

News release

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Strong company performance linked to formal CFO talent development

- **Aspiring CFOs need to develop broad range of skills and experiences**
- **Different views between CFOs and aspiring CFOs on approach to formal talent development**

Kuala Lumpur, 9 March 2011 - A new Ernst & Young report, *Finance Forte – The future of finance leadership*, suggests there is a correlation between strong company performance and the extent to which CFOs and their organizations take a formal approach to talent development and succession planning. However, only a minority of companies are currently adopting such a formal approach.

The report is based on a survey of over 530 CFOs and their direct reports across Europe, Middle East, India and Africa as well as in-depth interviews with CFOs from companies in the region such as Reed Elsevier, UBS, and Unilever among others, as well as experts from academia and the executive search industry.

Les Clifford, Chair of the Ernst & Young CFO Program in the UK and Ireland, comments: "This study indicates the leading companies think ahead by nurturing their CFO talent with structured internal development. Since the 2008 financial crisis, the role of the finance function and the CFO in particular in guiding company growth and strategy has increased dramatically to meet challenges such as increasing volatility in financial markets, regulatory change, globalization and the rise of emerging markets. Organizations risk jeopardizing their future and ability to meet such challenges if they leave CFOs' development to chance."

Companies with revenue growth of 5% or more over the last 12 months are considerably more likely to have identified potential successors to the CFO. Just 28% of companies surveyed for this study though have either identified a specific candidate to succeed to the Group CFO position or have several candidates in mind. The need for formal succession planning is also emphasized by the survey finding that companies performing strongly are more likely to recruit internally. The study separately reviewed the list of Group CFOs from the top 100 EMEIA companies in the Fortune 500 and found the majority have been recruited internally.

While organizations have an important role to play in future CFO development, the responsibility is a shared one with aspirants and the current Group CFO.

A steep ladder to climb

Candidates need to do more to acquire the range of skills and experience required to be a CFO. While 73% of the finance professionals surveyed think there are currently very few people in their organization who have the skills to succeed at the role, the leading CFOs interviewed believe there is not a lack of talent; just lack of opportunities for developing the skills required for the top job. The study identifies nine key areas a potential CFO should develop to ensure they are well prepared to meet the future challenges of the role, of which three of the most important include building a breadth of finance experience, experience of shared service centre implementation, and international experience – particularly in emerging markets.

Diversity is more important than focus

Abdul Rauf Rashid, Ernst & Young Malaysia's Assurance Services Leader, comments: "Of key importance is gaining a diverse range of finance experience and getting the right balance between different roles within head office, the core finance functions and out in the business. Aspiring CFOs should not try and build their career by working in every financial discipline from treasury to tax and investor relations. Instead it is considered far more important to build on skills acquired at head office and progress to working in divisional or operational roles for example."

Indeed 67% of CFOs surveyed believed that aspiring CFOs who have spent their entire career in specialist finance functions will find themselves at a disadvantage to those with direct commercial experience. However, only a slim majority of respondents believe their organization creates opportunities for finance talent to develop these skills.

Finance transformation initiatives are impacting the long-term talent pipeline.

Only 32% of aspiring Group CFOs surveyed had leadership experience with outsourced shared service centers. While the introduction of shared services centers as part of a broader agenda of finance transformation has helped finance professionals to focus on the ‘business partner’ aspects of the role, it has also some unseen implications for the long term talent pipeline. By migrating transactional processes to centralized or outsourced providers, organizations may no longer be giving finance professionals experience of the fundamental skills of finance. Also, the big project experience of implementing and managing a shared service centre is also increasingly becoming a core competence for senior finance professionals.

Understanding of emerging markets dynamics is key

The majority of survey respondents (56%) also see international experience as a key area of development for future finance leaders. The importance of fast-growing emerging markets both as a source of growth and a destination for shared service centers highlights the importance for future CFOs to gain understanding of different international business environments. Companies should anticipate this requirement by putting in place structured career paths that include periods in both emerging and developed markets.

Rauf further comments, “Regardless of where a candidate comes from within a company, moving into the top job is a big leap and getting bigger all the time. Aspirants must build relationships with the right stakeholders, gain broad commercial and strategic experience and learn how to build and lead diverse teams of specialists.”

CFOs and candidates differ on right approach to talent development

Four-fifths of CFOs who responded to the survey said they did have a role in developing the potential CFOs within their company and many are measured on this. However, the majority of Group CFOs are likely to approach it in an informal way, whereas their direct reports consider that mentoring should be much more formalized. Leading CFOs interviewed for this report also believe that a formal approach is essential to develop candidates. Given that strong company performance is linked to formal CFO development and the CFO role is increasingly becoming more central to business strategy and growth, these diverging approaches will impede future growth and response to emerging economic challenges.

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Notes to Editors

Copies of the *Finance Forte* report can be requested from www.ey.com/finance-forte

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