Technology For Business

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CHANGING FACES

How CFOs can master their many roles

An Access financial management whitepaper

Executive summary

CFOs are often urged to become 'more strategic' - to lead their organisation's high-level business planning rather than simply focus on the nuts and bolts of accounting. But is this much-repeated message too simplistic? This white paper details the key financial management roles that should be performed in every organisation – and, crucially, who should play them.

Overview

It is widely recognised that CFOs, FDs and other senior finance professionals are under pressure to play a more strategic role in their organisation – to become 'business partners' rather than mere 'bean counters'.

This is summed up by Stanley Harding FCA, a senior accountant and deputy controller of oil giant Shell, who admits: "It is still too common in the UK for the role of finance to be purely accounting and advisory - ie, as a service to line management who have the ultimate responsibility for decision making; to be on tap and not on top."

He adds: "The criticisms one reads are that we are flooding the boardrooms through our ability to play around with balance sheets, yet with insufficient knowledge of the operations of the business to justify our position."

It's no surprise that Harding recognises the key potential weaknesses of senior finance professionals everywhere. What is surprising is that he spoke those words 50 years ago.

Harding is now being lauded as a visionary by leading accountancy industry body, the Institute of Chartered Accountants in England & Wales (ICAEW), who surfaced his words for an event in May 2013 based around his original 1963 lecture.

Even so, the fact that - half a century on - we are still debating Harding's questions raises more questions in turn. Why are CFOs still being urged to play this broader business role? Have they failed to get the message, even after all this time? Or is the message itself wrong: are industry commentators missing the point by continually returning to this theme of the CFO's 'strategic role'?

Mangling the message

There's a growing body of opinion that in fact CFOs do 'get it' and it's the observers on the sidelines who are mangling the message. Rick Payne, the ICAEW's finance direction programme manager, is in no doubt: "I do wonder about the power of this narrative. It's not just finance, you've got it in any function – be it IT, HR, marketing - they're all pushing this line that 'the world's changing, we need to be more strategic, we need to be closer to the business'. So yes, I do think we are asking the wrong question."

Payne believes it is too simplistic to advise CFOs to focus more on business strategy formulation; instead, what they should aim to achieve rests entirely on what skill set their individual organisation requires.

He explained: "The aspirations have been similar for a long time, but people have been very successful at different times in working more closely with the business. It's just that you do that in different ways depending on what's changed: whether it's technology, regulation, the marketplace or the personalities around the Board table. The aspiration has been the same, it's just about adapting to the particular circumstances to be successful."

"We are trying to encourage finance people to think for themselves, rather than being prescriptive about a way to go," Payne said. **I think a lot does depend on the individual circumstances of an organisation."**

Five key areas of financial management

So how do CFOs identify what their organisation requires? The ICAEW believes every company needs five key financial management tasks to be delivered - though the CFO is not necessarily the person doing the delivery! These essentials are:

1. Foundation accounting work. "This is where we've all come from," says Rick Payne. "You need to get that right because a lot of areas feed off it. You may need to do the occasional deep dive - because you've really got to make sure your accounting's right or it's going to come back and bite you."

2. Compliance – including statutory reporting, tax reporting and related areas. "This can be time-consuming, but can be very important for the business and have strategic implications," Payne says. "For example CFOs, and indeed chairs, in the banking sector are spending a lot of time with the regulators, looking to influence policy and working out how to respond to and implement regulatory changes."

3. Management control – planning, budgeting, competitor analysis and the like. "This is all the information you need to run the business on," Payne said, "and also the controls that help people carry out the appropriate behaviours - be that through some sort of reward system and so on." But he warned: "On the management controls side, we still see the need to get better at forecasting, to feed strategy. And sometimes we're not as clever as we might be around KPIs and the measures that drive the right behaviours."

4. Funding - managing the organisation's relationship with banks and investors. "A lot of CFOs comment on the important role played by CFOs regarding funding structures and negotiating with banks," Payne said.

5. Strategy and risk – that final, high-level involvement of finance in business strategy formulation, implementation and service management.

