A focus on finance leadership

Foreword by Helen Brand

Financial leaders today face a major challenge in ensuring the function adapts to the changing needs of the business. With growing stakeholder interest in the broader performance of organisations beyond pure financial measures, there is a growing focus on the need to drive improved business performance which can be sustained for the longer term. Finance leaders have a significant role to play in leveraging the capabilities of the finance function to provide insight and commercial support to drive sustainable decision making and bring a broader external market focus to support the strategy of the business, but critically this must be counter balanced by continuing to ensure their traditional fiduciary and controllership responsibilities are met. This need for balanced finance leadership is the hallmark of today's CFO role.

From transforming finance operations, driving effective risk management strategies, and providing analytical insight to support commercial decision making, today's finance leader faces multiple priorities. This report brings together the conclusions and discussions from ACCA's regional CFO summit held in Hong Kong in October 2012 as well as a number of high level CFO roundtables recently held in the region and other parts of the world. These events have provided a unique platform for business and finance leaders from across the region to share their insights and perspectives on the key issues facing finance leaders today. I am delighted to be able to share with you some of the conclusions.

Helen Brand OBE
Chief Executive
ACCA

Foreword by May Law

The finance function is proving invaluable to doing good business in today's highly globalised and shifting world economy. Change has come in the rapid growth of developing markets in Asia, particularly China and India, even as Europe and the US struggle to get back on their feet. As an international financial centre and a gateway to China, Hong Kong undoubtedly plays an influential role in the Asian evolution story and as such was an ideal venue for the ACCA's first CFO summit in the region. Part of a global series of events at which finance leaders share insights on their profession, ACCA CFO Summit Asia 2012 provided a forum for the thought leadership in the finance sector that is spurring innovation in the business world. The Hong Kong summit brought together finance professionals, accountants, governance advocates and businesspeople to discuss not only the financial transformation that is taking place today, but also how to manage it. At the CFO Summit, participants worked at finding the best ways to harness change for a positive outcome—a sustainable future.

May Law
Director - Asia Pacific
ACCA

The need for balanced finance leadership

The nature of the transformation of the CFO role and the value that finance leaders can bring to an organisation were among the insights garnered from the Chief Executive Officers (CEOs), CFOs and board directors who participated over the year in a series of ACCA roundtables in China, the US, Russia and Switzerland. These insights were initially presented in a recent report issued by ACCA and the Institute of Management Accountants (IMA), but further reflections have also been gained in CFO roundtables recently held in Singapore and China.

One of the areas of interest in the role of the CFO has been the evolving relationship with the CEO. The broad conclusion was that today's effective CFOs provide significant support to the CEO, executive board and wider management team, and naturally brings a high level of financial understanding and acumen as a lens to difficult business decisions. A focus on articulating and sharpening the corporate strategy, and clearly understanding the company's vision through providing effective business insights based on strong financial understanding were identified as imperatives, but so too was ensuring strong financial controllership and effective risk management of the organisation. This attributes call into play a need for CFOs to bring to the table a need for balanced finance and business capabilities and skills. There was also a clear need articulated from CEOs and the board for CFOs to bring a much wider business perspective to the role.

One of the interesting discussions from the roundtable events focused on the extent to which the CFO was a natural successor to the CEO. There are merits to the argument, particularly as the CFO role has evolved to become more strategy orientated but a counter view was also offered, with some participants suggesting that finance leaders were not always best placed to move into the CEO role; individual attributes and preferences and industry differences were also cited as relevant considerations. A linked discussion was also held around CFO incumbents. The multi-faceted aspects of today's CFO role calls into play a need for a highly skilled support team, particularly as the CFO cannot be a specialist in every financial discipline. However as the direct reports into the CFO are becoming increasingly specialised, there is a potential development gap in bringing a replacement from the finance function through to the much broader CFO role. Developing talent across geographical, language and cultural differences was also identified as presenting specific challenges in today's global finance function.

Some key words of advice from the roundtables:

Don't be afraid of uncharted territory. Breadth of exposure matters in today's finance leaders. Having a deep and broad understanding of the business helps, and sometimes that entails taking roles outside of the finance function as part of one's career development.

Engineer your career portfolio carefully. Think of exposures. Think of diverse experiences. International experience on the CV typically pays dividends in today's global finance function.

Be prepared to ask difficult questions; challenge the status quo. Look to drive innovation and question why things are done in a particular way. Be attuned to the dynamics within the senior management team; ask the right questions; be the 'voice of reason'. In particular, the CFO relationship with the CEO should be close and mutually respectful, not subservient.

