CFO Insights
Why globalization demands Chief Frontier Officers

As organizations move into a new era of globalization, they face ever more complex dynamics and decisions. One result is that the role of the chief financial officer is shifting in many companies, to a focus on making global initiatives succeed. Soon, in fact—given how central global growth is to so many organizations' strategies—CFO could also stand for chief *frontier* officer.

Take, for example, Starbucks CFO Troy Alstead. When he joined the coffee seller in 1992, it consisted of fewer than 170 shops; it would be four years before the first Starbucks opened outside North America. When it came time to expand overseas, however, what was needed most was a deep knowledge of global financial management, decision support, planning, and business development—all strengths Alstead and his colleagues in finance and accounting could offer.

By 2013, Starbucks was operating some 19,000 stores in more than 60 countries,[1] and the company formalized the duality of Alstead's leadership: already CFO, he was also named group president of global business services. In a statement, the company said: "Alstead's promotion is a recognition of the increasing responsibility and complexity of his role overseeing Starbucks global financial, technology, and supply chain operations, and ensuring that the company's overall business infrastructure is optimized to support the company's global growth."[2] This past February, Alstead saw his role expand further as he was promoted to chief operating officer (COO).[3]

Alstead's progression is by no means an exception. Many CFOs are stepping up to manage a broader set of business issues than they've faced at home or in core markets. But, as leading the charge on globalization initiatives becomes an expected part of the CFO's scope, not all are equipped to take on the new responsibilities. In this issue of *CFO Insights*, we'll look at how financial executives may need to hone their approaches to financing, investment, operations, and valuation and adopt a new mind-set to meet global challenges.

New era = new capabilities

Part of the reality of modern business is the imperative to operate beyond domestic markets. This is hardly news; globalization has been an advancing trend since at least the 19th century. Yet today's globalization is far more complex than the forays companies made in the past. Traditionally, managers looked to foreign lands to supply inputs to production that were either unavailable or more expensive to procure at home—or they saw them as new markets for their offerings. Now, as the world puts up fewer restrictions on trade, multinationals are transforming into truly "anywhere" enterprises.

This new era demands new capabilities in senior management teams. Innumerable opportunities present themselves, each involving distinct consumer tastes, supply considerations, regulations, and ground rules for investment. Complexities abound in managing legal frameworks for corporate expansion, complying with local regulations and contractual obligations, adhering to local content provisions, and adjusting pricing and product strategies. Achieving growth goals is also a much more analytical exercise than it was in the past.

So where does this new management capacity develop? Certainly, CEOs are ultimately accountable for the success of global forays—but complexity in every other front of management makes it unlikely they can devote the necessary attention to this one. Thus, it is the CFO who, in many organizations, is becoming the go-to person to translate global ambitions into practical reality.

Why? The CFO's training and toolkit are highly relevant to the new era of globalization. In particular, the CFO's strong background in deal-structuring and deep understanding of regulatory, environmental, and operational impacts on financial performance can put finance in an ideal spot to drive market-entry strategies, target specific customer segments, and pick high-quality product mixes. Moreover, finance's increasingly global lens enables the function to structure and execute good deals across borders and mitigate enterprisewide risks.

The importance of well-managed compliance also brings the CFO's capabilities to the fore. One large U.S.-based Internet retailer, for example, having decided to enter the Brazilian market, discovered that regulations there demanded localized information systems; a country-specific operating model; adherence to certain invoicing, payment, and collection rules; stringent foreign-exchange controls; and extensive documentation.[4] Someone had to own the complex responsibility of translating all these requirements into viable operations—and maximizing the economic benefit while minimizing the risk of entering Brazil. Not surprisingly, the company's CFO was tasked with that.

CFOs fit the emerging need for a chief frontier officer in other ways. Finance, for example, tends to be the only operating function that looks at all data both singly and on a consolidated basis. As part of their responsibilities, finance leaders also objectively weigh the pros and cons of investment decisions across business units and provide an unmatched level of rigor in the analytical process. These capabilities, as well as the trust CEOs typically have in them, may position CFOs as the organization's go-to leaders for comparing performance across markets and ensuring that global initiatives are successful.

Four domains of change

As part of this shift in finance leaders' purview, expect to see the reach of finance extended in four key domains: financing, investment, operations, and valuation.

Financing. Companies understand the benefits of raising capital outside their home economy and of being listed on alternative stock exchanges. But such issues as cash repatriation add a new layer of complexity, demanding advanced tax policies measured in the risk-adjusted cost of capital for each potential capital source. Beyond markets where they have established track records, companies must now take into account new risks that could threaten liquidity and ensure there will be enough access to cash to weather possible disruptions.

