Throughout ancient history, financial tracking was relatively simple and remained so until the Crusades, when new trade markets opened up throughout Europe and the Middle East. With increased trade came increased wealth, and more complex transactions created the need for a more sophisticated accounting system. In 1494, mathematician Luca Pacioli published a book detailing double-entry accounting. To this day, Pacioli is often referred to as the “Father of Accounting.”

CFO 2.0

From bean-counter to the boardroom, the role of Chief Financial Officer has gone through some major changes since its inception. Today, in the wake of a global economic recession, the role of the CFO has become even more elevated, as corporations increasingly rely on the financial and strategic prowess of their most senior financial leader.

But with great power comes great responsibility. A decade after a series of high-profile corporate scandals, CFOs have been thrown into the spotlight and placed under the microscope like never before. They face an array of new challenges, from managing a globally diversified business to mitigating new technology risks. They are responsible for reporting on the past, managing the present, and creating the future. Their role is ubiquitous throughout the organization. There is no longer a singular definition of the CFO role.

The following takes a look at the evolution of corporate finance and the CFO role, the state of today’s CFO, changes for the future, and strategies to help CFOs better manage their shifting job descriptions.

**HISTORY OF THE CFO ROLE**

**IN THE BEGINNING, THERE WAS CASH**

Corporate finance can trace its roots all the way back to the Mesopotamian Era. Around 7500 B.C.E., the Mesopotamians began using clay tokens as a form of currency in exchange for goods. Thus, in a sense, cash was born. Different sizes and shapes represented different values. Over the next few thousand years, various methods of stamping and documenting money were developed, along with tools for counting and calculations, like the abacus, which was developed in China around 3000 B.C.E.
THE BIRTH OF THE FINANCE PROFESSION

Even with the advent of double-entry accounting, managing finances remained more of a clerical task than a profession. It wasn’t until the Industrial Revolution in the late 18th century that the profession of finance was born. Small, local businesses grew into larger regional and national businesses. Owners, who were heavily focused on operations and growth strategies, sought to understand how to cut costs and increase profits. As the demand for accurate bookkeeping grew, the first professional public accountants emerged, and accounting was established as a certified profession in the US, UK, and throughout the west.

Despite the early growth of the finance profession, for most of the 1800s, finance professionals served multiple clients, and it wasn’t until the end of the 19th century that companies began hiring in-house controllers. This was perhaps the first major shift in the role of finance since its inception. With an increasing number of in-house financial professionals, the role of finance began to shift from simple accounting services to the development of new methods for evaluating financial performance. The shift was reflected in the creation of professional organizations that governed the finance profession.

The Institute of Chartered Accountants in England and Wales, established in 1880, was one of the first professional organizations. Forty years later, in 1919, the Institute of Cost and Works Accountants was founded in the UK to support corporate finance managers. The Controllers Institute of America was founded in New York in 1931, and by the end of the 1960s, most western nations had established similar professional groups. Through these organizations, new approaches to financial and business strategy were elevated and with them, so was the role of finance and the CFO.

1950S AND 1960S: THE CFOS RISE TO POWER

In a booming post-war economy, money and opportunities were easy to find. Large businesses grew quickly by acquiring or merging with competitors. Operations executives ruled the workplace by finding operational efficiencies to streamline production as companies expanded. But the growth in conglomerates eventually took its toll, and in the 1950s, strict anti-monopoly regulations went into effect. Businesses who sought growth through M&A now had to find it in new industries.

No longer able to rely on the industry expertise of the CEO or COO, businesses began to rely more heavily on their finance ex-
The fall of the COO

Until the 2000s, the CFO’s road to prominence had been somewhat of a glorious one. But that was all about to change. In the early 2000s, a series of high-profile scandals and the dotcom bust lifted the cover on many corporate misdeeds. Although this was a dark time for businesses, these events demonstrated just how powerful the CFO role had become at many of the largest businesses in the world. Many federal prosecutors cut deals with CFOs to help target CEOs; however, CEOs repeatedly pointed the finger back at their CFOs as the architects behind their multi-billion-dollar fraudulent plans. In many instances, the CFOs even plead ignorant to the day-to-day business operations and finances, citing the CFO as the true puppeteer.

