Aligning financial plans to long-term goals

Today's CFOs no longer merely crunch numbers; they're architects of strategic growth. As private capital floods markets, their role bridges financial plans with the company's long-term vision

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While statistics provide historical context, what truly drives businesses today is the strategic vision. CEOs now want their CFOs to show them how financial plans align with their long-term goals.

The old CFO only needed to know what the numbers for the previous year, or quarter, said and meant. But their modern-day equivalent must also be able to think, plan, and implement strategies to ensure a firm's future growth and stability.

It is a shift that McKinsey & Company highlighted in 2022.

Then, it found that nine out of fifteen roles within an organisation reported direct relationships with the CFO, with some areas such as procurement reporting a sixteen-percentage-point increase on the previous year.

Other areas such as investor relations, M&A transactions and execution, digital, and enterprise transformation reported increases of eight to fourteen percentage points in roles that had shifted to reporting to the same CFO.

Deloitte has also remarked on the trend.

“Gone are the days when CFOs focused on providing accurate numbers to the organisation. The finance function has evolved: it has moved away from being a back-office function to becoming one of business’s most critical and strategic,” one of Deloitte’s reports noted in November 2022.

“CFOs now focus on not only providing accurate numbers, but also on providing insights that will drive the growth of the business and ultimately advance the industry.”

This, wrote Deloitte, has led to a CFO now being required to become more strategic.

“Therefore, to succeed in adding long-term value to the organisation, a newly appointed CFO needs to begin with a clear view and vision of the corporate strategy they intend to shape. They need to adopt a strategic mindset to tackle challenges and identify opportunities,” the report noted.

New levels of sophistication required

Dan Ellis, managing director of Townsend Search Group, specialises in recruiting C-level executives for organisations. He says that the change has been driven by the flood of private capital and private equity coming into the market, particularly into the middle of the market.

“These are organisations that are partnering for the first time with institutional capital,” he says.

“As a result, there’s a new level of sophistication being required from the financial perspective. The institutional capital wants to have reporting, metrics, and transparency so they can keep their finger on the pulse of that investment, manage it, hold others to account for it, and exit eventually for the return.”

Questions arise, however, around how a CFO can reconcile having financial plans and being able to link them to longer-term strategies for a company.

“It’s important that the CFO understands the needs of the business in relation to their own role,” Ellis says.

“They need to know what the goals of the business are. They need to know the company’s objectives in the short-, medium-, and long-term, and they’ve got to be able to assess the organisation’s situation.”

Ellis says CFOs will need to develop executable plans with “milestones”. These plans need to be measurable with key metrics that can be monitored over time; more crucially, the modern CFO has to be able to communicate with their team and hold them to account with regard to end results, Ellis says.

“That leads into one of the most-important roles that a CFO has now—building the team, then mentoring, growing them, and supporting them on their journey,” he adds.

Building a master plan

On a more micro, day-to-day, on-the-ground basis, Jay Jung, president and founder at Embarc Advisers, says every organisation should have a twelve-month budget plan, along with a long-range plan covering three to five years.

“The long-range plan,” he says, “is more aspirational. By virtue of that, it has to be more high level. At the same time, it still needs to be realistic. And as your twelve-month budget goes forth, you need to make sure your performance tracks the long-range plan.”

Jung says CFOs should, theoretically, have a budget for their forecast, but often they are “quite divorced” from the actual needs of a corporation.

“I’ve seen companies execute this really well by translating that twelve-month plan into a three-to-five-year plan through a kind of actionable framework,” Jung explains.

“The most-popular ones out there are the entrepreneurial operating system (EOS) framework or the objectives and key results (OKR) framework.”

The EOS framework that Jung refers to is what its makers call ‘a complete set of simple concepts and practical tools’. The six components of any business are vision, people, data, issues, process, and traction.

The latter, the OKR framework, looks at three things: objectives, which tells a company in which direction it should be happening; key results, which are the measurements used for achievement; and initiatives, which are the items that will enable a firm to obtain those key results.

But perhaps, most importantly, says Kevin Coveney, CFO at Enveric Biosciences, is that the CFO needs to understand their role as a support to the CEO in realising their plans. Key to this, he says, is understanding the role, nature, and background of the business they are helping to lead.

Translating for the C-Suite

Coveney, who sits near the top of a pharmaceutical firm in Boston, says that one of the fun parts of his role is working with the CEO to create the pitch deck when they have meetings.

“I like to get to the point,” he says, “where I’m as comfortable telling the initial story from both a financial and scientific background.”

“I don’t have a science background, but I’ve been around this industry for years. I can take that knowledge to a meeting, even if there’s been a conflict and I must take the meeting by myself.”