The drive for transformation

World class finance functions drive efficiency and effectiveness in their operations in today's economy. Whilst the achievement of these goals collectively represents the outcomes sought from these initiatives, there are many different catalysts behind CFOs seeking to transform their finance operations. Sometimes the driver behind transforming the finance function doesn't start with the function; sometimes the catalyst is business, rather than finance transformation. To this end, transformation of the finance function seeks to better support the organisation, to future-proof it and provide scale to support a changed business footprint and model. There are of course many other drivers too; cost reduction driven by a compelling labour arbitrage, the drive to process standardisation, improved controls better data visibility and data consistency, more effective compliance and so on.

A significant part of the transformation equation is talent, and increasingly improved finance capability is an outcome sought from the transformation process. As the adoption of shared services and outsourcing continues to evolve, one of the prevailing questions is the implication on the talent pipeline for global finance functions. Recent research by ACCA[1] suggests that significant challenges remain, particularly in relation to mobility and the challenge of career paths extending between shared service operations and the rest of the finance function. This in itself raises the spectre of dual career paths in the finance function; one through shared services and other forms of delivery centres, and the other through business partnering roles in the retained finance function, or highly specialised finance roles such as tax or treasury in finance centres of excellence. It probably has significant implications for the future career paths of CFOs too.

The consensus from the discussions ACCA has recently undertaken is that finance transformation is a difficult exercise to execute effectively, and there is no particular "journey end". There are however a number of common critical success factors – having a clear vision focused on business outcomes, ensuring buy in and sponsorship from business leaders, being clear and articulating the role of the retained finance organisation, and critically constant communication to ensure transformation initiatives are aligned to the changing needs of the business.

"We need to think about talent development. In the Asia-Pacific region, we are still growing in terms of capability. The maturity of the financial-control function is not yet up to global standards."

Norman Sze, Managing Partner, Consulting, Deloitte China

"If everybody has the skills and the ambition to become a CFO, you only create frustration. There is only one CFO in a company. So it's fine if people are happy, perform, and want to remain within their function."

"Successful business transformation requires a vision, and a clear path towards realisation. That means it must be quantified, tracked and communicated."

Holger Lindner, Member of Advisory Council, Singapore CFO Institute; Former Chief Financial Officer, Daimler South East Asia Pte Ltd; Chief Financial Officer since February 2013 of TÜV SÜD Product Service

[1] *Talent Management in a Shared Services World, ACCA 2012*

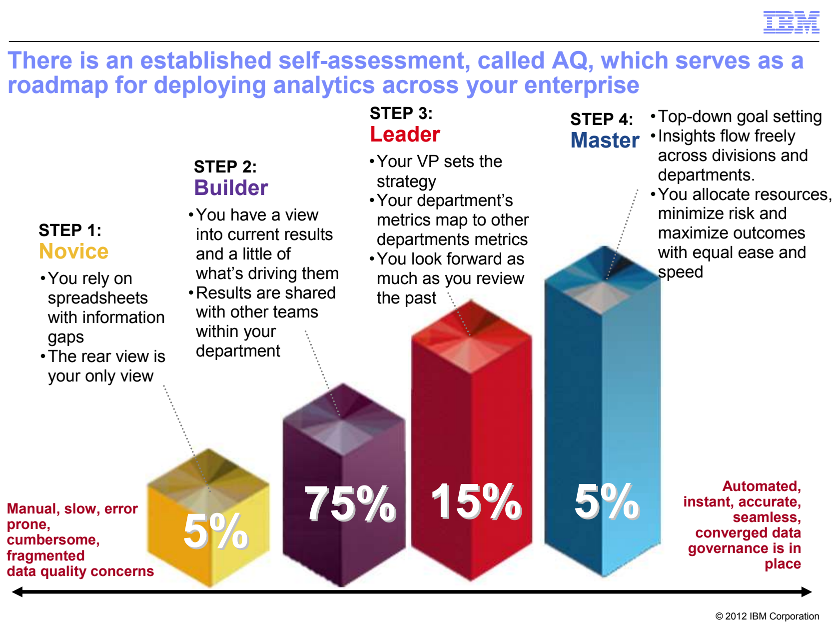
The growing interest in analytics

One of the emerging features on the finance leaders' radar is analytical insight. With increasing pressure on the finance function to provide insight to support decision making, one of the drivers often cited by organisations for the finance transformation journey is the freeing up of the retained finance function away from process delivery to better support business units in financial analysis and support, whilst migrating more mainstream finance activity. With the challenges of big data, increasingly the finance function may be seen as the natural function to drive further insight by correlating, regressing, extrapolating and joining the data dots to make informed business decisions.

