

Leaders on Leadership: The Changing Role of the CFO and Treasurer

Has there ever been a more demanding time to be a business leader? The past three years saw the worst stock market in decades and the capital markets – credit, bond and equity – remain challenging. Many companies are paying off debt that they accrued when funding acquisitions during the late nineties. Others are working off excess inventory at a time when demand – and the economic recovery – remains uncertain. The stock market deterioration has affected not only individual corporate stock prices but also the value of pension funds. For the first time since WWII many corporations are facing under funded pension plans and some are in the unenviable position of having to sell assets to fund them.

Meanwhile, globalization, the Internet, and improvements in telecommunications and technology are creating a single,

more competitive marketplace while terrorism is redefining the word risk and increasing the complexity of doing business at home and abroad. Finally, corporate leaders are managing in a time when the slightest perception of impropriety can result in falling stock prices. The widespread violation of trust has ushered in the era of corporate governance and the two words that literally speak volumes: Sarbanes-Oxley.

In a recent online survey, Citigroup and *Treasury & Risk Management* magazine polled CFOs and Treasurers for their thoughts on leadership. The results reveal how the finance/treasury leader's role has changed since the height of the market bubble in 1999. Follow-up discussions with CFOs and Treasurers reveal trends in leadership and a general consensus on what will be required of leaders now and in the future.

AN INTENSE FOCUS ON THE BOTTOM LINE

During tough times great companies are born. Today, not only cash – but also **fiscal discipline** – is king. According to Mary Dean Hall, Treasurer of Eastman Chemical Company, “fiscal discipline has re-asserted itself. At Eastman, we've spent the last couple of years asking: who are the customers we can afford to serve and in what ways? If you're downsizing staff and using financial resources more wisely, you can't be all things to all people. I believe we'll come out of this leaner, stronger, and more disciplined in our choices, but the real proof will be in the next banner period. We'll see how companies behave when the economy improves.”

Doug Spickler, Domestic Treasury Manager for UPS, remarks “Such a period can be an opportunity; it will make anyone with intestinal fortitude, stronger. During

my years with UPS, I have seen the company use adversity as a catalyst for change. The interruption of package delivery services in 1997 was one such event. The result was a focus to broaden our base, to extend ourselves deeper into the supply chain, and reduce our dependence on one segment. This has made us less sensitive to economic downturns.”

Challenging economic times present companies with the opportunity to become lean, focused and more resilient. Doing so requires creating and following an effective strategy.

THE IMPORTANCE OF AN EFFECTIVE STRATEGY

Respondents chose “develop, communicate and execute a dynamic and realistic strategic



vision and plan" more than any other response when describing what effective leaders in finance and treasury must do right now.

What are the components of a good strategy? Finance leaders we spoke with unanimously echoed the need for a continued focus on the customer. A good strategy takes into consideration both the needs of the customer and the ability of the organization to execute against those needs. It also helps corporations focus on the future rather than past performance. According to John Faraci, Chairman and CEO of International Paper and former CFO, "people spend too much time analyzing what happened yesterday. Rather than looking backwards, corporations should analyze what went wrong and then focus on and plan for the future."

As for the role in developing the business strategy, CFOs more than ever, must ensure that executive management understands the full financial ramifications of every business decision. It's the CFO's job to say, "Expenses seem out of line... how do we finance projected growth? Are we earning enough on that new business? Do we believe those earnings projections?" CFOs can persuade executive management to make explicit, how much financial risk and what kind of risk they are willing to take, and then ensure the organization operates within those parameters.


LEVERAGING TECHNOLOGY

Today, not only CFOs, but also Treasurers are tasked with more strategic activities. 78% of respondents said they are faced with more strategic planning responsibilities than they were three years ago. Treasurers are not only performing more strategic tasks but also more control and

compliance tasks (from 28% three years ago to 48% in 2003). How are organizations getting the work done? Are they increasing staffing? Working longer hours? Using technology more? Professionals we spoke with indicated technology and outsourcing are increasingly important as they provide the way to accommodate a heavier workload without increasing staff.

Responses to another question may provide further insights into how Treasurers are coping with increased workload. When rating the top two most important tasks three years ago versus today, "staying focused on the basics" decreased from 42% three years ago to 32% today for companies with more than US\$ 1 billion in revenues; and to 36% today for companies with less than US\$ 1 billion in revenues. Because of increased automation and technology, Treasurers no longer have to spend as much time on the basics of cash management.

Says Doug Spickler, "Today you have to have operations and technology that takes care of the basic blocking and tackling of treasury – the day-to-day operations – retrieving cash balances and moving the cash to the points where it's needed. For example, at UPS we're using the Internet to process payments and gather balance reporting from several different banks; we've been able to double the workload without increasing staff. Because of improved technology you don't have to focus as much time on 'the basics' as you used to and it's not nearly as arduous. As a result people are spending more time on the strategic initiatives, where the real value is going to be gained."



