

The Evolution of **Today's CFO and Controller** in Middle Market Companies



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The current COVID-19 crisis, the Great Recession, as well the rapid changes in technology and the business world in the last ten years, have caused the role of the Controller and CFO in middle market companies to change and to become even more relevant and add value. One of the purposes of this article is to help middle-market company executives better understand what is being asked from these two financial leaders in industry leading companies. The hope is it will also help these business leaders understand how the demands of the finance function have changed over the last two decades and how it has caused progression in both the CFO and Controller roles. Lastly, this article will also address the skills, personalities, and soft skills that are prevalent in high performers in each position.



HISTORICAL PERSPECTIVE

Companies have always needed accurate keeping of financial data. For a long time, the people and processes that comprised the accounting department were purely perceived as cost centers. Reducing the cost through new systems and adopting technology created an ever-increasing pressure to lower accounting and finance cost while simultaneously increasing the value of output from the department. More recently, a well-operated accounting and finance function not only keeps track of what has happened, but now provides vision to the company on how to move forward. This change

has been noticed over the last 20 years and recently accelerated over the last 10. Carrying out automation and optimizing the efficiency of the accounting and finance function rests on the shoulders of the CFO and Controller. After the department is running efficiently, the time gained needs to be spent on higher, value-added activities that directly impact both the top and bottom line of the business. This article will discuss the changes in both roles as well as talk about the skills and personality traits that make for successful CFOs and Controllers.




Demands of Today's Accounting and Finance Function

An important question to ponder is what do businesses honestly want from their finance departments today, and are their finance departments currently delivering in those areas?

While companies demand better output from their finance function, they still are pressuring CFOs and Controllers to keep their department costs down. Old school executives make the mistake of thinking that the way to lower cost is to pay your talent less. The opposite is actually true. Companies that spend more on the best people are getting more production for a lower total price. A 2017 study of over 600 accounting and finance functions by PwC showed that top-performing teams paid their professionals 25% more than average, but the entire finance function would operate at 36% less cost than average.

The CEO and shareholders want a CFO who is providing strategic guidance for business. There is a correlation as a company becomes larger and more complex; the tendency is for there to be a greater emphasis on the CFO spending time as a strategic leader and less time on tactical duties. Though size is not the only factor, businesses of any size going through complex undertakings such as M&A, expanding product and service lines, and entering new domestic or international markets, to name a few, likely will need a CFO that can help execute complex big picture long term strategy. Additionally, considering the current COVID-19 crisis, strategic thinking will be even more critical as companies will be forced to find ways to work differently. Today's finance leaders will be tasked with helping determine how that will look from their organizations' lenses and what will it cost.



As the demand for increased financial value is put on the CFO, a significant portion of that burden will be pushed down to the Controller.

Today's Controller often accomplishes this through automation. Rapid changes in ERPs and other systems, cloud technology, machine learning, and AI have made automation essential to staying competitive. A recent study done by the McKinsey Global Institute found that 77% of general accounting operations are now fully automatable, and over 90% are somewhat automatable. Processes in cash disbursement, revenue management, and financial controls are also over 70% fully to somewhat automatable. Implementing the right systems is an undertaking for both the CFO and Controller. It is also a significant reason to attract and retain the best talent throughout the finance function, so they can build and operate the system that provides value and costs less over time.

Evolution of the CFO Function

The CFO's role in the past was traditionally very hands-on. Tasks such as financial statement review and reporting as well as managing the accounting and finance teams were commonly driven by this position. The CFO's role was also to be the main point of contact for banks and to build treasury relationships as well as to prepare and discuss corporate tax returns and tax strategy.

Additionally, disseminating the financial results to owners and investors was also a vital responsibility of the CFO as well as preparing and presenting budgets and forecasts. Today, many of these roles and duties are shared or have been handed down to the Controller, as the CFO role has become more strategic, and is the right-hand leader and partner to the corporate CEO or President.

This fact is shared in another study completed by the McKinsey Global Institute, which showed that CFOs spend approximately 55% of their time in areas outside what one would consider "traditional finance" roles.