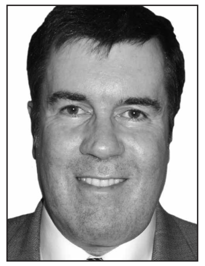
As corporate interest grows in the analytics space, it's also a significant area in which the reputation of the finance function can be enhanced, and savvy CFOs recognise its potential. The critical question of where analytics "sits" however is perhaps a little redundant. Essentially astute CFOs will look to work with their counterparts in IT or Operations to jointly drive the analytics agenda within the organisation. Because of the complexities of data analytics and its outcomes, the management team, including the CEO and even the board perhaps needs to be involved in adoption. Moving the entire organisation to an analytics-based model means a cultural change that must gain buy in from the top; this is about gradual modulation rather than quick fix.

Case Study from IBM

Before setting out to become analytics-driven, it is important for an enterprise to understand its starting point. Is it a Novice, Builder, Leader or Master in the four-step journey? Most likely the organisation is a Builder that has a view of current results and a little of what's driving those results, which are shared with other teams in the department. Builders form 75% of IBM clients and other companies that have used Analytics Quotient or AQ, an IBM self-assessment technique that serves as a roadmap for deploying analytics. Another 15% of these enterprises would be Leaders, which look forward as much as review the past. But only 5% would be Masters, which allocate resources, minimise risk and maximise outcome with equal ease and speed. At this end of the spectrum, enterprises have automated, instant, accurate, seamless converged data governance in place.



The transformation journey can be long and arduous. For example, IBM started out in the mid-1990s with a low value-added, uncompetitive finance function. The initial step was to attain a single general ledger and a single chart of accounts. After laying that foundation in the early 2000s, the move was to become a globally integrated enterprise with common financial applications. That meant setting up centres of excellence in cities worldwide, choosing locations based on available skills, good languages and customer-facing businesses. The next step was a greater use of analytics, harnessing the company's powerful sets of data to garner intelligence for predictive analysis, and integration of financial and non-financial data.



"At IBM, the charter of the Finance Leadership Advocacy Group is to guide the finance function along the transformation process to include not only business analytics adoption but also the steps before that, to establish the foundational basics of clean and consistent data upon which a culture of advanced business analytics can be built."

Scott Goodwin, CFO, Software Group, Growth Markets Unit, IBM

Risk and reward

In today's difficult global economic climate, businesses face a multitude of risks which is why there is growing recognition that effective risk management is a necessity for sustainable business growth. Indeed, the financial crisis itself prompted a change in the perception of risk management. There is now a heightened recognition that people's behaviour is also a key component of good risk management and a strong ethical culture starts at the top—with the management and the board. Setting the tone for the right culture is critical to risk management.

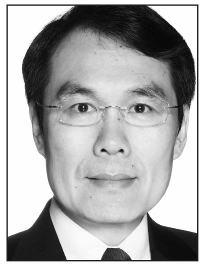
Risk must be viewed not in isolation but in the context of the corporate system, and more importantly, in terms of reward. Instead of looking at risk, governance and performance as separate silos, the three should be integrated. Besides monitoring risks related to controls or business objectives, risk managers must also assess the *gains* from taking considered risks. This is especially relevant today because an organisation has several risk-management tools available to help it with strategic planning. When expanding into a new segment, these tools not only define the risks and how they will impact the organisation, but also calculate the potential rewards.

Essentially, taking an integrated approach to risk means embedding risk management into an organisation's operations, strategic planning and decision-making, although the tactics may differ according to sector and industry. Because of the nature of their work, finance professionals play an important role in integrated risk management and helping organisations to make better, less-risky decisions.

But where does the responsibility for driving a sound ethical culture across the organisation lie? The consensus was that, whilst different organisations notionally appoint different individuals with responsibility for risk management in the organisation (for example, Chief Financial Officers, Chief Risk Officers), creating a risk-aware culture can only work if the entire management team embraces it, and ultimately it should be the CEO who is setting the tone from the top. There is a role for the CFO to act as a catalyst for a risk-aware culture but essentially the CEO must be the driver.

