

Financial Director

The invaluable role for FDs in fighting CEO's coronavirus-denial
By Debbie Bowen-Heaton, managing associate, Oliver Wight

by Financial Director - December 21, 2020

During the early stages of the pandemic, I saw many CEOs enter into a state of denial about the business impact of the pandemic. Unwilling to accept that the business will not rebound to pre-pandemic performance, some CEOs are carrying false optimism into 2021, leading to unrealistic budgets and commitments. Where CEOs are in denial, the finance director faces the difficult task of putting a mirror up and forcing the CEO to face the brutal reality.

Pressure from large shareholders often forces CEOs and finance directors to provide unrealistic plans, especially when there is a 'shoot the messenger' culture where people are fired for telling the candid truth. It is even more difficult to keep stakeholders confident and prove that you are in control and managing any uncertainty when the forecasts prepared in 2019 have been shredded by 2020. But be warned, 'downturn denial' will cause middle and frontline management to fear voicing the truth and they will instead feed the false reassurance CEOs want to hear... with catastrophic eventual consequences.

Finance directors therefore carry a huge weight on their shoulders. Not only do they need to be the 'analytical muscle' – driving the business to report accurately and effectively – they also need to support the CEO in not reporting over-optimistically.

As we enter 2021 business plans will be torn between pessimism from the impact of the coronavirus and Brexit, and the possibility of vaccines providing a visible light at the end of this tunnel.

Contrary to what the media writes, crises are not new and there is typically a four-step change loop I see CEOs go through. Sometimes quickly, but when they linger in the first stages for weeks or even months it is a big problem.

1. **Denial:** Everything is fine. This change won't impact us.
2. **Anger:** Why is this happening? What are the team doing to stop it? Emails fly around and there is chaos in the office due to a sharp increase in reporting and second guessing of people's outlooks.
3. **Exploration:** How do we understand this and fix it? This is when CEOs lean on Finance to help them get to grips with the impact.
4. **Acceptance:** We finally understand the business impact and what we are going to do. We can manage our stakeholders and shareholders accordingly.

The key for the FD is to help get the CEO through this as quickly as possible.

How? This is where the FD's core strength as a number sceptic can again come to the fore. Lean in on your business intelligence and demand planning teams to get robust numbers on what is happening in your markets, its impact and its implications.

If you are in a business without such teams, buy the insights from a suitably experienced business intelligence agency. Now you have numbers you can deal with uncertainty.

Uncertainty? Welcome to the 2020s. Don't accept this as a reason for indecision. Have worst and best-case scenarios, and a realistic consensus the management team is prepared to work with. Don't let the horse-trading with colleagues lead to fudged-compromises – every number needs to be evidenced if it is to have credibility.

Finance directors are proudly conservative types, and not surprisingly many are tempted to respond to adversity through under-reporting likely growth and then over-delivering with a “we beat forecasts” fanfare. Beware, I have seen management lose credibility with shareholders who are generally wise to such tactics. In one instance it also meant the business kept running out of stock, so profits were diminished and business relationships harmed because internal plans were well out-of-step with the market reality.

FDs must use their position as one of the CEOs' inner circle to help any stuck in denial through the four staged change loop as quickly as possible. Simultaneously they also need to provide a shoulder to lean on and be a trusted partner to bounce issues and challenges with.

Throughout 2020 I have seen finance directors demonstrate their strength by providing the CEO with research, data and strong advice and helping them understand the reality of the impact of the pandemic. Whilst doing so they are also supporting the other functional heads to provide innovative ways to respond to downturns or significant changes in customer/consumer demand. The finance director is, pivotal to the company's ability to respond to the pandemic, Brexit and whatever other opportunities and adversities we face in 2021.