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The Role of the CFO in Business Resilience

When COVID struck, businesses looked to their CFOs to steady the ship. **Emma Carroll** explores how the best Finance leaders also acted with the necessary pace and creativity to secure opportunities for future growth

The UK was three months into lockdown when Criticaleye brought together senior leaders to discuss how they had navigated the first weeks of the crisis. They shared the challenges, pitfalls and also their hopes as they worked to build resilience for the future.

Patrick Butcher, CFO of Capita, the £3.6bn turnover consulting, digital services and software business, said the initial priority was to make sure the organisation kept operating and that it could pivot to homeworking. "Once we were doing that, my role was to work out where we were going to finish and so aim cost reductions at the right places and level," he said. For **Patrick**, it wasn't a time for timidity. "I'd much rather we cut a little deeper, a little sooner and then re-invest, rather than wait too long and run out of time," he said.

The business entered COVID part-way through a multi-year turnaround, and like other organisations had to act decisively. Bonuses were cancelled, higher-paid employees took salary cuts, non-contractual payments were frozen and there was a focus on cash collection. They also curtailed travel, took advantage of the Government's furlough scheme and, crucially, sought to understand how their customers were being affected.

ADAPTING PERFORMANCE INFORMATION IN A CRISIS

- Prioritise speed over perfection
- Seek out real-time measures
- Leverage soft information, such as conversations
- Redraw your balanced scorecard
- Pull in information from the frontline

"The key thing was getting the business to focus on live conversations with our customers: understanding how they were being affected and what they wanted from us, including how we needed to change what we do. You can cope with almost anything as long as it doesn't take you by surprise," **Patrick** explained.

When cutting rapidly, it can be a mistake to lose sight of your business purpose and values. This was certainly something **Patrick** heeded. "One of the options we did not take was to extend our supplier payment terms – it would have been easy, but the wrong thing to do. We had also committed to move all our people in the UK to the real-living wage in April [2020]. That was another decision we reviewed: should senior people take a pay cut or should we not pay the real-living wage? It wasn't a difficult choice – none of us wanted to work for a company that doesn't pay the living wage."

Mike Tye is Chair of Moto Hospitality Group, which had to keep its motorway service areas open throughout the crisis, regardless of the plummeting number of people on the roads. His non-executive portfolio also includes organisations in the hard-hit tourism and charity sectors. When the virus took hold, he said they all doubled down on cash and liquidity.

"We asked the teams for two scenarios: how bad it could be and what they thought it might be. Then we ran those models to understand the impact on liquidity, covenants and the other things you'd expect. We've kept those scenarios throughout, but as things evolved and we learned more we've updated the key variables and sensitivities within them," he explained.

Mike, who is also a Board Mentor at Criticaleye, said businesses need CFOs who bring "calm and logic" to this forward planning, while also maintaining a clear view of potential risks. "They need to make sure the team knows what the 'killer blow' is that would prove critical to business resilience – and they must keep asking that question."

Delaying decision making in pursuit of precision at this time can be fatal. "In a crisis don't look for perfect data because it doesn't exist. A lot of CFOs really want to get the decimal points right, but at the moment 90 percent accuracy fast is better than 98 percent slow," **Mike** said.

The nature of the data used to run businesses must also change. "Performance measures need to be a lot more real-time," **Patrick** stated. "You rely more on soft information in a crisis, because the hard systems aren't designed to support that. For example, I'll meet with my senior team twice a week, and as an Executive team we were meeting daily for the first 6-8 weeks.

"That means you're getting a steady flow of information – some of which is anecdotal – and a feeling for where the pressure points are. That allows you to respond in a more agile way, rather than waiting for the more clunky month-end processes. You are relying more on people's judgment than on formal systems," he said.

Mike has also found that a balanced scorecard is more crucial than ever but suggested tearing up the old one and creating a new version. "It still has the four stakeholders: team, customer, investor and community, but the metrics and the targets that go with them have >

fundamentally changed," he said. "I've seen a couple of instances where people have not changed their scorecard, and I asked them, 'What are you learning from that?'"

Leadership During a Crisis

The pandemic has required collaboration and alignment at the top. "The CFO has to step up and support both the CEO and the Chair, because we're all learning together," **Mike** said. "This is no time for one-to-one conversations – this is where that triumvirate of the Chair, CEO and CFO have to be totally as one. They must be open and work things out together."

In the face of so many unknowns, he said businesses need Finance leaders who can think differently. "I look to my CFOs for creativity about the options that lie ahead. This is all new, and so the creativity of a CFO and their team is fundamental to how successfully you will come out the other side."

In practical terms this might mean thinking more innovatively about alternative sources of funds and listening to people on the frontline for solutions to operational problems. "I think the creativity comes from changing your routines, rhythms, sources of data and looking at completely different sectors for new insight," **Mike** said.

THINKING CREATIVELY AS A CFO

- Think widely about sources of funding and liquidity
- Pull in insight from other sectors
- Seek solutions from the frontline
- Use new sources of data
- Lead on opportunities for growth
- Carve out time to think

Being creative also requires the discipline to step back and think more broadly. "As CFO, even in the middle of all the noise you've got to create space to think," **Patrick** said. "On my weekly calls with my people I muse for 15 minutes on the world, the economy and what we're up to as a business. There's a real desire for that, because everybody is surrounded by bad news, pressure and noise and so it's hard for them to set aside time for clear thinking."

The sense of perspective this allows is crucial for strategic planning. "I've got to carve out time to do the thinking that allows us to bridge short-term conversations, which are vital for survival, with the longer term," **Patrick** said. "You must remind yourself why it is important that the company survives. Then you can refocus on that purpose over the medium term."

Mike agreed that the CFO has a vital part to play in thinking beyond the crisis. "This is where the CFO has to become the leader of the business, not just the leader of their function. They must be prepared to lead on where to take a risk and when not to. The CFO should be saying: 'It's time to get brave – there's a real opportunity here', or 'let's not go there; we're out of cash'.

He takes this further: "You have to earn the right [to play] by securing your cash requirements for your worst case and investing in the basics. Then if you are confident in your market position, your product, your service and your capabilities, this is a brilliant time to really be bold and call on equity or debt.

"The CFO has a phenomenally important leadership role here and should be challenging the Board on how they can use capital to improve the business and to protect and then win profitable market share," **Mike** said.

The strong, agile and resilient businesses that survive COVID-19 will be well placed to seize new opportunities for growth. It is also the moment for CFOs to throw off some of the tired clichés about their role in the business. "I don't buy this model that a successful CFO should be the counter to the optimistic Chief Exec," **Mike** says. "I do think CFOs must challenge the veracity of proposals and ensure safety nets, but in this time more than ever the CFO's prime role is to create value."

Patrick sees the pandemic as a signal for wholesale change. "I think COVID has given us a real opportunity to reinvent the world. That means, reinventing ourselves as individuals, the communities we live in and our companies," he says.

"The challenge for us as CFOs is that the way we interact with our people and lead as members of the senior team is going to be different – and so we must change ourselves too." ■

Patrick Butcher will be among the speakers at Criticaleye's Virtual CFO Retreat 2020. The Retreat is being held in association with **Capita Consulting** and will take place on 12 November. Speak to your Relationship Manager or Criticaleye contact to reserve your place.

Featuring Commentary From:

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