"Earlier, the accountant was seen as a 'no' man. But it is easy to say 'no' to risk; it is harder is to say, 'Yes, there is risk, but how do we manage the risk'."

James Lee, Director of Finance, Regent Hotel Singapore; Council Member, ACCA



"The CFO's role in risk management can be compared to that of a catalyst in the cultivation of the right risk-intelligent environment and control-minded atmosphere within the organisation. But whether the CFO should be the only owner of that risk-management strategy is another matter. The ownership should lie with everybody in the organisation."

Paul Mok, Group Financial Controller, Orient Overseas (International) Ltd

"The global economic crisis has changed the attitude and perception of risk in multiple ways, quite dramatically. We have developed new skills within our company to deal with risk and how to make it more transparent. This has been maintained and has become an integral part of our management discussions."

Marco Swoboda, Vice President & CFO Asia Pacific, Henkel

Key points on risk

- In a global business environment, businesses face a multitude of risks.
- There is a growing awareness of risk, and an acknowledgement of how difficult it is to manage risk in practice.
- One lesson from the global crisis is that those organisations thought to have had great risk-management processes in place were actually quite vulnerable.
- Ethics is a key component of good risk management.
- Setting the tone for the right culture is critical to an effective risk-management strategy.
- Risk must be considered in the context of the reward that may accrue from taking risks; it cannot be considered in isolation.
- Finance professionals have a key role to play in risk management.
- Boards should have assurance maps on how risk is being managed, and accountants are a critical part of that assurance process.

Corporate governance

Broadly speaking, corporate governance is the system by which a company operates and is managed, keeping in mind the interests of the different stakeholders. It is the system that enables a company to become a good corporate citizen, beyond mere compliance to regulations. Corporate governance is about value creation for shareholders, and preventing mistakes that could result in value destruction.

In a large organisation, and indeed in the community, different people practise corporate governance but do not necessarily call it the same thing. Nonetheless, it is important that both practitioners and non-practitioners of corporate governance use the same terminology so that they are in tune with one another. Before the Enron scandal, there was a greater belief that basic vigilance structures worked, and governance seemed to be more of a routine exercise. Today, independent directors, audit committees and investors are clearly doing more work to genuinely understand what is happening within a company.

Independent directors in particular play a vital role in monitoring and overseeing corporate practices, and are considered by some stakeholders to be the "policeman" watching over a company's operations. As such, evidence of flagrant corporate wrongdoing often brings into question the level of vigilance by the independent directors. Yet sometimes the latter's supervision is hampered because a company does not provide them full information, either intentionally or because it is unavailable. This creates an unviable situation for an independent director, who may decide to relinquish the position.

When a company is called out for bad governance, however, the response should not be censure, but engagement, of the "policeman". Rather than play the blame game, investors should fix the problems within an errant company to avert a further fall in its value or even a delisting. One way is to involve the independent directors in adding reliable processes, building integrity within the company and communicating effective changes to the market.

For their part, independent directors may need to go the extra mile to truly understand a company's practices. For example, prior to their stipulated consultations with auditors, the independent directors could attend the closing meeting between auditors and management to identify key issues. They could also discuss everyday issues with the financial controller or accounting manager, who is one level below the CFO and usually more involved in routine operations.

Engagement is a key word. By sharing knowledge and opinions, investors can make a difference in the companies they finance. In one example, interacting with a CFO helped to persuade a company to reduce the size of its capital issue. Private engagement is probably more effective than public engagement because using the media can be a double-edged sword. While media backing can be helpful, the communication process can be harmed if a private discussion is splashed in the news, perhaps even taken out of context.

Given the importance of building investor confidence and trust, should corporate governance assessment be made part of the audit process? While companies unable to meet minimum standards would be sifted out, there is a danger that such an accreditation would degenerate into a mere box-ticking exercise. Moreover, auditors may not be the best suited to assess corporate governance. It is far better for shareholders themselves to assess a company's corporate governance practices, through available information and engagement with management. There is a role, too, for regulators to ask companies for pertinent information, and for stock exchanges to conduct research on companies that goes beyond superficial surveys and checklists.

"From an asset manager's perspective, corporate governance is about economic value for our clients, and we see that manifesting itself in the quality of the management teams of the companies in which we invest."

