CFOs must be 'strategic business partner' as role merges with COO

Dive Brief:

- Over the past decade, companies have begun to merge the chief financial and chief operations officer roles into a combined CFO-COO position with surprisingly positive results.

- The trend is particularly common in small and rapidly-growing companies, with larger companies such as PepsiCo also embracing the idea. According to Bill Sorenson, CFO of cloud development platform Digital Ocean, the reason for this role-combining lies in the changing dynamics of the company itself.
• “The role of the CFO has really changed over the past 20 years,” Sorenson said to CFO Dive. “When companies hire an executive these days, they are looking to hire a strategic business partner who can drive change across the company.”

Dive Insight:

Under this shift, companies are calling on CFOs to tackle operational problems — in human resources, technology, marketing and legal — right from the get-go. “As companies grow, cost issues drive CFOs to take ownership of infrastructure issues,” Sorenson said. “This may lead them to get involved in bringing business units up to speed or scaling the business up.”

Steve Armond, CFO of T-Systems, a communications operator for multinational corporations, began taking on operational tasks in 2013. Today, he runs a unit that produces a significant portion of the firm’s revenue, according to an article in CFO.

His new duties require him to prioritize activities “that will create the greatest value opportunities for the business, and to spend less time in the minutiae,” the CFO article said.

T-System’s website describes Armond as a financial and operational leader who “helps ensure the successful implementation of policies and procedures,” — a departure from the usual CFO job description.

Many companies that face departing COOs opt not to replace them. Craig Tagawa, CFO of American Shared Hospital Services, assumed the COO title — and its duties — after his company saw cost-savings benefits in not replacing him, a Wall Street Journal article reported.

It wasn't a short-term move; Tagawa kept the combined job for 14 years, even as his company, a radiation equipment supplier, underwent a major expansion. “Knowing the customer well and knowing the data analytics on our machines give me a much better sense of risk and reward,” he told the Journal.

Nevertheless, many believe the practice is bad for companies. A study released this summer by the American Accounting Association sought to clarify how this title-merging trend might be affecting corporate performance, and whether it has any negative consequences for financial reporting itself.

Titled Are CFOs Effective Operators? An Empirical Analysis of CFO/COO Duality, the study investigated operational and financial metrics at 3,538 companies. It considered whether traditional CFO functions can be strategically merged with operational tasks, or whether the two domains are too dissimilar to be effectively managed by one person. It also examined whether CFOs who took on operational roles might become overburdened, resulting in deterioration in financial reporting quality.

The study found that having an executive taking on the combined role actually improved financial reporting. Among other findings, discretionary accruals of companies with a CFO-COO were more accurate in predicting future cash flows than in the traditional model firm, the researchers found.
To assess potential impact on operations, the study measured discretionary expenditures against cash flow and return on assets over a two-year period. Here also, it found no evidence that consolidating the roles had a detrimental impact on future cash flows or return on assets.

“Managers from a financial background can fulfill operational roles admirably,” the study concluded.

Bottom line: as CFOs assume a more strategic role, there’s growing evidence that adding COO duties is not that much of a stretch.