



The Changing Role of the Chief Financial Officer



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Introduction

Throughout history, economic downturns have had distinct characteristics, and while they are neither rare nor inexplicable in a market economy, they share some routine commonalities in both cause and consequence. The desire to assign blame is a common feature of the aftermath, as is the resultant change for which the most recent recession has acted as a powerful catalyst.

Subsequent to the financial crash in 2008, many businesses have divested non-core assets, reduced their debt burdens and improved efficiencies in order to survive. In fact, for many in the FTSE, processes are more effective and fit for purpose than ever before. Boardrooms are better versed, balance sheets have rarely looked so cash-rich and healthy, and companies have never looked so lean. Such efforts are finally beginning to yield the desired results and arguably, businesses are in a position to prosper once more, rather than merely endure.

Evidently much of this type of transformation is led by the CFO and thus the role has become much more influential and looks set to remain so. Equally, the role has become much more complex and inherently demanding.

However, the impact of the global economic downturn runs deeper than the balance sheets.

When economies are booming, governments are esteemed and businesses congratulated.

But when the chips are down, we look for someone to blame, making businesses and their boards more vulnerable to attack in the current climate. Shareholder activism is back.

Five years on, what effect has all this had on the role of the CFO and leadership positions in the functions they run? What impact have the financial crisis and modern day demands had on companies' communications, reporting, strategy and risk assessment?

As part of Savannah's ongoing research into the business issues impacting executive hiring, we explored these questions in a series of in-depth interviews with prominent CFOs from major multinationals. The results show a strong consensus: Yes, they say, business challenges in the wake of the downturn have profoundly changed the CFO role.

In the following paper, we seek to explore these findings and offer my own perspectives based on our ongoing dialogue with CFOs in the UK.

Simon Bailey

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Executive Summary

In this paper, we highlight the key findings of our qualitative research into the changing role of the CFO and summarise how it is evolving and will continue to develop.

Findings from our research panel reveal the need for a more commercial approach to the role of CFO: Increasingly complex technical capabilities need to be complemented by a level of commercial understanding that makes the CFO a collaborative partner for the CEO. *"In this transforming world, businesses need CFOs who can translate numbers into opportunity,"* summarises one panel member.

Exhibit 1 shows how traditional finance expertise is now part of a wider perspective that includes commercial drivers such as customer behaviour, demographics and consumer trends, together with communications, sector insight and leveraging value in the business.

The need for CFOs to combine technical and commercial capabilities to drive performance is changing the role at the board level, with a growing trend towards the CFO co-leading the business.

Demands on the CFO are also changing the finance function as a whole, with the emergence of specialist functions that handle technical areas while the CFO concentrates on adding strategic value to the business.

This more strategic view—thinking about the midand long-term future of the organisation—is, as one of our panellists says, *"where the CFO and finance function are really beginning to add value and where they will increasingly do so in the future"*.

In this new context, the CFO is emerging as the corporate conscience, sounding board and advisor who ensures the organisation does the right things the right way.

We therefore expect to see the CFO delegate greater responsibility for the management of the business, reporting and day-to-day running of the finance function to a functional management team, in order to focus on business transformation, growth areas and new investors.

In essence, making the shift from technical expert to commercial leader to become a true partner for the CEO.

The CFO—CEO Relationship: A Strategic Partnership

We are seeing a continuous evolution in the CFO's remit, which is expanding to become much more about judgement and commercial contribution. Boards will continue to rely on the CFO for risk analysis, but they will also expect them to see the implications through a commercial as well as a financial lens.

Exhibit 1. Blending Technical and Commercial Expertise





A strong CFO is increasingly perceived as a collaborative partner to the CEO, expected both to inform and contribute to strategy. The relationship is becoming one of the closest and most important round the board table, with the two engaging on every element of business leadership. The CFO is not just the corporate conscience, but the advisor and sounding board for all stakeholders.

“Savvy CFOs ensure they understand the board’s priorities and the value members can bring to their success.”

Given this increasingly symbiotic relationship, we see two discernible trends: first, a growing transition from the role of CFO to that of CEO; and secondly, a sharper focus among boards on culture and skill fit, to blend complementary strengths and experiences between the two individuals.

