioritisation, incentivisation and REM structure around the whole supply chain," he adds.

## THE GAME-CHANGING CS OF C-SUITE: COMMUNICATION, COVID AND COLLABORATION

The beauty of technology is that it changes all the time. With open source, internet penetration and the upswing in

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the knowledge economy, there is a new technology that could potentially disrupt business as we know it at every turn. The CFO's challenge lies in understanding what could be a potential game changer for the business versus what could be an Apple Newton or Amazon's Fire phone — brilliant pieces of technology, now silently lying in the technology graveyard.

The finance function is the core, collaborating with every other vertical of the organisation, providing metrics and accurate value-based performance insights. It is a team that every other functionality looks up to for reliable data. Finance, therefore, has both great power and great responsibility — an opportunity to pivot transformation, digital or otherwise.

This power is on the rise and as companies move towards data-driven actions, the finance function has the potential to spearhead collaboration and add value with foresight. CFOs now use this widely acknowledged and recognised aspect to communicate across teams, drive decision-making, and even influence using information. The desired result is an agile business, that does not lose sight of its long-term financial plan.

"The agility of your response is far more important than the accuracy of your forecast. The pace at which technology is changing, or things are moving — it is easy for people to get paralysed or create scenarios. Often these scenarios lull us either into a sense of panic or corner us into a comfort zone," Batra points out.

That said, the pandemic has been a black swan event that threw even the best brains off track. Even business continuity plans were not prepared to handle an uncertainty of this dimension.

"Initially the supply chain was choked artificially because of the lockdown. But as the lockdowns kept getting extended, it became a nightmare to get back on track. In the textbook of any risk manager, this would be the scenario that the probability is low, but impact is high. It is therefore important to plan, but more important to act," conveys Batra.

Crises can be great teachers. While not every stress in the balance sheet can be attributed to the pandemic, Covid-19 has taught every industry invaluable business lessons. One aspect every CFO agrees upon is that it heavily underscored the importance of cash, where being moderately conservative helped.

"All of us are custodians of shareholders' and stakeholders' interest. When we grow rapidly, we may collect a few growth debts. The pandemic has affirmed the old adage that revenue is vanity, profit is a concept, and cash a reality. It helps being conservative during crisis situation and conserve cash," reflects Gupta.

*"One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man."*

**Elbert Hubbard**
American writer and philosopher

## THE EVER-EVOLVING FUTURE CFO

With responsibilities and destiny tied to business growth, the role of the CFO is rapidly changing, advancing towards a more collaborative, strategic and analytical role. Being IT-savvy is a must even in finance, coupled with the soft skills of trust and clarity in strategic decision-making. The speed of evolution makes this a tough ship to steer.

"How can I create a balance between channel shifts and sunk costs? The final equilibrium is always between what the sudden jump is and what it earlier was. Long-term transformation between physical infrastructure, short-term cash measures, capital allocation, communication between channels are all crucial and very real issues," answers Gupta.

But in all these challenges lie opportunities. CFOs can yield power and have the choice to create, envision and be change agents in addition to their traditional role expectations of budgeting, taxation and profitability.

