

The Role and Expectations of a CFO

**A Global Debate on
Preparing Accountants
for Finance Leadership**

Discussion Paper



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Preparing Professional Accountants for Finance Leadership

Principles Guiding the Role and Expectations of a CFO

A professional chief financial officer (CFO) should:

1. Be an effective organizational leader and a key member of senior management;
2. Balance the responsibilities of stewardship with business partnership;
3. Act as the integrator and navigator for the organization;
4. Be an effective leader of the finance and accounting function; and
5. Bring professional qualities to the role and the organization.

These five principles establish a framework for understanding the changing expectations, scope, and mandate of the person who exercises leadership in the most senior finance management position in an organization or in one of its separately managed units—that is, the CFO or equivalent, such as a finance director or vice president of finance.

These principles capture the key requirements of the CFO role and highlight what professional accountants need to do to prepare for finance leadership, as well as the benefits of a professional accountant serving as the CFO.

As part of good governance, organizations should place the responsibility of sound and ethical financial

management and reporting, and more broadly the efficient and productive use of resources, under the oversight of a person with the necessary skills, qualities, and professional standards.

The training, expertise, and experience professional accountants bring to the CFO role should be seen as an advantage specifically in terms of uniting an ethical and technical mindset together with business acumen.

However, professional accountants in related finance leadership roles are far from universal. The most common level of education for a CFO is a degree in finance (29%) followed by a chartered (professional) accountancy qualification (27%) and an MBA (27%), according to a

2010 EY survey of 669 CFOs in Europe, the Middle East, India, and Africa, conducted by the Economist Intelligence Unit.¹ Recently, the number of professional accountants in the CFO role has declined in some jurisdictions, particularly in larger organizations. However, this decline is reversing in some locations, such as in the US where CFOs who were also Certified Public Accountants increased to 38%, up from 25% in 2006.²

This trend has significant implications for professional accountancy organizations (PAOs) in their efforts to adequately prepare professional accountants for career progression to finance leadership.

Building on *Competent and Versatile: How Professional Accountants in Business Drive Sustainable Success*, this discussion paper starts a global debate among PAOs and employers of professional accountants on the key implications of the changing expectation on CFOs for the education, training, and development of professional accountants.

IFAC seeks to encourage a dialogue on both the principles and proposed recommendations to prepare aspiring accountants to acquire and develop the skills needed to be an effective finance and organizational leader. The proposed actions are relevant for PAOs, which need to continually review their qualifications and training at both a pre- and post-certification

level, and for employers of professional accountants, who also directly influence preparation for leadership.

Finally, this discussion is also relevant to the regulatory community that is striving for well-governed organizations and market integrity. The CFO is a critical part of a chain of actors, including the governing body (i.e., board of directors), chief executive officer (CEO), audit committee, and auditor that all have their respective responsibilities to ensure that business reporting provides relevant, faithful, and comparable information on the financial position and performance of an organization. Having professional accountants in key finance leadership roles is an important part of ensuring well-governed organizations.

Unlike the role of auditors and assurance professionals, which is typically subject to oversight and registration, qualification, competency, and licensing requirements, finance leadership in organizations is largely unregulated. In this context, the onus is on organizations to ensure they employ finance leaders with the prerequisite professional qualities and competence. In 2009, in its submission to the Group of Twenty (G20), IFAC recommended that the G20 call for the establishment of an international, principles-based competency threshold for senior financial officers in public interest entities.³

1 EY, *The DNA of the CFO: A Study of What Makes A Chief Financial Officer 2010*.

2 Maxwell Murphy, "CFOs Serving Longer Terms" *Wall Street Journal*, August 9, 2013.

3 Recommendation Four, *Recommendations for the G20 Nations—Meeting of September 24-25* (IFAC, 2009), and Recommendations for *Working Group 1—Enhancing Sound Regulation and Strengthening Transparency* (IFAC, 2009).

The increasing expectation of CFOs and finance and accounting (F&A) functions also extends to government and public sector organizations, where there is a clear need for enhanced finance leadership and public financial management to improve the quality of public sector transparency, accountability, and outcomes.

The transparency, financial stability, and performance of governments and

public sector organizations are closely linked with quality and professionalism of the CFO and the F&A function. Consequently, CFOs' expertise and advice are essential elements in an effective leadership team as well as for ensuring that strong management practices and information systems, supported by an appropriate governance infrastructure and ethical culture, are in place.

Professional Accountants in Business

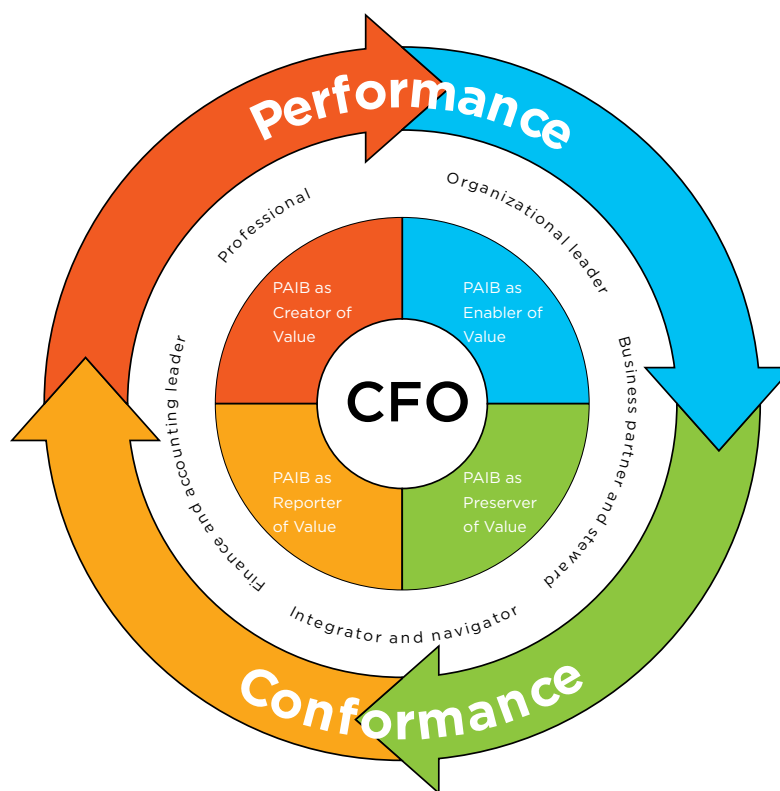
Professional accountants in business refer to all those members of the profession who work in commerce, industry, financial services, education, and the public and not-for-profit sectors. Professional accountants in business work as employees, consultants, and self-employed owner-managers or advisers and support their organizations in a wide range of job functions at various levels.