An Evolving Role for the CFO on the Board

The legacy of the CFO role is a concentration on financial control and process, with a significant percentage of time spent reporting historic numbers and controlling risk and cost.

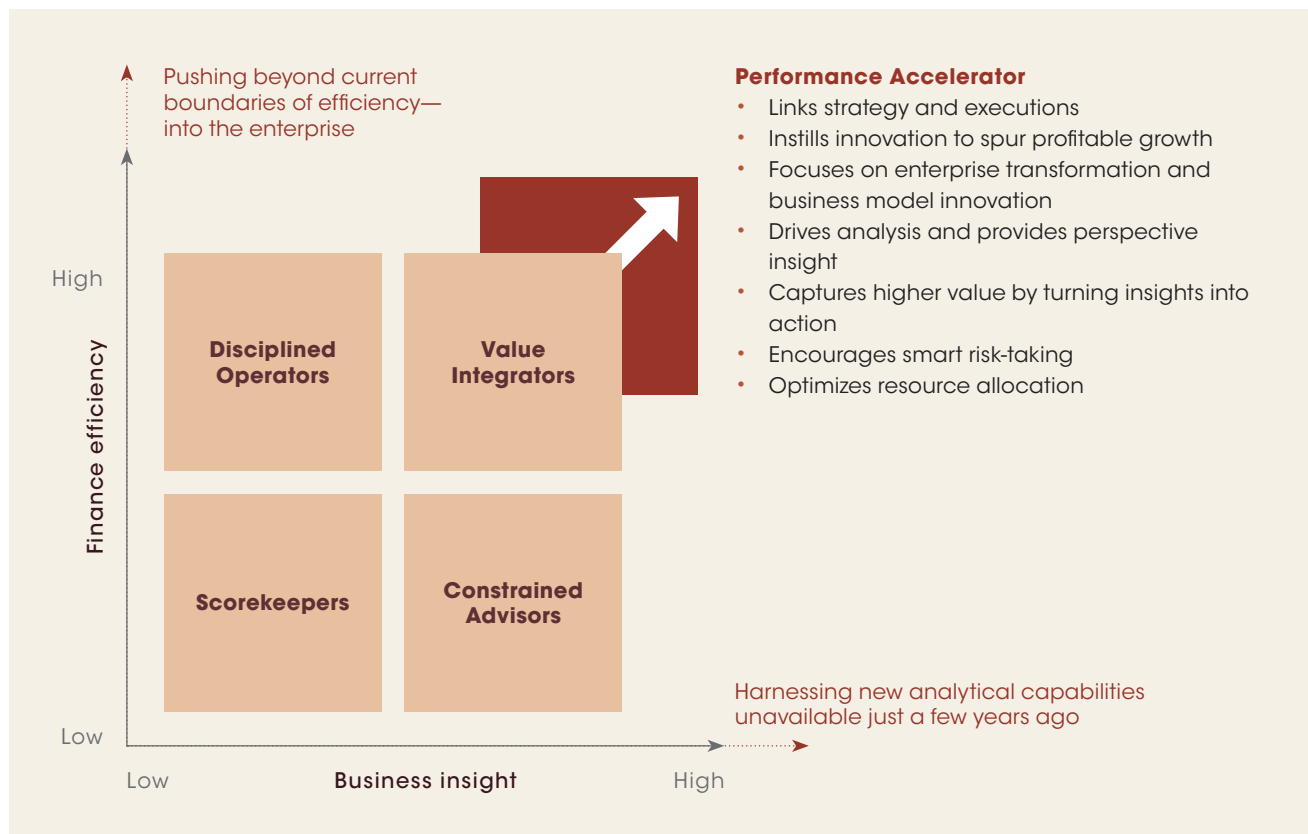
Today that role is almost unrecognisable: It has now become a leadership role and as such, the CFO is usually one of two executive directors on the board. The role is rightly construed as co-leading the business with responsibility for multiple functions—such as IT, Legal, Property, Procurement, Global Shared Services and Operations—as well as overseeing a finance function ever more influential in the management of the business.

