

The DNA of the CFO

A study of what makes
a chief financial officer

2010

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. The 'E' and 'Y' are connected at the top. The background of the entire page is a grayscale micrograph of biological cells, with a prominent yellow diagonal stripe cutting across the middle. On the left side, there is a series of white vertical bars of varying heights that taper to a point, resembling a barcode or a stylized architectural element.

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Our thanks to nearly 700 CFOs who participated in the study and, in particular, to those who shared their insights and personal experience of the role in a series of interviews:

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In this report

Executive summary	2
Contributing to strategy	4
A broader business role	6
Core competencies remain key	10
Future focus on stakeholder communication	12 and 18
The CFO's contribution	14
Staging post or career destination?	20
A toolkit for the aspiring CFO	22
Demographics	26
What makes a CFO	28
EY contacts	29

The DNA of the CFO provides fresh insight into what it is to be a CFO today by talking to today's CFOs. This EY report is based on our analysis of a survey of 669 senior finance professionals in Europe, the Middle East, India and Africa, and a program of in-depth interviews with leading CFOs and finance directors from these regions - allowing us to explore the distinctive qualities of this broad community of professionals. The research was conducted by the Economist Intelligence Unit.

The DNA of the CFO explores the expectations and aspirations of those in the job - and the skills and relationships that successful CFOs need to master the challenges and opportunities of the role. It is one of a series of EY initiatives that seek to understand and support CFOs in their evolving - and unique - position.

The DNA of the CFO

It's become fashionable to say that any ambitious CFO wants to be a CEO. But, in *The DNA of the CFO* a quite different picture emerges. We see a group of people whose unique optic on the business has rightly earned them promotion to the forefront. A group who are embracing their increasingly strategic remit. And, who see their career choice as one to be celebrated - not a staging post to the role of CEO.

Unprecedented demand for the CFO's unique perspective and discipline

Traditional finance skills of analysis, reporting and control are in demand outside of the finance function and the job of the CFO is broadening far beyond its technical heartland into a role that is much more "strategic" - in the broadest sense of the word. Leading CFOs are overturning outmoded perceptions of finance as "business prevention units" and repositioning the function as an enabling partner to the business. For many CFOs, the acid test is the extent to which business managers consult them for advice on key aspects of strategy. Just over half of respondents agree that this now takes place routinely.

What does strategic contribution really mean?

There is a wide variation among different finance leaders on the exact nature of their contribution to strategy. Around one-third of CFOs say they play an active role in developing and defining the overall strategy for their company. But, for a greater proportion, their contribution focuses on providing insight and analysis to support the CEO and ensuring that business decisions are grounded in sound financial criteria. For leading CFOs, this goes beyond being an "information provider" or "aggregator presenter." Their commercial understanding and analytical skills mean that this proactive, yet supporting, role is a vital part of understanding how different decisions will lead to certain outcomes.

The balance between objectivity and operational leadership

There is a delicate balance to strike between being the "objective, independent voice" of the business and assuming a broader responsibility for operations. A growing number of CFOs are adding operational responsibilities for functions such as IT and property to their portfolios. Given their firm grasp of finance fundamentals and their management strengths, it is easy to see why their roles are expanding. But, it also has the potential to increase the possibility of a conflict of interest. CFOs have a duty to be the independent, objective voice of the executive management suite and this can be tested by having an additional operational role that requires winning resource allocation to be successful.

35% play a leading role in developing corporate strategy

61% believe that finance's standing has improved in the last 3 years

65% agree that cost management is the No. 1 priority compared to 3 years ago

A continued focus on the fundamentals

The CFO role is now more embedded in the development and enablement of corporate strategy and yet the financial crisis has forced CFOs to increase their focus on the fundamentals of finance as well. Compared with three years ago, it's the core tasks of cost management, risk management, cash flow and controls that dominate the CFO's priority list. This prevents CFOs from playing as big a role in broader corporate strategy as they would like. Only 37% of CFOs agree that they have enough time to focus on this area, while just under half agree that the crisis has caused them to refocus on controls and reporting, at the expense of more strategic activities. This is despite the fact that 75% of respondents say they currently spend 50% or more of their time on strategic aspects of the role.

The public face of company performance

Mastering sophisticated communication skills in order to build trust among an expanding universe of stakeholders is considered a critical aspect of leadership. Almost two-thirds of respondents say that, increasingly, the CFO has to act as the face of the company on all issues related to overall financial performance. A similar proportion agrees that, following the crisis, the CFO's key priority is to increase trust in the financial health of their business. But, relationships with external stakeholders, such as investors, analysts and the media, are a challenge for many. Less than half of respondents say that their relationship with investors is good or excellent, while just 21% give a similar rating to their relationship with governments and 25% to their relationship with the media. Indeed, these "softer skills" seem to be an issue for many CFOs. Asked where they need to enhance their skills and knowledge, respondents point to communication and influencing as the most important area for improvement.

2/3 agree that increasingly the CFO has to act as the face of company performance

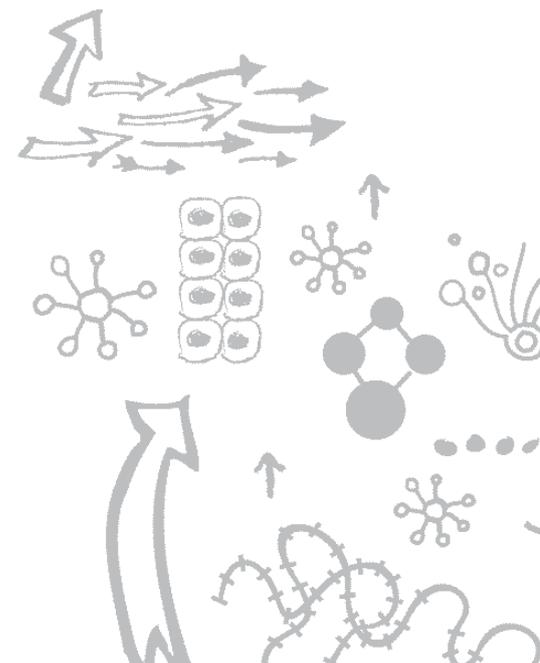
50%+ see handling a complex stakeholder universe to be their greatest challenge

73% want to remain a CFO

A career destination in itself

The broadening scope of the CFO role, and the potential to influence corporate strategy and drive business change, means that most finance leaders enjoy a high level of career satisfaction. Yet, most believe that the challenges of the role mean that the ideal length of tenure within a particular company is only five years. Seventy-three percent of CFOs surveyed see their role as a destination in its own right and only 10% harbor an ambition to be the CEO. Interestingly, they report few "heroes" or role models within their own community from which to learn, which may be a reflection of the degree to which CFOs have historically invested in their external profile.

The CFO is playing an increasingly broad and vital role within today's organizations. *The DNA of the CFO* sheds an interesting light on what that role is and how CFOs can excel within it.



Contributing to strategy

Much has been reported about the increasingly strategic nature of a CFO's role. And, our research confirms a continuation of this trend with 75% of respondents saying that they spend 50% or more of their time on strategic aspects of the role, a number which increases to 83% of respondents in the future (see chart 1). However, the commentary on the CFO's migration from scorekeeper to strategist is now in need of an update, or at least, a clarification. What is the precise contribution that the CFO makes to strategy? Is the role of managing the numbers of less value than strategic advisor? Does developing strategy mean setting the long-term vision, or is this still the domain of the CEO - to be the big "blue sky" thinker?

The CFO is ideally placed to play a central role in strategy formulation. As the leader of the finance function, they should have both breadth of perspective across the performance of the whole company and a depth of perspective into where value is created. They are often more informed about a business's operations and underlying performance than anyone else in the company. "The people who are best positioned to help form the strategy of the business are the people who are in the finance area, because it's one of those functions that is uniquely interfacing with almost every other aspect of the business," says Andy Halford, CFO of Vodafone, the world's largest mobile phone company by revenue based in the UK. Simon Henry, CFO of Royal Dutch Shell, an Anglo-Dutch oil and gas company comments: "Often divisional executives are knowledgeable in their own space, but they don't see as much across the fence. Our ability to bring a common language to that discussion enables us to influence trade-offs for the application of scarce resource and capital."

However, answers from survey respondents suggest that the nature of a CFO's strategic contribution varies widely from developing strategy to enabling and executing the strategic vision. At one end of the spectrum, a strategic contribution can mean that CFOs play an active role in actually defining and developing the strategy of the organization. At the other end of the spectrum, the CFO's contribution may be more narrowly focused on providing information and analysis of the business to the CEO and the board.

Just over one-third say that they make an active contribution to defining and developing strategy. The majority of respondents, however, report their leading strategic contribution to be in providing insight and analysis to support the CEO and the senior management team. "The CFO is expected to be someone who provides guidance, advice and counsel on the bigger picture," says Firoz Tarapore, CFO of Dubai Aerospace Enterprise, a Middle East-based, global aerospace group. "It's not just the numbers, but what you do with them and how you can use that information appropriately."

The qualities of a "strategy developer"

Our survey tells us that:

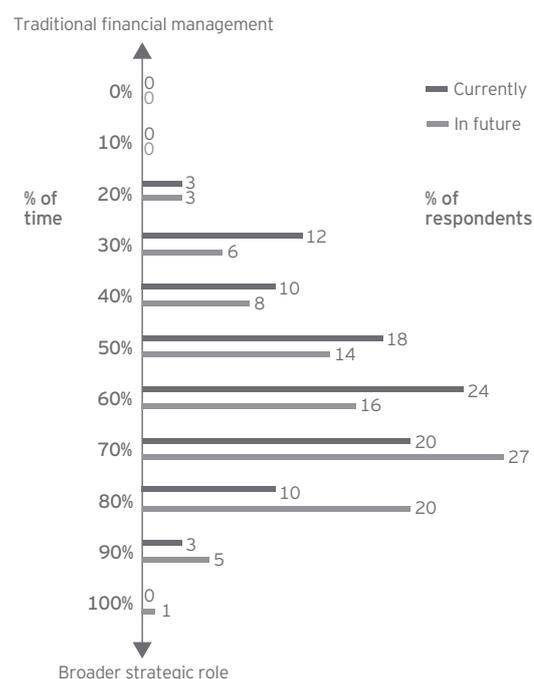
- ▶ Roughly one-third of CFOs in our survey play a major role in the development of organizational strategy. Strategy developers are on average more satisfied with their remit, compensation and the resources for the finance function.
- ▶ They are happier with their potential for career development.
- ▶ They are significantly more likely to have a strong relationship with the CEO and other C-level colleagues.
- ▶ They are more likely to measure their own performance on improvement to the organization's financial metrics.
- ▶ There is no distinct relationship between the strategy developers and size of company.
- ▶ They tend to be slightly older and more broadly educated but are less likely to be chartered accountants or PhDs.

