

## The Rise of the Activist CFO

For further information:

Vinay Couto, Chicago: [vinay.couto@booz.com](mailto:vinay.couto@booz.com)

Booz & Company

05/16/2005

# The Rise of the Activist CFO

An ongoing survey finds that “activist” chief financial officers are becoming strategic assets to their companies — a change in job description that may not only improve their company’s performance but also enhance their career options.

by Vinay Couto, Frank Galieto, and Mark J. Moran

To hear Pitney Bowes CFO Bruce Nolop talk about it, the role of the chief financial officer has undergone a radical change. “Controllershship is an essential part of the CFO’s role,” Mr. Nolop says in *The Activist CFO — Alignment With Strategy, Not Just With the Business*, a new report by Booz Allen Hamilton and CFO Research Services. “But what’s important now more than ever is to be...not just a business partner but also an alter ego to the CEO — to really influence and deliver on strategy.” (To download a PDF of the report, visit [www.strategy-business.com/media/file/rr00019-cfo.pdf](http://www.strategy-business.com/media/file/rr00019-cfo.pdf))

Why the shift? Put simply, a sharply altered business landscape dictated it. Investors have less tolerance for companies that cannot deliver on promised growth and earnings. Regulators and prosecutors have come down hard on companies in an effort to restore confidence in the transparency of reporting to the capital markets. And as CEOs are challenged by the external market and their boards of directors, they increasingly need a trusted advisor to help develop and execute corporate strategy.

As a result, it’s no longer sufficient for the CFO to focus solely on aligning the finance function — the initiatives pursued to track and report results, to allocate capital, to ensure control and compliance, and to support decision making — with the business; the CFO must also play an activist role in shaping the business’s operations to achieve the company’s overall strategic mission. In other words, CFOs must help ensure that the entire enterprise delivers on its commitments, a responsibility that goes well beyond supporting the business with information and analyses.

To examine the new CFO agenda, Booz Allen and CFO Research Services are conducting a continuing online survey of senior financial executives about the role of finance within their companies. Since January 2005, more than 1,600 senior financial executives from around the world have offered their input, including more than 800 respondents with the CFO title. Nearly half of the respondents are from companies with revenues exceeding \$500 million. *The Activist CFO* is based on an analysis of these initial responses.

In perhaps the best illustration of the increasingly powerful link between the finance team’s agenda and overall corporate strategy, more than 40 percent of senior finance executives said that they and their teams are activists — that is, they are involved in more than simply accounting, control, and business decision support. And to amplify what this means in terms of the CFO’s enhanced executive responsibilities, more than 60 percent of respondents from activist CFO companies have increased their interaction with the board over the past two years. Equally important, among all respondents — activist and non-activist companies — as many as 44 percent said that the CFO interacts with the board of directors significantly more today than two years ago.

In the survey, senior finance executives are asked to answer a brief questionnaire about their companies’ strategies and the challenges and obstacles they face in executing their agendas. From the responses, we are able to segment participants into four broad CFO profiles based on the priorities of their finance teams. They are:

**1. Growth Navigators (52 percent):** CFOs who work closely with CEOs to map an aggressive course to profitable growth through acquisition or organic channels. Most often found in banking, pharmaceuticals, high tech, and professional services. Top barriers to change: outmoded business intelligence, fragmented technology, and unsophisticated processes for resource/capital prioritization.

**2. Execution Maestros (28 percent):** CFOs who focus on operational excellence and instill in their companies the discipline to do more with less. Most often found in energy, insurance, transportation, retail, and hotels/restaurants/leisure. Top barriers to change: outmoded business intelligence, fragmented technology, and unsophisticated processes, along with difficult corporate culture.

**3. Turnaround Surgeons (12 percent):** CFOs who step in under close scrutiny to make difficult decisions that others often will not make — with the goal of restoring ailing companies to financial health. Most often found in automotive, capital goods, consumer durables, food/beverage/tobacco, and telecommunications. Top barriers to change: outmoded business intelligence, inability to change corporate culture, and resource constraints.

**4. Business Model Transformers (8 percent):** CFOs who identify opportunities for strategic innovation and take advantage of them by recasting their companies' business models and organizations. Most often found in health care, consumer goods, real estate, and diversified financial services. Top barriers to change: despite external problems, these companies wrestle

with both internal barriers, such as an intractable corporate culture and unevenness in their finance teams' "consultative smarts," and external barriers, such as outmoded business intelligence and fragmented technology.

An intriguing aspect of the new CFO agenda is the correlation between activism and higher expectations in a company, and how that correlation may translate into a greater degree of career mobility for CFOs. Of respondents indicating increased board interaction — a key sign of activism — 38 percent also acknowledged a need to overhaul their company's operating model; 30 percent revealed external pressure from analysts for change; and 27 percent reported significant executive turnover. The respondents with no change in board relations indicated significantly less company distress.

Although we don't believe that a trend is under way for the CFO to usurp power from the CEO, recent executive appointments suggest that activist CFOs, because of their increasing work in dealing with the business's most fundamental strategic problems, are ideally positioned for a promotion. A growing number of companies — Smith Barney, Pacific Gas & Electric, Pfizer, Metro-Goldwyn-Mayer, Philips-Van Heusen, EMI, and Disney Cruise Lines among them — have promoted CFOs to top spots to guide their companies through strategic change. And recently, in the case of two of the highest profile CEO vacancies, at Hewlett-Packard and Boeing, corporate boards chose their CFOs as interim chiefs while they searched for a permanent replacement. +

#### Vinay Couto

(couto\_vinay@bah.com) is a vice president with Booz Allen Hamilton in Chicago. He works with Fortune 500 companies on restructuring their organizational models and business processes in response to major strategic shifts, such as acquisitions, spinoffs, and globalization.

#### Frank Galioto

(galioto\_frank@bah.com) is a principal with Booz Allen Hamilton in Chicago. He assists clients with organizational transformation, finance and corporate headquarters effectiveness, corporate planning, and performance management.

#### Mark J. Moran

(moran\_mark@bah.com) is a vice president with Booz Allen Hamilton in Cleveland. A specialist in strategic leadership, he helps clients design and implement management systems that improve corporate performance.

**To take the CFO survey, go to [www.cfoagenda.com](http://www.cfoagenda.com).**

After filling out a brief questionnaire, financial executives receive instant feedback about which CFO profile they fit into and which CFO agenda is right for them.

**To download a PDF of the full report, *The Activist CFO — Alignment With Strategy, Not Just With the Business*, based on the initial 1,600 survey responses, visit [www.strategy-business.com/media/file/rr00019-cfo.pdf](http://www.strategy-business.com/media/file/rr00019-cfo.pdf).**

## Resources

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*strategy+business* magazine  
is published by Booz & Company Inc.  
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or call 1-877-829-9108.

Originally published as “The Rise of the Activist CFO” by  
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