Clarence Yang, Head of Corporate Governance Asia ex-Japan, BlackRock

"One issue we struggle with in Asia is whether public shareholder activism, which focuses on a single company, and gets the media and investors involved, makes a difference to corporate governance in either that company or that market. In many cases it hasn't made much difference. But public activism is necessary and complements the quiet engagement undertaken by mainstream institutions. The onus should be on public activists, if they want to improve corporate governance standards, to think through how their activism will achieve longer term, systemic improvements in a market—not just a one-off gain."

Jamie Allen, Secretary General, Asian Corporate Governance Association, Hong Kong

"A corporate governance accreditation or audit means you then have a checklist, and people will do only what is on the checklist. If you set a minimum requirement, most people will try to do just the minimum."

Kevin Lau, Director, Hin Yan Consultants

A look to the future

The global economy is in a state of volatility and uncertainty – with little prospect of a return to calm any time soon. Society is undergoing rapid and fundamental adjustments, while environmental changes continue to put pressure on business systems. At the same time, the global accountancy profession is undergoing change, driven both by the wider pressures of the business world – not least the continuing impact of the financial crisis – and internal demands.

In order to make sense of the continuing turmoil, it is vital that accountancy professionals are armed with the tools they need to navigate a constantly changing landscape. Crucial to this is an understanding of the drivers for change that are having an impact on the profession. From these, it is possible to identify the challenges and opportunities facing business, society and the profession.

Complexity, in both business and regulation, is growing at the same time as global competition is intensifying and business cycles shortening. Rapid advances in technology are driving disruptive innovation, overhauling industry structures, challenging and reinventing business models and spawning whole new sectors, take Zongheng as an example of the booming web publishing industry in China.

In addition to all this, accountants – whatever sector they work in – face specific pressures.

The accountancy profession is under pressure to improve its public image and go beyond current financial reporting practices to provide a more transparent, simplified but holistic picture of a business's health and prospects. There is also a drive to globalise accounting standards and practices. The growth of regulation is adding to the burden of compliance and threatening to drive up costs.

There is a new opportunity to transform both the operational and interpretative elements of accountancy by using intelligent systems, data mining and predictive analytics to exploit the stores of 'big data' that organisations are amassing. And there are increasing expectations that the CFO and accountancy function should play a far greater role in business in everything from strategic decision-making to the design of new revenue models.

These changes are exciting, challenging – and often alarming too. In an effort to help the profession make sense of what is going on, and consider how to prepare for the challenges ahead, ACCA's *100 Drivers of change* report draws on the insights of the members of the academy, as well as the views of members of the Institute of Management Accountants (IMA) and ACCA's other global forums and experts. The report identifies the 10 'must dos' for businesses and the profession to effectively weather volatility and shocks while reaping the benefits of existing opportunities.

The five imperatives for accountants are…

Accounting professionals will need to **embrace an enlarged strategic and commercial role**. As businesses adapt to a turbulent environment, opportunities are emerging for accountants to assume a far greater organisational remit across all aspects of corporate decision making, from strategy formulation through to defining new business models. The profession will also need to focus on a **holistic view of complexity, risk and performance** and **establish trust and ethical leadership**. There is growing consensus on the need for reporting to provide a firm-wide view of organisational health, performance and prospects. Such a holistic perspective must acknowledge the complexity of modern business and encompass financial and non-financial indicators of a firm's status and potential.

