

## **CFO Success Series: Financial Leadership Isn't Optional**

In a [recent article](#), we identified some symptoms of and provided some remedies for an under-resourced Accounting, Finance and Treasury (AFT) team. The antidote I prescribed aligns the Board and executives with the AFT team to alleviate the specific resource ailment that troubles many companies.

However, the article did not discuss the underlying cause of the ailment – Poor leadership.

A while back I was introduced to a client who built an exciting product and was experiencing strong sales in a rapidly growing industry. Unfortunately, they were running out of cash. It was easy to see why. Hasty growth had stretched their working capital beyond capacity while poor costing analysis, record keeping and cost overruns resulted in considerably lower margins than projected earlier in the year. Production schedules were also being delayed as order growth lead to labor and facility capacity issues.

As we began digging into the cash flow issues the company's senior leader kept his line of questioning and research on past transactions (six to 24 months old) with very little focus on the current activities or fixing the long-term cash flow issues. He disregarded a costing system recently developed by the company's CPA and indications that earnings were not as strong as he had promised the owner earlier in the year.

I was perplexed by his unwillingness to:

- Learn more about the company's current cost structure,
- Utilize the new costing system and
- Prepare a business plan with a financial forecast that would help us understand the type of financing available to the company.

Until I learned this: A large share of his compensation for the current year was based on activity from the past 6-24 months. As he anxiously sought to find past record keeping errors he could use to improve his current year's compensation he lost focus on the here and now. The "leader" was jeopardizing the future of an exciting, fast growing business because his personal interest outweighed his commitment to the owner and 80+ employees who work at the company.

The company had gone through a number of senior finance consultants and now had one bookkeeper handling all daily activity and monthly closings. The bookkeeper was frustrated; having more tasks than one person could be expected to complete.

### **Where did this company's leadership fail?**

First, the company didn't align its executive compensation policy with the company's strategy. This lead to incompetent and irresponsible behavior by its senior leader.

Second, and more importantly, the company failed to develop the financial leadership required to:

- maintain confidence in its books,
- focus on the future rather than the past
- instill the discipline and process management required to effectively plan for the future.

The senior executive was unable to focus on and plan for the company's future due to questions raised by past performance, stemming from nonexistent AFT leadership. He was trapped in a quagmire attempting to clear the fog of a murky past.

### **Financial Leadership.**

In today's fast changing business environment executives must possess qualities that inspire employees, customers and vendors to contribute to driving the company toward its strategic objectives.

The AFT is uniquely positioned to bring all aspects of a business together through a common language we know as finance. In well operating businesses this language is practiced. The fluency required depends on your department and position but its role as a great business tool has been with us for over 500 years.

A company with solid financial leadership is capable of and practices the following:

- The AFT communicates its corporate purpose to its constituents (including the owners, board, executives and employees)
- The AFT procures and develops the resources required to deliver on its purpose:
  - Hire and train AFT staff for today's needs and plan for future hiring and training needs
  - Implement and develop systems to meet the AFT's purpose
  - Develop effective AFT processes that can be scaled for growth
- Builds teamwork within the AFT and with other departments
- Develops and practices business planning and communication skills that inspire the company's constituents to work in a manner that supports the company's goals.

### **Small and medium sized businesses need an AFT too**

A number of financial professionals, mostly from small or mid-sized companies, have contacted me recently regarding the Accounting Finance and Treasury (AFT) departments. Some have contended their business is too small to have an AFT. My response to them is that every business has the responsibilities of an AFT; whether you want one or not; whether you choose to acknowledge the need or not; you have one. It may be managed from 9-noon on Saturday mornings by the single proprietor entering records into QuickBooks to see how much money is left in the bank or by a part time bookkeeper that keeps your ledgers up to date and reconciles your bank account - but you have one.



My point? All businesses have AFT requirements and need financial leadership. This leadership doesn't need to be time consuming and may not require much work, but it needs to be deliberate.

If it isn't clear what your company should be getting from your AFT, a small investment of time to decide what your company should be getting from your AFT will be well worth the effort.

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***For those of you in AFT roles, we'd love to hear how your AFT team has contributed to leadership at your company.***