Attracting, keeping and motivating the smartest, hardest working people, developing and coaching them, motivating and mobilizing them, is the leader's most important role in any economic environment.

Brent Callinicos, Treasurer of Microsoft, says, "We continue to ask what can someone else do better for us? Data management, portfolio management, credit and collections, customer financing might all be areas we will outsource. And we will continue to need better, more robust technology and tools to avoid drowning in data – to access timely, consolidated, actionable information. By outsourcing and using technology, we can re-deploy our resources and add value to the business – for example, educate subsidiaries on foreign exchange or on how to use insurance to manage risk."

Interestingly, when asked if the new emphasis on control and compliance curtailed innovation within the organization, 37% of respondents indicated that it did curtail innovation; the rest indicated that it did not. Professionals we spoke with embraced the control and compliance challenge as another opportunity to use technology in an innovative way to accommodate the increased compliance workload. Those corporations who are finding that innovation is being curtailed

should perhaps consider if they could use technology to meet new control and compliance as well as other challenges.

ARTICULATING THE VISION AND MOTIVATING PEOPLE

When asked to complete the sentence "Effective leaders in finance/treasury must..." respondents chose "inspire a high level of trust among subordinates and key constituents" almost as frequently as they selected "develop, communicate and execute a dynamic and realistic strategic vision, mission and plan." Summarizing what many others voiced, Mary Dean Hall commented: "Leaders need to be able to articulate the vision; I think that's the key. People want to follow someone who can articulate a clear path. You may go down that path and it may be the wrong decision or it may change, but people have a need for direction. They need to know this is why we're following this path and why it makes sense. It's hard to find people who are good at conveying the vision and motivating people. If you're a CEO or CFO and you don't have that capability, you should surround yourself with people who do."

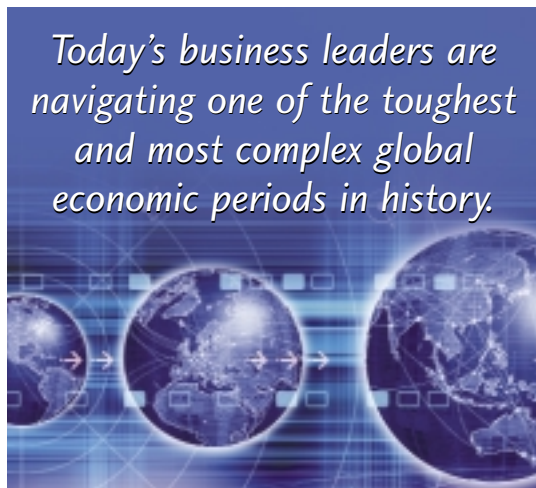
According to John Faraci, "The leader must shape not only the vision, but also the culture and principles of an organization. Furthermore, in today's very tough, competitive environment, a leader must be able to mobilize the capacity of an organization's people and engender leadership in sales, manufacturing, and finance. Especially during tough times, the leader must get alignment and buy-in within the organization – in other words, go slow to go faster."

One critical point surfaced in all of our discussions with finance leaders. That is, attracting, keeping and motivating the smartest, hardest working people, developing and coaching them, motivating and mobi-

lizing them, is the leader's most important role in any economic environment.

THE NEW BREED OF LEADERS

Today's business leaders are navigating one of the toughest and most complex global economic periods in history. The new breed of leader might sound at



times like leaders from previous eras, whose honesty and integrity was unquestioned, and whose aphorisms such as "when the going gets tough, the tough get going" inspired us to achieve a challenging goal or cope when life threw us a curve-ball. This new breed of finance/treasury leader might embody the best of the old-time leaders – they get back to the business fundamentals, make the tough decisions, inspire and mobilize their people, and lead the organization

through the storm. The leaders who achieve uncommon results now and in the future are likely to be innovators as well. These leaders will excel at using technology to manage the increased risks and increased opportunities in Treasury.

Already technology has enabled CFOs and Treasurers to spend less time on the technical aspects of their functions and more time mobilizing resources to add strategic value to their organizations. The finance team can now spend more time teaching subsidiaries how to minimize FX risk, for example, or how to think through the financial and risk management implications of their business decisions.

As for the current distrust of corporations and corporate leaders, many of the finance and treasury leaders we spoke with commented, 'you can't legislate ethics, trust and confidence.' However it's likely that the new breed of leader will quietly, over time, earn back the confidence and trust of investors.

As a trusted advisor and partner to CFOs and Treasurers of Fortune 1000 companies, Citigroup applauds the bright new generation of leaders – the 40 leaders under 40, as well as the seasoned veterans whose wisdom and experience we continue to value and respect. Together we will mitigate the risks and embrace the many new opportunities in our rapidly changing global economy.



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