The Role of COO Finance

Joe Kauder
Former CFO Wells Fargo

Interview by Maurice Evlyn-Bufton
CEO, Armstrong Wolfe

ARMSTRONG WOLFE™
Advisory

The role of the COO Finance is a controversial one, with opinion divided between those CFOs that have a COO Finance to support them and feel that they could not function properly without one, and those who have never had one that feel that the position is unnecessary.

The contrast between these alternate viewpoints is most pronounced in firms where there used to be a COO finance but there no longer is. In these cases, other COOs and executives find that they miss the direct communication channel to the CFO and the organizational streamlining that accompanied it. In addition, while having a finance COO is expensive, it frees up the CFO's time, obviating the need for them to sit on in-depth boards and allowing them to focus on expanding the business's value as a whole.

Operational decisions within the business require 'heavy lifting' and someone who is focused on designing, streamlining or outsourcing activities to ensure they are done properly; the CFO may not be able to invest the necessary time to understand all the implications of these decisions, which can lead to suboptimal outcomes. The COO finance can oversee complex areas like IT system requirements, selection and implementation, process design and reengineering, and outsourcing and third-party vendor management, which are complex areas crucial to finance, and ones in which the CFO would benefit from having a dedicated team member with extensive experience.

Given the large investments that are made in IT and other operational systems to support the finance function, it is imperative that CFOs get these decisions right the first time, and having a dedicated finance COO is one step in making sure that happens.

Some CFO's espouse the principle that "the less I hear from my COO, the more valuable they are," referring to the trust and authority given to the COO to act effectively and independently, and the benefits this entails regarding the CFO's role. Joe's perspective is a little more nuanced, believing that the finance COO should have autonomy, but also work closely with the CFO to ensure that operational strategy and decisioning are aligned with those of the overall business.

Either way, there is value in having a right-hand person to rely on, especially when this relationship is built on trust which is earned gradually over time. The art of delegating the appropriate level of authority to a finance COO while also keeping the CFO involved at the right level is key to the successful execution of this relationship.

The finance COO can be responsible for supporting changes in the business, including the development and launch of new products and services, particularly in the dynamic and rapidly evolving area of capital markets. The finance COO can also be responsible for one-off initiatives which might come from regulators or upper management to meet specific or temporary needs, which often require an operational build to satisfy the requirement.

A great example was the need to provide operational finance support for the implementation of the PPP lending program rolled-out by the US government during the recent pandemic.

The COO is the horizontal that runs across the verticals, and many believe the role of the finance COO in human capital is crucial. The COO can determine how resilient the leadership team is, what the attrition rate is, and how the leadership function works, and can thus add real value to a finance department workforce. The pandemic has brought COOs into the platform of visibility, and thus HR roles are coming more towards the COO office and less towards the HR department.

Joe's experience suggests that, at this stage, human capital management in finance does not rest within the finance COO's mandate. However, if it were to be developed further, there are certain HR activities that may be better managed if positioned within the COO function.

In the banking industry, the role of the COO finance has expanded to include more than just traditional financial responsibilities. While third-party vendor management has been neglected in the past, it is now at the forefront of banking regulators' minds and should be included in the COO finance's responsibilities. Procurement relationships and costs are typically the focus, but companies have paid significant sums to regulators and customers due to third-party vendors not meeting standards or having sufficient controls.

Therefore, it is crucial to manage third-party vendors as if they were in-house, and this is far more possible when such considerations come within the oversight of a COO.

Operational risk, like an octopus, has tentacles that reach every corner of the organization, and can be a critical part of a finance COO's role. Also, there is a healthy amount of overlap between financial and operational controls. Although its management should be centralized somewhere in the Risk organisation, there are certain operational risk components that are often overseen by the CFO, including but not limited to asset custody and control of cash, real estate, trader behaviour, asset netting, vendor management, procurement, etc.

While some of these activities would map elsewhere, many could be included in the scope of the finance COO. Accordingly, the finance COO should be responsible for partnering with the Operational Risk organisation to examine the risk framework and ensure that all areas of operational risk impacting finance have a defined owner with appropriate processes and controls, resulting in effective risk management between the two teams.

Regulatory issue management and remediation can also fall under the finance COO's responsibilities. Significant regulatory matters typically have multiple components that require detailed planning and coordination across the organisation in order to be properly addressed. Effective communication management is also critical.

The Finance COO's office is an excellent place to house and manage the remediation of regulatory issues assigned to the CFO, especially considering that many such issues have a significant operational requirement.

There is value in having a right-hand person to rely on

Finally, given the breadth of the role, the COO finance should be involved in discussions surrounding business and finance-function strategy. Almost all aspects of strategy have an operational fulfilment component, and it is essential to include the finance COO in these discussions.

A significant benefit of having a finance COO is to off-load the time-consuming and complex operational component of the CFO role onto a dedicated individual/team, which should free-up the remaining finance resources to deliver the strategic finance support that business CEOs demand. If done appropriately, this would obviate the need for shadow finance teams within lines of business that tend to proliferate when finance teams are bogged down with operation responsibilities, thus off-setting the incremental cost of a finance COO.

In conclusion, the COO finance's role has expanded beyond traditional financial responsibilities and is now crucial for effective regulatory management, operational risk management, and strategic decision-making.

About the author

Joe Kauder has built a career as a financial and accounting executive with extensive operational and transactional expertise and significant board exposure at large global banking and financial organisations. Joe most recently served as the Executive Vice President and Chief Financial Officer of the Wholesale Banking segment of Wells Fargo (WFC).

Prior to serving in this role, Joe served in a number of senior finance and accounting roles at WFC, GE Capital and Price Waterhouse Coopers. Joe earned a Bachelor of Science in Business Administration from the University of North Carolina Chapel Hill. Joe lives in Lafayette, CA with his wife Catherine, and has two children, Sophia and Nicholas.

Find us on LinkedIn: Armstrong Wolfe

Find us on LinkedIn: Women in the COO Community

ARMSTRONG WOLFE™