Investment. When an organization expands to new markets, it finds that no single metric is sufficient for governing investment decisions. So, in addition to fulfilling its traditional role of identifying tax-efficient strategies for reallocating assets between geographies, finance is increasingly asked to determine whether the organization is adequately funding expansion into new geographies and measure the progress of such investments. This is only a natural extension of the strategic oversight the function provides to investments in the home market. But by taking on this new level of oversight, CFOs are helping their companies identify cross-border opportunities for fueling growth, and determining that country-specific investments are aligned with the company's planning priorities.

Operations. Individual markets have idiosyncrasies that can affect an organization's ability to deliver. As companies expand, finance is being asked to drive better operating results by working with regional and business-unit leaders to respond to those particular traits. The CFO's organization is equipped to help determine the right pricing strategy, identify the most profitable customers, design the optimal mix of mature and new products, and project how much growth the existing infrastructure can support. Throughout these efforts, finance is helping the business analyze the unknowns in each market, such as how pricing changes would affect demand, and to spot developing trends, such as how demographics are shifting.

The 5 Cs of Influence

CFOs can accelerate their shift to the role of chief frontier officers by more deliberately seeking opportunities to apply their competencies, by increasing their exposure to the organization's global operations, and by developing the leadership skills to exert influence and inspire confidence. In doing so, they might keep in mind the five "C's" of influential leadership:

Curiosity: Constantly ask "why" questions, be eager to understand how things really work, and both generate and welcome fresh ideas.

Capacity for surprise: Be willing to set aside preconceived notions, and challenge things that you "know" but that might no longer be valid.

Courage: Learn to deliver hard news and be willing to take unpopular stands. See risk as something not to be avoided, but to be managed for reward.

Character: High ethical standards and unwavering integrity have always been essential in a leader; in an era of heightened scrutiny and transparency, they are only more so.

Collaboration: Be accessible and eager to listen to colleagues. Better solutions emerge when different perspectives are brought to bear on a problem.

Valuation. In the first wave of globalization, companies moved manufacturing facilities and other assets to emerging markets to take advantage of lower costs and taxes. Even as subsequent waves focus on revenue-generating opportunities, businesses still need to ensure they are being tax-efficient, and finance should be driving that effort. After all, finance knows how to enhance the company's overall tax position through an appropriate legal entity structure, while taking advantage of available tax opportunities in each individual market and ensuring compliance with local tax rules and regulations.

Adopting a new mind-set

Some finance leaders will be challenged by these new responsibilities. If their expanded duties were limited to the domestic market, they could turn to their internal network of relationships for support. But in many of these markets, such support doesn't exist. Finance professionals aren't just involved in picking locations and staffing up—they are often literally turning the lights on.

The CFOs who capture this opportunity will be those who develop a new mind-set as well as new capabilities. They will recognize that they are shifting from a controls-oriented environment to one in which influence is equally, or even more, important to exert. Many will also see new value in gaining greater exposure to other facets of the enterprise. In fact, finance leaders who have spent a year or two in the business, perhaps in an overseas market, may be more likely to earn the CEO's confidence that they can lead the globalization agenda.

If the larger trends behind CFOs' expanded responsibilities continue, then companies will increasingly call on finance to manage the complexities that come with exploring new frontiers. In all likelihood, this evolution will fit naturally with business-transformation initiatives that seek to reposition business processes, operating models, and methods for engaging with customers. These changes will force business leaders to move beyond traditional interactions by integrating their strategies and capabilities. In this, the CFO may have to manage new relationships within the C-suite and assume a wider strategic role.

It stands to reason then that the CFO will enjoy a higher profile within many organizations, accelerating the trend seen in recent years. And as CFOs' spheres of influence expand, they will have to consider regional and business-line CEOs with vested interests in calling the shots and protecting their turf, particularly when it comes to decisions involving investments and operations. They may even have to serve as international emissaries, visiting countries and winning over local officials and other stakeholders whose views are often not aligned with the company's strategic goals.

Within some companies, these efforts will strengthen the CFO's candidacy for the top spot. At the very least, the CFO's expanded scope will likely bring more recognition of the value finance can bring to the overall organization.

Endnotes

1 Starbucks, "Newsroom," http://investor.starbucks.com/phoenix.zhtml?c=99518&p=irol-newsArticle&ID=1870395&highlight=.

2 Starbucks, "Newsroom," http://news.starbucks.com/news/starbucks-promotes-chief-financial-officer-troy-alstead-to-chief-financial, accessed January 12, 2014.

3 Leslie Patton, "Starbucks Promotes CFO Alstead to Operations Chief," Bloomberg, January 29, 2014, http://www.bloomberg.com/news/2014-01-29/starbucks-promotes-cfo-alstead-to-operations-chief.html, accessed February 4, 2014.

4 Based on Deloitte experience.

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