Professional accountants working in business can typically be found in four types of roles: as value creators, enablers, preservers, and reporters. The CFO principles relate to these roles and will need to ensure success in each by:

- creating value — developing strategies for sustainable value creation;
- enabling value — supporting the governing body and senior management in making decisions and facilitating the understanding of performance of organizational functions or units;
- preserving value — asset and liability management, managing risk in relation to setting and achieving the organization's objectives, and implementing and monitoring effective internal control systems; and
- reporting value — ensuring relevant and useful internal and external business reporting.

Depending on the route they have taken, professional accountants may have trained and qualified while working in public accounting and, later in their career, moved to work for an organization. Others, typically known as management accountants, have trained and qualified within a corporate or public sector environment. Professional accountants are recognized by different designations around the world — for example, Chartered Accountant (CA), Certified Public Accountant (CPA), Chartered Professional Accountant (CPA), Certified Accountant, Chartered or Certified Management Accountant (CMA), Expert Comptable, or Contador Publico.

How the CFO Role is Changing



The past few decades have witnessed significant growth in the demands on and expectations of finance leaders, particularly as they have become central to helping their organizations navigate an increasingly complex business world.

Prior to the 1990s, the main emphasis of the CFO's role was typically as the

guardian of the financial health of an organization, overseeing and implementing adequate financial control infrastructure. This met the needs, in particular, of large divisional industrial corporations that strived for financial control and transparency across many divisions and business units. Since then, the range of responsibilities of the CFO has expanded,

driven by complexity as a result of globalized capital and markets, regulatory and business drivers, growth in information and communications, and changing expectations of the role of the CFO.

In addition to being the financial gatekeeper, the CFO is also expected to participate in driving the organization toward achieving its objectives. As part of the leadership of the organization, CFOs are expected to increase their support of

strategic and operational decision making in a “business partnering” capacity in addition to fulfilling traditional stewardship responsibilities relating to governance, compliance and control, and business ethics. In forward-looking organizations, the CFO and the F&A function are evolving from a transactional and cost efficiency focus to an increasingly value-adding strategic focus.

A good CFO should be at the elbow of the CEO, ready to support and challenge him/her in leading the business. The CFO should, above all, be a good communicator — to the board on the performance of the business and the issues it is facing; to his/her peers in getting across key information and concepts to facilitate discussion and decision making; and to subordinates so that they are both efficient and motivated. Other priorities for a CFO are to have strength of character, personality, and intellect. I take it as a given in reaching such a position that an individual would have the requisite technical knowledge and financial skills.

— James Riley, group finance director and executive director, Jardine Matheson Holdings Ltd.

CFOs continue to be stretched and scrutinized. They need to maintain a high-level view of the organization and the environment in which it operates and demonstrate a range of specific skills and attributes in a variety of different roles and responsibilities. In addition to overseeing the F&A function and related information systems, CFOs' responsibilities typically include:

- demonstrating ethical leadership and business integrity;
- balancing short-term concerns and pressures, such as managing cash, liquidity, and profitability, and long-term vision and sustainable organizational success;
- fulfilling stewardship responsibilities by ensuring effective compliance and control and responding to ever increasing regulatory developments, including financial reporting, capital requirements, and corporate responsibility;
- sharing strategic leadership responsibilities with the CEO and other senior managers and ensuring the F&A function supports the business at a strategic and operational level;
- driving and managing change and innovation within the organization; and

- engaging and communicating effectively with colleagues, investors, customers, suppliers, regulators, and other internal and external stakeholders.

The contemporary CFO is increasingly focused on being a key organizational leader and communicator, which requires a strong professional and ethical foundation. Given their professional education and training, and relevant career experience and aptitude, professional accountants in the CFO role should be well placed to manage the requirements of varied expectations and responsibilities.

Is There a Typical CFO Role?

The expectations of CFOs change over time and are influenced by various external and internal drivers that affect organizational circumstances and requirements. External drivers include prevailing economic and business challenges, characteristics of the industry and competitors, and the demands of investors and key stakeholders.

Organizations shape the CFO role to meet current needs and expectations, particularly in terms of the expectations the CEO and chair have of the CFO, and in relation

to the existing composition and skills of senior management. The type of organization, whether it is in the public or private sector, and its history and culture will also influence the type of CFO required.

Organization size is also a crucial determining factor in the type of CFO employed. Small businesses generally need to consider the appropriate time to hire a CFO; an important internal tipping point is when information needed to help the business make timely and important decisions is not being prepared.⁴

Professional accountants with strong commercial and leadership skills help develop areas such as customer profitability, pricing, sales, and marketing.

⁴ Jeff Thomson, “Signs a Small Business Needs a CFO,” *Forbes*, February 14, 2013.