The result, as CFOs today know all too well, was the Sarbanes-Oxley Act of 2002, which holds CEOs and CFOs personally accountable for their company’s financial statements. Additionally, it legislated new requirements for internal control systems. Perhaps unintentionally, it also solidified the CFOs role next to the CEO at the top of the corporate pyramid.

2000s: CFOs take their punches

By the end of the 1970s, finance would surpass manufacturing to become the most common background for CEOs at the largest companies in America.

1970s and 1980s: CFOs adapt

With the period of post-war prosperity coming to an end, the 1970s saw slow growth and high inflation. For the first time since WWII, CFOs were called on to prove their worth in a time that was less than prosperous. With financing in short supply, CFOs were forced to make drastic shifts in their financial strategies, relying heavily on cash flow rather than on debt. CFOs were forced to leave the comfort of their offices to face new operational challenges on the front lines. This transition from portfolio manager to operations manager was a huge change in the job description of CFOs, and it ultimately led to the decline of the COO role in lieu of more powerful CFOs.

1990s: CFOs in the spotlight

Before the mid-1980s, managing a company’s investors was relatively easy for CFOs. Shareholders were generally an easily defined group with clear motivations and expectations. But with the growth of sophisticated private equity firms in the mid-1980s, coupled with a transformation of share registers, CFOs now had to deal with institutionalized investors, which comprised the majority of shareholders at large firms by the mid-1990s. While the CFO’s influence had been growing internally for decades, this shift in stakeholders pushed many CFOs into the public spotlight for the first time.

With a change in the investor environment and an economic surge, many companies tried to raise equity capital in the late 1990s. From 1995-1999, the value of IPOs on the US exchanges matched the value of IPOs from the previous 25 years combined. Hedge funds and a new class of investment analysts emerged, which put more pressure on CFOs to show clear motivations and expectations. But with the growth of sophisticated private equity firms in the mid-1980s, coupled with a transformation of share registers, CFOs now had to deal with institution-alized investors, which comprised the majority of shareholders at large firms by the mid-1990s. While the CFO’s influence had been growing internally for decades, this shift in stakeholders pushed many CFOs into the public spotlight for the first time.

The availability of cash had another major impact on the market, leading to a new breed of investors who acquired businesses struggling from the challenging economic conditions. As a result of these new investors, who needed to service debt and interest to creditors, CFOs were forced to make extreme cost cuts, divest assets, and streamline operations. CFOs had to completely overhaul their company’s financial and operational strategies.

The fall of the COO
When the Great Recession struck in the late 2000s, CFOs were once again thrust into the limelight, being called upon to help failing businesses steer their corporate ships through turbulent economic waters. With the threat of a failing banking system, CFOs scrambled to move cash into new safe havens. They cut costs, moved assets abroad, and found other “innovative” ways to store cash.

THE CURRENT STATE OF THE CFO ROLE

THE UBIQUITOUS CFO
Today’s CFO holds a unique role in the organization. Second in rank only to the CEO, CFOs generally hold more power than any other department leader. Unlike other department chiefs, like the CMO or CTO, CFOs need to understand the workings of all other departments. It is no longer enough to solely manage the finance team. This deep understanding of the inner-workings of the business is part of what provides the CFO with such unique power within an organization.

THE GLOBAL CFO
In the wake of the Great Recession, CFOs have reinvented themselves yet again. The push to move money offshore during the Recession, in combination with new technology that makes doing business globally easier than ever, has lead to a spike in global M&A activity. This reached an all-time high in 2007 with $4 trillion in deals, nearly half of which were cross border.

In a growing global economy, CFOs are looking to emerging markets for high-risk, high-reward investments. In 2013, 25 out of every 100 M&A deals featured emerging markets, an increase of 300% from ten years ago when the number was closer to 8 out of every 100.