We see the CFO increasingly playing a central role in the definition and execution of strategy and the setting and delivery of performance targets, ensuring the company meets its stakeholder obligations. This view is widely supported by our panel. CFOs are often responsible for leading group-wide transformation programs to restructure a company or develop global business services. They are typically the voice of the board among internal



Exhibit 2. From Value Integrator to 'Performance Accelerator'

Source: IBM Institute for Business Value, The New Value Integrator: Insights from the Global Chief Financial Officer study



and increasingly diverse external stakeholders on both financial and non-financial matters.

A Progressive Approach Adds Commercial Value

The CFO-CEO relationship needs to be strong and clear. The CFOs we interviewed consider it their duty to provide a voice of reason and be an advocate of the 'right way,' rather than just saying 'no,' with the courage and conviction to challenge where appropriate. This challenge and input contributes to a healthy and functional board.

Furthermore, those in the finance function are positioned as strategic architects of the business, moving away from classic finance to a more progressive model. This involves leading initiatives based on strategic, macro-economic and commercial drivers, to evolve from what IBM described as a 'value integrator' three years ago to a 'performance accelerator' today, as shown in **Exhibit 2**.

The day-to-day financial focus is still necessary, but diminishing in proportion to the demands of

business leadership. The value today is provided by thinking about the mid- and long-term future of the organisation.

The CFO: From Technical Expert to Commercial Leader

With companies and their leaders subject to ever-greater scrutiny from the media, social media and stakeholders, our panel asserts that the CFO can no longer contribute to decisions solely from a financial perspective. They must be aware of customer and consumer behaviour and cognisant of the public perceptions of all key decisions. For example, it is no longer seen as acceptable or strategically viable to pay as little tax as legally possible, given the reputational impact among commercially savvy consumers. Financial leaders must consider what is socially acceptable from a customer perspective as well as what is financially possible.

Therefore, the modern CFO must be a highly accomplished commercial leader, concurrently adept at understanding the complex reporting



and regulatory framework to which companies must adhere.

Is this combination of skills, knowledge and judgement realistic or sustainable in a world of increasing scrutiny?

Business Leader vs. Accountant

While expectations for the CFO to play a central role in company leadership increase, so too does the complexity of financial reporting and regulatory obligations, together with greater personal liability for any mistakes. What is the impact of all this? There seem to be two main issues around reporting requirements.



First, a high level of frustration with the requirement to produce outputs in what seem to be outdated formats. *“Annual reports seem increasingly irrelevant to the average human being. There is no evidence that the packs are read and furthermore understood by any more than a few technical accountants”*. Nonetheless, it is not envisaged that such regulation will be diminishing anytime soon.

Companies essentially need to provide two sets of data in annual reports—the compliance and the insight to performance.

The external world, regulators and multiple stakeholders have pushed the regulatory environment into extensively detailed reporting. Whilst most agree that standardisation can be helpful to drive consistency and transparency, there is a view that requirements are largely out of control and represent a regulatory burden.

“Simpler, clearer numbers and a return to something akin to a ‘true and fair’ indication would make sense,” comments one CFO, “but realistically, there are too many stakeholders for this to happen”. Companies therefore report non-GAAP performance measures alongside the compliant statements under IFRS.

Secondly, the finance function needs to have sufficient understanding of the business and its full operational complexity to report on non-financial KPIs—the publishing of which is a growing trend. These non-financial KPIs often don’t come through the same accounting system as their financial counterparts. Consequently, they may not be supported by as much rigour and can be more difficult to contextualise. Nonetheless, there is a growing appetite for non-financial KPIs and the market picks up on them. The finance department is seen as the natural conduit for building rigour into these metrics—another illustration of the breadth of capabilities expected from the finance team.

As a result, reporting requirements are significantly more complicated and their production an ever more specialist task. The modern CFO who needs to be the champion of strategy and financial performance simply cannot maintain the degree of expertise needed in this increasingly complex world if they are to draw upon a bigger commercial perspective to add value to the business.