In a small organization, professional accountants are often the only professionally qualified members of a staff and will need to assume the role of trusted advisor of the entrepreneur(s).⁵

For larger organizations, four distinct profiles of the CFO role have been identified — the finance expert, the generalist, the performance leader, and the growth champion — to illustrate how the CFO role is multidimensional.⁶ The type of CFO could also vary depending on whether the role is at the corporate center, in a division or business unit, or within a business line such as operations or sales.

⁵ Chartered Institute of Management Accountants, *Finance Transformation: A Missed Opportunity for SMEs?*, 2011 and Association of Chartered Certified Accountants, *Accountants for Small Business*, 2013.

⁶ Ankur Agrawal, John Goldie, and Bill Huyett, “Today’s CFO: Which Profile Best Suits Your Company,” *McKinsey*, January 2013.

Principles Guiding the Role and Expectations of a CFO

Principle 1

The CFO should be an effective organizational leader and a key member of senior management.

As an effective leader and key member of senior management, the CFO needs to facilitate the delivery of sustainable value creation and preservation.

As a senior manager, the CFO's primary responsibility is to provide shared leadership and vision to the organization, its employees, and other key stakeholders. Although this should not be misconstrued as assuming the role of the CEO, CFOs are an integral component of leadership.

To be effective leaders, CFOs need to create an environment where employees and other stakeholders, such as suppliers and customers, are able to understand and share the vision and aspirations of the organization. The CFO has a pivotal role in facilitating all organizational parts to reach common performance objectives.

To perform effectively as leaders, CFOs need the requisite leadership and interpersonal skills, including communication, strategic thinking, change management,

emotional intelligence, analytical problem solving, and decision-making skills. These are critical in all organizational settings, including the public sector where the CFO is increasingly expected to be involved as a partner with the decision makers at the highest levels.⁷

CFOs are expected to facilitate organizational accountability and transparency, while providing strategic leadership. They do so by helping an organization focus on creating and maintaining sustainable value for shareholders and other stakeholders, which involves more than simply maximizing revenues and minimizing costs. It requires a focus on decisions that

⁷ Chartered Institute of Public Finance and Accountancy, *The Role of the Chief Financial Officer in Public Service Organizations* (2009) and Institute of Chartered Accountants in England and Wales, *A CFO at the Cabinet Table? Strengthening UK Government Finances for the Future* (2013).

maximize expected economic value, while taking into account wider sustainability considerations and other stakeholder interests. The focus on sustainable value creation and preservation requires CFOs to strike a balance between coping with volatility, uncertainty, and short-term pressures and executing the long-term vision and objectives of the organization.

CFOs need to develop effective partnerships with other members of the leadership team, creating a common vision and view of organizational performance and challenges and opportunities. Other members of senior management often see the CFO as the voice of reason and reflective second thought, and as provider of alternative options. The role of CFOs is also outward facing, involving various stakeholder relationships and engagements, including with the external auditor, investors and analysts, banks, regulators, government, industry, and trade groups. The range of internal and external stakeholders CFOs work and build effective relationships with is large

and requires a CFO to be an effective and influential communicator and negotiator.

CFOs may also take on oversight responsibility for other organizational functions and aspects, such as infrastructure management, IT, human resources and payroll, operational responsibilities, and administration. This is often the case in small- and medium-sized organizations, where CFOs frequently need to fulfill various roles and responsibilities.⁸

An expanded operational role has led to some CFOs taking responsibility for traditional chief operating officer functions. This broader operational remit provides opportunity for CFOs to align support functions and create high levels of effectiveness and efficiency by ensuring that processes transcend functional boundaries and are integrated to better support business needs and objectives (see Principle D).

⁸ IFAC, *The Crucial Roles of Professional Accountants in Business in Mid-sized Enterprises* (2008).

CFOs have to position themselves as primary drivers of corporate strategy along with CEOs. They have to work as a strategist rather than a tactician to ensure the financial health and sustainability of their organizations and, most importantly, to ensure that shareholder expectations are met.

—Dr. Murtaza Abbas, CFO, Siemens (Pakistan) Engineering Company Limited

Principle 2**The CFO should balance the responsibilities of stewardship with those of business partnership.**

The CFO role requires an appreciation of the importance of the dual aspects of conformance and performance. Conformance includes providing stewardship of organizational assets and ensuring that the organization conducts itself in accordance with relevant legal and regulatory requirements. Performance includes helping the organization develop strategy, obtain resources, and deliver its strategic objectives sustainably. These different and distinct facets of the CFO's role need to be undertaken with integrity and without compromising one another.

While the nature of the role gives CFOs a good vantage point within the organization, it brings with it particular responsibilities and challenges. These include ensuring that stewardship aspects of the role do not compromise, and are not compromised by, the increasingly important aspect of business partnering, and that CFOs retain credibility and the ability to deliver both aspects of their responsibilities effectively.

CFOs' stewardship responsibilities have become ever more complex, particularly where they deal with different accounting, tax and treasury, regulatory, and legal environments across multiple jurisdictions.

Stewardship involves directing and overseeing various "hygiene factors" that are critical to ensuring an organization safeguards its assets against abuses and does not lose its license to operate. Stewardship depends on effective governance, including risk management and internal control, that supports the organization in achieving its

objectives.⁹ Stewardship responsibilities include being a custodian of corporate governance in conjunction with the CEO and company secretary where one exists, asset stewardship, financial planning and analysis, organizational reporting and transparency, and tax and treasury.

The governance role of the CFO is multi-faceted and governance practices. Some aspects of the role may require a broad range of skills and competences. In general, the governance role covers:

- the CFO as executive support to the board of directors in the provision of financial and non-financial information, both historic and forward looking to support the board's decision making;
- the CFO as support to CEOs—for example, it is usual to see both the CEO and CFO presenting the organization's results to investors and other stakeholders; and

⁹ IFAC, *Evaluating and Improving Internal Control in Organizations* (2012).

