
The Scope of the Role of a Chief Financial Officer

- A Study In Singapore Context -

by

Faculty : Assoc Professor B.C. Ghosh
Mr. Chan Yoke Kai

Student Researchers : Chen Kwan Sheng, Jason
Tang Wei Kiang
Yaw Cynthia, Carmen

Nanyang Business School
Nanyang Technological University
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INTRODUCTION

It is conceivable that Chief Financial Officers in the year 2006 will look back at the last decade of this century as an era of profound change. During the decade, in particular, organisations may see, amongst other things, the emergence of a new breed of Chief Financial Officers/Financial Directors. This may have significant management development implications. These CFOs would not simply be younger, more vigorous offspring of the old breed, or that they would just work harder to meet tougher organisational demands. Instead, they would break a new mould and build a new one - basing their success on training in skills other than just technical ones in the field of accountancy. Other factors that are affecting the business environment of today would also greatly contribute to the evolution of this new breed of CFOs.

CFOs in the present day organisations are largely restricted to the responsibilities of providing the top management with financial data gathered from both outside and within the organisations. There is minimum participation on the part of the CFOs in the strategic formulation of the organisation's overall goals and objectives. Furthermore, the rest of the top management are greatly not involved in the financial aspects of the organisation. The finance department acts as a medium through which business plans are prepared based on financial projections.

Important trends affecting the dynamic business environment mean that this role is changing. Of course, these changes will not have their full effect immediately in every business. Nevertheless, it should be noted that Chief Financial Officers and their subordinates are gradually no longer buried under piles of financial schedules alone, but increasingly developing a role that maintains the traditional prestige, reaffirms the central role of wealth creation activities and enables the CFO to contribute on the same terms as the rest of the top management. Hence, the purpose of this paper is to describe the scope of the role of the Chief Financial Officer as of now and the evolution of this role that would take place in the next decade to come.

LITERATURE - A BRIEF REVIEW

The Chief Financial Officer's role in strategy formulation had been traditionally restricted, though it may have varied from business to business. Although the CFO has full access to the organisation's financial information, this access to information moreover is no longer exclusive. With the help of advancing information technology, the information is made available and is being used by others. The base of expert and information power is slowly but surely slipping away from the grasp of the CFO to other members of the management with the help of advancing information technology. Table 1 below illustrates the present role of the CFO within an organisation.

Table 1

Processes/Issues	Involvement of CFO	Involvement of Others
Diagnosis	Low/Medium	High
Strategy Formulation	Low	High
Strategy Implementation	Low	High
Financial Planning	High	Low
Measurement	High	Low

Table 1 : Involvement of a CFO

As illustrated in the above table, the CFO has some role in diagnosis but a very limited role, if any, in strategy formulation. The CFO's forte is in the developing of financial plans which the CFO will present to other members of the management team. Although the CFO plays a limited role in the implementation of the strategic plans, he/she will still carry out the task of measuring the achieved financial consequences against the plan set.

Due to the rapidly occurring changes in the global business environment, there will inevitably be a change in the role of the Chief Financial Officer. The changes that could cause such a shift in the role of the Chief Financial Officer are as follows (based on literature):

a. The need for rapid decision-making.¹

This affects the role of the finance department to act as a courtroom to decide if a particular course of action should be taken based on financial information alone. *"Decisions will now be made far more frequently and with a shorter lead time than in the past"*

¹ Source : The Accountant as Business Advisor - William K.Grollman

b. Less dependence on financial yardsticks.²

This means that the basis of business decision-making is moving away from the traditionally heavy reliance on financial analysis and measures. There is an increasing adoption by many companies of more qualitative business goals such as service, innovation, productivity and other qualitative measures. *"...prices and cost plays a limited role in the decision-making.....product quality, product features, service convenience, service reliability, expert advice, and other support services can either create or destroy value for a customer..."*

c. Accessibility of information via computer systems and software.³

Computers have greatly diminished the finance department's role alone in the preparation and presentation of information on the performance and control of the organisation. Data is now available to the rest of the management team within the reach of a keystroke. While there may remain some useful roles for the Chief Financial Officer in analysing the historical data for financial projections, there is no doubt that in the not-too-distant future, many of them would also be taken over by expert systems. *"...Organisations now have access to desktop computing power..... centralised data processing departments"*.

