

Time for a reality check



A SURVEY WARNS THAT THE FINANCE FUNCTION NEEDS TO MAKE IMPORTANT CHOICES ABOUT WHERE TO PLACE ITS FOCUS. **PETER WILLIAMS** FINDS OUT WHAT'S GOING ON.

While treasurers may think their job has got harder over the past 12 months, they should perhaps spare a thought for someone in an even worse position: their boss, the overworked and overstressed finance director.

A new survey suggests that the role of the chief financial officer (CFO) – a term which encompasses heads of finance and finance directors – has expanded so greatly that there is a conflict between the many demands made of it. This conflict has implications for CFOs, their companies and those who report to them, including, of course, group treasurers.

Businesses want their CFO to become actively engaged in the strategic direction of the business, participating in strategy development, leading merger and acquisition activity and providing leading indicators for predicting business performance. However, according to a recent Ernst & Young survey, *What's Next for the CFO?*, businesses believe their CFOs are still far too distracted to do so by the demands of compliance and corporate governance.

Individuals are struggling to meet the demands they face, according to the Ernst & Young survey of 251 finance bosses across the globe, 97% of whom are C-suite respondents (anyone who has the word 'chief' or its equivalent in their job title). Respondents acknowledge that CFOs' roles have grown broader, but nearly one-third believe that they do not have enough understanding of the wider issues that their businesses face.

The survey confirms that although the traditional skills of the finance department are still a prerequisite for successful CFOs, more is now required; 88% of respondents say that "being good with numbers" is no longer enough.

The largest factor contributing to the CFO's expanding role is, respondents say, the need to comply with regulations.

The next five factors in descending order are:

- Increasing expectations from board and audit committee;
- Increasing corporate governance obligations;
- Increasing risk management;
- Increasing demands for management information; and
- Increasing demands from investors.

In all these categories it would be expected that treasurers have a significant role to play. Corporate governance is seen as more of a driver in Asia-Pacific and North America, while pressure from the board and audit committee is seen as the main driver in Europe.

Key survey findings

- The factors that have contributed most to the CFO's changing role are: regulatory and compliance obligations (cited by 43% of respondents); increasing expectations of the board and the audit committee (38%); and more onerous corporate governance obligations (35%).
- There is a gap between how respondents feel that CFOs should spend their time and how they actually do: 35% feel that CFOs should dedicate their time to working as a strategic business partner to the CEO, but only 26% think this is how CFOs actually spend their time.

In response to these challenges, CFOs spread their time remarkably evenly between the roles of scorekeeper (monitoring and reporting the company's results), commentator (providing reports to the board and audit committee), custodian (developing and improving financial controls and reporting systems) and business partner (participating in strategy and mergers and acquisitions).

However, when asked how they would like to split their time, the results came back as 17% of the time scorekeeping, 23% as commentator, 25% as custodian, and 35% as business partner. The frustration is clear. How, if at all, they are going to be able to bridge that gap is not clear.



PULLED IN ALL DIRECTIONS "CFOs are being pulled in all directions and ultimately this is not sustainable," says Norman Lonergan, Global Advisory Services leader for Ernst & Young. "They are being asked to be business partners to their CEOs, and commentators to their boards, as well as their more traditional roles as scorekeepers of financial performance and custodians of risk management."

The survey itself raises the crucial question: if somewhere between one-third and one-half of CFOs are focusing on risk, governance and technical issues, then who is steering the business financially?

"Facing these huge demands, CFOs are finding themselves at a crossroads, where they can choose to either limit themselves to technical accounting or focus on more strategic functions," Lonergan says. "If they want to concentrate on their strategic roles, they need to streamline their scorekeeping and

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custodial roles, focus more on integrating financial and non-financial information, and build talented teams to share the workload.”

THE ROLE FOR TREASURERS And that is where treasurers come in – as part of the talented team. There is also some encouraging news for treasurers in the survey. Respondents say that finance functions collaborate effectively with functions such as tax, treasury and IT, although less well with research and development, marketing, and sales and distribution.

The research seems to suggest that the CFO has moved away from the strategic role in recent years. In the 1990s, all the pressure was about switching the role from one of scorekeeper to one of strategic partner. But with the change of emphasis following the Enron scandal and the introduction of new accounting and

governance standards in the shape of Sarbanes-Oxley, IFRS and Basel II, the CFO was forced to switch back into a more defensive role.

Given the rapidly changing environment in which businesses need to operate, driven by increasingly global markets, international competition and financial regulation, it is no surprise that the CFO's role is undergoing change, as indeed is the treasurer's (see last month's Career Path, page 45).

At the moment there appears to be little consensus on which way the CFO's role will go. Ernst & Young suggests that, given the conflicting demands, CFO may prove an impossible role to fill. And if the CFO does choose to go down the route of being the strategic partner with the CEO, will this leave the way open for a bigger role for the treasury function?

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About the survey

Ernst & Young commissioned the survey, *What's Next for the CFO? Where ambition meets reality*, from the Economist Intelligence Unit, which interviewed 251 C-suite and board-level executives, including a significant number of CFOs drawn equally from the US, Europe and Asia. All respondents worked for businesses with a turnover of more than \$1bn and in a wide range of industries.

To read or download the full survey, visit the following web page: <http://tinyurl.com/5omjmg>

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