Increasing Specialisation in the Finance Function

Is it feasible that the process of compiling non-financial reports and statutory accounts will become a specialist part of the finance function—managed by a specialist reporting team and its advisors—with the result that tomorrow’s CFOs will become less tied to technical work? Other corporate functions have become increasingly specialised, with the emergence of expert teams within departments such as HR, marketing and legal.

The production of accurate numbers, and increasingly business information, is a given. In fact,



outsourcing this to large, highly efficient shared service centres is increasingly commonplace. Therefore, the question remains whether the role of CFO today, and in the future, needs to be filled exclusively with the thoroughbred financial specialists that traditionally manned the boardrooms.

Leaving the Accounting to the Accountants

Some commentators suggest that the CFO role is moving so far towards the commercial end of the spectrum that, as long as the CFO can rely on a strong financial controller and have a strong team behind them, they no longer need the technical expertise gained from an accountancy qualification.

Those more commercial CFOs suggest that board directors resemble a conductor, overseeing and coordinating the many specialist components that together constitute the financial department. Strong leadership and communication skills, combined with broad experience including general management, are increasingly more important than an accounting qualification.

"EQ, or emotional intelligence, is increasingly crucial," says one panel member. "There is an ongoing requirement to be both business and socially savvy, to act as an important bridge between the board and the business. CFOs are most successful when they have the ability to communicate and simplify, managing stakeholders by employing a high level of emotional intelligence as well as business acumen, in order to steer conversations and judge moods effectively".

However, this is a topic that still divides. Other CFOs argue in favour of a robust financial grounding. *"It is great that the CFO is now expected to bring a heavily commercial outlook to the table,"* says one, *"but when presented with a big sheet of numbers, they should still be able to see the bottom line".*

According to one source, this expertise takes a lot of beating, while another suggests, *"The criticality of finance training is an important part of the tool kit. Logical analysis based on facts, which is underpinned with judgement, is crucial to the success of any CFO".*

An additional concern is that a CFO without an accountancy qualification could expose the business to criticism should things go wrong. Some argue that hiring a qualified accountant into the CFO remit protects the business (and the stakeholders in the appointment) to a greater extent.

In either scenario, there is a clearly a recurrent theme of commercial or general management experience being highly beneficial to the role today and in the future.

Risk, Opportunity and Personal Liability

One further complexity concerns the risk to the individual rather than the business. There is a common view today that directors, particularly CFOs, should be highly accountable. The majority of our panel postulate that the banking crisis led to this and that the public now demands greater levels of personal accountability.

"As far as the public is concerned, businesses and individuals with a seat on the board are as much 'fair game' as politicians," suggests one CFO.





Consequently, risk aversion in the boardroom has become a significant issue, at times leading to inertia and paralysis. Our panellists refer to reluctance over non-organic growth and a general perception that this might continue for years to come.

Others discuss stability versus growth, suggesting that the ability to create value by taking on more risk is going to be limited. *"All companies are sitting with greater liquidity on their balance sheets, but they aren't acting on this due to uncertainty in the economy and insufficient clarity around risk and opportunity—people are wary of taking a chance,"* another concludes.

The cost of borrowing is below 2.5%, which should be a licence to raise debt, yet companies just aren't exploiting these conditions. There seems to be a real fear of volatility. Recurrent concerns over the US fiscal cliff, problems within the Eurozone, China's struggle for further growth and uncertainty in the UK are all contributing to a stagnant environment.

Companies have mostly done their cost-cutting and now they need to grow, but instability from government makes it increasingly difficult for businesses to operate.

Leading an Evolving Finance Function

Many of the finance professionals on our panel perceive changes in the relationship between Finance and IT. There is a widespread assertion that departments originally considered 'support' functions, often lead by a CFO, are increasingly being brought to the centre of business.

As discussed, the finance function is now considered integral to success and central in setting strategy. Information Technology is another area that is irreversibly growing in importance and attracting higher funding. Due to ongoing digital evolution, it is rare to find a business that doesn't have technology at its heart and central to the customer proposition, whether B2B or B2C.