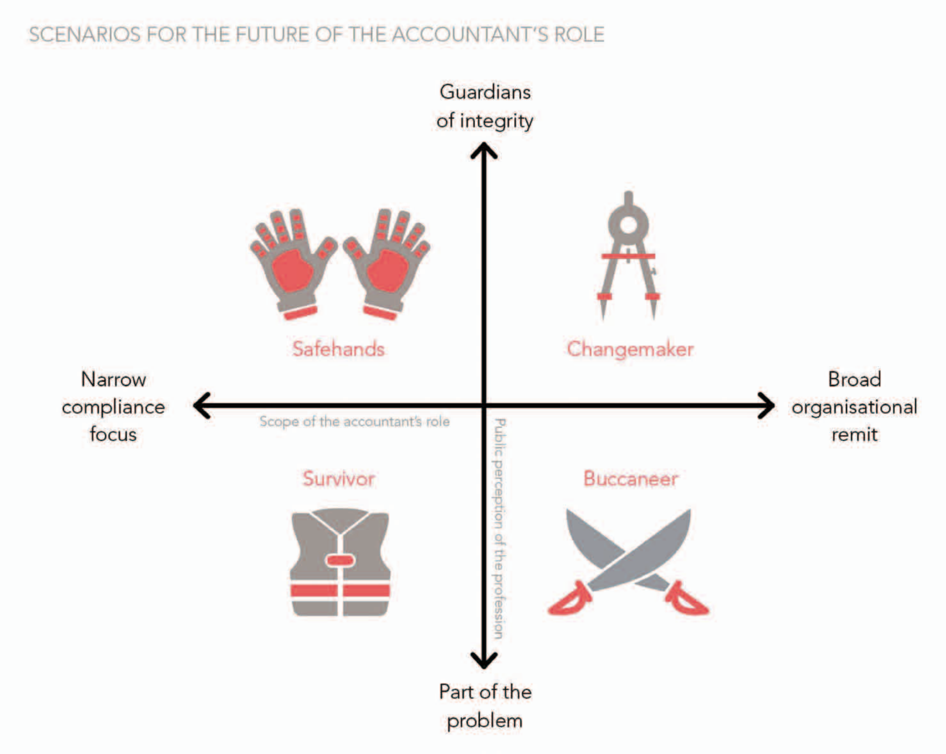
The fourth strategic action is to **develop a global orientation**. The pace of global expansion of firms from developed and developing markets alike is placing the spotlight on accountancy's ability to master the technical language and cultural challenges of cross-border operations. The final strategic action for the profession is to **reinvent the talent pool**. The diverse range of demands on the profession is forcing a rethink of everything from recruitment through to training and development. Entrepreneurial spirit, curiosity, creativity and strategic thinking skills could assume far more significance in the selection of tomorrow's accountants.

The Accountancy Profession in Ten Years

So how will it all end up a decade from now? These challenges lead us to four possible scenarios for the future role of accountants that combine levels of integrity with width of remit. Combining high levels of perceived integrity with a broad organisational remit going beyond basic compliance work would position accountants as 'changemakers' – those who, by 2022, have succeeded in balancing public expectations for responsible financial management with an enlarged and more entrepreneurial stance within the business. It is possible to see these changes already emerging as the CFO's role evolves.

Combining these high levels of perceived integrity with a more narrow focus on compliance positions accountants as 'safehands' – those who have succeeded in re-establishing public faith through deliberately focusing on the technical elements of their roles.

Where low perceived integrity is combined with a narrow focus, accountants will function merely as 'survivors'. Those who pursue a broad remit, but with low integrity perceptions can be classed as 'buccaneers' – an unstable scenario as the drive for profit will be seen to come at the expense of sound financial stewardship.



The best scenario? Faced with an ever growing operational and regulatory compliance workload, an understandable choice would be to opt for the Safehands scenario and focus on a purely technical and more traditional definition of the accountant's role. The Safehands emphasis on integrity would meet with strong public approval.

But there is also a clear opportunity for the profession to aspire to the Changemaker scenario and embrace an increasingly strategic opportunity. This would mean meeting the public's need for the highest standards of integrity while taking on a broader leadership role within both business and the wider economy. The role of Changemaker is perhaps the most exciting and rewarding option both for those within the profession as well as would be recruits.

Conclusion

In today's globalised business environment the role of the CFO is evolving. Finance leaders continue to support their businesses in charting paths to growth, and managing their external market obligations, but in an increasingly complex, risky and pressurised business landscape, their traditional controllership responsibilities remain important too. This is an age where balanced finance leadership becomes very important.

There are numerous challenges in executing finance leadership effectively. CFO's have sought to transform their finance operations to drive the efficiency and effectiveness of finance operations, but success in the transformation journey is typically difficult to achieve; change management, the development of new skills and capabilities across the finance function, articulating the vision and ensuring on-going leadership buy in remain key challenges. The business continues to change too which presents a whole host of challenges in itself.

There are however opportunities for finance leaders that must be embraced moving forward. More than ever before, the finance function and finance leaders are best placed to drive future business success. With ongoing developments in technology, the opportunity to drive financial insight and understanding to business strategies is a clear example of where finance can apply the finance lens to drive superior decision making, and we can expect a step change in insight through analytics. Effective risk management of the organisation also provides opportunities, as finance leaders seek to balance appropriate risk management approaches with the pursuit of sustainable rewards, but the broader risk and ethical framework of the business must have buy in from the top of the organisation for success to be realised. A more integrated approach to risk, governance and performance is needed too, and for professional accountants this presents the opportunity for a new mandate in ensuring their organisations balance risks taken for the rewards received; in this sense, finance leaders have a significant role to play in driving the sustainable success of organisations in the future.

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

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