The New CFO Role: It's in the DNA

The finance function now plays an increasing role in key decisions related to the business model and configuration of the business portfolio. Indeed, a new survey confirms that today's CFO responsibilities are akin to those of the CEO.

By Vinay Couto and Gary Neilson

Describing today's financial executives as accountants and bean counters is as off-the-mark as walking into your local Starbucks and ordering a coffee in "small, medium or large." Over the past five to seven years, senior financial executives — beginning with CFOs — and their functional organizations have evolved well beyond the traditional roles of accountants and organizational police to become valued analysts and strategic business partners to senior management.

This has been such a complete transition that in many quarters it has gone unnoticed, yet it represents a major shift in terms of running business organizations of many sizes. Finance has become a place where business strategy, process and information combine and cross-pollinate.

Take a good look at your own organization, and you'll likely see finance involved in key decisions involving the design of the overall business model, as well as the configuration of the business portfolio.

Finance plays a role in developing responsive management architectures and governance structures, and is increasingly serving as a key integrator across the organization of process, technology and people. This is far different from the portfolio of the CFO and his or her direct reports just a decade ago. In fact, if you note these responsibilities are more akin to what you might expect of the chief executive officer, you're onto something.

A recent Booz Allen study looking into the "Organizational DNA" of business entities identified three main facts related to the finance function: 1) It was more tightly aligned internally than other support functions — human resources, information technology and marketing; 2) It tended to view business challenges in a similar way to senior management; and 3) It tracked more closely with line managers than other support functions in key areas.

Together, this supports a major evolution of the finance function — from analyst to catalyst. It also supports the much-evolved role of the CFO within the organization. In many cases, today's CFO serves as a chief lieutenant of the organization, particularly as the CEO is required to spend more time with the board of directors and the chief operating officer role continues to diminish in numbers and importance. The survey data demonstrate that finance is uniquely positioned to carry out this task.

We may or may not have entered the "Era of the CFO," but it is clear, both qualitatively and based on quantitative efforts, that the CFO and the CFO's organization have risen greatly in stature and responsibility. The CFO has DNA very similar to that of the CEO, and has built an organization that works from a similar viewpoint and understands the needs of the operating units in some very important ways. Whether this has helped drive the elevation of the CFO position or is a function of that evolution — or a little of each — is not entirely clear, nor does it particularly matter. The end result is the same, and we would argue vehemently that it is a positive step for overall performance.

The Nature of Finance

Finance, by its nature, reaches across and through any organization, whether a small company with a single business line or a major corporation with multiple business units. With such scope, it would be entirely natural for individuals within finance to begin to see the organization through the lens of their operating responsibilities. Thus, one might expect middle managers in finance to see the organization more like the other middle managers than their boss, the CFO. The same might be expected to hold true at the business unit and corporate staff levels.

The Booz Allen data disputes this hypothesis. Survey results show that finance-function DNA is quite strong and able to hew to its unique viewpoint far more than other support functions. The survey itself is based on the belief that individuals tend to view their organizations in distinct ways that say something about the quality of management — and performance — of those companies.

With this in mind, Booz Allen created an Internet questionnaire that allowed business leaders to describe their organizations based on 19 questions. Using proprietary software, the responses were used to classify their organizations into seven base DNA categories: 1) Resilient, 2) Just-in-Time, 3) Military, 4) Overmanaged, 5) Outgrown, 6) Fits-and-Starts, and 7) Passive-aggressive. Of these, the first three represent healthy organizations, though both the Just-in-Time and Military organizations carry with them certain weaknesses (see box).

There were responses from more than 4,000 business leaders by the time the data was analyzed to meet the deadline for this article. These included more than 650 finance function employees, of whom one-quarter were senior managers and another 3 percent were either line managers or middle managers. In terms of comparing the Organizational DNA for particular groups, such as the finance function broadly or finance within specific categories, we looked at the composition of the individual responses and the breakdown of the DNA categories those responses generated.

Finance as a whole tended to have a more positive view of the organization than the non-finance respondents, based on a greater percentage of healthy DNA types.

The finance function's DNA looked like this:

Assessing the core DNA for finance as a whole, the differences between functions and organizational levels can be telling. For example, within the finance function, the top three healthy categories, Resilient, Just-in-Time and Military, add up to

Organizational DNA – The Categories

Booz Allen's Organizational DNA survey used proprietary software to analyze more than 4,000 responses from business leaders and group them according to seven DNA categories. Just as the double helix of DNA is held together by bonds between base pairs of four nucleotides, this DNA is described as a living organization with four building blocks that, combined in myriad ways, define its distinct traits and behaviors. These building blocks are: decision rights, information, motivators and structure.

The overall DNA patterns generated by these building blocks allow codifying the idiosyncratic characteristics of individual companies. Of the seven categories, the first three are considered the traits of healthy organizations.