As far as individual CFOs go: "
"These five things all have to be

done in the organisation, but who does them will vary," Payne said. "If you look at it globally, in Japan for example cost accounting and a lot of cost decisions are made by cost engineers outside of finance and it works perfectly well.

treasury, and capital structure, many CFOs are playing a stronger role in corporate portfolio management and capital allocation. Others have become prominent as the voice of the company in investor relations and in communications to the

"So on the strategy and risk side, you could find that you have some brilliant strategists in other functions, the CEO's a great strategist, you've got a chief risk officer – so actually, **the best thing for this particular organisation is for finance to butt out"**

"I'm not saying that's always the case, it may be that the CFO can take the lead, but it comes back to the phrase...it all depends."

Choosing the right CFO role

ICAEW's view is echoed by financial management consultancy McKinsey, which urges senior finance professionals to choose "the CFO profile that suits your company".

In a January 2013 article titled 'Today's CFO: Which profile best suits your company?', McKinsey associate principal Ankur Agrawal, consultant John Goldie and partner Bill Huyett say: "Most readers are well aware that the role of the CFO generally has broadened over the past decade. Beyond the core responsibilities of financial reporting, audit and compliance, planning,

board, as leaders in performance management, and as exporters of finance-experienced personnel to the rest of the organisation."

But, McKinsey questions: "Where does it end? It's unproductive to stretch the role too far and unreasonable to expect a CFO to be good at everything. How can the CEO and the board - through the audit committee - shape a manageable profile for the position?"

Like ICAEW, McKinsey believes different businesses need different types of CFO "depending on a company's history, the characteristics of its industry, and the demands of investors". It suggests four roles that organisations might require - and that individual CFOs might choose to play:

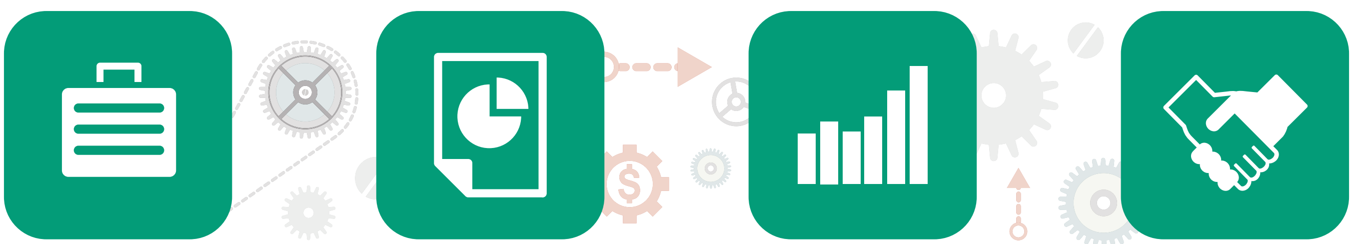
The 'four faces' of the CFO

1 The finance expert. "These CFOs have years of experience rotating through multiple roles within the finance function - controlling, treasury, audit, financial planning and analysis, or business unit finance," McKinsey says. "They tend to have intricate working knowledge of the company and are often experts in relevant finance and accounting issues, such as financial regulation, international accounting, or capital structure."

2 The generalist. These are "executives with broad experience - including CFOs who have spent time outside the finance organisation, in operations, strategy, marketing or general management. CFOs that fit this description tend to engage heavily in business operations and strategy and often bring strong industry and competitive insights."

3 The performance leader. McKinsey describes them as: "CFOs with strong track records in transformations both within the finance function and throughout the organisation. They tend to focus on cost management, to promote the use of metrics and scorecards, and to work to standardise data and systems."

4 The growth champion. McKinsey says these CFOs are "most common in industries with frequent disruptions that require dramatic changes in resource allocation—and in companies that plan to grow considerably or reshape their portfolio of businesses through aggressive M&A or divestiture programmes".



The consultancy urges CFOs to understand which role they should play based on the answers to four questions:

1. What are your corporate strategy and aspirations—especially considering the nature of your industry?
2. What is the composition of your top management team?
3. What is the current level of capability in your finance function?
4. What is the organisational and reporting structure of your company – and which areas report to the CFO?

