



SEVEN HABITS

OF HIGHLY EFFECTIVE CFOs



In 1989, Stephen Covey published his groundbreaking book, *The 7 Habits of Highly Effective People*, devoted to the topic of personal development. We have adapted Covey's teachings to help today's CFO understand what it takes to be truly successful. Following are our **7 HABITS OF HIGHLY EFFECTIVE CFOS**.



BE A WINGMAN TO THE CEO

As part of my research on leadership for our Coaching Workshops, I met with several Houston-area entrepreneurs to determine what a CEO wants in a CFO. One of the last people I met with made a comment that I felt summed up all the things the CEOs were looking for. He said he was basically looking for a **wingman**.



What does it mean to be a wingman?

“The wingman’s role is to add an element of mutual support to aerial combat. The presence of a wingman makes the flight both offensively and defensively more capable by increasing firepower and situational awareness, permitting the attack of enemies, and increasing the ability to employ more dynamic tactics.”

So to paraphrase, the wingman’s job is to support the leader by helping to assess the situation, take out obstacles, and adapt to change which improves the ability to achieve goals and mitigate risk.

Assessing the Situation

CEOs want a CFO who can help them determine the “lay of the land”. Often, they do this by projecting financial needs, modeling new ideas or preparing “what if” scenarios. They work within the organization to build relationships with other functional areas and determine what their needs and opportunities are. They also represent the company externally to bankers and investors to determine what opportunities the company has for growth. A CFO wingman helps bring clarity to the situation so that better decisions can be made.

Taking Out Obstacles

CEOs are excellent at developing new ideas. CFOs are excellent at identifying problems. What some CFOs fail to realize, however, is that the CEO looks to them to provide solutions rather than to simply point out how things can go wrong. A CFO wingman doesn’t shoot down each new idea, but looks to find a creative way to make the idea work in a financially sound way.

Adapting to Change

Most CFOs react to change by seeking to stabilize the environment. Since most CEOs are great initiators of change, this can lead to frustration on both parts. One way a CFO can avoid the frustration is to be a sounding board for new ideas.

If the CFO is part of the vetting process, he or she will not only be more likely to be on board with the new idea but will also be able to guide the creative process in a way that ensures a greater degree of success. As a result, the CFO develops a better understanding of company goals and is more comfortable contributing their own ideas on how to grow the company. A CFO wingman realizes that the best way to address change isn't to fight it, but to adapt to it.

Achieving Goals

The goal for most CEOs is to grow the company profitably. CFOs can help their organization reach this goal by cutting costs, improving productivity, and assisting in developing sound pricing strategies.

Since the CFO has control over most overhead costs, they usually are very skilled at cost cutting. CFOs looking to improve productivity can often make the most impact by helping to determine what the company's key performance indicators are and developing reports to track these KPIs.

The area outside the comfort zone of most CFOs is pricing. Often, prices are set with input from sales and operations without consideration of the company's economic model. The CFO can provide this vital information to ensure that the prices set will result in profitable sales. A CFO wingman shares the leader's vision and helps him or her achieve it.

DRIVE THE NUMBERS



Ask yourself the following questions:

Are you overhead, or are you an income producer?

So, how have you improved profits and cash flow in your company during the past year?

IMPROVING PROFITS AND CASH FLOW

Most CEOs view their accounting department as overhead to be controlled at all costs (pardon the pun). They try to keep the financial function as lean as possible as a way of protecting profits. Consequently, the financial function is always working twice as hard just to produce the information, leaving little time for analysis. Often the CFO is let go during tough economic times because they are viewed as overhead.

If a salesman brings in a sale generally, only 10% of that revenue falls to the bottom line. On the other hand, if a CFO saves fixed costs or improves gross margins, 100% of those savings go to net income. As a CFO you have a just as great an opportunity in driving profits as the best salesman in the company!

CFO VS CONTROLLER

How are you currently being measured for success?

- ▶ financial statements on time
- ▶ accurate numbers
- ▶ managing multiple disciplines (HR, insurance, IT)

While these accomplishments are all valuable contributions to the success of the company, are they really driving value or are they just tools to drive value?