The Impact of Technology: The CFO Moves Closer to the Customer

Many in finance recognise IT as a natural fit for leadership by the CFO. However, given its potentially enormous impact, this responsibility cannot be underestimated and the CFO needs to understand

the power this department can wield. The CFO will need to develop increasingly strong relationships with the CIO, as well as understand some of the key areas first-hand. Perhaps more importantly, it pulls the CFO ever closer to the customer.

Technological advances have fundamentally transformed businesses in numerous positive ways and this trend is gaining momentum. It is said that in the 20th century technology replaced brawn and in the 21st century it will replace brain. When it comes to communication, the speed at which technology has progressed is making our heads spin, demanding immediacy and 24/7 availability.

However, in some scenarios this is a double-edged sword, creating new challenges to which companies have had to adapt.

Transparency Goes Live

With so much information now in the public domain, our panel highlights the pressure to provide complete transparency, citing a simple investors meeting: Today everything is webcast and information can rapidly go viral.

Companies must be constantly aware of branding and external image – they must develop and employ a strong moral compass to understand in advance the values their organisation wishes to represent. The most recent 'war on big business' has resulted in many casualties. Whether it is outrage at executive remuneration, transfer pricing, offshore companies or 'tax scandals', businesses are increasingly at risk of attack in the current climate.

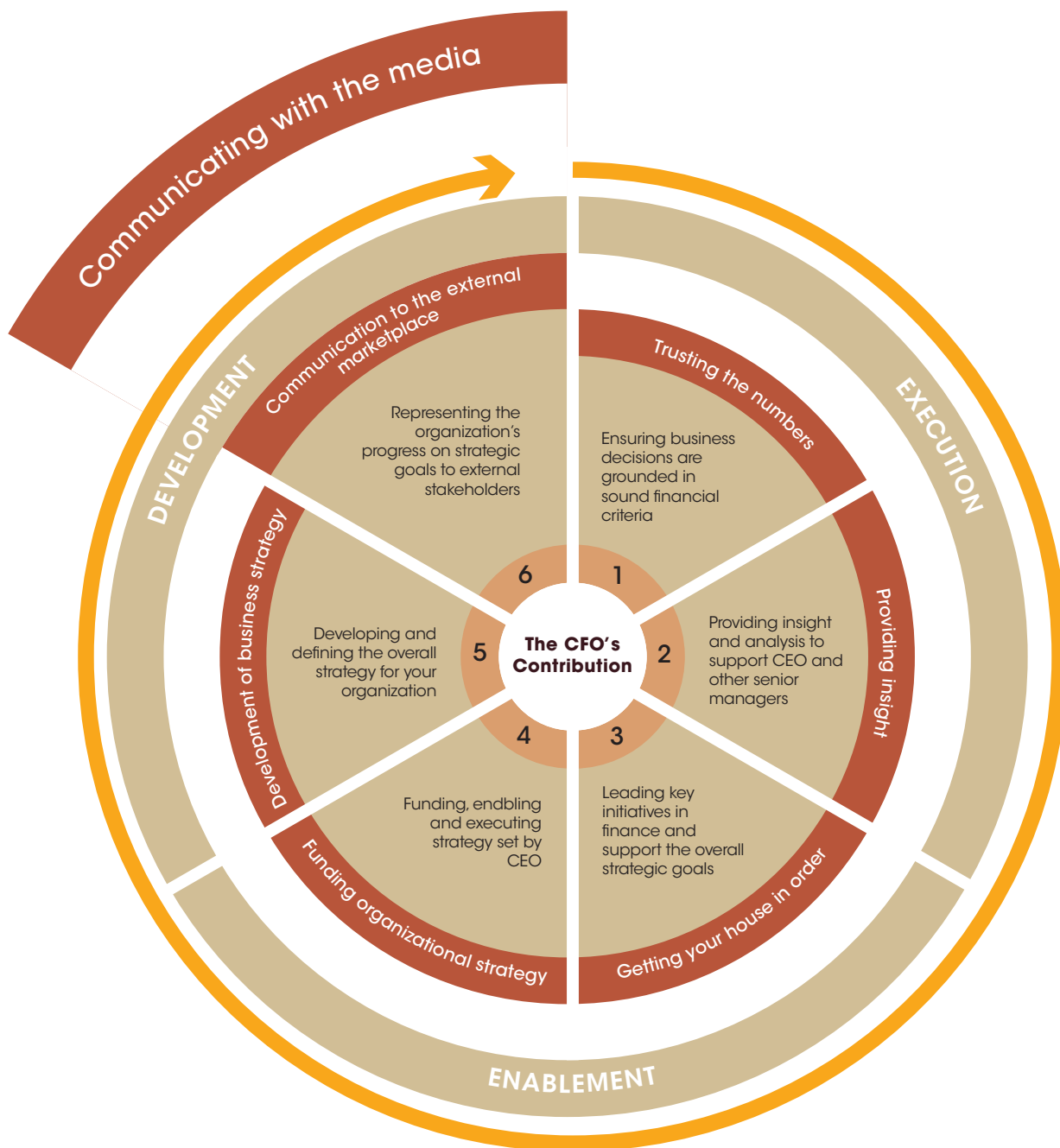
Social media now provides an open, real-time public forum for interaction with all kinds of internal and external stakeholders as well as the public at large. One CFO points to the issue of public engagement, with social media being a catalyst for interacting with consumers and the wider public.

