Chief Growth Officer: A new role for today's CFO

An EXL whitepaper

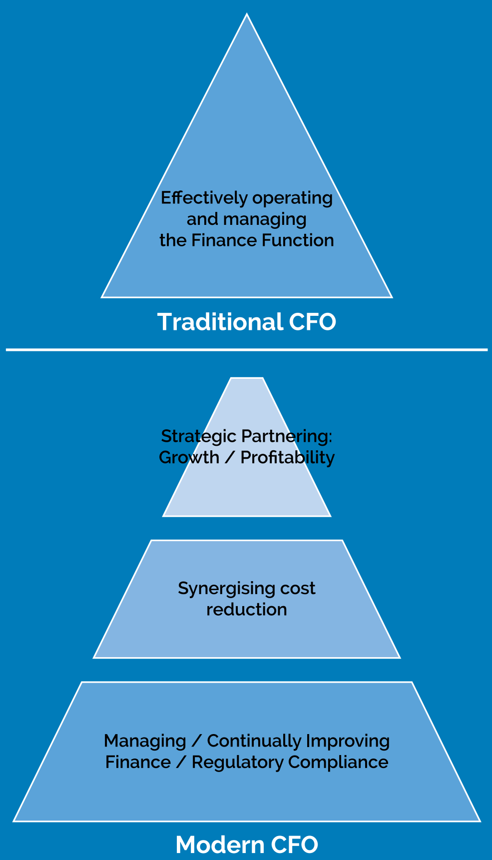
Written by
Narasimha Kini, Head of F&A and Senior Vice President

Since the financial crisis of the last decade, chief financial officers have become increasingly important strategic partners to their business. This emerging mandate continues to evolve, as investors, analysts and the CEOs are now more frequently asking, "How can CFOs help to drive sustained growth and profitability?"

The CFO role has trended toward a more strategic position since the financial crisis and protracted global slowdown. But the notion of the CFO as a "Chief Growth Officer" is a newer, more sharply focused evolution of the notion of the CFO as a "strategic partner" to the business. Analysts, advisors and professional associations have well documented the evolution of the CFO from its traditional focus on the nuts-and-bolts of the finance function, risk mitigation and control mechanism. In fact, according to many industry studies, CFOs want to spend two to four times more of their time on strategic and transformative initiatives, including growth and profitability, than they have in the past (see figure 1 below).

Forward-looking CFOs continue to manage a broad agenda that includes risk, compliance and regulatory reporting, as well as fundamental transformation of SG&A costs. Growth-centric CFOs are taking an even more proactive role in strategic planning with the intent of increasing revenue, expanding into new markets, improving profitability and increasing shareholder value. This, however, requires more than simply having a "seat at the table" during strategic planning. CFOs can truly own this role if they can harness the vast amount of data and professional intelligence that touches the finance function. Turning data into actionable insights likely requires adding

Figure 1: Changing priorities of the CFO



Professional associations such as Association of Chartered Certified Accountants, the Institute of Management Accountants, CFO-focused media, professional services firms and various academics have all researched the shift in CFO priorities.

Previous focus (in terms of time):

- 30-55% managing finance and compliance functions
- 20-40% synergizing cost reduction through organizational transformation initiatives
- 15-35% on strategic initiatives

Today's focus:

- 20-25% managing finance and compliance functions
- 75-80% on synergist, strategic and business improvement agendas

new skills within the finance function or technology that organizes data so its relevance can be better understood. Cloud platforms and automation tools can also be added to further streamline finance operations, enabling CFOs to increase attention on strategic and transformative initiatives.

This paper outlines how CFOs can better position themselves for the role of Chief Growth Officer within their organizations, key areas of focus for them to do so, and a checklist for a quick rundown on how CFOs can better support their business with sustained growth and profitability.

EXL look deeper.

Strategic business partnering - key areas

Understanding the implications of any strategic decision on growth, measured by increasing top line, bottom line or shareholder wealth can be difficult. However, the ability to leverage cross-departmental data to think through these strategic ramifications and generate actionable insights to drive growth has repositioned the CFO as the "new number two" to the CEO.

To achieve sustained top- and bottom-line growth, organizations need to focus not just on strategy formulation but also its effective implementation. With both, progressive CFOs now act as active partners to the business instead of simply supplying data or passively advising.