“They may not be setting the strategy but they are an integral part of its formulation.” *Caroline Raggett, Russell Reynolds Associates*

The CFOs we interviewed described the role of developing strategy as driving the process of setting the strategy and of bringing the vision set by the CEO to life, whether that is by building a rationale for international expansion or a major M&A deal for example. What it doesn't appear to be is setting the broader five-year vision which remains the role of the CEO. However, to coin the expression of a leading CFO, they act as “co-pilot” in making that vision a reality. Caroline Raggett, a Managing Director from the London financial officers' practice of Russell Reynolds Associates, a global executive search and assessment firm, comments: “They may not be setting the strategy but they are an integral part of its formulation - challenging it, assessing it, monitoring it for risk, investment, rates of return, assessing the competitive landscape.”

Yet, while different CFOs - depending on the individual and the organization - weight their contribution differently across the spectrum from developing strategy to a focus on the numbers, all elements were reported of value. As Ian Dyson, who at the time of interview was CFO of Marks & Spencer, one of the largest clothing and food retailers in the UK, commented: “In order to be able to take on that broader role you have to be clear that first and foremost as a CFO you live or die on finance and if you have a problem in finance

Chart 1: How respondents divide their time between traditional financial management and a broader strategic role now and in the future.



Base for all charts: all respondents (669).

then it doesn't matter how good you've been in operations, you're finished.” This view was also emphasised by Robin J Stalker, CFO of Europe's largest sportswear manufacturer, Adidas: “It's still really important that people have good, old-fashioned basic finance. We've seen what can happen if you don't.”

Chart 2: Areas where respondents believe they play a leading role in corporate strategy (percentage)



A key role in enabling growth

With companies becoming gradually more optimistic about the future, they will once again turn their attention to growth initiatives, such as M&A. This gives CFOs a valuable opportunity to capitalize on their current standing and play a deeper role in the organization's key strategic decisions.

But, while many CFOs crave this kind of role, it is not an easy responsibility to fulfil. “Managing growth innovation is one of the key challenges for the finance function,” says René Hooft Graafland, CFO of Heineken, a Dutch brewer that is the world's third biggest by volume. “If you are too strict you will never put a product on the market because it is always too risky. If you are too lax, you would get this ‘hobbyism’ in the company where everyone is on tap to innovate. You need these kinds of processes to be rational and strict, but judgment is much more difficult.”

Even when CFOs do find themselves at the top table of strategic decision-making, the sheer demands of their role can restrict the input they are able to make. Many will find themselves juggling the demands of cost management, budgeting, forecasting and compliance, in addition to any strategic role they may assume. No wonder then that only 37% of respondents agree that they have enough time to focus on broader corporate strategy (see chart 3).

A broader business role

The CFO's more prominent position at the top table of the company is also reflected in a deeper relationship between finance and the rest of the business. Over recent years, the finance function has become more decentralized and embedded across the entire organization. The financial crisis has accelerated this shift, as CFOs seek a greater understanding of the business to help them make informed judgments about budget allocation and cost-cutting priorities.

More than six out of 10 respondents agree that finance's standing within the organization has improved in the past three years (see chart 3). This can be partly attributed to the structural changes that CFOs have made to bring finance closer to the business, and partly to a recognition that strong financial discipline has been key to corporate performance during the recent crisis. "Respect for finance and recognition of the role on business boards really increases when you start playing a proactive and positive, front-man role on business issues and not a back-seat role in business decision-making," says Srikanth Balachander, CFO of Bharti Airtel, India's biggest mobile telecommunications provider.

Respondents from financial services companies are particularly likely to say that the standing of finance has improved. This finding can be explained by the increased focus on core finance capabilities, such as risk management and regulatory compliance, in the industry in the wake of the global financial crisis. Larger companies are also more likely than smaller ones to report an increase in the standing of the finance function. This is likely to reflect their more mature processes and the greater extent to which finance binds complex and often diversified operations.

Chart 3: Percentage of respondents who either strongly agree or agree with these statements



The finance function: barrier or enabler?

Although perceptions have changed significantly in recent years, a misconception persists in some quarters that CFOs and their teams perform a preventative, rather than an enabling role. "There's an arrogance sometimes around finance which is 'we're all bright people and we're qualified and we know better than everyone else'," says Ian Dyson, CFO at Marks & Spencer, who becomes chief executive of Punch Taverns, Britain's largest pub group, in September 2010. "There's almost the sense that finance is seen as the business prevention unit."

CFOs will always find themselves saying "no" from time to time. But a stronger, more open relationship with the business depends on shifting perceptions, so that finance is seen as performing a constructive, enabling role for business executives that helps them achieve their objectives. "You've got to come at it from a positive perspective," says Mr Dyson. "You need to work together with the business to figure out how you are going to run it, develop it and do the right deals. This makes it a facilitation role as opposed to a preventative one and I think it's really important that you engage with the organization in that way."

“I would say that 75% of my time is spent in meetings with business folk and 25% with finance folk.” Srikanth Balachander, Bharti Airtel

Business partnership is a two-way process

The concept that CFOs need to become a partner to the business is a strong one that runs through the interviews conducted for this report. For Simon Ridley, Financial Director of South Africa-based Standard Bank, the first step towards building a partnership is to increase the visibility of finance in the broader business. “Spending time in the business is a very useful experience for a CFO,” he says. “My four years in our investment bank has helped me greatly.”

Mr Hooft Graafland of Heineken sees business partnership as a two-way process, whereby finance managers form a stronger bond with the business, and operational managers also become more financially literate and aware. “On the one hand, you see the new generation of finance managers who are much closer to the business and are really business partners,” he explains. “On the other hand, you see that the business leaders and senior executive team are more financially oriented. It comes from both sides and this means that, ultimately, companies are much more financially managed than they were before.” Robin J Stalker of Adidas emphasised the need for finance professionals to be embedded in the business. “It’s important to have one finance team acting as a team, but also sitting - virtually or remotely - with the business and identifying as much with their local marketing guy or local MD as with their finance team.”

One measure of the improved standing for finance is the extent to which business managers consult the CFO and his reports. Just over half of survey respondents agree that other business managers in the organization routinely turn to finance for advice on key aspects of strategy (see chart 3). “To me, the real test is that we are consulted where we didn’t used to get consulted,” says Mr Ridley. “That is an indication that we’re getting more embedded.”

This shift toward becoming a partner to the business means that CFOs now allocate their time differently from the past. “I would say that 75% of my time is spent in meetings with business folk and 25% with finance folk,” says Mr Balachander. “It is the business issues and the growth opportunities that take priority for me, rather than the hardcore financial ones.”

The greater attention being paid to business issues means that CFOs are increasingly being asked to take on broader change management roles. “I’m currently leading a huge enterprise resource planning (ERP) system swap-out, which is impacting the whole way we procure across the business and the way we manage our people,” says Mr Halford of Vodafone. “The ability for a technical specialist CFO to be able to assume real leadership in pushing business change is a dimension that is much more prevalent than a few years ago.”

There are, however, barriers to this relationship becoming deeper. Asked about the main obstacles to the effectiveness of their role, respondents point to organizational culture as being the biggest problem (see chart 4). Inflexible processes, a bureaucratic mindset, an outmoded perception of the finance function or poor communication between different functions can impede the “business partnership” role of the CFO.

A closer relationship between the CFO and the business also means rethinking traditional organizational structures. “We have a very decentralized model which, by definition, embeds a lot of the functions very close to where our decision clusters are located,” says Mr Tarapore of Dubai Aerospace Enterprise. “We have found that embedding a dedicated finance team that understands the business in a deep enough way creates a good outcome, so long as they are supported with the right management tools.”

Chart 4: Percentage of respondents who believe these are the biggest barriers to effectiveness in their role



A broader business role (continued)

A change in the measures

A remaking of the CFO role has also fed through into a broadening of the measures used to gauge organizational and individual performance. An important change has been the sheer number of metrics used nowadays. Almost 70% of respondents say that more measures are used now than before (see chart 5). The speed and accuracy of processes has become an important benchmark. “We have put in place cross-functional measures to look at processes, such as order to cash, across the business,” says Robert Murray, CFO of Coca-Cola Hellenic, a bottler of beverages that is one of Greece’s biggest companies by market value. “We want to know how quick it is, how efficient it is and how accurate it is. The finance organization plays a key role in understanding those processes and it has been a big change management process for our company.”

The financial crisis has also had a dramatic impact on performance measurement across the board. Sixty-nine percent of survey respondents agree that a broader range of indicators are being used to gauge performance after the credit crunch and ensuing economic slump (see chart 5). Sixty-eight percent also acknowledge the close alignment of remuneration to financial health. One important development has been the perceptible shift of focus away from short-term financial targets. Just under half of respondents say that longer-term benchmarks that are trickier to quantify, such as customer satisfaction, are increasingly important.

Chart 5: Respondent views on how the financial crisis has affected the way organization performance is measured

(percentage)



Some CFOs are paying greater attention to benchmarking their organizations against their peers. “We are actually taking a lot more interest in external parameters,” says Mr Henry. “We compare how we perform versus competitors in terms of how our suppliers are performing and what our customers are really looking for. That has been a gradual but significant shift over time.”

When it comes to measuring personal performance, financial metrics remain the most important benchmark, but more qualitative considerations also figure high on the list. For example, respondents say that they look to the personal contribution that they make to major business projects and, echoing Mr Henry’s comments about benchmarking against peers, the organization’s reputation for excellent financial management in the marketplace (see chart 6).

Chart 6: How respondents measure their own performance (percentage)





CFOs get operational

In many respects, the CFO is a good candidate for taking on operational responsibilities. They combine strong financial and analytical skills, a unique perspective over the entire business and the leadership and management qualities needed to run a large function. "It's increasingly the case that finance directors, because of their skills, are put in charge of areas like IT, property and logistics," says Mr Dyson, who himself is responsible for IT and property as CFO of Marks & Spencer.

Even though operational responsibilities are more commonly becoming part of the CFO's remit, not everyone believes this is a positive development. "I do not think you should have operational businesses reporting directly to the CFO because it confuses the role of evaluating business performance and value creation," says Mr Hooff Graafland.

For those opposed to this development, the concern is that greater operational responsibility may create a conflict of interest and compromise the CFO's ability to remain an independent voice of reason within the organization.

In practice, however, most CFOs interviewed for this report do not perceive this to be an unmanageable issue. "It is in the nature of the CFO to be reasonably dispassionate about these things," says Patrick Regan, CFO of British insurer Aviva, who is also responsible for the IT function at the company. "You look at it with the same standards as you do with any of the businesses and I don't think that it creates enormous frictional challenges."

Mr Henry, who also manages IT at Royal Dutch Shell, agrees with this assessment. "It comes down to the fact that you wouldn't choose the sort of person as CFO where that would be a problem," he says. "What does the external stakeholder want from the CFO? First and foremost it is objectivity. Therefore, when choices have to be made that comes first."

A robust governance structure can also help to overcome any potential difficulties. At Marks & Spencer, for example, a group investment committee reviews major initiatives, and the board signs off the annual plans for capital expenditure. But nevertheless, this is an important emerging challenge for the new generation of CFO. "CFOs need to develop the skills to balance what is right for the business overall against what they may or may not want to do in particular functions," says Mr Dyson. "We're trained to be able to do that but I think it adds to the complexity."