"First, social media facilitates a very open and direct line of communication between company and customer—a dialogue which can be incredibly difficult to regulate. The speed at which businesses need to respond to questions, complaints and suggestions as they appear in their reams on a Twitter feed or Facebook page, and the care and consistency with which these responses must be crafted, can be overwhelming," he says.



Exhibit 3. The CFO Plays a Greater Role with the Media

Source: EY The Master CFO series: CFOs and the media



A company—and inherently its CFO—must be confident enough to face interrogation on its CSR policies, recent cuts, financial forecasting or latest ad campaign. The ability to communicate with the media is a significant part of the CFO role, as shown in **Exhibit 3**.

Secondly, social media provides a highly accessible platform for unbridled public discussion. "A business's ability to censor and manage its public image is increasingly compromised. Whilst social media can—and certainly has been in many instances—harnessed

for its positive potential, it also has the power to be incredibly damaging," he concludes.

Reputation Management

Financial planning and risk assessment remain key mandates for today's CFO, while many factors influencing this are increasingly non-financial.

One CFO highlights the moral debate over tax as a pertinent example. "If people come up with a great tax idea, you have to consider how this will look on the front page of *The Times*. It's



about brand assessment now as well as financial assessment”.

He points to the fact that although corporation tax has gone down, taxes on people and assets have gone up, so the overall tax bill to a company is actually higher. Yet the media and the general public fail to recognise this. The aggression directed at business in relation to tax may be relevant in a few nuanced examples, but in general it is often slightly misguided.

In fact, in the UK, the 100 Group contributed more than £77bn in tax in FY2012, or around 14% of the total tax take for the whole country. The challenge CFOs, together with those who are responsible for reputation management, face is to take back control of the debate, in the context of the blurring lines between legal and moral obligations.

Thus, today's CFO must increasingly play a role in public relations. As big business is subject to growing external examination of profits and policies, CFOs need to be more sceptical—conscious not only of profitability but of public perceptions. Companies are subject to scrutiny, all too often placed in the firing line, and a CFO must be prepared to face this.

A More Powerful Communicator Is a More Powerful CFO

According to many who contributed to this research, the significance of communication has

become paramount in the role. The CFO needs to have the expertise to translate detail into clear, concise and accessible messaging—to be one of the best communicators in the boardroom.

The CFO also needs to be one of the best communicators outside the boardroom, particularly when dealing with banks and investors.

Our panel report an increase in the time CFOs spend managing investors and external stakeholders, particularly banks. Many CFOs believe that as individuals, they are the personification of credibility and trust for banks and investors. This is particularly pertinent when the banks are under more pressure themselves.