Data is dominant

Beyond the ‘horses for courses’ approach to defining the CFO’s role, there is one particular hurdle that all CFOs have to jump – and that is mastery of information technology.

That’s the view of Mark Cracknell, CEO of financial performance management consultancy Aramar, who says: “With the amount of information flowing into organisations, it is very important that CFOs are seen to be on top of that particular discipline. Too often the CFO has been looked at as the number cruncher and just producing historical information - but they really need to produce information that is timely, that is actionable, that can produce positive action going forward.”

Rick Payne at ICAEW agrees, saying he is “broadly supportive of the view” that CFOs need to focus on data analysis. “It is one area where we do need to be very engaged with - IT, data and the possibilities of internal and external information.”

One major reason for this increased IT focus is that CFOs are now typically in charge of technology in their organisation.

“The CFO’s responsibilities are extending into the IT department. They’re being looked on very much as the custodians of information,” says Mark Cracknell, who sees this as a positive move: “You had the problem in the past that IT held the strings of what was being delivered and how it was being delivered - and not the business user. Certainly the CFO taking responsibility for that moves it more to the domain of servicing the organisation and not just delivering IT.”

However, this has brought problems: “The CFO is the person who is able to deliver information to the desktops of the C-level executives, but they need really to understand that data. What we’re finding is that they don’t necessarily have the grounding or the knowledge that enables them to take on that role. They are wholly unprepared for this whole world of data.”

Gaining the right knowledge

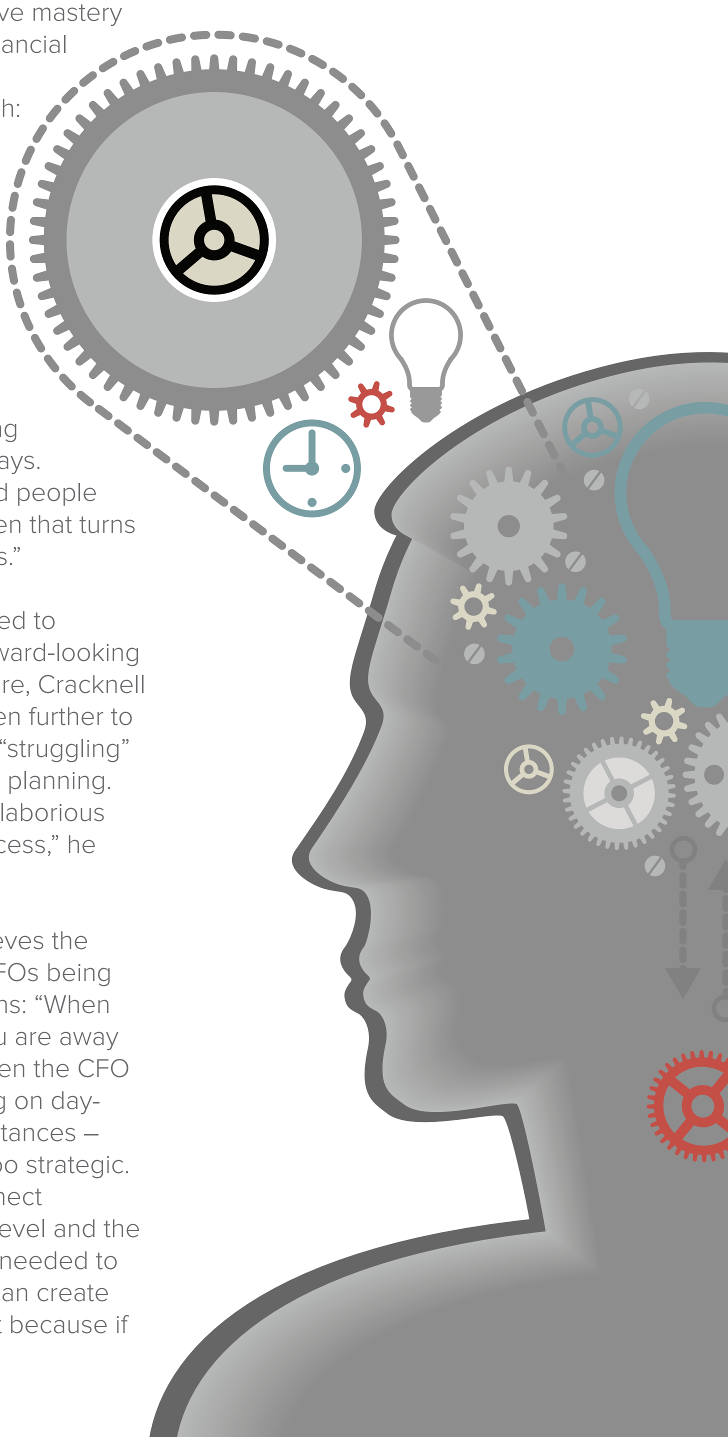
So how can CFOs achieve mastery of their organisation’s financial information? Cracknell suggests a twin approach:

