



## How Do You Measure a CFO's Success?

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To gauge and measure an individual's success in any job, there must be specific and measurable goals and objectives for the position. The chief financial officer position is no different.

But as the role and responsibilities of CFOs has continued to grow and evolve, it has become more difficult to measure an individual CFO's success. Doing so involves looking at both qualitative and quantitative measurements.

### The Ever-Expanding Role of the CFO

When the position of CFO first became widespread within corporations back in the 1950s and 1960s, it consisted primarily of financial recordkeeping, overseeing internal accounts and financial reporting to shareholders and regulators. Today, this role has expanded considerably—in most companies, the CFO is one of the top three decision makers alongside the chief executive officer (CEO) and the chief operating officer (COO).

As such, most CFOs today are as responsible (if not more so) for strategic planning and leadership as they are for the accomplishment of financial and accounting tasks. CFOs are typically responsible for making a wide range of decisions with regard to financing, investments and management, including:

- Capital structure
- Risk management
- Auditing and reporting
- Business and tax planning
- Capital expenditures
- Research and development
- Working capital management
- Budgeting
- Investor relations

The quantitative aspects of a CFO's performance are relatively easy to measure. For example:

- Have net margins and key financial ratios improved?
- Are overhead costs in line with industry peers?
- Has days sales outstanding (DSO) been reduced?
- Is needed financing in place at attractive rates and terms?
- Is the cash flow cycle running smoothly?
- Are effective tax reduction strategies being utilized?

Qualitative factors, however, can be more difficult to measure—and these are an increasingly important part of the CFO's job. For example:

- Does the finance department have input into the company's strategic direction?
- Is finance making value-added contributions to the company's bottom line?
- Is the CFO an active and visible part of the executive management team?
- Is the information generated by the finance department accurate, timely and actionable?
- Is the company's supply chain operating smoothly and efficiently?

### **Measure the *Right* Things**

Whether quantitative or qualitative, all of these measurements must be made within the context of specific goals and objectives. It's not enough just to measure "things"—you have to make sure you're measuring the *right* things.

This involves identifying the key performance indicators (or KPIs) that are most important to your company's ultimate success. KPIs are quantifiable measurements that reflect your company's critical success factors. They should be derived from your mission statement and your goals, both long- and short-term. KPIs can be financial (e.g., ratios and benchmarks that are common in your industry like debt-to-equity, AR and AP days and inventory turnover) or non-financial, such as manufacturing quality control, turnover (both customers and employees) and new lead conversion rates.

### **Concluding Thoughts**

It's important in today's increasingly competitive business world for Los Angeles and Southern California CEOs and CFOs to be able to measure the success of all positions with a company, including that of the CFO. Doing so involves measuring both quantitative and qualitative factors, as well as making sure that the right factors are being measured. An outsourced CFO services firm can help you identify which KPIs your company should be focusing on so that you can fairly and accurately determine how successful your CFO is in performing his or her job duties.

### **About CFO Edge**

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 626.683.8840.

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