- the CFO as an active participant in the organization's investor and stakeholder relations engagement strategy.¹⁰

The CFO may also be a director of a company with statutory duties. In some jurisdictions, it is standard governance practice for boards to comprise both executive and non-executive directors, and for the CFO to be appointed to the board. These boards are referred to as unitary boards. CFOs who are directors should be aware of their legal responsibilities and fiduciary duties while driving processes to help other directors and management understand and take responsibility for fulfilling their duties to the organization and its shareholders and stakeholders.

¹⁰ CGMA, *Governing for Performance*, 2012.

The duties of a CFO appointed to his/her organization's board extend to the whole organization; his/her duties are not limited to those of his/her individual executive role.¹¹ In such cases, it is sometimes recommended that the CFO takes up a non-executive director position on another board to broaden his/her understanding of board responsibilities. In some jurisdictions, such as the US, the number of CFOs who are directors of their own boards is in decline, reflecting a general trend for greater board independence with the CEO as the only executive director on the board.¹²

¹¹ Financial Reporting Council, *Guidance on Board Effectiveness* (2011).

¹² Maxwell Murphy, "A Waste of a Board Seat," *Wall Street Journal*, October 15, 2012.

The CFO is the key person in supporting management teams to make strategic decisions on how the organization will sustainably create value. Although providing financial and non-financial information and analysis is part of the role, and plays to the traditional strength of professional accountants, a CFO is expected to contribute to strategic and management thinking as the partner to the business unit heads. At the end of the day, the organization and CFO are judged on the success or failure of the strategic choices made.

—*Ed Lam, chief financial officer, Li and Fung*

While fulfilling a stewardship role, CFOs are also expected to help drive the performance of the organization by participating in strategy development and validation, implementation, and evaluation. In strategic performance management, CFOs need to ensure that the F&A function supports strategic and operational functions and the delivery of business objectives and provide greater visibility and understanding of performance. Providing greater insight on business performance also typically requires CFOs to oversee data and information management, including implementation of information systems, business intelligence, and data mining.¹³ Ultimately, CFOs need to go beyond delivering numbers and information to delivering insights into performance and the factors affecting it. For CFOs in technology companies, data and performance analysis can be a significant part of the role.¹⁴

Delivering business insights requires CFOs to have a good understanding of the external and internal business environment, including the complexities and challenges faced by various organizational functions as well as by the organization as a whole.

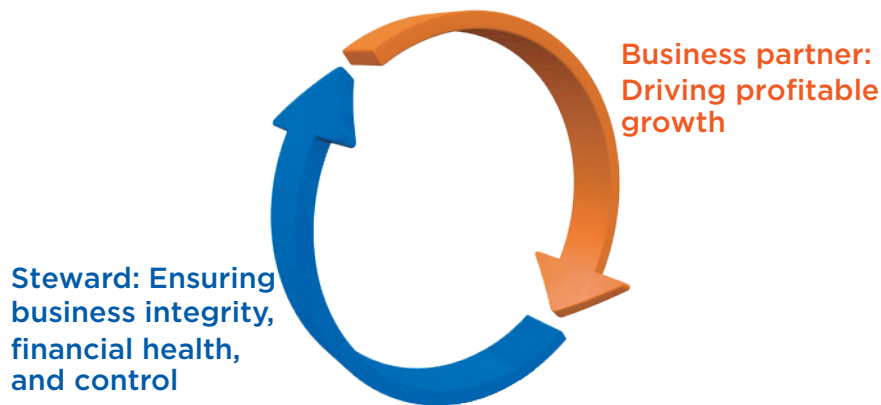
¹³ IFAC, *Predictive Business Analytics: Improving Business Performance with Forward Looking Measures* (2011)

¹⁴ David McCann, "A New Breed of CFO," *CFO Magazine*, July 25, 2013

This awareness leads to more effective business partnering with the CEO and leadership team, and being able to add greater value to business segments and operational units. Business partnering includes supporting others to deliver strategic and operational objectives, whether around market, cost, or innovation leadership.

Effective business partnering involves managing collaborative relationships and potential conflicts, and being a trusted and proactive partner in decision making. Business partnership and stewardship responsibilities can be likened to the accelerator and brakes on a car, which are both needed and not in conflict with one another. Safeguards need to be built into organization design, reporting structures, and professional development to deal with all the risks associated with driving business performance and growth, particularly with short-term business objectives in mind. Managing cultural clashes between different parts of an organization can also be critical, such as those that may arise between the team responsible for ideas and innovation and the F&A function, which might apply traditional finance metrics and decision rules to early stage ideas rather than more flexible portfolio approaches to project evaluation.¹⁵

¹⁵ CGMA, *Managing Innovation: Harnessing the Power of Finance* (2013)



The partnership and stewardship roles should have a dynamic, complementary relationship.

As business partners, CFOs need to be alert to situations that might compromise their professional objectivity. The most effective safeguard against accountability confusion arising from potential tensions between stewardship and business partnership is to adopt a business mindset without sacrificing the objectivity and skepticism that CFOs require to persuasively challenge potentially imprudent managerial decisions. The training professional accountants bring to the CFO role is an advantage in terms of uniting an ethical mindset

with expert-level business acumen. Providing collaborative challenge to peers requires a business understanding and intimacy that extends beyond an understanding of financial performance.

CFOs should be able to balance and manage both stewardship and business partnering without compromising their responsibility to connect, support, and challenge the organization. This improves the quality of important decisions to ensure business strategy delivers the highest financial value at an appropriate level of risk.