d. Empowerment and delegation of work to others.⁴

The Chief Financial Officer's ability to empower his/her subordinates with the authority to make decisions and perform some of the CFO's responsibilities, leaves the CFO with more time to participate actively in the strategy formulation process of the organisation in setting its overall objectives and goals.

Table 2 illustrates the potential value of the Chief Financial Officer. Note that the rest of the management team could also play their part in the financial aspects of the organisation.

² Source : The Discipline of Market Leaders - Michael Treacy and Fred Wiersema

³ Source : The Accountant as Business Advisor - William K. Grollman

⁴ Source : The practice of Empowerment - Dennis C. Kinlaw

Table 2

Processes/Issues	Involvement of CFO	Involvement of Others
Diagnosis	High	High
Strategy Formulation	High	High
Strategy Implementation	High	High
Financial Planning	High	Medium
Measurement	High	Medium

Table 2 : Potential involvement of a CFO

RESEARCH METHODOLOGY

This research was inspired by a circulation from International Federation of Accountants (IFAC) dated 1st April 1995 . The research was closely guided by the faculty and assistance was provided for by the Institute of Certified Public Accountants of Singapore (ICPAS).

The data and findings that have been compiled and tabulated in this report are derived from two research streams and are as follows:

- a. Questionnaire responses from 34 organisations.
- b. Interviews with 8 organisations.

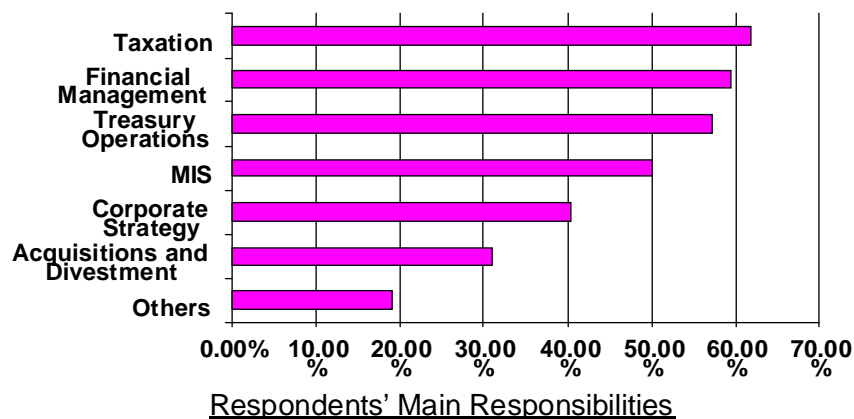
The objective of the questionnaire was to establish the current practice in the industry(the qualifications expected from a CFO) and to learn how this expectation will likely(and possibly) change in the future.

The interviews were conducted over the telephone and the questions asked were identical to those in the questionnaire sent to the other organisations. This was in an attempt to accommodate those organisations who had difficulty in finding the time to fill up the questionnaires as well as to obtain responses verbally which could differ in quality from those in writing. In other words, it was also a question of balancing. To ensure better accuracy and relevancy of the responses, interviews and questionnaires were confined to the financial managers or higher. In other words, non-relevant staff were omitted from the study.

The respondents were very diverse, working predominantly in the private sector, although there were a few respondents from the public sector as well. Around 38 percent of the respondents were in the manufacturing sector; 28 percent in the trading area; 6 percent each in both the transportation and banking sectors and about 3 percent in the retail sector.

