



The Guiding Wisdom of a CFO

More than a numbers cruncher, a CFO should provide a forward vision for company strategy.

by Mark D. Working

Contrary to conventional wisdom, the Chief Financial Officer's (CFO) principal role is not as a "scorekeeper" of past results. Rather, the CFO is the keeper and interpreter of company data, tasked with providing a disciplined quantitative approach to management decisions. The ideal CFO has a deep understanding of the economics and dynamics of the business and knows what data, both operational and financial, are required to illuminate critical performance metrics and provide a forward view of the direction of the company. The difference is a basic matter of perspective—the CFO's gaze is directed through the front

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windshield on the future, as opposed to being fixed on history through the rear view mirror.

As a key member of the management team, the CFO doesn't simply provide financial data, but adds insight with regard to the optimal business model for the company and provides guidance on the impact of different strategic decisions. To do this, the CFO must be fluent in accounting, finance, tax, and information systems. Technical skills are important, but a top-notch CFO is distinguished by an ability to employ them in sophisticated analyses.

CASH FLOW, WHAT A CFO WAKES UP THINKING ABOUT

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be accomplished without it. In a leveraged middle-market company, the CFO's job centers around the question, "How will the company fund itself today?" Managing the cash position, borrowing capacity, and cash forecasting process to insure adequate cash availability to fund the business plan is perhaps the single most important function of the CFO.

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confidence in the company and its strategy. Communication skills and credibility are vital attributes of success.

DATA INTEGRITY, AND QUANTITATIVE DISCIPLINE

Every business has certain metrics that best measure its economic performance. This includes the financial and operating data

that is required to manage different parts of the organization. The CFO is charged with assuring integrity in the collection process and the overall accuracy of the data used for all corporate decisions.

The CFO's contribution should be in the design, implementation and oversight of the management information system, which is far more than preparation of monthly financial statements. The CFO's role is to determine what financial and operational data are routinely collected, organized, and disseminated to managers across the company in order to

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effectively manage revenue, margins, credit, inventory, capital spending, and other aspects of the business. In short, a top-notch CFO should drive the constant improvement of data collection, analysis, and evaluation and the effective use of the information gathered to enhance decision-making.

THE INVESTOR'S PERSPECTIVE

Ultimately, a business exists for the primary purpose of earning a return for the suppliers of capital. The bank wouldn't make a loan if it didn't expect to receive an adequate interest rate and the shareholders wouldn't invest unless they expected the value of their investment to increase. Like an investor, the CFO's focus must be forward-looking.

Interestingly, many people view financial professionals as having a backward, or "historical," perspective primarily because that is the nature of financial statements. But, in reality, the CFO views financial statements as valuable knowledge that is useful in planning

for the future. To be effective, planning must reflect a thorough understanding of the economics of the business. In addition, this function must include a disciplined process for evaluating strategic alternatives and

capital investment plans with the focus on investment return and the effect on value.

A great CFO keeps management and ownership focused on the objective of value-creation and defines an appropriate balance

between growth and prudence. This ability is often the single trait that sets apart a top-notch CFO from a “scorekeeper.” ♦



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ABOUT ZACHARY SCOTT

Zachary Scott is an investment banking and financial advisory firm founded in 1991 to serve the needs of privately held, middle-market companies. The firm offers a unique combination of in-depth knowledge of the capital markets and industry competitive dynamics, sophisticated analytical capabilities, and proven expertise in structuring and negotiating complex transactions. For more information on Zachary Scott, please go to ZacharyScott.com.

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