Larger companies compared with small and medium companies

- ▶ CFOs from larger companies (those with at least US\$10b in revenues) say that strategy is now more of a priority than three years ago and they believe they need to improve on their skills in designing and executing strategy.
- ▶ Large company CFOs are the least satisfied with the allocation of resources to finance (headcount, budgets, etc.) and work-life balance.
- ▶ Large company CFOs want bigger CFO roles (44% vs. 35%) but believe they need to gain experience in another part of the company to get there (42% vs. 21%).
- ▶ More of the larger company CFOs believe that, increasingly, the CFO has to act as the face of the company on all issues relating to its overall financial performance (89% vs. 63% agree or strongly agree). Yet, they also have the worst opinion of their relationships with external stakeholders such as investors, analysts, regulators, creditors and governments.
- ▶ They are more likely to cite building relationships with internal stakeholders and skills to manage upwards as areas that need improvement.
- ▶ Large company CFOs are the most likely to measure their own performance by personal contributions to major business projects within the company (46% vs 32%).

Core competencies remain key

While the overall trend is for CFOs to expand their activities across both strategy and operations, this does not mean that the fundamental responsibilities of a finance department have become less of a concern for them. If anything, the recent financial crisis has reinforced the need for CFOs to pay close attention to cash, cost management and working capital.

Asked about their main priorities compared with three years ago, respondents point to cost management, risk management and cash flow as their primary concerns (see chart 7). They also consider the delivery of significant cost efficiencies to be the aspect of the business where they have been able to deliver the greatest value (see chart 8). "We all feel that the market's still very uncertain," says Mr Dyson. "This makes it very important to keep a tight control over costs and cash flow, improve our balance sheet and reduce our net debt."

Luigi Ferraris, CFO of Enel, an Italian energy provider, sees his role as one that combines a focus on the fundamentals with a more strategic outlook. "The CFO must guarantee the stability of cash flow, ensuring financial controls and reducing risks," he says. "They occupy a crucial role, both for stakeholders and within the management team. CFOs are responsible for guaranteeing a good control, and management, of companies' financial assets. At the same time, they must ensure that strategic planning and all decisions are made on the basis of well-supported analysis."

Larger companies in the survey - those with revenues of US\$10b or more - are more likely than smaller ones to see cost management as a priority. This may be because there is more opportunity for cost cutting at larger companies; smaller firms may have greater visibility into their operations and have already taken a greater proportion of costs out of the business.

For many CFOs, the financial crisis provided an opportunity to instill a culture of cost consciousness that had been sorely lacking during the boom years. "I think it has been a huge positive that the external environment has made it so clear that the cost side is a must in business," says Mr Halford. "It's enabled us to get the message across that actually, being profitable and successful doesn't mean to say that one hasn't got to focus on nasty things like costs."

Fast-growing markets compared to mature markets

- ▶ CFOs in fast-growing markets are less satisfied than their peers in mature markets with their ability to influence overall strategy (25% vs. 41%). They are more likely to say they play a leading role in providing insight and analysis to support the CEO/other senior managers' strategy planning.
- ▶ They believe education has been important in their career development (70% vs. 57%) and are more likely to believe that they need an MBA or other professional qualification in order to move ahead.
- ▶ They are more likely to agree that the measure of performance has shifted more in favor of long-term targets and benchmarks (62% vs. 45%) and that more stakeholders than before are now involved in performance appraisal (64% vs. 51%).
- ▶ They are more likely to say that they measure themselves by their company's ethical standing (14% vs. 7%).

“... being profitable and successful doesn’t mean to say that one hasn’t got to focus on nasty things like costs.”

Andy Halford, Vodafone

Many CFOs hope that this renewed enthusiasm for cost management will be a permanent change that remains enshrined in business practice through both good times and bad. Achieving this will require CFOs to promote awareness of cost and control throughout the business. “The challenge now is to systematize the process of constantly looking for new, better and more effective ways to do things and to engrain it in the process and fabric of the business,” says Mr Halford.

Chart 7: Percentage of respondents who believe these tasks are more of a priority compared with three years ago



A CFO is only as good as their team

The combination of a broadening role and a renewed focus on the fundamentals has highlighted the importance for CFOs to build a strong and effective support network around them. The structure of this network takes many forms, but common to all is the goal of enabling the CFO and their team to focus on the aspects of the role that really matter. “There are certain things the CFO can individually impact, but what you’ve got to do is mobilize a large group of people to understand what you’re trying to do and take action on the important things you are trying to achieve,” says Mr Regan.

Some organizations are investing in shared service centers so that they can hive off some of the more administrative and transactional aspects of the finance role. “We have set up a shared service center for all the finance activities, from record-keeping right up to financial reporting,” says Mr Balachander. “Now the finance guys spend 70% of their time on core business issues and 30% on the transactional issues.”

Mr Ridley says that his bank has appointed an executive reporting to him, titled CFO, who is a dedicated head of finance. “This allows me to spend more time on strategic issues such as our own corporate finance, problem-solving and assisting with governance processes.” At Royal Dutch Shell, the finance department is divided into three distinct areas. The more administrative and transactional aspects of the role are handled in offshore centers in locations such as Manila and Kuala Lumpur. The goal here is to achieve low cost and maximum efficiency, and to enable the core finance team to focus on higher-value activities. The second group are the specialists, who cover areas such as tax, treasury and audit. And the third group, which is fully embedded in the business, consists of more commercially minded professionals who combine a deep knowledge of the business with a strong financial background. “Every one of them sits on the appropriate business leadership team,” says Mr Henry. “They are number two to me and I see myself as a close number two to the chief executive.”

Chart 8: Where respondents believe they personally created the most value for their organization in the past three years (percentage)



Future focus on stakeholder communication

Their unique overview of business fundamentals, their role as “conscience” of the organization and their fact-based training means that a diverse group of stakeholders are looking to CFOs for the answers. Yet, the increasing demand for mastery of communication skills as a quality of leadership presents CFOs with perhaps their greatest challenge going forward.

Although the dynamic of these stakeholder relationships varies widely, there is one common thread running through all of them - particularly in the wake of the financial crisis - and that is the importance of building and retaining trust. More than two-thirds of respondents agree that, following the financial crisis, a key priority for the CFO is to increase trust in a company’s financial statements and reassure stakeholders about the health of the business (see chart 9). “Creating the right bridge of trust and credibility is essential because, unless you have that, none of the stakeholders are going to get comfortably behind what you are trying to say,” says Mr Tarapore.

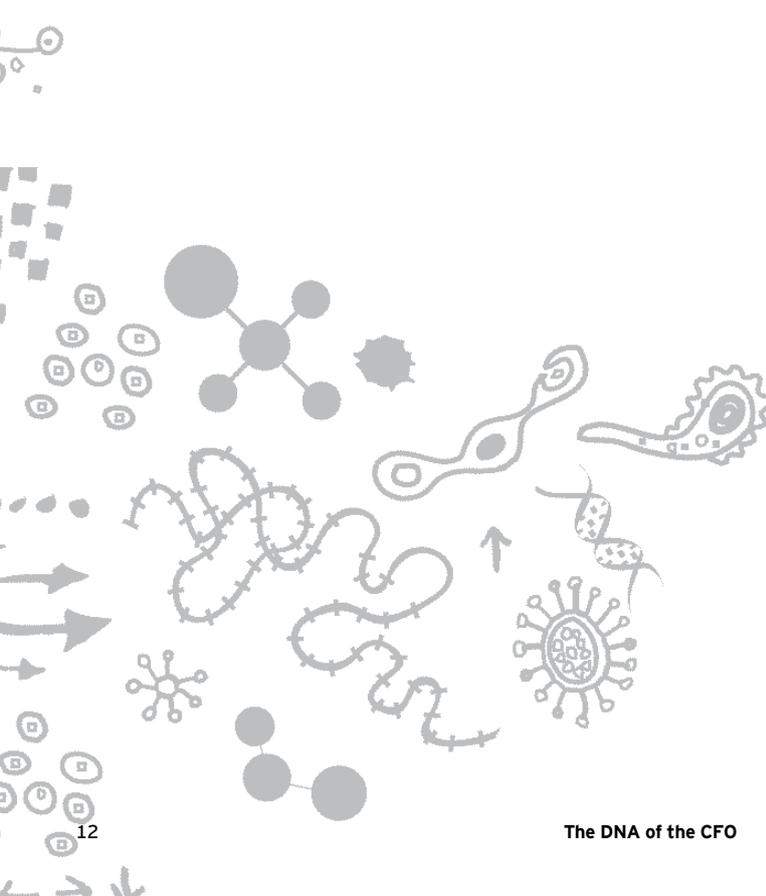
Chart 9: Percentage of respondents who either strongly agree or agree with these statements



CFOs in financial services have a particularly steep mountain to climb in order to rebuild the trust of their key stakeholders. Among survey respondents from the industry, 71% agree that their key priority is to restore trust among their stakeholders. “Rebuilding trust has to be the primary responsibility of any banking CFO following a period of turbulence like the one that we have been through over the past two and a half years,” says Tim Tookey, CFO of Lloyds Banking Group, the largest retail bank in the UK.

Communications and relationship management have shot up in importance ...

Every stakeholder is looking for more transparency in information, more robust analysis and reassurance that the right decisions are being taken. These new demands are making a significant impact on the CFO’s to-do list. “We took the approach that we didn’t want to cut back at all on the amount of interactions we have with external stakeholders,” says Giacomo Baizini, CFO of Evraz, a Russian steel production and mining company. “In fact, we increased the frequency and disclosure and held discussions at a much deeper level.”



“This is an opportunity for the CFO who is largely more trusted than the CEO because of their more balanced, more factual view of the company.”

Stephen Carver, Cranfield School of Management

With a wide range of external stakeholders seeking deeper and more frequent interaction with the key management team, it follows that CFOs are playing a more public role than they did in the past. Almost two-thirds of respondents agree that, increasingly, the CFO has to act as the face of the company on all issues relating to its financial performance (see chart 9). “I think the Chief Executive and I are the external face of the company to a large extent,” says Mr Henry. “Certainly with investors and the media, we do most of the legwork.”

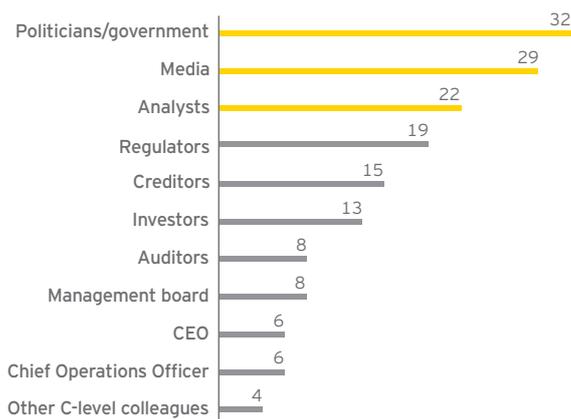
... but the shift is presenting challenges

Given the importance of both internal and external stakeholder engagement to the role, one might expect that CFOs are generally comfortable with their communication skills. And yet, just over half of respondents agree that the shift from focusing on financial performance to the need to manage a complex stakeholder universe is one of the most difficult challenges they face (see chart 9). “Finance communication is becoming more and more important in CFO activities. You absolutely need to be an effective communicator,” says Mr Ferraris.

