Does Your Company Have the Right CFO?

Description

A healthy working relationship between the board and members of the C-suite is critical to the board’s ability to provide proper oversight of both risk and strategy. Asymmetric information risk is an inherent part of board service. The management team will always know more about the business than the board. The board must know the questions to ask that “trust but verify” and get some assurance that the leaders entrusted with running the company have their arms around the business.

Perhaps no role is as critical to the success of both the CEO and the board as the CFO. Because having a handle on the financials means having a handle on the business, the CFO often holds the most global view of the organization, including both the risks to the business and the assumptions that need to hold true to ensure the strategy is working.

“The CFO is a critical backstop to the CEO,” says Felicia Alvaro, former CFO and treasurer of Ultimate Software and former director of ServiceMax and Cornerstone OnDemand, “He or she is a spokesperson to the board for every other C-suite leader on how the company’s financials align with the strategic plan, and the CFO is a critical point of contact to understand potential vulnerabilities in the business.”

In other words, the CFO must have a view fully rooted in both risk and strategy considerations and be able to understand the interplay between the two.

“The CFO really has a broad risk perspective, because any material risk that could impact the achievement of the business plan, the budget or the financial forecast targets are really the risks that the CFO has a purview over,” says Karen Gould, former CFO of Turner Construction Company and director of Gil-Bar and REV Renewables. “The priority of risk disclosures to the board depends on the specifics of the business situation.” In her time as CFO, Gould says, “I’ve reported on legal risks, liquidity or financing risks, operational or contractual execution risks, customer credit risks, geopolitical risks, supply chain risks, technology risks, acquisition integration risks, market risks, competitive risks, cyber risks, system implementation, and other internal control risks and human capital risks.”

On the strategy side, the CFO must understand the company’s value proposition, the assumptions
underneath the strategic plan, and the competition and how it stacks up. The role requires scenario planning and an understanding of what factors impact predictability.

“Long-term, the business plan reflects the strategy, so the CFO must know and report on known risks to the near-term forecast, business plan or budget,” says Gould. “For example, if you’re making a new product, the CFO needs to understand what it is, how it fits into the strategy and, ultimately, how will it make money?”

Carol Coughlin, a former CFO who now serves on the boards of Electriq Power Holdings, Hopebridge LLC, GoodCap Pharmaceuticals Inc. and the University of Maryland Medical Center, agrees. “The CFO has to understand the sales funnel because they have to forecast revenue. They have to know operationally if there are any supply chain issues and what is embedded in looking forward for the company.”

Coughlin also points out that good oversight of strategy and risk cannot just be an inside job. The dizzying pace of change and complexity of the risk environment brought about by factors such as global conflict and emergence of disruptive technologies like ChatGPT has changed the game. “The CFO should be outward-looking and spend a chunk of time understanding how the environment is changing and how technology impacts the environment,” says Coughlin. “We have to possess a level of intellectual curiosity for the business as a whole and the factors that impact its success.”

CFOs across industries and company types say ensuring a successful working relationship between the board and the CFO comes down to trust and transparency. “I was the CFO of a venture-backed company,” says Coughlin. “We took the company from $10 million to $125 million in four years, made an acquisition and then ultimately sold the company. We were so successful in large part because the board saw me as a partner. We had mutual respect. I got good feedback on what information they wanted and I felt comfortable speaking my mind. It has to be a two-way street. The board has to be open to and willing to give quality feedback on what they are looking for and a board culture of openness and transparency is critical.”

Trust and transparency are table stakes for a healthy working relationship with the audit chair and the board more broadly. Here are four qualities of a good CFO:

Felicia Alvaro  Carol Coughlin  Tiziana Figliolia
Honesty. Because the CFO holds such a broad view of the organization, the board often looks to that person as the “check engine light” to ensure all is running smoothly with the business. It is critical that the board can trust the information coming from the CFO.

Christine Gorjanc, a former CFO who serves on several boards, including as audit chair for Carbon Health, Shapeways and Invitae, says the CFO must be unafraid to say things the CEO doesn’t want to hear, such as “We are going to miss the quarter consensus or have to guide down the next quarter.”

“It’s good governance, but it also helps you get out in front of potential problems. No one is going to be around to help you if things go south. They’ll all be pointing the finger at you.”

Attention to Detail. Financial acumen is key in the role, but so is the ability to gather different perspectives, synthesize them and apply them to the business. “The CFO pays close attention to what’s coming up through the organization and understands how that information connects to the strategic plan and the health of the business,” says Gould. “That means being a good listener.”

Tiziana Figliolia, CFO of IDG Inc., agrees and cites active listening as key to another critical trait of an effective CFO — being able to read the room. “Everyone who sits on a board has different styles and cares about different things. So, it’s important that the CFO knows his audience and understands what board members are really asking for.”

Strong Communication Skills. The CFO should speak with key board members often, says Figliolia.

“I have regular one-on-ones with both the audit chair and the board chairwoman every quarter in advance of both the audit committee and the board meeting. Building those relationships through one-on-one conversations is very important.”

The CFO should proactively communicate potential risks, but the most effective CFOs see that relationship as a two-way street. “I pick up the phone if there is anything out of the ordinary that the audit chair should know,” says Figliolia. “I also lean on him when I need advice or want to get an outside view. I treat him as an advisor.”
These conversations can help raise the CFO’s awareness of risks that might be on the horizon. “The CFO can facilitate how the board discusses risk in general,” says Gorjanc. “They can say, ‘Help me look around the corner. What do you see that I don’t see? What are the things we’re not thinking about that board members might be seeing take shape at their other companies? What are the crises of other companies and what can we learn from that? What about social media and digitization? What is technology enabling us to do that we didn’t have to think about before?’”

An Outward-Facing View. CFOs should spend a good part of their time looking outside the company to stay current with emerging trends and technology that could impact the business. “I leveraged user groups and conferences both within and outside my industry,” says Coughlin. “As a CFO, you need continuing education. It helps you stay current with the external forces that impact your operating environment.”

Informative Q&As with the Board

A good CFO is in regular dialogue with the audit chair and the rest of the board about what information they would like to see and what questions they have.

Key questions the board should ask the CFO include:

- Is everything disclosed?
- Is there anything I don’t know about?
- Are there issues on which the CFO disagrees with the auditors or other C-suite executives? If so, how can they be resolved?
- What are the biggest risks to the strategic plan?
- Does the entire organization understand the risks to the business, and how is that risk understood at varying levels of responsibility?

The CFO must be able to convey risk-mitigation strategies, Gould says. “It’s not just knowing the top risks to the business but understanding what you are going to do about it.”

According to Gorjanc, that kind of preparedness builds trust, but a great CFO goes even deeper to ensure the board and the business are aligned on risk oversight.

“The CFO should pressure-test how their view of the top risks to the business overlaps with how the board sees those risks. I would be asking ‘What are you worried about?’ and then identify any gaps.”

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