FINDINGS FROM THE QUESTIONNAIRE

Part of the questionnaire asked members to define their main responsibilities. The intention was to capture the CFO's primary task of financial management together with the allied responsibility for management information systems and to discover to what extent the respondents had to take on additional responsibilities in more specialised areas such as taxation, treasury operations, and company secretarial duties. The results are as follows:



The majority of the respondents have the responsibility for at least 3 of the above areas. This tends to differ according to job scope and relative to the size of the company. Senior personnel in the smaller organisations tend to have a wider range of task functions. Conversely, as organisations grow, the Chief Executive starts delegating financial tasks to the CFO in order to have more time to concentrate on corporate strategy planning and management functions. The role of the CFO also, as such, grows in importance (in one way of looking at it!) in these middle-sized organisations. As organisations approach the top band, the CFO becomes more concerned with acquisitions and other specialised areas which smaller companies tend to sub-contract or omit. Further analysis in this area could be enlightening, but avoided for reasons of space.

Our survey also aimed to find out the role of the CFO in the strategic planning process; to what extent was the CFO involved in setting strategic objectives as opposed to purely financial objectives; and to what extent was his role defined as that of a critic and reviewer - appraising strategic plans from a financial perspective, reviewing financial performance against target.

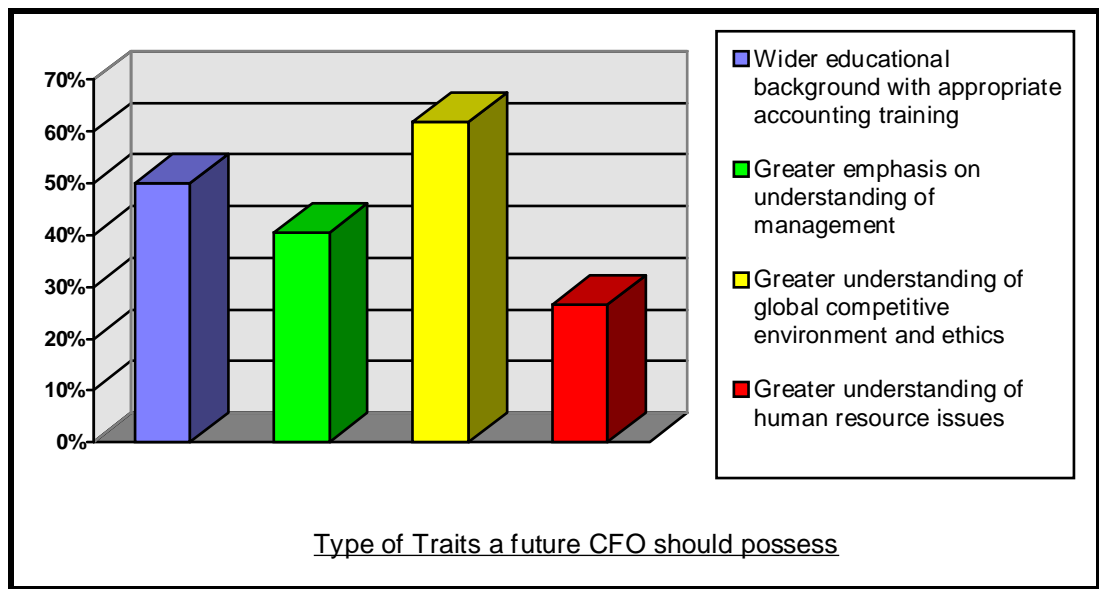
The following table illustrates this:

Respondents' Contribution to the Strategic Planning Process

	Percentage of Respondents
<i>Reviewing Financial Performance against standards</i>	71.9%
<i>Setting Financial Strategic Objectives</i>	65.6%
<i>Preparing and Interpreting Management Accounts</i>	65.6%
<i>Devising Strategies to Improve Current Performance</i>	62.5%
<i>Analysing Gap Between the Company's Current Performance & its objectives</i>	53.1%

ANALYSIS AND PROJECTIONS

As opposed to current involvement, members were asked to give their opinions on the types of traits a person should possess in order to be a CFO 10 years into the future. The diagram below illustrates our findings:



Over 60% of the respondents indicated that CFOs in the next ten years should have a greater understanding of global competitive environment and ethics. Globalisation, as a fact now, demolishes all the boundaries that were once prevalent between countries. As a consequence, there is a real flow of financial and industrial activities as well as speedier flow of information. This is an indication that CFOs will be required to have a more global perspective as they undertake their responsibilities in the future decade⁵.