Finance has a seat at the table in the management team of the business; however, we have to prove our value every day. The financial professional has to find the balance between supporting the business and challenging where necessary, which involves holding up a mirror to business colleagues. Effective business partnering requires a combination of a straight back and commercial insight.

— *Hein van den Wildenberg, vice president, control, governance, risk and assurance, Shell*¹⁶

¹⁶ Nederlandse Beroepsorganisatie van Accountants, “Hein van den Wildenberg: ‘Ik geloof in evolutie’”, July 16, 2013.

Principle 3**The CFO should act as the integrator and navigator for the organization.**

With their broad perspective of the organization and the environment in which it operates, CFOs need to help their organization navigate through the processes and challenges of strategy development, management, and execution. As integrators and navigators, CFOs should facilitate the sustainable creation of value by helping to ensure that their organizations incorporate or integrate economic, environmental, and social factors at all levels of decision making and reporting.

To perform effectively as integrators and navigators, CFOs need to be positioned centrally, alongside the CEO, in the strategic management of the organization. This involves being able to facilitate a common and unifying perspective on an organization's strategic objectives, opportunities and threats, business model, and critical success factors — including resources, capabilities, and competences — needed to deliver the strategy in relation to changing circumstances and environmental factors and trends.

CFOs can leverage their broad perspective of the organization, and their understanding and experience, to ensure that their organization identifies and addresses relevant factors. Such factors include competitor and market dynamics, technological change, and innovation in the course of strategy development, management, and execution, as well as facilitating the sustainable use of resources.

CFOs can facilitate integration within organizations by applying a “systems thinking” approach to implementing governance, management, and reporting processes, such as risk management, internal control, and business reporting. A systems approach

enables an understanding of how things influence one another within a whole and emphasizes the relationships among a system's parts, rather than the parts themselves. Good governance affects the entire organizational cycle of strategic planning, resource utilization, value creation, accountability, and assurance and can lead to cheaper and broader-based capital. Adopting a holistic approach ensures that good governance and risk management are not “bolt on” but “built in” — integrated into all aspects of an organization.¹⁷

Situated at the intersection of strategies, processes, and information, CFOs need to lead and coordinate high-quality communications and reporting through effective reporting processes.¹⁸ Enhanced forms of business reporting, including integrated reporting, can be used as part of an effective communications strategy for an organization to address the increase in the volume and frequency of information made available. It helps to ensure that investors and other stakeholders gain more insight and understanding of the organization's current and future performance.

¹⁷ IFAC, *Integrating Governance for Sustainable Success* (2012).

¹⁸ IFAC, *Principles for Effective Business Reporting Processes* (2013).

The broad-based experience acquired by a professional accountant is sound preparation for the CFO to lead the integration across the entity, supporting the alignment of resources with strategic choices and ensuring the organization understands fully the performance and outcomes of such choices as part of a continuous review cycle. The forthcoming integrated reporting requirements will be a new challenge for us all in helping organizations understand and embrace the spirit of sustainable thinking and actions.

— Alan Johnson, CFO, Jerónimo Martins

Corporate responsibility, or sustainability, is becoming a key consideration for management action in terms of how to integrate economic, social, and environmental factors in interactions with stakeholders and business practices. CFOs should be well placed to take on responsibility in this area, particularly in integrating and connecting financial and non-financial performance. This responsibility requires them to be adept

at engaging a wider range of stakeholders and bringing different parts of an organization closer together, such as through efficient integration of business processes, to improve connectivity and understanding of the drivers of value. By bringing together various business functions, processes, and systems, CFOs can also better support the information needs of governing bodies, management, and external stakeholders.

CFOs Increasingly in the Driver's Seat on Sustainability

In a **2012 Deloitte global survey**, 26% of CFOs reported that they are the person in the organization who is accountable to the Board for their company's sustainability strategy — a nine point increase over 2011. A majority of CFOs (53%) said their involvement in sustainability increased in the past year; even more (61%) expect greater involvement in sustainability in the next two years.

Principle 4

The CFO should be an effective leader of the F&A function.

The CFO needs to lead an efficient and effective F&A function, guiding the organization to efficiently use resources at the same time as delivering value to its customers. The CFO should be able to assess and optimize the benefits, and manage the challenges, arising from trends, such as centralization, outsourcing, and offshoring of the F&A function, while ensuring that financial talent and capability is retained and groomed within the organization.

Providing leadership to the F&A function involves developing and implementing a vision on what it should look like in terms of structure and service delivery, and how it can meet the needs and expectations of the organization. A vision and service delivery model typically involves managing the cost base, at the same time as sustaining growth strategies by providing business insight to support decision making.¹⁹ CFOs are expected to ensure the F&A function delivers proactive business partnering and serves as a role model for other functions in the areas of transparency, quality, ethics, and innovation.

Aligning the F&A function with delivering the organization's objectives involves developing an effective talent recruitment and management strategy to attract, develop, and retain finance talent and the skillsets required to support stewardship and business partnership responsibilities. To create time for the broader responsibilities of the CFO

role, establishing strong and competent leadership to oversee the various elements of the F&A function is a critical task.

As part of F&A leadership, it is important to have a core of F&A professionals who have undergone appropriate professional accountancy or related training and qualification programs, and who have a good understanding of the current requirements of financial reporting and related compliance work.²⁰ CFOs also need to consider how greater diversity and range of competences can enhance the contribution of the F&A function. This may involve recruiting individuals from different sectors, with different backgrounds and experiences, who can fulfill the expanding, and increasingly complex, roles and responsibilities of F&A functions.

Career paths within F&A in many organizations are becoming less clear, particularly driven by the utilization of shared business services and

19 Association of Chartered Certified Accountants and the Institute of Management Accountants, *Finance Leaders Survey Report: December 2012*.

