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CFOs play crucial role in surviving Covid-19 crisis

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In recent years, chief financial officers (CFOs) have been called upon to do many things. They have stepped beyond their traditional technical finance functions, embracing technology and innovations to partner chief executive officers (CEOs) and boards on strategic issues.

But if asked at the end of 2019, probably no CFO would place "managing through a global pandemic and economic crisis at the same time" among their top five things to do in 2020. Like many others, CFOs are being asked to do even more in a very short timeframe.

A McKinsey article in March suggests that the attention on CFOs is appropriate because "the CFO is the leader, after all, who most directly contributes to a company's financial health and organisational resilience".

Jack McCullough, president and founder of the CFO Leadership Council, a professional association, went further: "The CFO's voice is the most critical one during a crisis… When constituents need the unvarnished truth, they turn to finance chiefs."

At the start of Covid-19 earlier this year, businesses had to quickly pivot to protecting their employees, customers and suppliers, and financial results. CFOs were asked to forecast the potential Covid-19 impact on working capital, cash flows and operations.

For many companies, sudden declines in revenue and collection, coupled with high fixed costs such as rent and salaries, meant assessing and ensuring adequate liquidity was a key concern.

CFOs are used to preparing budgets and forecasts, but they are now expected to do so faster and with significantly more uncertainty. This is especially difficult given the extensive impact of Covid-19, which has brought many economies to a virtual halt. The World Bank says the Covid-19 pandemic is likely to result in the global economy contracting 5.2 per cent this year.

To effectively mitigate the increasing risks for their organisations, CFOs should reduce "data latency" to a minimum. If it usually takes the finance office a month to update forecasts from various units, the CFO needs to figure out what technology, collaborative tools and automated work processes can be deployed to lower the latency.

In today's fast-moving digital age, CFOs need to redouble their efforts to drive digital transformation of the finance function. Any financial artefacts that are not natively digital spell opportunity for transformation.

Cost containment was an early and immediate priority for many companies and CFOs. The ability to flex costs in line with revenue forecasts and to shift resources from one product, division or segment to another are both crucial, and CFOs have to take steps to achieve this degree of agility.

From a planning perspective, zero-based budgeting should be the default for all units. CFOs are increasingly challenged to review all business case assumptions for projects and commitments made "BC" (Before Covid) and ensure they are still relevant going forward.

CFOs and their finance teams need to be able to provide (almost real-time) cash positions and projections, across different time-horizons and different regions where customers and suppliers are located.

The danger, of course, is "analysis paralysis". One does not require hundreds of models and variables to have a rough idea of the most likely scenarios. The adage "better to be approximately correct rather than exactly wrong" is most appropriate in this instance.

Despite massive fiscal stimulus by many governments to prop up businesses, economies and jobs, companies will eventually have to dig into their cash reserves to supplement their working capital. Even this may not be enough, and companies may need to consider securing additional lines of credit, raise capital or divest assets. CFOs will play a critical role in guiding these efforts.

Businesses will never be the same post-Covid-19. Take working from home or telecommuting, for instance. Three-quarters of CFOs surveyed by Gartner in April said they would permanently shift at least 5 per cent of their on-site workforce to remote positions.

The CEO of Mondelez says it will "no longer need all its global offices". The Barclays CEO says "crowded offices with thousands of employees may be a thing of the past". More drastically, Twitter and the ING Group say their employees can continue working from home "forever". CFOs will be expected to work out the financial and non-financial sums associated with such a move.

The digital revolution, further accelerated by business necessity and continuity due to Covid-19, may be a one-time event. But, as the saying goes, never let a good crisis go to waste. There will be renewed interest in digital initiatives across the entire organisation. Beyond digitally transforming finance operations, CFOs will be expected to be strategic business partners in digital transformations across all business units.

CFOs will also need to re-examine their value chain risks, with emphasis on concentration risks. Is the business overly dependent on a specific type or class of product, customers, suppliers or funding source? Are there diversification opportunities in the medium to long term?

In time, economies will bounce back. CFOs need to keep a lookout for upside opportunities as well. Are there investment, M&A or new market opportunities? How can CFOs help position companies to capitalise on recovery?

No one knows how and when the Covid-19 pandemic and economic crisis will end. But in the steady hands of a good CFO, businesses will have a much better chance of navigating and surviving this unprecedented crisis.

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