Respondents also cited the need for CFOs to have a wider educational background along with appropriate accounting training. This means that not only should CFOs have technical knowledge in the accounting practice, but they must also possess other skills that go beyond their formal training as an accountant. Table 3 (these information were specifically

asked for) shows the additional skills that are needed in order for CFOs of the future to be competitive in the global market and within their firms.

⁵Global Marketing Management - Robert D. Buzzey, John A. Quelch and Christopher A. Barlett

Table 3

Skills	Percentage of Respondents	Rank
Human Resource Skills	56.25	3
Communication Skills	75.00	1
Information Technology Skills	59.38	2
Marketing/Presentation Skills	46.88	5
Courage to stand up against adversity	53.13	4
Ability to delegate responsibilities	46.88	5
Others	3.13	6

Table 3 : Skills required of a CFO

Our literature review also indicates that information technology is greatly affecting the role of the CFO. From the survey, about 60 percent of the respondents felt that information technology plays a significant part in their area of work and therefore, they might need more training in this field of technology to further enhance their skills and to contribute more effectively to their role as a Chief Financial Officer. Advances in the field of information processing have greatly increased the finance departments' capability of handling the mass of information that needs to be processed fast and on real-time basis. Automation in the routine procedures leaves the CFO with more time for decisions that require more attention by him personally.

Finally, the essence of it all is to have a continuing focus on the customer needs. Surveys of CFOs in multinational corporations highlighted how important they feel it is for their organisation to have a customer focus. One survey, reported from *Business International*, asked CFOs to select, the "three most important changes in their organisation's strategy as a response to the critical forces shaping the business strategy today". The six most frequently cited changes were:

- a. Improvement on customer service or product quality.

- b. Focus on core businesses.
- c. Reduce costs.
- d. Development of new products.
- e. Focus on core competencies.
- f. Move into new markets.

Improvement on customer services ranked the highest in this case. Except in a few rare instances, complete customer satisfaction is the key to securing customer loyalty and generating superior long-term financial performance. CFOs must realise that the more competitive the market, the more important the level of customer satisfaction. The CFO of the future must provide financial services support, but that is hardly enough any more: they also have to be aware of the importance of customer satisfaction. Even in markets with relatively little competition, providing customers with outstanding value may be the only reliable way to achieve sustained customer satisfaction and loyalty.

CONCLUSION

Undoubtedly, the role of the CFO is no longer what it was before. As modernisation advances, especially with the progress of information technology, we have witnessed before us the evolution of the role of the CFO to what it is today. An overwhelming consensus from our respondents indicates the acknowledgment of this fact.

The role is no longer simply a functional position but has evolved to a strategic one as well. Financial information is no longer exclusive to the CFO as information technology has bridged the gap between financial figures and the average management person. As such, we begin to see a lesser dependence on the finance department in this aspect. The earlier discussion also pointed out the significance of the impact that advances in information technology has made. The CFO must maintain his leading role here too.

With the above points in mind, we can, with the help of past and present trends, forecast the changes in the role of the CFO that will take place in the next ~~decade~~. As competition intensifies in every industry over time, the role of the CFO would have to be a more rounded one, befitting the time and need for the survival and growth of his organisation.

The findings in this survey are somewhat similar, though not the same, as similar exercises have found in the UK, USA and elsewhere at the behest of International Federation of Accountants. CFOs please note!

List of Readings

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