20 IFAC, *Integrating the Business Reporting Supply Chain* (2011), Recommendation: A Minimum Level of Qualification Should Be Required for Preparers of Financial Information.

outsourcing. Many global organizations strive for a unified F&A service delivery model and, increasingly, a unified wider-business service delivery model where transactional financial and other operational processes and activities are centralized and standardized.

Centralization has coincided with trends toward outsourcing and offshoring. Although these trends have created significant opportunities for streamlining and increased efficiency, and providing

more time for the retained F&A function to focus on business partnership, they have also given rise to some potential challenges CFOs have to manage. These include balancing cost reduction pressures with service delivery quality, securing operational improvements when process ownership does not transcend functional boundaries, and managing talent and career pathways that might be fragmented as a result of outsourced or disjointed service structures.

At Unilever we operate a hybrid model, using a number of business process outsourcing relationships to provide transactional finance activities, but also we are now setting up operating centres that offer finance services further up the value chain to the organisation to drive the effectiveness of our finance operations.

In terms of the talent challenge there are some issues from the operating centre perspective—our work is focused on higher-value finance activities and, as we have moved in country finance operations and centralised them, we have lost some experienced F&A people. So, trying to recruit that level of finance “capability” and tacit knowledge into the centre is always going to be a challenge. It’s about counterbalancing losing the tacit knowledge in the retained finance function/in country by the benefits and expertise you get from standardisation and centralisation in the operating centres. Our aim is to build and retain valuable deep Unilever accounting knowledge in conjunction with centralised finance models, standardised finance processes, and increased automation.

— *Arnold van Boven, director finance and accounting operation, Unilever*²¹

21 Association of Chartered Certified Accountants, *Talent and Capability in Global Finance Functions* (2013).

CFOs are, therefore, expected to assess and optimize the benefits and address the challenges deriving from these changes. They need to ensure that a sufficient number of talented professionals are available in the organization and, where appropriate, are groomed for senior roles. Some CFOs are challenging their organizations' approach to managing F&A operations through outsourcing and offshoring arrangements, particularly as the economics of alternative operating models (e.g., outsourcing versus insourcing) and the extent to which the activities are crucial to day-to-day operations, impact decisions.²²

In an organization where core F&A processes have been outsourced, CFOs often need to combat an “us versus them” culture that can develop between those in a shared service center and those within the retained F&A function. In addition to ensuring quality control over outsourced work, CFOs need to ensure that career paths allow

the development of sufficient knowledge and expertise for both stewardship and business partnering responsibilities.

Facilitating the engagement of F&A with the rest of an organization is critical to enhancing trust and credibility. A key challenge is lack of interaction beyond the F&A function to arrive at a shared view on how F&A activities meet business needs. Effective business partnering requires frequent and proactive communication between line managers and F&A staff, far beyond the limited interaction of periodic reporting. Applying “lean thinking” principles (delivering customer value without waste) can help to better meet the needs of the organization. This involves identifying those organizational objectives and departments that the F&A function is serving and building effective and influential relationships with them, including:

- operations — enhancing operational and supply chain effectiveness;
- marketing and branding — assessing the return on marketing and brand investment; and

²² Kathleen Hoffelder, “[Controllers Eye Alternatives to Outsourcing](#),” *CFO Magazine*, November 14, 2012

- research and development (R&D) — ensuring effective investment in R&D and innovation.

A customer-focused approach helps to ensure the F&A function delivers its products and services effectively and efficiently in a way that meets the needs of the organization without compromising the integrity and objectivity that stakeholders expect to be reflected in the work of the F&A function.²³

²³ Institute of Chartered Accountants in England and Wales, *Special Report: Lean Thinking* (2012). Also see the UPS case study on customer and stakeholder focus from the perspective of the CFO in *Integrating Governance for Sustainable Success* (IFAC, 2012, p. 21).

Effective leadership also involves ensuring the F&A function is adaptive and changes as the organization and its needs change. This requires embracing more dynamic and responsive approaches to planning and performance management that enable the organization to respond to the uncertainties of a rapidly changing business environment that affect key business drivers, such as product/service demand, resource input, prices, and availability. CFOs will also have to increasingly exploit and feel comfortable with new technologies that enable new ways of working, such as real-time reporting.

It is critical that the Board and the senior management of the organization realize the evolving contribution of the finance-business partnering. Only through this partnership relationship the CFO and his/her team could deliver results and meet expectations of internal customers arising from the ever changing business dynamics and the fast moving economic cycles. On this, the CFO also has to fulfill a leadership role to help establishing business visions and values, organizational structure, culture, and mindset for the organization to deliver results.

— *William Lo, executive director — finance, Airport Authority Hong Kong*

Principle 5**The CFO should be a professional and bring professional qualities to the role and the organization.**

CFOs should bring professional qualities to their role and encourage ethical behavior and decision making throughout an organization to ensure sustainable value creation. In performing the CFO role, professional accountants are anchored by their fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

Strong ethical leadership and good governance are prerequisites for sustainable value creation and require organizations to go beyond compliance with laws and regulations. Organizations that do not act ethically eventually lose their “license to operate” with the resulting failure likely to have an impact on a variety of stakeholders. An ethical culture and accountability starts with the tone-at-the-top and an ethical mindset applicable to all parts of an organization. CFOs’ most important leadership capability is viewed as their ability to demonstrate integrity, both in their words and actions.²⁴ External stakeholders, such as investors, increasingly place weight on ethical leadership and good governance and they value professionalism and

objectivity, in addition to business acumen and business partnering skills, in CFOs.

