ISSN: 2993-8759

Iris Journal of Educational Research

DOI: 10.33552/IJER.2024.02.000547

Iris Publishers

Short Communication

CFOs – Are They Vanguards or Villains?

Gary Cokins, CPIM*

Analytics Based Performance Management LLC, USA

***Corresponding author:** Gary Cokins, CPIM, Analytics-Based Performance Management LLC, USA **Email:** gcokins@garycokins.com

Received Date: March 21, 2024

Published Date: March 26, 2024

Introduction

I continue to get mixed signals regarding how advanced CFOs are with their journey to become the "strategic advisor" that is so frequently mentioned in finance and accounting magazines. But I am unsure how much the evidence supports the vision.

The CFOs who are bold will candidly describe their managerial accounting practices and systems as aged and Medieval at the extreme. The bold ones are unafraid to admit that their existing reported information is both flawed with inaccurate costs and incomplete by not providing P&Ls by customer including channel, selling, customer service, and marketing related "costs to serve" which are arguably more important than product costs.

Strategic CFOs – reality or myth?

When I converse with CFOs the truth is exposed. The CFOs or their staff reveal and confess that they continue to apply decades-old managerial accounting practices such as single burden rate-based standard costing. We need vanguard CFOs. The definition of a vanguard is the leading part of a military formation to scout and secure ground in advance of the main force. Vanguards also help shift power from the powerful to the powerless.

Why do CFOs hold back?

The commonly accepted explanations for lack of progress include:

Financial accounting dominates over managerial accounting – CFOs' attention to regulatory compliance and investment community reporting is a fiduciary responsibility, but it detracts from time to improve internal reporting for insights and better decisions.

Misconception of complexity – CFOs often view the effort to produce more detailed and accurate costing as excessively complicated and therefore not worth the effort. So, the status quo holds. In practice, costing involves "right-sizing" modeling and not T-account journal entries. The design stops when there are diminishing returns on extra accuracy for the incremental level of effort to collect, validate, calculate, and report the information.

Fear of two sets of books – CFOs fear that calculating internal costs different from GAAP rules for external financial reporting will confuse their managers.

My theory

Although there is some validity to those three explanations, I believe the impediment preventing CFOs from being more progressive is that they do not sufficiently understand the decision-making needs of the various departments they serve, such as marketing, sales, and operations. Today, with increasing global volatility, faster moves from competitors, and the shift of power from suppliers to buying customers, a company's internal department users of managerial accounting information need a much sharper pencil than in the past. They need to know the ROI on a marketing campaign and how profitable a customer is, not just how large a customer's sales volume is.

A CFO or accountant with an MBA is not enough to fully appreciate what it is like to walk in the shoes of a CMO, VP of sales, or VP of operations. As progressive CFOs take more time to understand the goals and processes of these functions, they will cross that bridge to become the strategic advisor and contributor that so many magazines proclaim that CFOs already are. They will be vanguard CFOs.

Executives, managers, and employee teams need to learn and prepare to implement the types of programs that can help them prepare for the future using analytics and enterprise performance management (EPM) methods.

Acknowledgment

None.

Conflict of Interest

No conflict of interest.

Citation: Gary Cokins, CPIM*. CFOs – Are They Vanguards or Villains?. Iris J of Edu & Res. 2(5): 2024. IJER.MS.ID.000547.
DOI: 10.33552/IJER.2024.02.000547