There is a clear dividing line between their effectiveness at internal and external stakeholder management (see chart 10). On the whole, CFOs think that their relationships with internal stakeholders are good; 65% think that their relationship with the CEO is effective; and 62% offer a similar assessment for the relationship with the management board – although these relationships are still recognized as an area for continued investment. CFOs who say that they play a leading role in developing, rather than supporting, strategy, have a particularly strong relationship with their CEO.

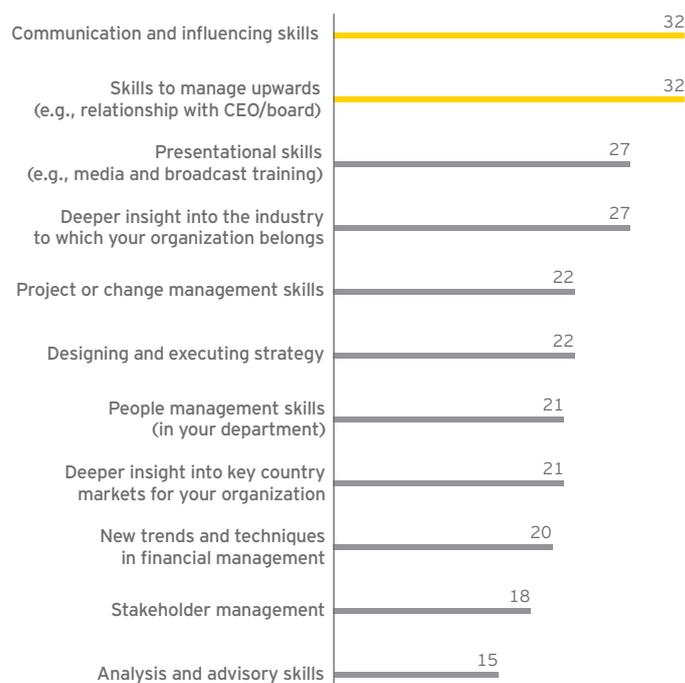
By contrast, they are far less satisfied with their external stakeholder relationships. Less than half rate their relationships with investors as good or excellent, while just 25% offer a similar assessment for the media and 21% for politicians or government.

Chart 10: Percentage of respondents who believe these stakeholder relationships are in need of improvement



Further evidence of the difficulty that CFOs have with external stakeholder relationships comes from the finding that, out of all the areas where respondents say that they need to improve their skills or knowledge, communication is seen as the most pressing (see chart 11). Presentation skills, such as media and broadcast training, also figure highly on the list.

Chart 11: Percentage of respondents who believe these are skills they need to develop most



Relationship with the CEO – there has to be trust and mutual respect

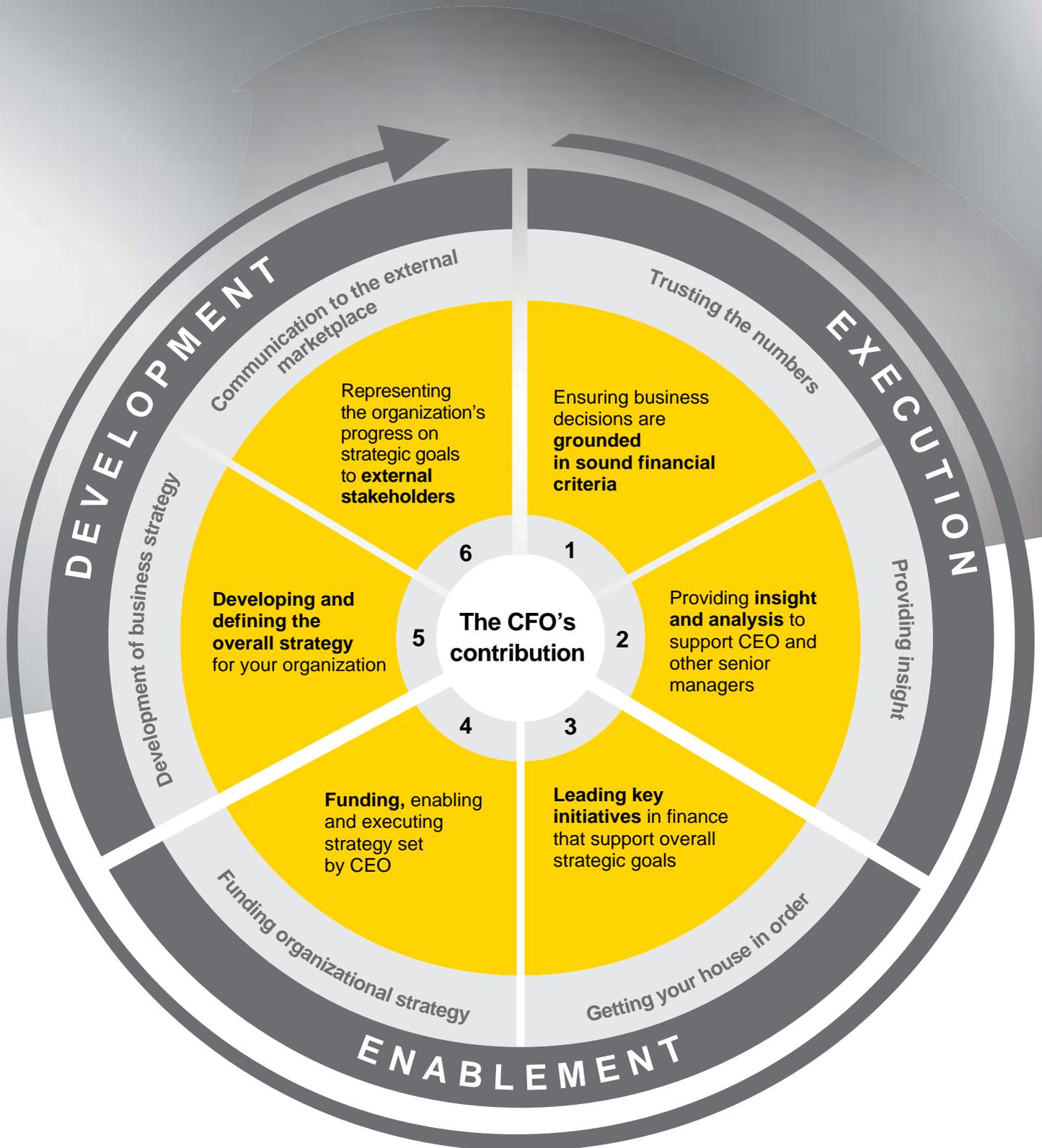
The relationship between a CEO and the CFO is always critical. “I suspect if you spoke to most CEOs and said you could only take one member of your management team with you, the CFO role would appear more times than any other,” says Mr Halford. A successful relationship between the two top executives of a company depends on a high level of trust and mutual respect. “The trust has to be almost implicit. Everything needs to be transparent and open and the minuses are on the table as well as the pluses for any decision,” says Mr Henry.

Continued on page 18

The background of the page is a grayscale, high-magnification microscopic image of biological tissue, showing a dense arrangement of cells with prominent nuclei and cell membranes. The cells are roughly circular or polygonal in shape, creating a complex, textured pattern that fills the upper two-thirds of the page.

The CFO's contribution

The CFO's contribution is broad from developing to enabling to executing strategy. We believe these six segments represent the full breadth of the CFO's remit. The leading CFOs we work with typically have some involvement in each of these six - either directly or through their team. While the weighting of that involvement will depend on the maturity and ambition of the individual, the sector and scale of the finance function and economic stability, they are all critical to leadership.



The CFO's contribution (continued)

We believe there are core skills, areas of knowledge, experiences and relationships to cultivate in order to excel in each of these six areas of the role:

Ensuring business decisions are grounded in sound financial criteria



Core skills	Core knowledge
<ul style="list-style-type: none"> ▶ Taking a commercial view in partnership with the business ▶ Identifying commercial, financial and economic risks from business propositions ▶ Establishing profitability of business propositions ▶ Providing robust but constructive challenge to business stakeholders ▶ Communicating clearly the financial implications of proposals 	<ul style="list-style-type: none"> ▶ Knowledge of the organization's business ▶ Detailed knowledge of products/service lines ▶ Awareness of the market and commercial environment ▶ Knowledge of investment appraisal ▶ Knowledge around approaches to profitability analysis
Key experiences	Key relationships
<ul style="list-style-type: none"> ▶ Business case appraisal ▶ Benefits tracking and realization ▶ Experience in pricing and profitability analysis ▶ Cost management ▶ Planning and forecasting 	<ul style="list-style-type: none"> ▶ Chief Executive Officer/Chief Operating Officer ▶ Business unit heads ▶ Heads of key support functions: Risk, IT, Operations, HR, Marketing and Sales ▶ Finance business partners ▶ Audit Committee

Providing insight and analysis to support CEO and other senior managers



Core skills	Core knowledge
<ul style="list-style-type: none"> ▶ Communicating financial information effectively ▶ Assessing drivers of profitability ▶ Identifying and communicating areas of risk ▶ Forecasting future performance based on knowledge of past performance ▶ Identifying corrective action where required 	<ul style="list-style-type: none"> ▶ Knowledge of the organization's business ▶ Detailed knowledge of products/service lines ▶ Awareness of market trends, risks and issues ▶ Knowledge of key performance indicators (KPIs) in relation to the strategic plan ▶ Business performance management ▶ Knowledge of competition performance
Key experiences	Key relationships
<ul style="list-style-type: none"> ▶ Financial planning and reporting ▶ Accounting and reporting for projects and other non-recurring initiatives ▶ Experience in identifying non-financial drivers of financial performance ▶ Experience of identifying issues and corrective actions ▶ Operating at Executive level ▶ Markets trends analysis 	<ul style="list-style-type: none"> ▶ Chief Executive Officer/Chief Operating Officer ▶ Business unit heads ▶ Heads of key support functions: Risk, IT, Operations, HR, Marketing and Sales ▶ Finance business partners ▶ Strategy Director ▶ Corporate Development Officer

Leading key initiatives in finance that support overall strategic goals



Core skills	Core knowledge
<ul style="list-style-type: none"> ▶ Leadership skills to drive through change in finance ▶ Setting and communicating the vision and strategy for finance ▶ Able to engage with business stakeholders to determine the appropriate role for finance ▶ Bringing together disparate stakeholders within finance and the business ▶ Sponsoring delivery of major change in the finance function 	<ul style="list-style-type: none"> ▶ How finance should be organized to deliver value to the business ▶ Understanding of finance processes and implications for the operating model ▶ The components of the finance operating model and the interdependencies ▶ Finance systems and implications for change ▶ Drivers of cost and value in finance
Key experiences	Key relationships
<ul style="list-style-type: none"> ▶ Delivery of major change in finance ▶ Finance process improvement ▶ Designing changes to finance operating models ▶ Involvement with delivery of finance systems ▶ Engaging with internal customers around service delivery transformation 	<ul style="list-style-type: none"> ▶ Chief Executive Officer ▶ Business unit heads ▶ Heads of key support functions: IT, Marketing, Risk, Operations, HR ▶ Senior finance managers ▶ Business unit finance teams