CFOs have a shared responsibility to ensure the entire organization is attuned to high ethical standards and aligned with the values, goals, and objectives of the organization. Foremost, CFOs should help to set the tone at the top by displaying and encouraging professionalism and ethical behavior. They can encourage an ethical culture in their organization and, if need be, encourage senior management to proactively demonstrate the importance the organization places on ethical behavior. The right tone at the top permeates throughout and organization and can be facilitated by a prominent values-based code of conduct.²⁵

²⁴ Financial Executives International (Canada), *Beyond the Numbers: The Evolving Leadership Role of the CFO*, (2011).

²⁵ IFAC, *Defining and Developing an Effective Code of Conduct for an Organization* (2007).

New Brooms Sweep Clean

We need to make sure corporate governance clearly defines the mandatory boundaries, but then — at the same time — it needs to provide space for responsible entrepreneurial behavior. There are a few overarching principles:

- focus on the longer term;
- work on the real and sustainable values; and
- consider the interest of stakeholders.

Compliance is not a program, but the foundation of sustainable business. We define clear responsibility and accountability aligned to our organizational structure and our chain-of-command processes accordingly.

—Joe Kaeser, former CFO and current CEO, Siemens²⁶

A key advantage and added value that professional accountants bring to the role of CFO are their ethical standards and professionalism, which are governed by the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* or equivalent national codes.²⁷ Throughout all the activities they perform as CFOs and in diverse settings, professional accountants are anchored by their fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior that apply in performing a CFO role.

- Integrity: being straightforward and honest, which provides the basis of transparency and can be applied to various aspects of the CFO role,

such as ensuring information is prepared fairly, honestly, and in accordance with relevant professional standards, regardless of whether it forms the basis of management information or external disclosures.

- Objectivity: not allowing professional or business judgments to be overridden by bias, conflict of interest, or the undue influence of others and taking reasonable care and judgment to maintain objectivity in the CFO's professional activities.
- Professional competence and due care: maintaining professional knowledge and skills to ensure the organization receives professional and competent service based on the requirements of various aspects of the role. In relation to stewardship, this will involve ensuring information fairly represents the performance and condition of an organization, and complies with all applicable legislative requirements.

²⁶ IFAC, "Interview with Joe Kaeser: New Brooms Sweep Clean," *Financial Reporting Supply Chain Theme 1*, June 1, 2010.

²⁷ International Ethics Standards Board for Accountants, *Code of Ethics for Professional Accountants* (2013).

As a business partner, professional competence extends to doing one's utmost to ensure that the goals of the organization are delivered.

- Confidentiality: not disclosing or using confidential information acquired as a result of a professional and business relationship outside the organization without authority or a legal or professional right or duty to disclose.
- Professional behavior and professionalism: not engaging in any action that discredits the accountancy profession and the CFO's professional reputation. Professional behavior requires compliance with relevant laws, regulations, and professional and ethical standards and being guided by the spirit of those laws and regulations as well as the wording.

Applying professional qualities, such as professional judgment, can involve reconciling conflicting commercial, financial, sustainability, and stakeholder interests. Tensions and conflicts can arise at all levels and, therefore, CFOs will increasingly need to apply their professional qualities and ethical leadership in support of sustainable value creation. This may involve questioning decisions that appear to be directed at short-term gain at the expense of longer-term objectives or those decisions made for personal gain. CFOs are also expected to apply their judgment to balance a need for organizational nimbleness, which requires quick and intuitive decision making, with a need for evidence-based decisions. These characteristics are central to the distinctive attitude, outlook, or way of thinking that should be the mindset of an experienced professional accountant in business.

With the move toward business partnering, there is a potential threat to finance professionals as they may lose objectivity. However, this should not be a concern where the organization's finance staff are professional accountants and retain their membership in an accounting institute, complete their continuing professional development obligations, and comply with its professional code of ethics.

— *Keith Luck, strategic programmes director, Serco plc and deputy president, Chartered Institute of Management Accountants*

Recommendations for the Accountancy Profession and Employers of Professional Accountants

To fulfill the expectations placed on CFOs and effectively operate as a key member of the leadership team, CFOs, and professional accountants aspiring to become CFOs, need a broader perspective and a wider set of capabilities and skills than those needed for carrying out only core F&A responsibilities. From an individual perspective, professional accountants need to consider how to develop the necessary competences for finance leadership, such as through appropriate education and experience, and lifelong learning that can be enhanced through mentoring and coaching, working closely with others, and networking.

A research report from Robert Half Management Resources reports that a third of surveyed executives find it difficult to source candidates with the right experience to implement a business partnering approach.²⁸

The accountancy profession and employers can take the following actions to help professional accountants leverage their technical knowledge and professional skills, and prepare for a strategic leadership role.

For Professional Accountancy Organizations

1. Identify and address any significant gaps between the skills organizations expect of their CFOs and finance leaders and the qualification and professional development of accountants. Bridging any identified gap can involve PAOs reviewing multiple aspects of the work they do, including engaging with various stakeholders to ensure that the qualification, training, and continuing development of professional accountants adequately prepares them for finance leadership.
2. Proactively engage with employers and business communities to understand their needs and requirements, particularly in relation to supplying relevant candidates for CFO and

²⁸ Robert Half Management Resources, *Business Partnering Report 2013*, 2013.

other finance leadership roles. A deep awareness and understanding of these needs informs the decisions PAOs make in relation to the content and delivery of their educational frameworks and support services, qualifications, and training at both a pre- and post-certification level. Employer engagement also allows PAOs to facilitate employers' understanding of the benefits that professional accountants can offer in finance leadership roles. This can involve promoting employers' awareness of the on-going support provided by PAOs to members, including keeping members' knowledge current and providing business networking opportunities, which has correlated benefits for employers of professional accountants.