Snapshots of areas where CFOs can partner with the business to drive growth

Snapshot 1: Leveraging real-time data strategically to drive growth

Strategy formulation and implementation is all about making informed choices in real time. This is precisely where the need arises for leveraging real-time data from multiple sources, both internal and external, to support decision-making. By perceiving the "big picture," CFOs are uniquely positioned to help businesses understand and predict how the outcomes and trade-offs for any strategic decision can impact growth under multiple scenarios, drilling down to granular details. Their ability to think holistically across these diverse data sets, including macro and micro-economic factors, competitors, market and Board expectations, as well as past performance, can add specificity to discussions about defining a company's future direction. This process can also lead to better-informed decisions regarding resource allocation, spending and capital management.

In parallel, the explosion of data at every level opens up further opportunities to bring a significant growth-focus to real-time decision support, even in traditional departmental roles related to receivables, payables or financial planning:

- Multi-dimensional spend analysis can assist procurement teams to make better sourcing decisions.
- Innovative analysis of structured procurement data together with

unstructured data can assist in knowing suppliers better and in vendor evaluation and risk management.

- Marketing and sales strategies including, for instance, credit decisions can be proactively driven by structured and unstructured data obtained by receivables management teams through customer feedback, tracking cash collections, trends in customer buying and payments.
- Early warning indicators can be developed by CFO organizations in their financial planning and analysis role.
- Almost any other area where available data can be creatively and innovatively used, such as spend analysis, location analysis, leakage prevention, just to name a few.

Snapshot 2: Turning risk into opportunities for growth

Businesses thrive by taking risks, yet are challenged on growth and profitability when unable to manage them. When pursuing growth strategies, businesses will continue to encounter new risks from evolving business complexities, enhanced globalization, emerging regulation, stakeholder demands and the dominance of disruptive technologies. Turning these risks into opportunities for growth and profitability thus requires a much closer integration between strategy and risk thinking, starting at the Board and C-suite level, as an integral part of the organizational strategy formulation and implementation process.

Professional bodies advocate that the risks and opportunities faced by the business should be viewed as a portfolio of linked investments that need careful management, estimation and financial projection. Given CFOs' abilities to holistically leverage organizational data, forward-looking CFOs and their finance functions will be uniquely positioned to calibrate risks and advise on appropriate actions in real-time. In this way, they can demonstrate bi-modal thinking by maximizing new strategic opportunities on the one hand while mitigating the risks of "bad things" happening in new and existing operations.

Progressive CFOs around the world have therefore already started taking a more strategic role in this regard, leading to mature practices such as:

- Stronger interaction between the finance function, the risk function and Boards under the leadership of the CFO and his finance team;
- Innovative use of analytics, already used by the business for decision support, for meaningful prioritisation and management of risks;
- Catalysing cross-functional collaboration in risk management across organisational silos using "big data" to ensure a holistic approach;
- Leveraging technology for implementing enterprise-wide integrated risk management processes;
- Financial and operational skill-development in risk management personnel; and
- The evolution of organisational risk knowledge centres aligned to and on similar principles as finance centres of excellence.

Snapshot 3: Enabling inorganic growth

A Fortune study indicates that inorganic growth will present a dominant trend over the next few years, with merger and acquisition (M&A) activity exceeding US$3.5 trillion globally in 2014, more than 47% higher than the earlier year. This is not only reflective of lower interest rates around the world but also organizational angst to grow significantly faster than organic means can offer. Unfortunately, the corresponding statistic on the success rates of M&A activity to enhance growth, profitability and stakeholder value is not at all encouraging, with up to 80% of M&As failing to achieve its objectives, according to a global professional services firm.

Interestingly, this has prompted increased expectations of CFOs. M&As fail to achieve objectives most commonly due to three reasons:

a. Inadequate pre-deal planning, typically a short-term and disintegrated myopic view on the target with limited scenario planning and projections;

b. Poor post-deal integration, including discipline in articulation of 50-day and 100-day transition plans;

EXL look deeper.

c. Ignoring cross-cultural and non-financial factors that are difficult to measure and articulate.

Progressive CFOs are therefore starting to play a much stronger strategic role at the pre-deal stage, once again bringing in holistic and integrated thinking on evaluating potential targets under various scenarios looking at wider range of considerations, including cultural fitment and factors often ignored such as supply-chain efficiencies and inefficiencies, disruptive contractual terms and negotiations, restrictions on cash flows, potential flight of personnel etc. and integrating these into a formal well-defined plan with multiple scenarios and related models. This can subsequently be fine-tuned into a formal post-deal integration program that can be closely monitored.

Strategic business partnering- critical success factors

1. Getting the basics right is still a priority

Despite their evolution into a more strategic role, CFOs still need to efficiently execute their roles as controllers and finance leaders. They also need to ensure their finance team and its structure has the time and skills to meet strategic objectives.