Investing abroad is about more than just diversifying portfolios. Both new technology and outsourcing globally have taken tasks that were previously very time consuming and made them easier and less expensive. The significance of this for the CFO role extends beyond cost savings. By spending less
and while CFOs may not be ubiquitous in an organization, technology is an important external force shaping businesses. Technology was identified by business executives as the most important factor. First is simply the rise of technology in the workplace, technology has become both a major expense and capital asset. Because of the financial demands technology has created, it is important that CFOs have a deep understanding of these financial line items.

The second reason CFOs have taken on more technology responsibilities is the decline of the COO role. In many organizations, as the COO role has been removed, the duties of the COO have been divided between the CEO and the CFO. This is, in part, due to the fact that so many CEOs of major corporations came from the COO role, as is the case at 40% of Fortune 500 and S&P 500 companies. While this distribution of tasks between CEO and CFO certainly varies by company, often the CEO, with their operational background, takes over manufacturing and supply responsibilities, while CFOs take over procurement and IT.

**NEW RESPONSIBILITIES**
The CFOs list of responsibilities varies greatly by industry, company size, and company health, but certain trends do exist. CFOs, whose role was previously limited to measuring and monitoring financial performance, have taken on a handful of new responsibilities. While this list could certainly be vast, we’ll discuss five new aspects of the modern day CFO role: managing technology, providing strategic vision, succession planning and people development, data analysis, and mitigating enterprise risk.

**MANAGING TECHNOLOGY**
One of the most discussed changes in the CFO role over the past decade has been taking on the management of technology. This change has been the result of two major factors. First is simply the growth of technology in all aspects of the corporate world. In a 2013 study by IBM, technology was identified by business executives as the most important external force shaping businesses. Technology is ubiquitous in an organization, and while CFOs may not be able to code a website or set up a database, like technology, they too have become ubiquitous throughout the organization. Because CFOs have such a deep understanding of all the organization’s operational units, it makes sense that they would be the ones to oversee the technology that integrates these units.

Also, as a result of growing technology demands in the workplace, technology has become both a major expense and capital asset. Because of the financial demands technology has created, it is important that CFOs have a deep understanding of these financial line items.

Additionally, technology and low cost labor abroad have made the CFOs clinical tasks, such as monitoring and reporting on finances, faster and less expensive. As a result, the CFO has taken on more strategic planning responsibilities, especially over the last decade. In a recent study by EY, 75% of CFOs reported spending 50% or more of their time on strategic aspects of their business, with 2 out of 3 saying they are the face of the company on all strategic issues related to financial performance. These statistics were reiterated in IBM’s 2013 Global CFO study, where 70% of CFOs reported playing a critical role in decision making. Further, more, 78% said that business model innovation was a major part of their role as CFO, and 88% said they were responsible for helping select the key metrics linking performance to strategy execution.

**PROVIDING A STRATEGIC VISION**
The CFO’s rise to being a strategic advisor should not be a surprising one. A background in finance gives CFOs a unique ability to apply a systemic and objective lens to business operations. And while CFOs remain burdened by stigmas of being penny-pincher and number-junkies, the shift to a more quantified approach to business has provided an important balance to the “quintessential” style of management of previous times.

SUCCESSION PLANNING AND PEOPLE DEVELOPMENT
Perhaps one of the more under-represented responsibilities of the CFO is to develop talent within their organization. In IBM’s 2013 Global C-Suite study, nearly 90% of CFOs listed talent development as an important part of their job.

But this task may be more daunting than it sounds, as there appears to be a large talent gap developing, with many finance programs remaining heavily focused on traditional financial tasks and not enough on the new responsibilities of corporate finance, like managing technology and risk. In Deloitte’s 2013 Global Finance Talent survey, 39% of finance executives felt they were “barely able” or “unable” to procure the talent needed to successfully run their organization. Succession planning has also become a more complicated task for CFOs as their roles have become much more diversified. The path to CFO no longer entails climbing the ladder through the finance department, but frequently follows more operations-focused and business leadership roles. On their way up, many CFOs are given the responsibility of managing key business units or customer seg-
CFOs are also facing an expansive new set of risks that come with technology, the most serious of which are perhaps external security risks. From Target to Home Depot, even companies with large and sophisticated security measures in place are still at risk for being targeted by hackers. While data breaches of consumer information can certainly damage a business’s reputation, the possibility of leaking confidential financial information and business plans could be detrimental to a business and a CFO’s career.

