CFOs: Not Just for Finance Anymore
By Robert A. Howell

It's time to change the way we think about CFOs—and the way they think about themselves.

The current view—which gets pushed by business schools and carried into the executive suite—sees finance officers as little more than number crunchers. They settle the books and look after regulatory compliance, without taking any bigger role in steering company strategy. CFOs analyze the financial impact of a company’s moves after they're made—not when they’re still being planned.

But that approach just doesn't work anymore, for CFOs or the companies they serve. The world is changing too fast and economic uncertainty is too great to leave finance officers out of executive decision-making. The risk of disaster from an ill-advised move is greater now than ever; think of megamergers that end up costing the acquiring company too much and ultimately destroy shareholder value.

Simply put, the people who have the strongest grasp of a company’s finances need to be part of the strategic thinking from the ground up. Not only should they crunch the numbers on potential moves like mergers, but they should also generate strategies themselves, by analyzing the likely financial impact of industry trends and other big issues. Strategy and finance should be like two sides of a coin—inseparable.

Certainly, some CFOs have already moved in that direction and have been rewarded for it, including succeeding to the CEO seat, but most aren't in that role yet. At The Wall Street Journal's inaugural CFO Network in June 2011, the chief financial officers from some of the world's largest companies in attendance were asked to rank their priorities. At the top of the list: "become a strategic CFO."

Here's a look at some changes that can help companies and finance officers move the CFO into a more strategic role.

Look Ahead as Well as Back

Traditional CFOs and financial organizations tend to focus on historical results, or looking backward. That includes closing the books, reporting financial results and comparing those financial results with previously established targets. There is no question that companies have to have strong compliance and internal controls, and CFOs have to be held accountable for them. Strategy, on the other hand, is all about looking forward, and figuring out how to create additional shareholder value.
So, if a CFO and finance organization are going to be considered strategic assets, they must be actively involved in identifying value. They should look for potential acquisitions, attractive markets to enter, product lines to expand and other investments to make—and then see how those moves might pan out by running the numbers.

To that end, the company should make sure the finance officer has a strong controller and chief accounting officer in place, so that the CFO and others in the finance organization develop the skills and have the time to devote to strategic issues.

Get Involved Early

Every decision starts by considering the alternatives, and the critical elements to each alternative, before dropping down into the financial analysis of each. For example, should the company grow externally by acquisition or organically? Should it expand its markets globally, or stay closer to home?

These sorts of questions are fundamental to the strategic direction of the company, and a CFO must put them front and center.

Take the issue of external versus organic growth. One has to consider the current value of the acquiring company, the future prospects of any target acquisition, the benefits to be realized by putting the two organizations together, the anticipated integration costs and other issues of fit—and whether, after everything is put together, the combination will result in significantly increased shareholder value for the buying company.

Look Beyond the Company

Many CFOs and finance organizations tend to be focused on the internal operations of their company. But having a firm grasp of the world beyond the company is just as crucial.

The strategic CFO and finance organization must spend considerable time and effort understanding the company's markets and customers, competitors and suppliers. Which markets and customers represent the greatest value-creating potential? What are
competitors doing, and likely to do, relative to the company’s customer base? How can the relationship with important suppliers be further enhanced?

Understanding all that means lots of homework: studying the different existing and potential markets, and the economics of key customers, as well as existing and potential competitors. At an even higher level, the CFO has to study up on changing trends in politics, technology, the broader economy and elsewhere that might have an impact on the company.

Indeed, strategic CFOs must have an appetite for focusing on, and understanding, the external world around the company. Having this understanding lets CFOs introduce and promote new strategic alternatives—and bring more value to the company and its shareholders.

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