Just what does a CFO do anyway?

By Irwin Hurn
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As I talk to the CEOs of companies, I am struck by how many really do not know what a chief financial officer does or how to use their CFO effectively.

Some believe a CFO is the same thing as an accountant and just has to make sure that the numbers add up at the end of the month. Others believe a CFOs job is to raise money for a company, and that he or she must have a fat Rolodex to raise money from investors. Neither of these beliefs is right. Neither allows a company to hire the most effective CFO for its business or to fully utilize the skills that it may already have with its current CFO.

So just what does a CFO do anyway?

The CFO function can be broken down into several functional areas. Let's take a look at each of them.

Controllership. This relates to the accounting, reporting and financial controls in a company for the purpose of producing timely and accurate historical financial statements. The controllership function is mostly backward-looking. It measures what happened last month, last quarter and last year for the purpose of reporting financial performance to management, investors, lenders, taxing authorities and others. This area may have a significant number of people working in it, and it is what most people mention when they think about the duties of a CFO. To be sure, it is a major responsibility of the CFO. Sometimes, a controller who reports to the CFO manages this area.

Treasury. This relates to the stewardship of a company's cash and similar assets according to policies laid down by the board or management. The purpose here is to invest the company's cash so that there is a balance between risk and return and so that cash is available when the company needs it. The treasurer may also be responsible for tracking all of a company's equipment and for safeguarding those assets through insurance. Sometimes a treasurer who reports to the CFO manages this area.

Capital Structure. This involves developing the optimum short- and long-term capital structure of the business and managing investor relations and capital procurement to obtain the desired structure. This area is of major strategic importance and is particularly important for early stage or quickly growing companies. Size and timing of stock and debt offerings are important to a company's stability and growth and to the creation of value for shareholders. The effective CFO works directly with the CEO to identify investors, make presentations to them and negotiate terms.

Executive Reporting System and Economic Modeling. This relates to identifying the activities with the greatest impact on the performance of the business and reporting those activities on a real time basis to senior management and to line managers who can directly affect those activities. This may involve engineering information systems to allow for the gathering of essential information. The controllership function can tell a company where it was, but a successful company needs to know where it is going. An economic model and effective executive reporting system is a must. This is not the same as a budget. Rather, it is a tool that incorporates the key success measures and economic variables of a company into a robust model of what is happening in a company. It allows management to forecast where it is going based upon its assumptions for products, pricing, growth, expenses, employees and so on. The American Express Card ad said, "Don't leave home without it." We can restate this for an effective economic model, "Don't run your business without one."

Strategic Business Advice and Financial Market Intelligence. This involves providing senior management with radically objective, forward-looking, micro-economic analysis of the business and serving as a seasoned business confidant. It includes bringing a range of resources, contacts and financial market intelligence to the company to enhance management's ability to execute the company's mission. This is crucial for determining a company's exit strategy. For example, what is the desire of the company's owners? An initial public offering? Acquisition by a strategic partner? Remaining privately held? Remaining family held? By knowing the final goal, operational decisions can be made in the context of taking a company to its goal.

The astute reader will see that the above functions fall into three temporal categories: backward-looking, present and forward-looking. The backward-looking controllership function and the present-focused treasury function are important, but they do not take advantage of the expertise that a complete CFO can bring to a company. For a CEO to only look to filling the accounting or money-raising areas is to greatly underutilize the power that a competent CFO can provide. It is the forward-looking functions that distinguish the CFO from a controller or a treasurer.

By hiring a CFO with a balanced set of the above skills, a company can do a much better job of meeting its challenges head on. Understanding the responsibilities of a CFO also allows senior management to make the most effective use of an existing CFO. Either by taking advantage of unutilized skills or providing additional support in key areas.

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