3. Ensure that the scope of qualification and training of professional accountants incorporates broader professional and interpersonal capabilities and skills, which will need to be further developed and refined throughout a career.²⁹ Although these capabilities and skills will mainly be developed after certification, the foundation for their development should be covered in accounting education and training. Attention should be given to defining the competency requirements accountants need for

²⁹ International Education Standard (IES) 3, *Initial Professional Development — Professional Skills*, provides the range of professional competence areas and related learning outcomes needed by professional accountants to demonstrate competence. IES 3 was revised and released as an *Exposure Draft* in 2012. Details on the revised standard, including tentative timing for final publication, are available on the [International Accounting Education Standards Board website](#).

their long-term careers, without compromising the fundamental F&A and human skills that form the basis of professional accountants' core competence. The core competencies for Certified Public Accountants (CPAs) identified in CPA Horizons 2025 are communications skills, leadership skills, critical-thinking and problem-solving skills, anticipating and serving evolving needs, synthesizing intelligence to insight, and integration and collaboration.³⁰ Topics and issues that are relevant to a career in business or the public sector, which are also relevant to aspiring CFOs and finance leaders, include:

- corporate responsibility and sustainability;
 - leadership, people, and change management;
 - managing and dealing with uncertainty;
 - strategic management and planning;
 - corporate finance;
 - performance management;
 - operations;
 - relationship and project management;
 - marketing; and
 - information technology and systems.
4. Foster and encourage a commitment to lifelong learning among professional accountants. Although it is the responsibility of the professional accountant to develop and maintain

³⁰ American Institute of Certified Public Accountants, *CPA Horizons 2025* (2011).

professional competence through continuing professional development (CPD) and education, PAOs can facilitate access to CPD opportunities and resources, and adopt prescribed requirements relating to the development and implementation of appropriate measurement, monitoring, and compliance procedures.³¹ The Internet and mobile technologies also enable professional accountants to engage in education whenever and wherever it is needed, which presents an opportunity for PAOs to be more innovative in how they support their members in lifelong learning.

5. Engage more effectively with professional accountants in business. An increasing number of PAOs provide specific and targeted support structures and services to help their preparation for senior finance leadership positions. Various approaches include:
 - Establishing, within the PAO, dedicated governance-support structures for professional accountants in business to help identify and deliver appropriate support and development activities (e.g., establishing professional accountant in business-focused faculties, interest or advisory groups, and committees).³²

- Promoting and supporting credentials specifically for professional accountants in business.
- Providing a broader range of specific CPD courses and training opportunities that help prepare aspiring accountants to senior leadership roles, assisting in development of business skills needed to be an effective CFO. These are often delivered through collaboration arrangements with third party institutions and education providers, such as university business schools, providing access to relevant postgraduate educational programs that can assist preparation for management leadership.

Some PAOs currently do not admit professional accountants in business as members. These PAOs also have the opportunity to help prepare professional accountants who wish to move into finance leadership for the challenges they will face in working in an organizational context.

For Employers of Professional Accountants

1. Develop closer relationships with PAOs and other education providers to help ensure that professional accountants in the organization are able to provide effective support and maximize their potential and the value they add to the organization. Where appropriate, establish targeted training schemes to support the qualification and training of professional accountants in the

³¹ IES 7, *Continuing Professional Development (Redrafted)*, prescribes the necessary continuing professional development (CPD) for professional accountants required to develop and maintain their professional competence so as to provide high quality services to clients, employers, and other stakeholders.

³² IFAC, *Establishing Governance: A Guide for Professional Accountancy Organizations* (2013).

business environment to facilitate the preparation of individuals that bring the relevant skills, competency, and experience into the workplace from the outset of their careers.

2. Ensure that investments in training and development go beyond developing technical skills, particularly for prospective finance leaders. Development needs should cover the acquisition of leadership and analytical skills and the behavioral competence and cultural mindset required to be successful outside of a specific job or role, which can all be molded and enhanced by exposure to non-finance areas of an organization, such as operations and sales. Although poor interpersonal skills are often the main reason for an employee's failure to advance in an organization, organizations are far more likely to offer training in more technical categories — accounting or finance, and information technology — than in soft skills.³³
3. Where feasible, provide job rotation and placements around various parts of organization to help provide professional accountants with wider business understanding and further develop their business acumen. After starting a career in one of the key parts of the F&A function (e.g., planning and control, decision support, treasury, tax, internal audit, accounting operations, etc.), job

placements or exposure to broader commercial and operational roles is essential. According to the research report *Future Pathways to Finance Leadership*, of nearly 750 CFOs surveyed worldwide, the majority (61%) have never taken roles outside of the finance team, spending their careers entirely within the boundaries of finance.³⁴ This represents an on-going challenge for finance leaders in developing their commercial acumen and understanding, and suggests much of these developments takes place in the role as CFO, rather than during the career journey. Rotation through, or exposure to, business support services might also be a critical part of developing career paths for finance leaders. This recognizes that prospective CFOs must also understand business service operations and how the business operates to provide products and services to customers.

4. Develop human resources development strategies that respond to the complexity of global F&A functions that might spread across geographies and, therefore, need to deal with language and cultural differences, and virtual teams located disparately. In this context, the effective delivery of training and development ideally requires a combination of face-to-face development time, on-the-job learning, coaching, and mentoring, as well as digital and real-time approaches that allow flexibility for

33 Neil Amato, "CFOs say soft skills are needed, but many aren't offering training in them," *CGMA Magazine*, July 1, 2013.

34 Association of Chartered Certified Accountants and Institute of Management Accountants, *Future Pathways to Finance Leadership* (2013).

F&A professionals to access learning according to their preferences and needs. CFOs should also look to support training programs or learning interventions put in place to facilitate the development of finance careers and future finance leaders.

5. Capitalize on professional accountants' training in, and understanding of, ethical conduct by, for example, encouraging them to share their knowledge and professional standards and guidance with others in the organization, including in the context of developing organizational codes of conduct and ethics.



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