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CFO Insights

Four CFO Trends to Watch

From ESG to Digital Transformation: The Changing Leadership Requirements of Financial Leaders

By Christian Schmidt

Over the past year, colleagues and I have had dozens of discussions with CFOs to understand how they have been navigating the pandemic and are adapting as leaders to this challenging and often unpredictable environment. What became apparent during these conversations is that the pandemic created or accelerated some key trends that will become an essential part of any CFO's repertoire in the long term.

The role of CFO has always been exceptionally challenging. Those at the top of their game are masterful strategists yet able to dive deeply into – and solve – often highly complex and intricate finance issues that are essential to a company's fate. The past months have further challenged CFOs, and many have been critical in ensuring their companies' survival. However, as the dust settles and many organizations are coping – even thriving – in the new normal, it is worthwhile to outline some of the key trends that are already impacting the role requirements for CFOs.

We wanted to reflect on these developments, highlighting those that are likely to remain with us, which will require unique skills and capabilities from CFOs in the future. In our view there are four major trends:

1) The CFO as a Co-pilot

More than ever, the current crisis has demanded "all hands-on deck" by senior executives to ensure business continuity, or even survival. In addition to the CEO, the CFO has played a pivotal role in this effort, often ensuring that the company remains in business. The CFO must stay on top of the function 24/7, which entails extremely close collaboration with the CEO. Moreover, we have also observed that remote working, as well as fear and worries among employees, has required CFOs to increasingly focus on the "human" aspect of their role, which is not only to lead the finance function, but also to motivate, energize, nurture, retain and care for people across their organizations. This is naturally expected from the CEO but carries additional weight when the CFO steps up to a more prominent leadership role. Before the crisis, companies were increasingly looking for CFOs who could act as true business partners to the CEO to help lead organizations in an increasingly complex, uncertain and volatile world. The days of the "hero CEO" and "number cruncher" CFO are truly over. As a natural and often obvious CEO successor, companies should consider bringing on CFOs who excel as leaders of people and who can connect and engage with others at a deeply human and motivational level. In our work with clients, a CFO's leadership capabilities and their ability to effectively connect across organizations have become must-have requirements and arguably the most important lens through which we assess CFOs.

2) The CFO as a Flexible Planner

When the pandemic hit with full force in 2020, companies were forced to abandon carefully planned budgets. In many industries both budgets and scenario planning proved to be futile and even counter-productive exercises. One of the most disconcerting aspects of the crisis for CFOs – who, by definition, must be focused on precise details – has been the inability to make forecasts and predictions with any level of certainty, given the totally unprecedented nature of the economic disruption. After trying to ramp up the pace of scenario planning in the early days of the crisis, many CFOs decided to stop and focus on detecting trends and patterns, seeking new learnings in the process. Now that the worst of the crisis appears to have subsided, budgets and scenario planning are making a comeback. However, what will remain is a need for much greater flexibility in thinking and acting by CFOs, and for them to be deeply curious in the world around in order to remain agile, pragmatic and open to events and scenarios that were previously unthinkable. The pandemic has forced executives to expand their horizons and think beyond static budgets and predictions of what may be possible – as both best – and worst-case scenarios remain viable and realistic options.

3) Getting More Adept at Digitization

Digitization of finance and other functions has been a hot topic for some time, and the COVID-19 crisis accelerated this trend. This is partly because companies have continued to trim down every function, prompting the need to increasingly rely on digitization and automation. The rapid progress in cloud computing has further sped up this trend as has remote working and the increasing globality of organizations. Many organizations need to have deep insight in real time into the performance of any unit across the world, increasing the need for digitization. What this means for the CFO is that she or he will increasingly be able to rely on algorithms when it comes to important decision making. Rather than having to look over the shoulder of the Head of FP&A, the CFO will receive actionable insights at the push of the button. Nonetheless, the CFO will need to remain "on top of the numbers" and not lose essential accounting and controlling skills. However, the increasing digitization will allow the CFO to focus more on his or her role as a co-pilot of the business and as a leader of people. As such, digitization will require CFOs to deliver even deeper insights than before.