1. **Resilient** | Flexible enough to adapt quickly to external market shifts, yet steadfastly focused on and aligned to a coherent business strategy.
2. **Just-in-Time** | Inconsistently prepared for change, but can turn on a dime when necessary, without losing sight of the big picture.
3. **Military** | Often driven by a small, involved senior team; succeeds primarily through the will and foresight of its leaders.
4. **Overmanaged** | Multiple layers of management create "analysis paralysis" in a frequently bureaucratic and highly political environment.
5. **Outgrown** | Too large and complex to be effectively controlled by a small team, but has yet to "democratize" decision-making authority.
6. **Fits-and-Starts** | Contains scores of smart, motivated and talented people who rarely pull in the same direction at the same time.
7. **Passive-Aggressive** | Congenial and seemingly conflict-free, this organization builds consensus easily, but struggles to implement agreed-upon plans.

To take the Internet survey, go to www.orgdna.com.

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31 percent, or nearly one-third of all responses. For non-finance functions, the same three categories totaled just 26 percent.

Looking at the finance function internally, similarities in the DNA profiles at different organizational levels speak to its ability to function in a uniquely smooth and efficient manner. When examining responses to individual questions within the survey, finance tends to see more eye-to-eye on business challenges, organization issues, decision-making dynamics and performance-measurement models than other support functions. This is demonstrated by a smaller variance of responses across all organizational levels – from staff to senior management — compared with responses from HR, IT and marketing.

Across organizational levels, the standard deviation of responses to the 19 survey questions within finance was the lowest of the support functions at about 6 percent. It was as high as 9 percent for human resources; IT and marketing fell in between. This suggests many things, including the great likelihood that as finance receives information from the business units, it creates less distortion as that information works its way up to senior management.

Elevating the CFO to 'Center Stage'

Such an interpretation would help explain the elevation of the CFO position and finance in general. With good information from all levels of the business, the CFO is in a position to give the CEO better counsel than others sitting at the senior management table. Clearly, we have seen the CFO move steadily in this direction, from an early focus strictly on finance to a seat on the executive committee, a position as trusted advisor to the CEO and, ultimately, a business partner of the chief executive.

This partnership is also supported by the other two key findings. Compared with other support functions, finance's view of the organization and its strengths is most similar to the senior executive view. On average, the finance organization's responses differed from that of senior managers by only 3.3 percent. HR, IT and marketing's responses differed from senior management's by 4.9 percent.

Further, when looking at the answers to individual questions, it is clear that finance aligns more closely with line functions — manufacturing and sales — than the other key support functions discussed here, HR, IT and marketing. Issues where the finance view more closely matched the line functions are those involving management responsibilities, the availability and flow of information and employee assessment issues.

Interpreting the organization's results and performance through the prism of a line organization, as opposed to a support function, suggests that finance is particularly attuned to operational issues, competition and the like. This, again, is a valuable resource in the executive suite and another reason why the CFO's fortunes have risen so markedly in the recent past.

Turn a TV on to business-news channel CNBC during any market day and you'll see a corporate executive on the screen describing his or her company's results. These interviews often take a 40,000-foot perspective on the company, and, increasingly the person giving the interview is the CFO.

We have clearly entered an era where the CFO has moved to center stage. CFO salaries can approach and exceed what the CEO was paid a decade ago. In an era of increased regulatory scrutiny and corporate governance concerns, the CFO takes on greater accountability and authority in his or her role in the more traditional finance functions of reporting and control.

Also, there are the new strategic responsibilities, where the CFO is more involved in identifying and focusing on the billion-dollar decisions of the organization. In many ways, the CFO has become an internal investment banker focused on creating enterprise value.

Facing the Challenges

From this summit, the CFO and the CFO's organization face new challenges as well. Finance is now responsible for providing business units with the information and knowledge they need to drive competitive advantage. This requires that they focus on obtaining better information, providing insightful direction to executive management, predicting and managing change, building relationships both internally and externally, taking a global perspective and, of course, continuing to reduce costs.

The CFO must possess or acquire new skills in order to fulfill this more demanding role, and must hire direct reports and others with a greater strategic perspective. In some cases, finance organizations have set up coaching programs to help upgrade the skills of their professionals. Some leading companies systematically rotate their finance staffers through the business units in order to gain greater understanding of the business from an operating perspective. This may, in fact, be a driver of finance's greater alignment with line functions, as demonstrated by the DNA survey.

Given the finance function's overall DNA, it is clear that the CFO and his or her organization are in a unique position to carry out two key responsibilities for the modern-day corporation. Finance is strongly positioned to act as a bridge between CEO and board, playing a major role in the overall corporate governance framework of the company. Second, finance is poised to step beyond the strengthened strategy and business-partner roles discussed earlier to become the company's chief corporate steward.

In an era where corporate trust has been badly eroded by scandals of all colors, these responsibilities are critical. They also provide great opportunities for those finance managers and executives who are willing to tackle them.

Vinay Couto (*couto_vinay@bah.com*) and Gary Neilson (*neilson_gary@bah.com*) are Vice President and Senior Vice President, respectively, in Booz Allen Hamilton's Chicago office.