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BUSINESS GUIDE

CFO to Chief Value Creation Officer

A Better Way to Define Your Role

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From Fortune 500 companies to midsized firms, more is expected from chief financial officers than ever before. In addition to traditional responsibilities such as managing budgets and costs, financial reporting and compliance, CFOs are now expected to help guide strategic innovation and growth, digital transformation, and more.

The fact is, the word "financial" in the title doesn't begin to describe it—the job is much more than crunching numbers. Deloitte aptly frames the expanded role as the "four faces of the CFO"—steward, operator, strategist, and catalyst.[1] To meet the evolving demands of their position, we believe a title adjustment—or at least a mindset adjustment—may be in order: CFOs who think of themselves as chief value creation officers ("CVCO") will be in greater demand as the responsibilities of the CFO evolve.

Whether or not the acronym CVCO ever really takes hold, CFOs who recognize value creation as a top priority for their firms will be best positioned to help drive the success of their companies. Yes, metrics such as revenue and EBITDA growth are important, but they can't begin to tell you what you need to know to spot growth opportunities, know when it's time to shutter an unprofitable business line, or detect subtle tremors in the competitive landscape that could be tomorrow's earthquakes. Only a thorough, systematic self-valuation can do that. This process will open your eyes to opportunities and threats that might otherwise go unnoticed.

Let's explore five reasons why you can benefit from expanding your role to CVCO.

1. Your company needs one

Businesses create value or die. Yet too many executives, caught up in daily or quarterly concerns, leave long-term value creation to chance. Not coincidentally, the business world is rife with tales of companies large and small that pursued costly acquisitions only to find the acquired business a drain rather than a benefit; that poured money into outmoded businesses out of sentiment or inertia; or that missed growth opportunities hiding in plain sight, only to watch, perplexed, as a savvy competitor seized the day.

[1] Deloitte, "Four faces of the CFO"

In our book, QuickValue, we recommend that companies conduct self-valuations at least once a year, and more often if business conditions warrant. Of course, publicly traded companies have a running valuation reflected in their share price. But identifying specific value creation opportunities requires a step-by-step analysis and grading of your company's individual value drivers. We identify a total of 45 potential drivers—barriers to entry, revenue stability, brand equity, and competition, to name a few—and suggest that companies settle on the eight to 12 that matter most to them. The resulting Value Driver Score then factors into a straightforward calculation involving industry multiples, to arrive at the company's current valuation.

Whether you use this method or another, we believe that a thorough and honest appraisal of your essential value drivers is the best way to learn at a detailed level what you're doing well, and what needs to be fixed. But this commitment won't happen on its own. A persistent individual must ensure that valuation becomes and stays top of mind at the highest levels of the company.

2. You are the best (and only) person for the job

Nobody in the organization is better suited than you as CFO to serve as captain of value creation. That's because no one else has the combination of intimate knowledge and stewardship of the company's financial reporting, a heavy hand in the annual budget and strategic plan, and the ready ear of the CEO and board.

The traditional stereotype of the CEO-CFO relationship involved a dynamic, charismatic leader with good instincts and a taste for risk, countered by a spreadsheet-toting financial expert supporting the CEO's vision while at the same time providing a reality check and dutifully earning that old moniker, "CF-no."

The CFO's expanding role is driving more of a peer-to-peer relationship, one in which the CFO may have opportunities not just to support but help shape the CEO's vision and ensure that each new venture passes muster on the crucial question of how, specifically, it will create value for the company.

3. You'll spot growth opportunities

Your assessment of value drivers can serve as a bridge between a company's strategic plan and its annual budget, offering an evidence-based platform for new investments and strategies.

Recall that we recommend zeroing in on the eight to 12 drivers most important to the success of your organization. To put that knowledge into action, we further suggest separating out the drivers where you have the most control, and hence the greatest opportunity to improve. There may not be much you can do about barriers to entry in your industry, say, or your industry's overall market size. But if market share is one of your essential drivers and an honest assessment shows you've got room for improvement, get busy!

Intellectual property is another value driver for many companies. If your company owns intellectual property that is not being fully monetized, recognizing this opportunity could lead to new products or sources of revenue.

4. And identify problems before they become crises

On the flipside of finding avenues for growth, the same review can prevent pouring money into declining areas or making risky capital investments. If a legacy line of business is burning through cash but barely moving the needle on your value assessment, encouraging the CEO or owner to make that tough decision and shift resources into more promising areas could drive new long-term value.

Say that your business is overly dependent on a handful of customers. If that is the case, you probably tend to do whatever is necessary to accommodate their needs. If one of them asks you to buy expensive new equipment that is only of use in servicing their business, that customer's unexpected departure, or a shift in their business, could leave you burdened with a large expense for which you do not have offsetting revenue. As CVCO, you might look to lease the equipment rather than buy it, or you might try to convince other customers that they should also use this new equipment.

5. You'll enhance your own value

As a CFO, you're already stretched. The last thing you may need is someone suggesting you take on a whole new role in addition to the one you've already got.

> The beauty of thinking like a chief value creation officer is that it's not about taking on a new job; it's sharpening your focus on what matters most.

As CVCO, you can make a meaningful impact on your company. And what makes you a better CFO can only make you more valuable to the organization, and more prominent in your industry.

The business world may not be ready to replace the word "financial" in your title with "value creation," but we are advocating for that change in mindset. Overseeing and reporting on a company's financial performance, while essential to your position and to the company, is a somewhat passive exercise—an estimate of future results based on a look in the rearview mirror. Shifting to a mindset of value creation is proactive and allows you to drive real change and improvement for your company.

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