4) Champion of ESG and Sustainability

Environmental, Social and Governance (ESG) issues have been a focus for companies long before the pandemic. However, the current crisis has highlighted the importance of ESG and sustainability to businesses, and stakeholder scrutiny has increased significantly over the past months. It is safe to say that the more sustainable a business is, the more resilient it will be to withstand shocks, such as a global pandemic. Also, investors are playing an increasingly important part in calling on companies to strengthen their ESG performance, and already now cheaper capital is available in some industries to those companies that are recognized as strong leaders in sustainability.

A concerted effort by business and society to stop climate change may have previously seemed impossible. But now the shared experience of a pandemic – and the phenomenal response of vaccine development – have demonstrated that not only is a global catastrophe possible, but so is the possibility to overcome this environmental challenge both locally and globally.

With regards to the "S" in ESG, the Black Lives Matter movement, which gained momentum after the murder of George Floyd in May 2020, only accelerated societal expectations with regards to companies' diversity initiatives, and put them under further scrutiny by internal and external stakeholders to drive a transparent and proactive DEI agenda. Companies' social performance and engagement with communities has been receiving increased attention year-on-year, and with further sophistication by NGOs, societal groups and exposure to social media, this trend is bound to continue.

Sound governance, or the "G" in ESG, will be critical for companies to make meaningful progress on their sustainability agenda. This not only implies having the right corporate structures in place, but also devising the right measures, monitoring process, and devising the right interventions.

Yet CFOs have traditionally had an ambivalent relationship with sustainability. As the guardians of the company's purse strings, they often see sustainability as an expensive "luxury" at worst or a necessary risk-mitigation exercise at best. While this is changing rapidly, we believe that there is a clear need for CFOs to play a more active and impactful role with regards to how sustainability is managed.

First, as a key partner to the CEO, the CFO is uniquely placed to constructively challenge and debate these issues with the Board, CEO, and ExCo, enhancing the quality of thinking and output in the process. This requires that the CFO views his or her responsibilities as a broader leadership role that goes beyond the management of the finance function.

Secondly, the CFO must be the driving force behind helping their company develop accepted standards of accounting and disclosure for ESG performance. During our conversations with CFOs, many expressed their desire to have more globally established accounting standards for ESG. Over the past several years, we have seen an increase in the number of organizations that are trying to provide some guidance to CFOs and investors, including SASB, B Corp, GRI, and International Integrated Reporting Council (IIRC).

Thirdly, the CFO is in an ideal and the most credible position of all executives to make a business case on why world-class ESG performance is good for business. Their word in this matter carries weight.

In many capital-intensive industries, world-class safety performance is widely accepted as indispensable to enhance productivity and profitability. However, we have yet to see a similar belief in the profit-enhancing powers of being a leader on all matters related to ESG across the entire spectrum of industries. As such, CFOs need to complement their focus on risk management with the ability to see direct connections between ESG performance and the company's bottom line and communicate this business case in a compelling and convincing manner internally and externally.

Final Thoughts

Just like other functions, the role of CFO is evolving rapidly in line with the changing needs of businesses, the evolving external landscape and shifting stakeholder and shareholder expectations. The current pandemic has brought to the fore and accelerated some key trends which will have a profound impact on the nature and requirements of the CFO role. Functional mastery will remain essential, but it will be strong leadership on the issues highlighted above that will separate good from great CFOs in the future. (We are generalizing and understand that each CFO and company will face their own unique set of challenges and opportunities, and that some trends may be less important to some than to others.)

As we support companies in developing their CFOs – and cultivating their successors – we often work with them to build flexibility and a learning mindset among their finance leaders to adapt to changing circumstances and requirements. In doing so, we have found the following traits to be critical for successful performance: the ability to connect with others and communicate a persuasive vision, the strength to bounce back from reversals and see opportunities in challenges, generating new insights creatively and analytically, and a deep curiosity in the world around them, without preconceived notions, for the benefit of their continued learning and development.

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