Social media has created a new type of risk for CFOs, one that is difficult, if not impossible to control. As many companies have learned the hard way, information spreads quickly on social media. Stories may range from the unintentional release of confidential information to discussions of internal issues, policies, or other employees. Certain regulations re-

ments in conjunction with their finance responsibilities. The CFO position is no longer just a functional role but a business-leadership role.

Today, most CFOs are recruited internally, with 69 percent of Fortune 100 CFOs having been promoted from within their organization. Of those 69 internally promoted CFOs, 70% spent more than 11 years at the company beforehand and 41% were there for more than 20 years.

DATA ANALYSIS
The merging of big data with new technology has made processing large data sets easier than ever. From mining big data to predictive analytics, CFOs have tools available to them that did not exist previously. CFOs have been asked to apply their systemic approach for numbers to data that reaches beyond financial data. This often includes assessing consumer data to forecast purchase trends, economic indicators to predict market trends, and operations metrics to help streamline processes and cut costs. Beyond dollars and cents, CFOs possess the ability to extract knowledge from numbers and apply that knowledge to make strategic decisions about the business.

Beyond data analysis, CFOs face another new, modern day data challenge. As they’ve taken on larger roles within IT and analytics, CFOs are forced to tackle the growing issue of data management. This includes both data storage, as well as monitoring and managing data quality. These important tasks not only enable CFOs to do their job, but they allow other functions to operate more efficiently. Without data quality control, CFOs and other business leaders risk making decisions based on flawed insights.

MITIGATING ENTERPRISE RISKS
With the laundry list of new capabilities and responsibilities comes a list of new risks. Perhaps foremost on that list are legal regulations. From the anti-monopoly laws of the 1950s to the Sarbanes-Oxley Act of 2002, CFOs have had to adapt to a variety of new regulations throughout time. While some of these have merely altered processes, many have changed the way CFOs lead their businesses altogether. Even within the last few years, new standards and regulations are stirring the pot again, as organizations like CDSO and FASB are trying to update to reflect the modern world.

“Over the past decade, to be a CFO successor you need experience in a regional or divisional role, a corporate role and general management. CFO is a business-leadership role, and those things make you a business leader rather than a functional leader.”

– Suzanne Woods
Head of European Financial Officers Practice at Russell Reynolds
garding employee rights limit an employer’s ability to restrict their employees’ use of social media. This leaves corporations with few options other than to educate their workforce and encourage them to be on their best behavior.

The last emerging technology risk has risen from the volume of data and ease of transfer within organizations. Twenty years ago, when an employee was let go, they took their personal belongings in a box and were on their way. Nowadays, employees frequently share information between business and personal devices, store it on flash drives and in clouds, and retain duplicate copies of confidential business information. Companies are increasingly running into issues with containing information, such as prospect lists, when an employee leaves a company, particularly when they move to a competitor.

ALL GUTS, NO GLORY

Even with new responsibilities and higher visibility, the CFO role remains one of all guts, no glory. When a business is struggling, investors look to the CFO for answers. And when the business is excelling, the CEO frequently gets the credit while the CFO is left to field questions on why the business isn’t doing even better.

The CFO’s rise to power has been exponential, with a pattern of earned responsibility during tumultuous times and little to no recession in power once the turmoil is over. The path to the boardroom hasn’t been easy. Through the development of the CFO role, it is perhaps best defined as being one of versatility. In just a little more than a century, CFOs have grown from a clerical post to a strategic leader in the boardroom, right hand to the CEO, and the future chief executives of businesses around the world.