Developing Relationships with Emerging Market Investors

CFOs are also spending more and more time developing investor relationships in emerging markets. They point to a wholesale shift on where investment will come from and a need to start marketing to international markets. One comments, *“CFOs are beginning to question former strategies, for instance, ‘Is my investor relations effort focused on the right markets or should I shift my focus towards building longer term relationships in Asia?’”*





Tomorrow's CFO: Specialist Expertise, Broad Commercial Experience and Ongoing Development

The continuing evolution of the CFO role has significant impact on succession planning and the development of tomorrow's CFO. There are also implications for the finance function as a whole, with the twin roles of financial management—overseen by a CFO with the specialist expertise to do so—and co-leadership of the business based on deep strategic insight.

It seems these 'thoroughbreds' must gain ever greater breadth of experience, which has significant connotations for developing and equipping talent to assume this ever broader role. The increasing fragmentation of the finance function, the demands on up-and-coming professionals and the increasing divide between specialist accounting and commercial contribution will make talent development exceedingly difficult.

Both businesses and individuals will consciously have to manage careers to a greater degree, gaining exposure to all areas across an ever more complex function. Moreover, there will be a growing need

for evidence of overarching leadership experience spanning not only general management, but also the broad suite of financial disciplines.

There is a general consensus that a range of specialisms are relevant and that future CFOs must demonstrate an understanding of key central roles such as Treasury and IR as well as operational and commercial leadership. There is always room to progress upwards, but movement sideways to build experiences will become increasingly important. It also seems that time in general management is an ever more central part of this development track. This will require rigorous career planning on behalf of individuals and their employers. Even with the most rigorous planning, we are likely to see the average age of tomorrow's CFO creeping upwards because it will simply take longer to gather the experiences needed to do the job.

In larger businesses it is often feasible to provide successors with suitable exposure internally to enable them to develop the necessary skill-set before taking up the post. However, in smaller and medium-sized environments, it will become increasingly hard for companies to sponsor the level of development required. These organisations will find it increasingly hard to groom their CFOs internally and will need to consider external inputs, training and specific hiring strategies.



Conclusion

The overriding message that has emerged from our research amongst the finance community is that the role of the CFO is expanding. Businesses are adding to the responsibilities of the CFO rather than diminishing the focus or ring-fencing the remit.

The role is becoming harder, more difficult to prepare for, and more diverse in its responsibility and impact, carrying with it a higher profile and level of risk.

Is such a breadth of responsibility and accountability held by one person sustainable?

Can one person who is expected to be the master of the detail involved in ever more complex financial reporting also fulfil the expectations of leadership, performance and stakeholder management?

Are there enough people willing to assume the personal accountability and risk in a world of ever-greater scrutiny?

Aspiring CFOs with commercial exposure, who have developed their non-financial expertise and can be savvy in the boardroom are the ones to watch. They may be required to have broader experience to move into the role, and they will likely take longer to attain it, but it will be worth the wait. As one panel member says, *"The role of CFO is better and more exciting than it has ever been; it is more interesting and adding more value"*. That's the attitude that makes the breadth of responsibility and accountability held by one person sustainable.

Our interpretation of the trends identified by our panel is that the CFO of tomorrow will add most value as a strategic partner to the CEO, understanding commercial opportunity, setting corporate goals as well as managing, and also developing external stakeholders. This means that greater responsibility for the management of the business, reporting and running the finance teams is likely to be delegated to a management team.

The advice we give on hiring the right CFO for SMEs and multinationals therefore takes into account the ongoing evolution in the CFO-CEO relationship, how the CFO role will develop in the boardroom, the structure of the finance function as a whole, and evolving challenges for the CFO in the future.

Savannah Global Executive Search

The Financial Officers Practice at Savannah is dedicated to the evaluation and appointment of CFOs and senior finance executives in functions that include financial planning and analysis, financial reporting, treasury, tax, corporate development, control/audit and risk, corporate development and IR.

Our network amongst senior executives in finance, as well as the more specialist functions, enables us to identify and evaluate the highest calibre individuals. We use rigorous research methodology to identify new candidates across the industry on every search whilst continually developing relationships with successful and emerging talent.

Our unrivalled international reach allows us to search across borders and industries to find leaders with the skills and cultural fit to match the needs of our clients.

Our expertise in finance is replicated across most other functional areas.



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