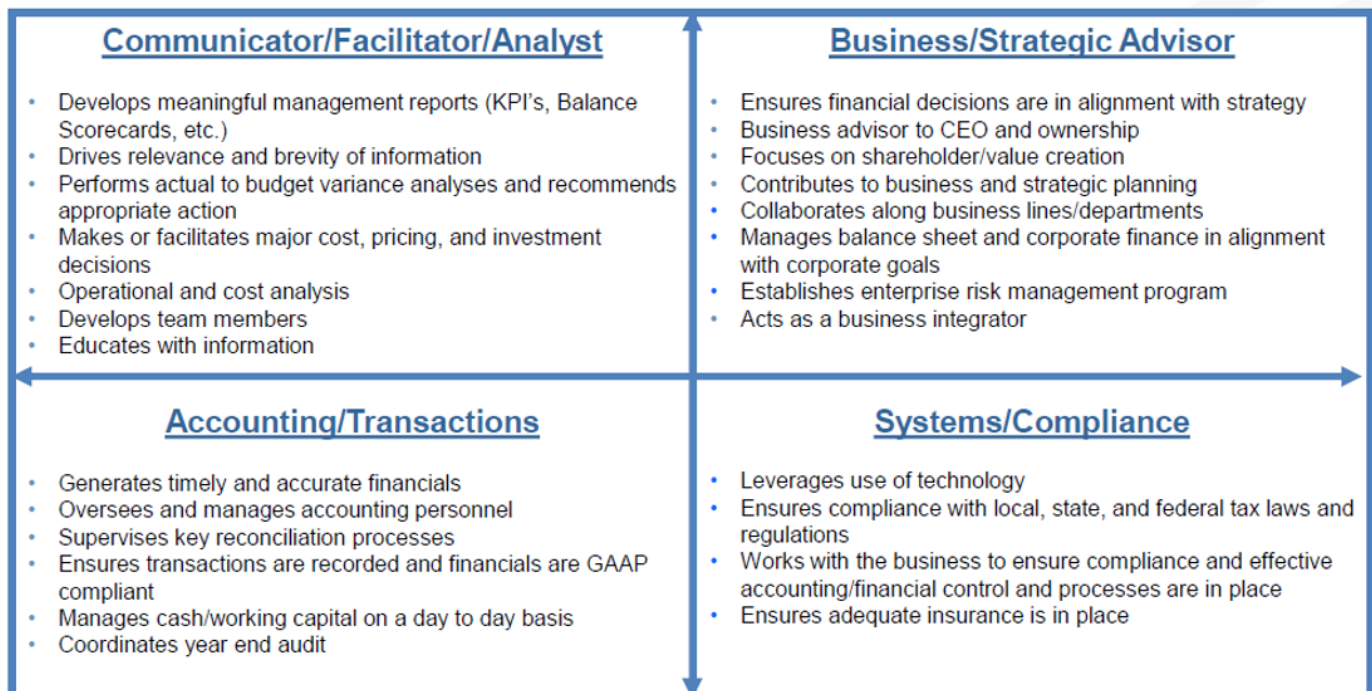


The chart below from The Overture Group entitled the “Financial-Accounting Responsibility Grid” shows four distinct quadrants that are categorized by the primary types of responsibilities commonly found in today’s accounting and finance departments. The top two quadrants represent more strategic duties and the bottom two more tactical type roles.

Even specialty finance roles like treasury, audit, tax, and shareholder matters only consume about 14% of a typical CFO’s day in McKinsey’s study. What this analysis has found is that “non-finance roles” like strategic leadership, organizational transformation, performance management, and data analytics are consuming more of a CFO’s time than ever before. Companies that are not willing to spend significant time and energy in these areas run the risk of being left behind. In the future, the CFO’s role will continue to adapt and change. Information will continue to be the key and implementing sound business strategies and procedures around that information will be pertinent to its success.

Financial - Accounting Responsibilities

Future



Day to Day / Historical

Changes in the Controller Role

The CFO's role isn't the only finance role that has changed over the years. Many of those changes have trickled down to the Controller's desk too. Traditionally, Controllers were thought to occupy a position that was more transaction-based. Responsibilities such as overseeing accounts payable and receivable duties, completing balance sheet reconciliations and month-end close tasks, assuming the main point of daily contact with external audit and tax teams, assisting in the annual budget and completing variance analyses were often in the Controller's repertoire. Furthermore, the role of staff development was frequently thought of to be more of a tactical, hands-on approach with a "teaching after understanding first" type of mentality.