Funding, enabling and executing strategy set by CEO



Core skills	Core knowledge
<ul style="list-style-type: none"> ▶ Funding the organization's operations ▶ Prioritizing investments ▶ Developing strategic plans to achieve corporate goals ▶ Understanding the key value drivers ▶ Turning strategic plans into operational plans and targets (including defining KPIs) ▶ Designing the implementation program ▶ Monitoring progress against strategy 	<ul style="list-style-type: none"> ▶ Capital management ▶ Project financing ▶ Financial risk management ▶ Operational risk management ▶ Strategic and operational planning ▶ Performance management systems ▶ Program management ▶ Change management
Key experiences	Key relationships
<ul style="list-style-type: none"> ▶ Involvement in determining funding requirements ▶ Securing funding for operations and major projects ▶ Management of working capital ▶ Implementing financial risk management strategy e.g., interest rate, foreign exchange and market risk ▶ Developing strategic plans ▶ Managing large and complex improvement/change programs ▶ Managing a merger or acquisition 	<ul style="list-style-type: none"> ▶ Chief Executive Officer/Chief Operating Officer ▶ Business unit heads ▶ Risk Director ▶ Operations Director ▶ External funding providers ▶ Key investors ▶ Treasurer

Developing and defining the overall strategy for your organization



Core skills	Core knowledge
<ul style="list-style-type: none"> ▶ Translating corporate goals into a clear strategy ▶ Identifying financial and risk issues in relation to corporate strategy ▶ Delivering a workable strategic plan within known constraints ▶ Creativity/ability to think "out-of-the-box"/conceptually strong ▶ Analyzing portfolio of opportunities ▶ Visionary/a story teller/ability to build trust and motivate people ▶ Effective communication of financial and risk issues to C-suite colleagues ▶ Providing robust financial challenge at C-suite level 	<ul style="list-style-type: none"> ▶ Strategic and operational planning ▶ Knowledge of the organization's business ▶ Detailed knowledge of products/service lines ▶ Business model design ▶ Scenario planning ▶ Good overview of the industry structure and challenges ▶ Strategic frameworks and theory ▶ Awareness of the market and commercial environment ▶ Aware of industry and organization risk profile ▶ Awareness of IT as an important business enabler
Key experiences	Key relationships
<ul style="list-style-type: none"> ▶ Strategy development ▶ Development and implementation of business plans ▶ Monitoring achievement of plans and targets and taking corrective actions where required ▶ Operational and financial risk management ▶ Product and market development 	<ul style="list-style-type: none"> ▶ Chief Executive Officer ▶ Chief Operating Officer ▶ Business unit heads ▶ Chief Information Officer ▶ Risk Director ▶ Marketing Director ▶ HR Director ▶ Strategy Director ▶ Corporate Development Officer

Representing the organization's progress on strategic goals to external stakeholders



Core skills	Core knowledge
<ul style="list-style-type: none"> ▶ Clear communication of performance ▶ Perspectives on organization's performance relative to main competitors ▶ Detailed knowledge about main value drivers/key KPIs and initiatives to improve them ▶ Positive communication around management of key risks ▶ Taking a forward looking view ▶ Anticipating and responding to questions from media, analysts and investor community ▶ Responding positively to issues raised by industry regulators 	<ul style="list-style-type: none"> ▶ Knowledge of the organization's business and deep insight into the industry ▶ Detailed knowledge of products/service lines ▶ Awareness of the market and commercial environment ▶ Awareness of impact of local regional and global economies on financial performance ▶ Accounting technical knowledge to supervise Financial Statements
Key experiences	Key relationships
<ul style="list-style-type: none"> ▶ Preparation of financial information for external publication and communication to the capital markets ▶ Dealing with parties external to the organization ▶ Engaging with media ▶ Managing relationships with external auditors ▶ Managing resolution of key accounting and control issues 	<ul style="list-style-type: none"> ▶ Chief Executive Officer ▶ Chairman ▶ Executive and non-executive boards ▶ Other key governance committees e.g., audit, remuneration ▶ External auditors ▶ Media and Investor Relations ▶ Regulators

Future focus on stakeholder communication (continued)

This is not to suggest that the CEO and CFO always need to be in agreement. Indeed, being a “sparring partner” to the CEO, as Patrick Regan from Aviva describes it, is a fundamental part of a CFO’s job. “You could say that the chief executive’s role is to create the strategy and vision of what the company will be like and then the CFO’s role is to ensure he does so within a financial framework,” says Mr Henry. “I must be able to tell him that if he does something, there will be these consequences and I have to be able to recommend he doesn’t do it.”

From the perspective of the CEO, a CFO must be flexible and have the ability to multitask. “In addition to all the qualifications that you would expect, you need a CFO who has the ability to move from the strategic to the practical to the operational level very fast and back again,” says Ben Noteboom, CEO of Randstad, a global recruitment and HR services company.

It is interesting to note that according to a number of studies, the average length of tenure for a CEO is around five years in any particular company. This is the same length of time that our respondents report as being the ideal tenure for a CFO. While we have yet to confirm any direct correlation, it may be we are seeing a picture emerging of a strong central partnership between these two roles at the head of an organization where change in one partner impacts on the tenure of the other.

Relationship with the board – demands are increasing

A regulatory overhaul around the world in the aftermath of the financial crisis is forcing management and boards to pursue higher standards of corporate governance. No wonder then that boards are being more demanding of CFOs, requiring more frequent, granular reporting and a high degree of transparency on risks, performance and projections.

“Our board is more demanding,” says Mr Ridley. “They haven’t said it but I can sense it. They’re more demanding particularly on understanding the potential for any negatives that could occur so it is important to understand well in advance if there is anything on the horizon that may affect results or appear in the public domain.”

The objective, semi-independent nature of the CFO role means that boards, and especially audit committees, will expect a high degree of trust and an open relationship with the leader of the finance function. “The CFO has a fairly unique position on a board in that they are, in many respects, a financial conscience for the non-executive members of the board,” says Mr Halford. “If you have, which you must, a CFO who has integrity, the board has to be confident that they will hear both the good and the not so good about the business at any point in time.”

While the regular board meeting will be the main forum for interaction between the CFO and board, there is an increasing expectation from both sides of a more informal, ad hoc relationship. “It’s important that the board have a regular engagement with me, not only in the formal setting of the board meeting, but also on a regular basis outside of that as well,” says Mr Regan. “They need to feel they have a conduit both ways – me to them, and them to me – so that they’ll always know what’s going on and there won’t be any surprises.”

What investors are looking for

The cornerstone of building trust with investors is excellent financial reporting – clean, clear, consistent and comprehensive information. Investors expect more than statutory or compliant reporting. Indeed, this alone is a sign of a lack of transparency. They demand metrics which are broader than just the financials and a forward, realistic view of company performance. In short, investors expect a joined-up story – linking company strategy, financial performance, risk management and operational effectiveness.

- ▶ Keep it simple: numbers should be clean and clear, without error. They should be consistent year to year, preferably adopting conservative accounting policies.
- ▶ Demonstrate how capital is managed.
- ▶ Go beyond the statutory reporting and provide a comprehensive and well-presented description of the business.
- ▶ Join up the different aspects of reporting to create a wide view of the business.

- ▶ Provide the non-financial KPIs that support past and future performance delivery.
- ▶ Focus on the future: short-term returns are important but not at the expense of delivering on the longer-term plan.
- ▶ Detail how the business manages risk.
- ▶ Demonstrate an awareness of wider stakeholders – employees and customers.
- ▶ Be proactive, timely and front experienced people, such as the CFO, who can explain as well as disclose.
- ▶ Build trust in the quality of the finance team – give them the opportunity to demonstrate understanding, experience and capability.
- ▶ Ensure leadership demonstrates integrity at all times.



Relationship with investors – striking the right balance

In the depths of the financial crisis, extreme volatility in financial markets caused major concern for equity investors. And although stock markets around the world have since stabilized, it is clear that the relationship between shareholders and the investor relations team has changed markedly.

Alongside the broader investor relations team, the CFO plays a central role in maintaining good relationships with equity investors. And, with many companies at an inflexion point in the business cycle, it is important to strike the balance between an objective tone and a more positive growth story. “The institutions are expecting you to be the voice of reason and the safe pair of hands,” says Mr Dyson. “But you also have to balance that with being positive about the equity story and the growth opportunities for the business. I think it is a difficult challenge to get that balance right.”

Sue Round, Head of Investments at Ecclesiastical, a UK financial advisor, says that investors respect CFOs who have an excellent grasp of the detail and yet at the same time can articulate a company's prospects. “The CFO will need to be believable in setting out a realistic picture of the company's prospects based on the market and the competition, and must demonstrate the highest standards of personal integrity and financial probity,” says Ms Round. “It goes without saying that everything should be legally sound, but also, beyond that, ethically and morally sound. Investors will want to trust the financial competency of the CFO as well as their behavioral and management competencies.”

Increasingly, CFOs must also be able to articulate the corporate strategy and talk more broadly about the direction of the company over the longer term. “We have had a period where people thought they could only relate to investors if they showed better results every quarter,” says Mr Hooft Graafland of Heineken. “I think what is more important going forward is to explain the business strategy and what your focus areas are.”

But this more qualitative assessment that equity investors are looking for may require a different kind of CFO. “You can have technically the best guy who can fully explain how the profit has been built up and where it is coming from, but if you cannot bring in a broader and more strategic assessment of where the company is heading to, then you can be in big trouble when the short term financial results are down,” continues Mr Hooft Graafland.

Another reported trend that has been precipitated by the financial crisis is more frequent interaction between CFOs and bondholders. One reason for this has been the limited availability of debt finance, which has forced companies to bypass banks entirely and go directly to capital markets. A second reason has been the extreme volatility in bond prices, which has encouraged a greater number of bondholders to seek personal interaction with corporate investor relations teams.

Relationships with the media – a gladiatorial arena?

The financial crisis has caused a dramatic shift in the relationship between companies and the media. With public trust in business at its lowest ebb, senior executives find themselves being more robustly challenged than ever before.

Openness and transparency are extremely valuable when dealing with the media. “If the media can find information in the public domain, I'll help them locate it,” says Mr Ridley. “There's no sense in withholding stuff that's available anyway. You need to give a fairly quick response and engender a little bit of reciprocal trust so that if you phrase something a bit loosely, there's a chance to fix it.”

In many respects, the uncertain economic environment has been positive for those CFOs who have survived: it has forced the media to finally give CFOs the attention they deserve. Rather than CEOs, many of whom were wrong-footed by the crisis, the media are now more likely to seek out the measured, factual comments of the CFO. “Bring in the magic word trust ... although a lot of CEOs do a very good job, the public think they have been well trained. This is an opportunity for the CFO who is largely more trusted than the CEO because of their more balanced, more factual view of the company. Now it is just a question of playing to their strengths,” says Stephen Carver, an expert on media and crisis management at Cranfield School of Management in the UK.

However, this very training and discipline can present CFOs with a degree of challenge and discomfort when dealing with the media, particularly if they are unpractised. “A CFO's training regime is all about the numbers, which puts them at a disadvantage when they come to dealing with the media. Facts are important, but what matters is how you present them. The key to doing it right is to actually do it, but not for real the first time. Then you are playing with live ammunition. They need the shock of an unreasonable journalist, the shock of an emotional story, as opposed to the facts and figures they are used to dealing with.”