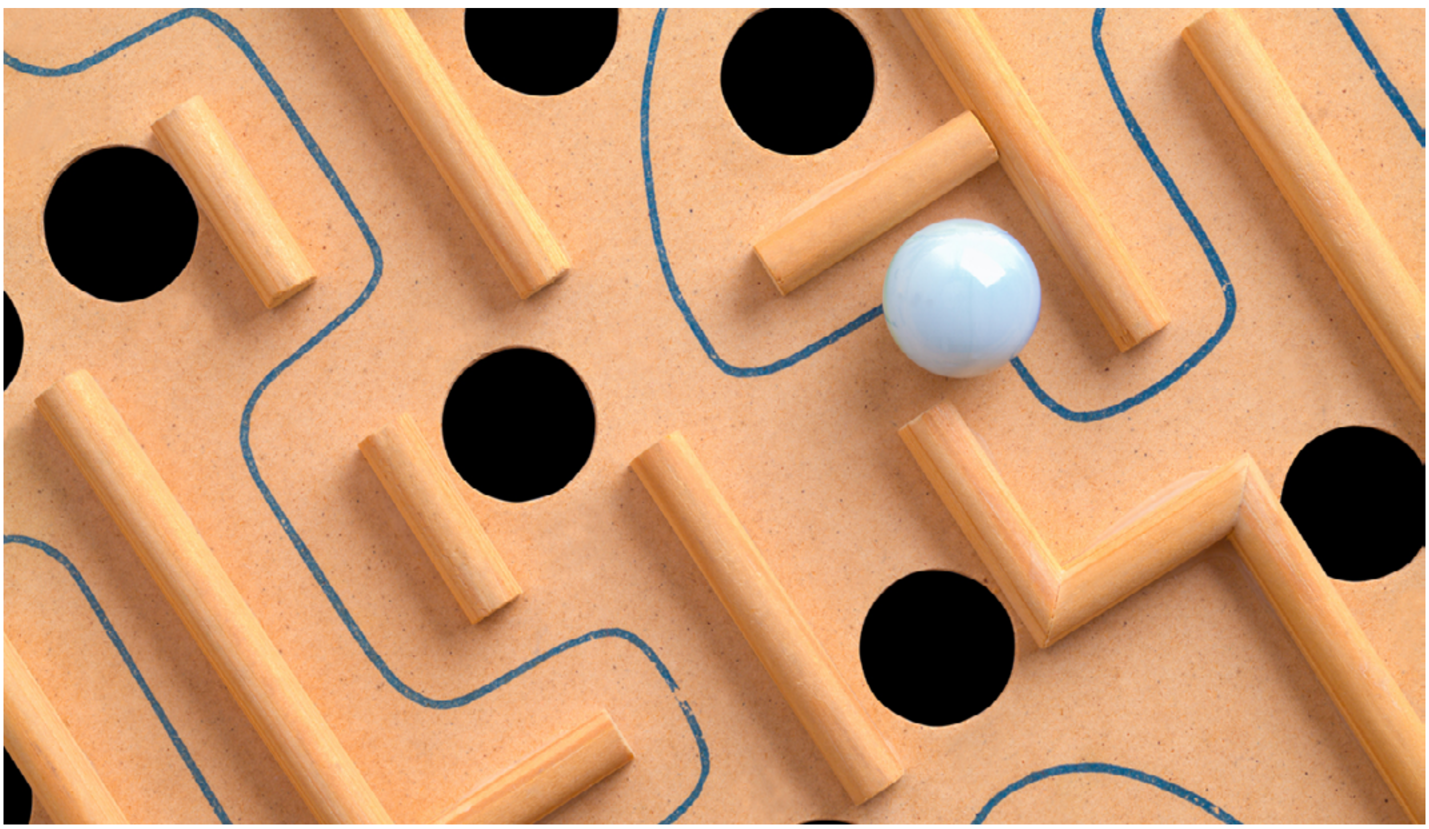
With the evolution curve moving quickly, today's CFO is more involved in shaping business strategy, and in charge of its execution. This may range from monitoring supply chains, or handling mergers and acquisitions and even heading digital transformation. The expectations from CFOs have been fundamentally altered. Going digital equips them to step into any role with ease.

All C-suite leaders are tasked with making informed, rational decisions in the best interests of the business. But CFOs even more so are expected to be the voice of reason that other leaders depend on. From the boardroom to vertical heads, the CFO helps communicate possibilities, areas that need attention and direction for the future of business.

As Gupta asserts, "The CFO is ultimately a role of syndication. Choosing between operations at a cost-vs-operations no matter what, growth narrative, prioritisation of investment, and provisioning for losses are talking points for all verticals and not just the finance function."

*How can I create a balance between channel shifts and sunk costs? The final equilibrium is always between what the sudden jump is and what it earlier was*

**Pramod Gupta**



[1] https://www.ey.com/en_gl/cfo-agenda/dna-of-the-cfo-do-you-define-your-cfo-role-or-does-it-define-you

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