The chief difference between a Controller and a CFO is one of focus: the Controller role focuses on past events while the CFO focuses on the future. Put simply, the Controller **reports** the numbers while the CFO **drives** the numbers.

BE AN OPERATIONAL CFO

How do other departments look at you?

| | | |
|---|----|--|
| Roadblock | | Facilitator |
|  | OR |  |
| Traffic Cop | | Partner |
|  | OR |  |
| Rule Enforcer | | Problem Solver |
|  | OR |  |
| CFnO | | Cheerleader |
|  | OR |  |

In order for a CFO to be effective in an organization, they must partner with the operations and sales functions of the company. They must build relationships with those two functions and assist them in being successful. Effective CFOs do not operate in a vacuum! They build bridges.

KNOW YOUR ECONOMICS

POP QUIZ

Imagine we are at a bar having a beer and I pass you a cocktail napkin and ask you to jot down your company's economics. Remember, you've had a beer so keep it simple...

For every \$1.00 sold:

| | |
|--------------|--------|
| Sales | \$1.00 |
| COS | ? |
| Gross Margin | ? |
| Overhead | ? |
| Net Income | ? |

Would you be able to get it right (or even close)? How many people in your company could?

Q

It's critical that you understand your company's economics and be able to simply communicate them to other stakeholders. After all, how can you make business decisions to add value to your company if you aren't sure how your company makes money?

SIMPLIFY (FLY AT 40,000 FEET)

“You want to make things as simple as possible, without making them simple”

Albert Einstein,
Nobel Prize winning
physicist and
all-around genius

”

Optimum cruising altitude for a jet airliner is 40,000 feet. If you fly too low to the ground you assume too much risk and lose your perspective of where you are going. The same situation applies to a financial leader who focuses on the details and ignores the big picture of where the company is going.

Simplifying doesn't come naturally to many CFOs. Our experience has taught us that if some information is good, a truckload of information is infinitely better. Unfortunately, most entrepreneurs don't come from the same background as us. They simply don't have the desire for the level of detail we have been trained to provide. Inundating the business owner with pages of data is much simpler than distilling the data down to its essence. The trick is to determine what key drivers really move the needle for your business and focus on those drivers.

Successful CFOs minimize the reporting necessary to effectively drive the financial results of the organization. They utilize Key Performance Indicators (KPIs) and dashboards to focus the attention of the entire company on the most important levers.

BE THE FACE OF THE COMPANY

The integrity of the CFO is most critical factor in accelerating the growth of a company. Numerous stakeholders both inside and outside the company look to the CFO for credibility. These stakeholders may include vendors, investors, bankers and employees.

Banks want to see in-house financial expertise. An effective CFO will enhance the financial know-how and of the company when working with banks. In smaller companies, the CEO usually handles bank relationships. In larger companies with different departments and extensive operations, a financial team led by a CFO is necessary to handle company finances and communicate with banks in financial language.

Most bankers would agree that the most important of the 5 Cs of Credit is Character. Nowhere is the character of a CFO more apparent to the lender than in how openly they communicate – particularly in times of trouble. Some CFOs delay giving bad news to their banker hoping that things will turn around. An effective CFO knows that maintaining open lines of communication will allow their banker to act as their ally in difficult times and enable the company to better access the funds needed for growth when times are good.

BE A CREATIVE PROBLEM SOLVER

Are you a CFnO? This is exactly how one of our former clients described his CFO. The CFO was constantly telling him why he couldn't do something, why it wouldn't work and why things were going to fail. The CEO was left constantly fighting the negative thoughts coming from his financial "wingman".

An effective CFO is a positive-focused problem **solver**, not simply a problem **identifier**. There are plenty of accountants that can do that. What a CEO needs is someone to improve their ideas and help them take calculated risks. An effective CFO does just that. They come up with solutions to the challenges facing every company in today's ever-changing marketplace.

The next time you're tempted to tell your owner why his or her idea won't work, try to figure out how the idea could be tweaked or improved to make it workable. When a proposition seems risky, quantify the risk and look for ways to mitigate it without abandoning the notion altogether. Entrepreneurs will always have new ideas and take risks. An effective CFO recognizes that their job is to be a value-added partner in the business rather than an obstacle to be worked around.

The Strategic

CFO 

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