The three R's: regret, reason and remedy

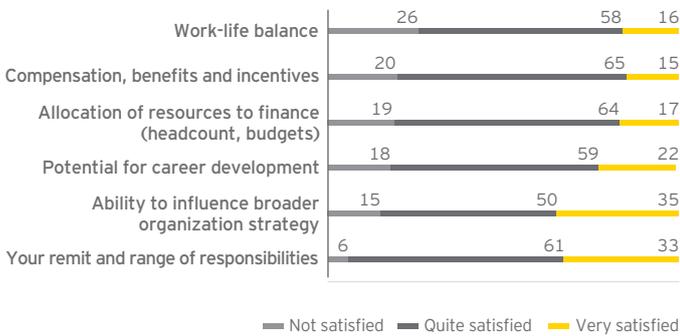
When under fire during a crisis situation, executives should always remember the three R's. They must first show empathy for those affected (regret); second, explain what happened (reason); and finally, state what measure will be taken to fix the problem (remedy). So says Mr Carver of the Cranfield School of Management: “Often the CEO is best at delivering the ‘Regret’ with the personality, energy and drive required to carry this off. The ‘Reason’ is something that plays well to the strengths of the CFO. The ‘Remedy’ can be a joint effort between the two. If the CEO and CFO can be joined up and pitch an integrated point of view between them at a press conference, I think this can work extremely well.”

CFO – staging post or career destination?

The CFO role is broad, challenging and, for most, one that is a destination, not a staging post.

A high proportion of respondents are satisfied or very satisfied with their remit and responsibilities, potential for career development and ability to influence broader company strategy. And, despite a climate of cost-consciousness that persists across almost every industry and region, CFOs generally feel that they have the right headcount and budget to do the job (see chart 12). Levels of satisfaction are particularly high among those respondents who say that they are involved in defining and developing strategy, rather than supporting it.

Chart 12: Respondent satisfaction with aspects of their role (percentage)



If CFOs do have a gripe, it is most likely to be the long hours that are required, with just over one-quarter of respondents saying that they are not satisfied with their work-life balance. This is particularly problematic for group CFOs of multinationals, who must be available around the clock to deal with issues across multiple time zones.

CFOs in the survey have been in the role for an average of five years and nine months (see chart 13), and consider an appropriate tenure to be a similar length of time (see chart 14). This is broadly similar to the average tenure for a CEO, according to most studies. Just over half of CFOs have spent the majority of their career within the finance function of their current company (see chart 15). One-quarter have moved into their current role from another industry. Interviews conducted for this report suggest that, in general, it is relatively easy for CFOs to move from one industry to another, with the exception of manufacturing and financial services, where the industry-specific challenges make it difficult for an outsider to enter mid-stream.

“People do move quite freely across a broad range of industries,” says Caroline Raggett from Russell Reynolds Associates. “Financial services is something of its own world, while manufacturing and related industries can be more difficult to conquer by bringing people in from the outside, often because the cost accounting can be very complex.”

Chart 13: Time in current role (percentage)

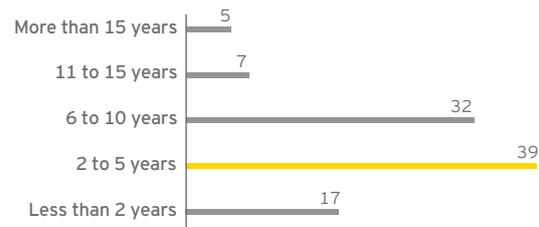
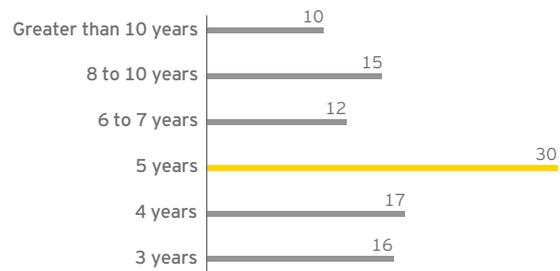


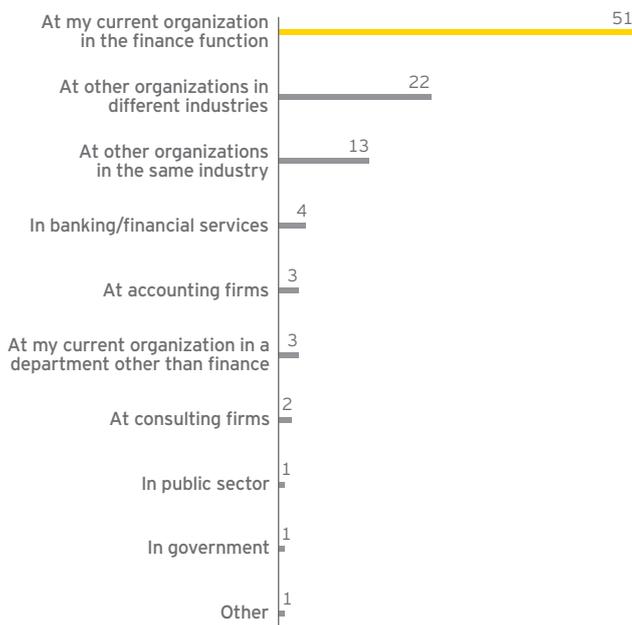
Chart 14: Length of tenure that is considered appropriate? (percentage)



Ideal length of tenure: 5 years, 10 months

“It’s a big step to move from a divisional CFO position to the top job, and I think it then becomes much more about the personal characteristics of the individual rather than their technical, accounting or financing skills.” Juha Laaksonen, Fortum

Chart 15: Where respondents have spent the majority of their career (percentage)



A career destination in itself

More than one-third of respondents are happy to stay in their current position, while a similar proportion see themselves in a bigger CFO or FD role (see chart 16).

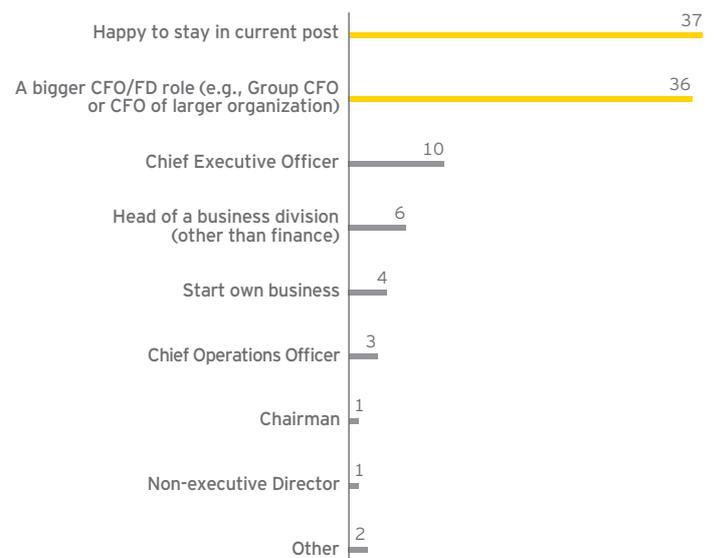
For those divisional CFOs seeking to make the move to a group position, the transition can be surprisingly difficult, according to some interviewees. “It’s a big step to move from a divisional CFO position to the top job, and I think it then becomes much more about the personal characteristics of the individual rather than their technical, accounting or financing skills,” says Juha Laaksonen, CFO of Fortum, a Finnish energy company.

A much smaller proportion of around one in 10 respondents aspire to the CEO position. Once fairly rare, this is becoming an increasingly popular ambition. According to research from executive search firm Crist Kolder, 15% of Fortune 500 and S&P 500 companies have CEOs with CFO backgrounds, compared with 7% in 1999. Caroline Raggett comments: “For those who want to be CFO, they relish the opportunity to challenge, to bring solutions, to be a partner without having the full responsibility of the organization on their shoulders and have the depth that finance gives them as an insight into the business. On the other hand, there are some CFOs who want to, and go on to, become good CEOs.”

For those who want it, the financial crisis has given a boost to the chances of CFOs moving up to the position of CEO. Following a period of such severe dislocation, shareholders and boards will increasingly be looking for financial discipline and a “safe pair of hands” to steer the business through uncertain times. This makes the CFO a stronger candidate, perhaps, than other executives who might be more skilled at growing a business by taking risks. “Shareholders need to know that they’ve got somebody running the business who’s absolutely control and numbers-driven, but is also capable of being a great leader,” says Ms Raggett. “Because the CFO’s role is continuing to shift towards strong communication and commercial focus, we may well see people continuing to make the move from CFO to CEO more easily.”

Only a tiny proportion of respondents consider the role of an independent director, or chairman, as their next logical step. Whereas historically, CFOs have often provided the financial expertise that is increasingly expected of Boards and Audit committees, our survey suggests that serving CFOs are less willing to take on non-executive roles because of the growing pressure on directors from tightening corporate governance legislation.

Chart 16: The role which respondents aspire to (percentage)



A toolkit for the aspiring CFO

Senior finance professionals hoping to reach a CFO position need to possess a rare combination of technical and interpersonal skills.

Chart 17: What respondents believe they need to do to achieve the next step in career (percentage)



But, as they reach the top of the finance function, CFOs quickly realize that it is their communication skills that are most important. Asked what would be needed to reach the next step in their career, respondents point to the need to build stronger internal and external stakeholder relationships as among the key attributes (see chart 17).

These skills are not easily taught or acquired by means of a professional qualification, according to interviewees. They come through experience and through surrounding oneself with the right role models and mentors. "Leadership and communication skills don't come by booking yourself on a course," says Mr Regan of Aviva. "I believe you learn more from colleagues or bosses who are great communicators or good leaders. You have to try and be thoughtful enough to look at what they do that makes them effective."

Mixed views on the need for business experience

Strong commercial awareness and experience of running or contributing to major strategic projects, such as M&A, are also highly valued. "Your up-and-coming, aspiring CFO needs to get themselves around a bit and get themselves on some interesting strategic projects," says Evelyn Bourke, CFO of Friends Provident, a UK-based financial services group. "This helps them to be seen as having a worthwhile contribution to broader business issues."

CFOs interviewed for this report are divided over whether it is valuable for those who aspire to the position to step outside of the finance function and gain direct commercial experience. "Stepping outside the finance function will help to give you the principles and the capabilities to become a real business partner," says Mr Hooft Graafland. "It helps you learn how to cooperate and communicate with people outside the finance function and that gives you valuable experience for your career." Hans-Peter Ring, CFO of EADS, parent of planemaker Airbus, agrees: "I think it is very helpful for people to gain direct business experience out of the finance function for a limited time and then come back later."

Some respondents suggest that broad, commercial awareness can be gained within a finance function, so long as it is one that works closely with the business. "I don't think it's an essential requirement for CFOs to have had front-office experience," says Mr Tookey. "But I do believe that almost all the experiences that a CFO has will offer an opportunity for him or her to develop personally and gain more knowledge and expertise. That can only be a good thing."