* First, there is the company’s ‘backward-looking’ historical data. “These are BI systems - and 90% of companies have got some kind of BI, they have got some kind of analytics that is producing information,” Cracknell says. “But what we tend to find people fall down on is the bit then that turns that into actionable plans.”

* So, secondly, CFOs need to master and produce forward-looking planning information. Here, Cracknell believes, some have even further to travel because they are “struggling” with their budgeting and planning. “This can still be quite a laborious and cell-driven type process,” he says.

Ironically, Cracknell believes the problem is caused by CFOs being too ‘strategic’. He explains: “When you get to CFO level you are away from the coalface, so often the CFO doesn’t see what’s going on day-to-day in a lot of circumstances – sometimes the CFO is too strategic. There’s almost a disconnect between that very high level and the actual information that’s needed to feed that strategy. This can create quite a tsunami behind it because if you haven’t got the technology, and you haven’t got the systems in place, then you have an army of people trying to produce the information and trying to monitor it.”

Cracknell describes the technology needed to provide this forward-looking analysis: “It’s investment in implementing a budgeting and forecasting application that has got workflow, that has got controls over it. And beyond budgeting and forecasting, a lot of the smarter companies are now moving into the predictive analytics area. This is where they are really now taking data – it’s going beyond budgeting and forecasting, and you are trying to predict how the buyer is going to react.”



One final problem area, Cracknell says, is CFOs' understanding of their corporate KPIs (key performance indicators).

"What we tend to find is that some C-level executives don't really understand what KPIs are – and not just what a KPI is, but how that KPI could be used to drive the organisation. They look at something like headcount as being a KPI. But that's not really a KPI – a KPI is something like return on capital employed, which you can influence, you can track and you can action."

He warned:

"Some CFOs just don't get business analytics.

It's really about analysing data, understanding the drivers of their organisation and those KPIs that are strategic that they then have to improve."

On the other hand: "If the CFO can understand all of those concepts, they can elevate themselves into a position of authority within the organisation."

Conclusion

The calls by industry observers for CFOs to become more 'strategic' ignore the fact that these senior finance managers are undoubtedly getting a lot of things right. This was underlined by a recent survey from recruitment consultancy Robert Half, which found that 52% of current FTSE 100 CEOs have an accountancy or financial management background - compared to just 21% from engineering/natural resources, 9% from retail/hospitality, 8% marketing/advertising and 4% from IT.

It all supports the views of ICAEW and McKinsey that CFOs don't need to radically re-invent themselves; they simply need to understand which management role their organisation requires them to play at any particular time.

And right now, one major CFO role is the 'guardian of IT' – understanding the vast swathes of information their organisation is collecting, developing the right KPIs, and using that knowledge to help build their future business strategy.

Of course, many CFOs will be smart enough to be doing that already, knowing this will cement their place at their organisation's top table. And if they are not, they may be smart enough not to admit it! As ICAEW's Rick Payne joked: "It's quite interesting when you have conversations with people about the idea of being more closely linked to the business. Any CFO will say pretty much they always have been. It's just the other person who hasn't..."

* Further information on ICAEW's work on the finance function is available at: www.icaew.com/financedirection.

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