While many of these types of tasks still hold in the role of today's Controller, how these tasks are being completed is different with an increased focus on process improvement and speed and accuracy to delivery leading the way. As finance departments are faced with the challenge of doing more with less, technology has played an increasingly more critical role in these areas.

Today's Controller has also taken on more of a leadership role. In terms of staff development, the Controller is seen as more of a coach, teacher, and mentor. He or she has also become a recruiter of skilled accounting and finance talent. Improved reporting through KPIs and other measurement tools, like balanced scorecards, also falls under this professional's routine tasks with speed and accuracy continuing to remain critical.

The Controller's role of the future has transitioned even further into duties that are becoming more strategic, and process focused. This position will be viewed as more of a "business partner" and will become more visible. Hiring and developing key talent is increasingly more important, and the Controller will do so by empowering staff to grow with "out of the box" methods of development. An even heavier emphasis on compliance and financial and operational controls will take place especially with COVID-19 bringing about a new way of thinking and operating. Leveraging technology and assisting CFOs as they rely on their business partner with pre-sale and acquisition work will also fall on the Controller's shoulders. The integration of newly acquired companies will be tasked upon the Controller and his or her team as well as the opportunity to gain exposure in international markets. Indeed, the future will be challenging but fulfilling for the new age Controller!

Skills and Personality Traits of Both CFO's/Controllers

The skills and personality traits will vary based on the organization's culture and strategic needs. Here is a list of traits The Overture Group has found to be shared among many successful CFOs: visionary leader, adaptability and creativity, engagement and motivational, collaborator, and big-picture thinker. Additionally, successful controllers possess the following traits: team builder, leader, multi-faceted, trustworthy, humbly confident, and intellectually curious. Though these are traits found in their respective positions, many characteristics and skills overlap and are prevalent in high performers of both CFOs and Controllers.

Here are examples of prevalent traits required of both CFOs and Controllers and how they are applied to each role



STRATEGY

A CFO will be a key developer of the long-term strategy while the Controller will need to understand the strategy so he or she can produce and report the respective meaningful metrics. The CFO will help define the metrics when he or she works with the other functional leaders to execute the strategy.



COLLABORATION

Both the CFO and the Controller need to be collaborative as they are both key to disseminating data and management information throughout the organization. The Controller works with other business managers to gather data and create an easy to understand roadmap that highlights useful information among appropriate departments. The CFO uses that roadmap to make sure the department leaders are staying on course to reach the desired results.



BUILDING

Both the CFO and Controller need to be collaborative as teamwork and talent development are essential for any high performing leader. The CFO needs to play an active role in the talent strategy for the entire organization, and today's Controller needs to play a hands-on role in hiring and developing talent within the accounting and finance function.

Current Market of CFO/Controller

The current markets for both the CFO and Controller positions have been impacted by the COVID-19 crisis. Business owners' and their management teams' demands placed on their finance and accounting function have increased given the need for more timely and relevant information. In addition, resources will be scarcer, and the need to leverage technology will be greater.

Also, the continued growth of private equity activity over the last 10-20 years has not changed which has placed a high demand for talented finance leaders.

The future, while always difficult to predict, looks promising for CFOs and Controllers. As businesses continue to demand more from their finance functions, top performers in these

two roles will continue to be heavily recruited. Additionally, the COVID-19 crisis has tasked some companies to downsize their accounting and finance teams with some reductions coming at the expense of underperforming members. Some of them will be replaced by those with a higher degree of talent – those who display the traits listed in this article. Furthermore, the reality of a Baby Boomer generation continuing to face retirement means that the need for their replacements will be at a premium, and those professionals who can exhibit the qualities mentioned in this article will be a huge step ahead of their competition. It will be the hiring companies' responsibility to identify those individuals who will lead these companies in the future. Those professionals who are proactive will have a leg up on their competition and be better positioned to face the challenges that lie ahead.



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