“Stepping outside the finance function will help to give you the principles and the capabilities to become a real business partner.” René Hooft Graafland, Heineken

Several of the CFOs interviewed have combined a period of operational experience with their finance career, including Mr Ridley of Standard Bank, Mr Halford of Vodafone, Mr Murray of Coca-Cola Hellenic and Mr Balachander of Bharti Airtel. “I was lucky enough in my previous role at Unilever to have several non-financial stints, including running a huge global information project in London,” says Mr Balachander. “The kind of 360 degree experience I have had has really shaped my thinking to look at business issues more positively and enthusiastically.”

It is even possible to become CFO having spent an entire career in a business role. For example, Mr Baizini took on the role of CFO at Evraz without any direct experience of working within a finance function. Until July 2009, he worked in operational, sales and planning roles, and was previously a strategy consultant at McKinsey. “The reason I was offered the role was because I knew the business very well,” he explains. “The board and executive management thought that it would be easier to get someone they trusted and who knew the business already to learn the language of the finance function than it would be to get an external CFO to learn the business.”

International experience is becoming an increasingly important part of the aspiring CFO's skill-set. “It's certainly beneficial to work in an international environment with people from other nationalities and cultures,” says Mr Laaksonen. “In the mid-1990s, I spent five years in my former company, a chemicals business, working for a French boss. That was very beneficial for me to understand that people have grown up in different systems and with different management cultures.”

Even experience of adversity can be regarded as an asset. “Somebody who has just cruised through a career, however varied it might be, but has never come up against a period of adversity probably won't be as strong a candidate as someone who has had a few knocks,” says Mr Tookey.

Few recognized “heroes” within the community

The CFO role is often without a natural mentor within the organization and can be a lonely one. This is compounded by a seeming lack of role models within the community. When asked, 75% of respondents did not record having a fellow CFO they admired. This finding may reflect the fact that CFOs have not historically focused on external profile building and are not as well networked as a community as, for example, CEOs are. This comparative lack of “heroes” within the community may change as CFOs focus more on their external communication and profile.

Companies with EBITDA increase of at least 5% compared with no change or a decrease

- ▶ CFOs of companies that have increased earnings before interest, taxes, depreciation and amortisation (EBITDA) have a greater focus on financial reporting than those that have decreased EBITDA levels or held them steady.
- ▶ The increase group is happier to stay in their current role.
- ▶ CFOs of companies that have increased EBITDA are less likely to see company culture and the economy as a barrier to their effectiveness.
- ▶ They are more likely to say that finance has increased in standing. A respected finance function seems to be correlated with stronger performance.
- ▶ Their companies are more likely to be focusing on longer-term metrics. The longer-term focus appears to be good for the financial health of the company.
- ▶ They believe in a longer tenure.

A toolkit for the aspiring CFO (continued)

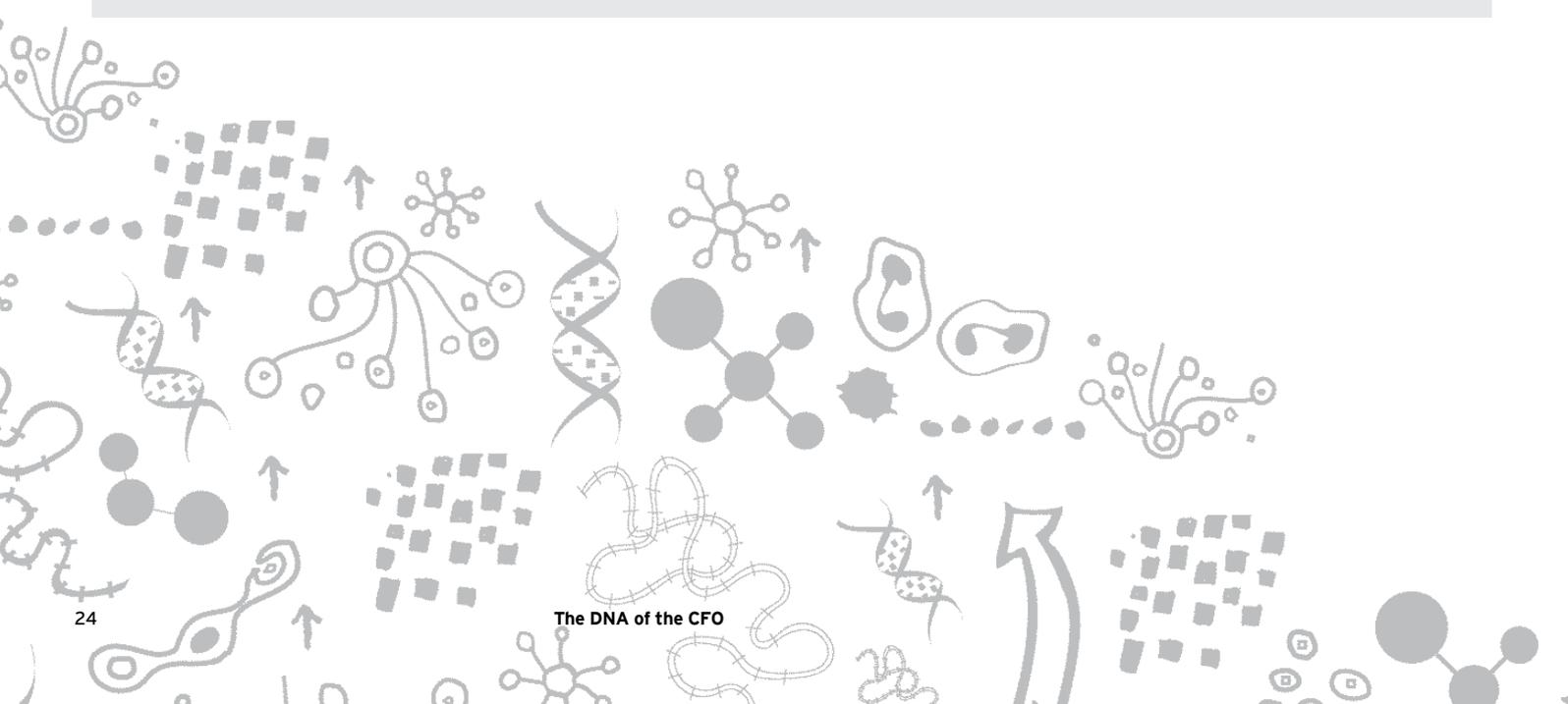
The perfect CFO

The 16 CFOs from leading organizations we interviewed all had insights to share on the essential ingredients of a leading CFO:

- ▶ First and foremost an extremely good finance professional
- ▶ A strong commercial sensibility
- ▶ Deep understanding of the business
- ▶ Good with people
- ▶ Able to think strategically
- ▶ Excellent communication skills - the ability to translate complex issues in a simple, straightforward way
- ▶ Able to manage conflict well
- ▶ A problem solver not creator
- ▶ International experience
- ▶ Language skills
- ▶ Experience of running major projects
- ▶ A business analyst
- ▶ Able to manage stress and complexity under pressure
- ▶ Good health
- ▶ Operational experience
- ▶ Ability to adapt to change
- ▶ Experience of adversity
- ▶ Passion

CFOs over 50 compared with CFOs under 40 years old

- ▶ CFOs over 50 are more likely to play a leading role in developing overall strategy (39% vs. 32%) while younger CFOs are more likely to fund, enable and execute the CEO's strategy (42% vs. 33%). This reflects the likelihood that the over 50 CFOs tend to have more senior roles.
- ▶ There is much greater focus on risk management among CFOs over 50, perhaps because they have more experience of downturns and are more risk-aware than their younger peers.
- ▶ Mentoring has been more important to the careers of the younger CFOs (57%) - those over 50 are less likely to have experienced this (47%).
- ▶ Over 50 CFOs are generally more satisfied in their role.
- ▶ Over 50 CFOs seem to be more aware of the need to build relationships with internal and external stakeholders. Their greater experience means that they recognize the importance of these skills.
- ▶ Younger CFOs are looking for more experience in their current role (53% vs. 27%), internationally (32% vs. 21%) and in project management (29% vs. 22%) - as well as an MBA (11% vs. 3%). They also say they need deeper insight into their industry and key markets and skills to manage upwards.
- ▶ Younger CFOs are more likely to say performance measures are now longer term.



“The perfect finance person has mastered the technical, they’re strong on the interpersonal, they have worked in different countries and done operational roles and seen finance from the other side of the fence.” Andy Halford, Vodafone

The first 100 days as CFO

From working with our clients, and from a recent study we conducted with CFOs in the UK,* we believe there are some critical areas to address in the first 100 days as a CFO, to make the best impact.

1. Expect the unexpected

The role you signed up for might not be the one that was sold at interview. You may find that the reality of the issues facing you is of a different magnitude and nature than described. The underlying systems, processes and performance; the relationship with the bank; the knowledge and capability of the finance team, may all be different to what you thought they were. As such, it is important to do your due diligence to understand the function of the role and begin to identify the key issues that are to be inherited prior to commencement.

2. Act promptly

A new placement is often a rare opportunity to quickly implement necessary change. The presupposition of change which often follows the appointment of a new CFO is something to capitalize on. There is a clear distinction between starting the role in a crisis situation and in one that is more stable. Where a turnaround situation is required, there is a certain expectation that significant change will be made early on. In a stable environment where the business is already performing well, you should establish the reasons for this and what the “next big thing” is to deliver on.

3. Ask the stupid questions

There are advantages and disadvantages of being appointed internally or externally. An existing knowledge of the business, ability to leverage existing networks and inherent knowledge of systems, people and processes are some of the advantages of an internal appointment. However, the advantages of an external placement include no previous history to impair initial credibility, the ability to more easily “command the change” and the opportunity to ask the stupid questions. An external appointment is the platform to ask the straightforward questions which can throw light on fundamental issues previously overlooked.

4. Make friends and influence people

Considering the wide spectrum of CFO stakeholders, it is important to prioritize those relationships which are critical for investment during the first 100 days - and to get to know their expectations of you. Obviously you need to understand what the CEOs and senior management expect of you. You may also want to consider getting out and about in the organization - particularly in one that is multi-location - and meeting with senior finance and commercial managers. Given that your first 100 days may feel a little lonely, you may also want identify a mentor to guide you and act as an independent confidant.

5. Get your team behind you

Spend time up front in understanding your teams’ issues, responsibilities and competencies. Identify who you can rely on to support you with the detail, so you can focus on the bigger picture.

6. Make your mark

It is imperative that you put your individual stamp onto the strategy of the organization. How a CFO establishes credibility is heavily influenced by the circumstances of appointment. An external recruit will need to focus on immersing themselves in the business and rapidly understanding how it makes money. If joining from another sector, you will want to quickly become familiar with the sector-specific terminology and reporting measures. The focus of an internal hire to establish credibility will be to build your external network and profile with shareholders, analysts and fund managers. Whether moving into the position as an internal or external appointee, a key to making an early mark is to identify and tackle the quick wins.