To support the CFO's changing role, corporate finance organizations including Shared Service Centers (SSCs) or Global Business Service (GBS) centers are increasingly becoming a "single source of truth" for data supporting all strategic, operational and tactical business decisions. These functions are maturing from transactional, back-office shops into true microcosms of the larger enterprise. Finance centers are emerging as the central custodians of critical organizational data from operations, marketing, finance, risk, etc. that historically resided in silos. With the adoption of new technology and best-in-class processes, supported by analytical skills, they can then emerge as cost-effective yet stronger strategic partners to business.

2. More stakeholders, deeper relationships

As the role evolves, CFOs need to build more stakeholder relationships within their companies. Traditionally, the CFO has reported to the CEO, and while that has not changed, the CFO has to appreciate the CEO's role in a strategic context. Additionally, the emerging strategic dimensions of the CFO role have now made it critical to understand the expressed and implied expectations of key Board members, the Audit Committee and business heads. Going forward, as the CFO increasingly becomes the "face of the organization," relationship building extends externally to investors, stock market analysts and regulators, all of whom have a crucial role in influencing stock prices and shareholder wealth.

While it may not be an automatic career aspiration, modern CFOs, through their strong alignment to the business and understanding of their organization's vision translated into organizational goals and strategies, are well positioned to be the future CEOs. While some become CEOs immediately, many take operational leadership positions or become CFOs of larger and more complex organizations before eventually taking the top job.

3. Changing skillsets for an evolving role

The transformational nature of the CFO role calls for new skills. Businesses are increasingly looking for CFOs with strategic decision-making and communication skills, management backgrounds and global experience that enable them to effectively manage capital market expectations and translate them to business imperatives, according to a recent survey by HR consultancy Korn Ferry.

To supplement the skills needed for the modern CFO role, companies are also looking at outsourcing with a greater emphasis on process transformation and analytics. Smaller organizations have even started experimenting with outsourcing the entire CFO role.

Conclusion

As the CFO position transforms, new best practices are emerging to create a Business Partner Checklist that can guide CFOs down the path of a greater strategic role within their companies.

Business Partnering Checklist

√ Tone at the top: The CEO, with the help of the Board and business leaders should set the right tone to position the CFO and finance team as a critical partner for strategic management and decision making. The CFO, in turn, should continually meet or exceed this expectation.

√ Real-time actionable intelligence embedded in business operations: CFOs and their team must provide real-time business intelligence that is actionable, through mechanisms embedded in business operations, to the extent possible.

√ Keeping pace with skills and talent: CFOs should work closely with HR leadership to ensure a continuous inflow of skills and talent, relevant to changing business needs. This needs to happen through a combination of on-going recruitment, talent development and considering outsourcing to acquire scarce skills.

√ Business proximity: CFOs and their teams should be seen as being close to the business, both in terms of enhanced communication and understanding, but also having some finance team members co-located with business teams to ensure physical proximity.

√ Stakeholder management: CFOs must continually work at building stronger relationships with an increasing number of external and internal stakeholders beyond just the CEO.

√ Managing capital market expectations: CFOs must have the ability to translate capital market expectations to internal business imperatives in alignment with business heads.

√ Innovation and Agility to change: As businesses change in response to market needs and internal strategies, CFOs and finance teams should be agile and innovative to embrace this change and continually reposition themselves to provide value to the business.

√ Harnessing the power of technology: CFOs must collaborate with CIOs to develop intelligent enterprises by investing in technology to build a data analytics backbone. Such investments usher in automation and predictive modeling, which on the one hand allows the CFO free up time and talent to participate in strategic initiatives, whilst enhancing organizational competitiveness.

EXL (NASDAQ: EXLS) is a leading business process solutions company that looks deeper to drive business impact through integrated services and industry knowledge. EXL provides operations management, analytics and technology platforms to organizations in insurance, healthcare, banking and financial services, utilities, travel, and transportation and logistics, among others. We work as a strategic partner to help our clients streamline business operations, improve corporate finance, manage compliance, create new channels for growth and better adapt to change. Headquartered in New York and in business since 1999, EXL has approximately 23,000 professionals in locations throughout the U.S., Europe and Asia.

Email us: lookdeeper@exlservice.com On the web: EXLservice.com

GLOBAL HEADQUARTERS
280 Park Avenue, 38th Floor, New York, NY 10017
T: +1.212.277.7100 • F: +1.212.277.7111

UK SALES OFFICE
6 York Street, London, W1U 6PJ, United Kingdom
T: +44.20.7034.1530 • F: +44.20.7034.1544

United States • United Kingdom • Czech Republic • Romania • Bulgaria • India • Philippines • Colombia