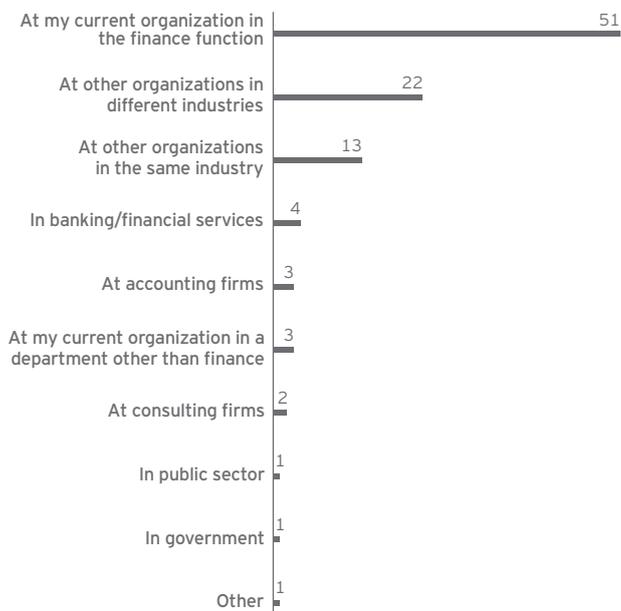
* *Finance Director: the first 100 days* – Ernst & Young, 2010

Demographics

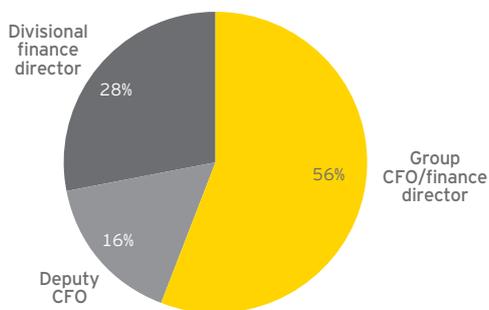
The following charts show the attributes of the 669 CFOs and FDs we surveyed and the characteristics of the organizations they represent.

Career history and job title:

Where respondents have spent the majority of their career? (percentage)



Job title



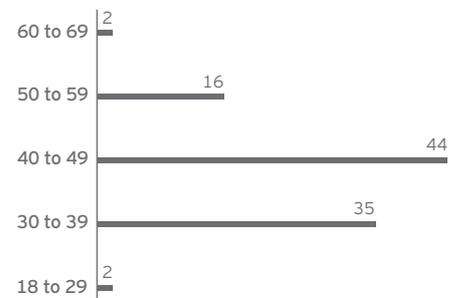
Base for all charts: all respondents (669).

Gender, age, qualifications and tenure:

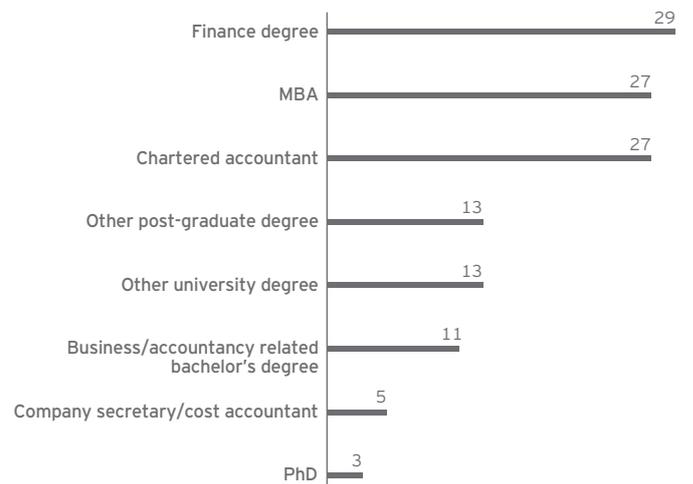
Gender

88% male, 12% female

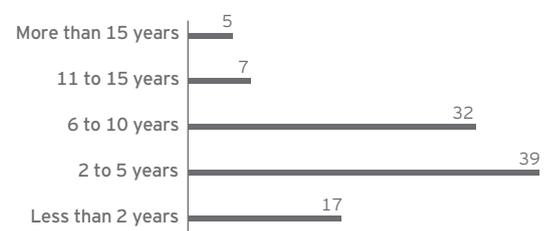
Age (years) (percentage)



Highest qualification (percentage)



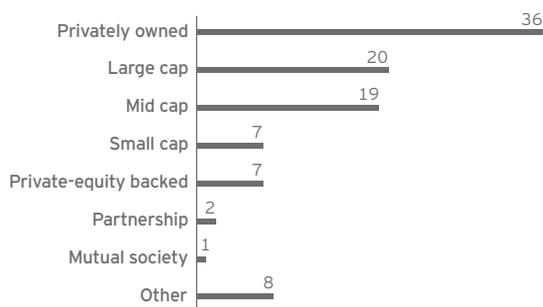
Time in current role (percentage)



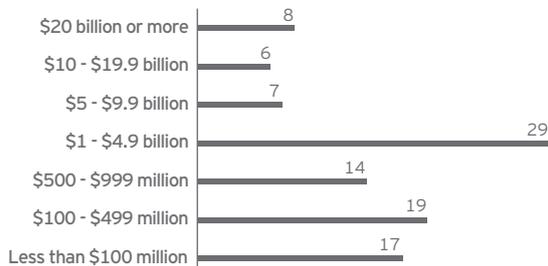
- ▶ The average CFO is male, aged 42 years and eight months. He has been in his current role for five years and nine months.
- ▶ Five years and 10 months is considered to be the appropriate tenure.
- ▶ The most common level of education is a degree in finance (29%), followed by a MBA (27%) and chartered accountancy qualification (27%).

Company ownership, revenue and EBITDA:

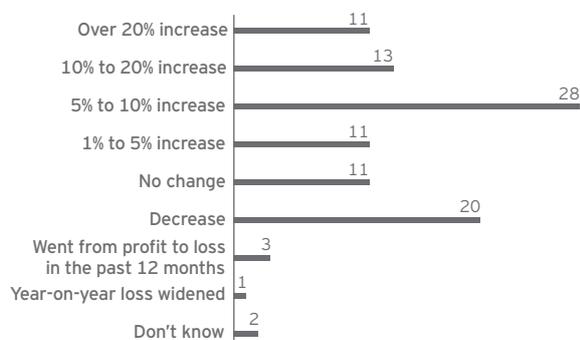
Ownership (percentage)



Revenue (USD) (percentage)

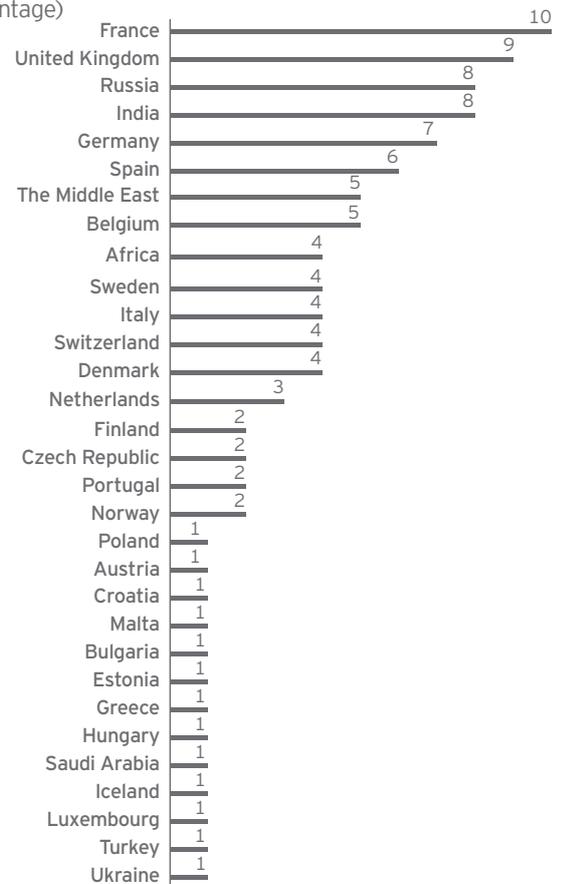


EBITDA change over the last 12 months (percentage)

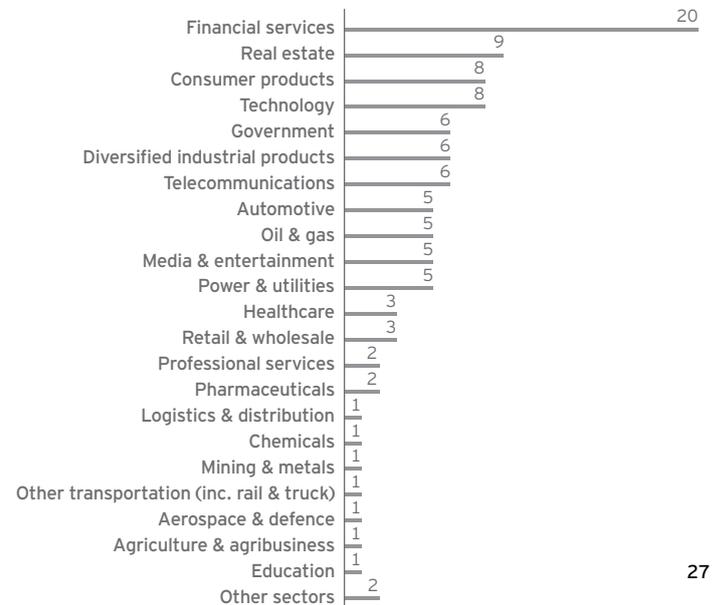


Country and sector:

Country (percentage)



Sector (percentage)



What makes a CFO

The CFO's unique optic across the business, their rare positioning as a purveyor of the truth and their fact-based discipline has raised their profile to an unprecedented degree. Various described in interviews for this study as co-pilot to the CEO, conscience to the board and trusted spokesperson to the media, the title chief financial officer belies the sheer breadth and depth of the role. Caroline Raggett from Russell Reynolds describes the CFO at the center of a "virtuous triangle": "They may not be formulating strategy, but they are integral to setting it. Through control of numbers, they are as responsible, some might argue even more so, as the CEO, for making sure that the organization executes that strategy to the highest level of performance that it can. And, at the third point of the triangle, the CFO needs to tie these two elements together and be the front face, with the CEO, to the market."

In the future, CFOs will need to balance these different elements of the role in order to retain their position at the top table: a continued focus on the fundamentals to embed a permanent culture of cost consciousness; an integral part of the process for formulating growth strategy, and the public face of performance to a shifting, and increasingly demanding, universe of stakeholders.

A unique community

Our survey of 669 finance professionals was drawn from a broad group of CFOs, representing countries across Europe, the Middle East, India and Africa, all major sectors and organizations generating annual revenues ranging from less than US\$100 million to in excess of US\$20 billion. Despite the breadth of this study, what is clear from the results is that the respondents represent a distinctive, and unique, community of professionals. The lack of diversity across segments was marked. He, or she (although they are predominately he) is highly educated, highly skilled and highly motivated. The average CFO is aged 42 years and eight months and believes the appropriate tenure for the role to be 5 years and 10 months. Most have spent the majority of their careers in the finance function, and most wish to stay, and develop, as a CFO. This is no staging post to the role of a CEO. For most, it is a career destination and a role that recognizes and rewards their unique offering.



The DNA of the CFO is the first of a series of EY insights into the role of the CFO and what defines this unique group of finance leaders. Our ongoing program will address aspects of personal interest to CFOs as they seek to develop themselves and their teams, and learn from others within their community.

For further information about this report, or on our broader program of investment in CFOs across Europe, the Middle East, India and Africa (EMEIA), please contact:

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