

Critical Role of CFO's in changing scenario of corporate

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ABSTRACT

The function of corporate finance is already a complex and multifaceted, improved by altering regulatory environment, funds and resource limitations and executive ideas for growth of corporate business. As stakeholders have desire for faster and clearer information in proper layout. There is an increasing demand for transforming role of CFO, to achieve essentially both technical and managerial edge. CFO could fulfill the requirement by changing his mind from being technical to managerial in nature.

Keywords: *Chief Finance Officer; Strategic role; Finance Function*

1. CFO

CFO or Chief Financial Officer, an individual in a company who operates and manages the financial risks of corporate business. CFO is also recognized as treasurer, finance director or financial director. The officer has several responsibilities such as to handle both the inflow and outflow of cash, balance the books, generate reports about spending and possibly direct payroll.

The officer has more than a few other tasks like in a small organization; a CFO would likely to prepare financial reports for each corporate meeting, file the company's taxes each year, future financial planning, responsibility to pay employees, keeping record on how money is received and how it spent. Whenever these records are to be needed for public corporations, these immediately made available to the shareholders and to the community.

2. Major duties and key role of CFO's

An already involved and multifaceted corporate finance role is fuelled by a changing regulatory environment, budget and resource constraints and plans for corporate expansion. There is an ever increasing need to gain both a technical and strategic edge. Management and investors have a seemingly insatiable appetite for information, which must always be delivered faster and in ever clearer formats (www.ey.com). The information includes not just accounting, tabulation and reporting of data but attention to analysis, communication and presentation are also important features to be considered. It is not considerable that IFRS (International Financial Reporting Standards) have tested the resources of organization and individuals, the opportunities and challenges are continuously increasing for FC:

- a) IFRS are now embedded and there are few major regulatory changes in the pipeline.

- b) The continually increasing global reach and complexity of business means more exposure for FCs.
- c) A giant pressure occurs on delivering the higher quality management information.
- d) Pressure to enhance efficiency towards effectiveness is rising; this includes the utilization of joint services, outsourcing and trade with the maturity of technical systems.
- e) The CFO's role is developing, mainly for investor relations, for which the FC with huge ambition is being offered with more prospects.
- f) Compensation along with huge fringe benefits is very eye-catching.

3. Challenges among CFO's in current scenario:

3.1 Main challenges

Recruiting skilled finance people has been clearly voted top for the last five years. Close behind has been keeping up to date with the legislative changes and regulatory changes demanded by IFRS. An immense amount of manpower has required executing regulatory change. Furthermore, there is also no margin for inaccuracy, there has been extensively increased regulatory analysis and yet the reporting deadlines have not been relaxed!

3.2 The challenges ahead

To recruit talented person for the post of CFO, remains the biggest challenge among all of our survey respondents. The foremost shift yet appears to be the expectation that keeping up-to-date with new regulations will decline in importance over the next five years, dropping from second to sixth place. Many of the requirements of IFRS now embedded. However, although the worst has ended now, it may be only an issue of time before new regulations emerge.

4. Top priorities for finance function

4.1 Four priorities for FCs

"The risk," "is that you never invest the time to work out what is need to do, and to identify what you are missing that would improve business operations. You need to look far enough in the future to remain ahead of the game."

FCs cannot hope to make growth and advancement on all fronts due to the restriction of time and money.

As a result it is imperative to choose a handful of area and to focus efforts on them. From the research we have identified four key areas where FCs is most likely to add overall value through continual focus and effort:

- a) Finding and developing talented people
- b) Improving reporting and adding value to the business
- c) Getting the basics right
- d) Improving efficiency

In general, the research shows that FCs believes, they are performing amazingly while delivering correct monthly reports and maintaining better controls. They assumed that the finance function is less competent in providing useful reports, value adding and running efficient business processes.

4.1.1 Seek out talented and skilled people

Hiring skilled staff is rated as the number one challenge for FCs in coming years. *“First focus on getting good people, efficient systems and processes, and a continuous improvement culture,”* suggests a controller and chief accounting officer, *“then leave them to it and do the fun things — help the business.”* It is progressively more difficult to place the people at right place or high-level technical skills, however, especially in the case of IFRS. The FCs role diversifies with different functions is to be balanced, ranging across the scale from low-level data crisis to technical expertise, to line with business partners. A deputy finance director from a FTSE 100 firm observes, *“For me, adding value is about looking to invest in highly capable people who understand the business and who can provide the chief executive with the information necessary to run the business.”*

Apparent staffing approach and an understanding of how changes at the top will influence the skills for the rest of the finance purpose are significant in attracting and retaining the people as per organisation need.

Key note: Recruiting is hard and it takes continual effort to maintain it as a number one priority. It is essential to invest time in bringing in and developing good people the payback is exponential.

4.1.2 Improving reporting and adding value to the business

Management reporting stay base on which the FCs role is built, because it is significant or the edge of finance and the business (Gitman, 2012). Yet, although its importance, internal management reporting is not reviewed to is one of the finance function’s more flourishing vicinity. Many of the respondent see little problem with the *accuracy* of group monthly reporting — FCs give themselves more than nine out of ten for this function. The problem is with the *worth* of the reporting. Usefulness of information ranked as the only most precious factor for a finance function to get right. It is very critical that management reporting is associated with the business strategy.

The study results highlight the following trends in successful reporting:

- a) Including more non-financial key performance indicators
- b) Delivering reports electronically, with grilling tools
- c) Providing more added-value comments
- d) Driving for significance and brevity

4.1.3 Getting the basics right

No matter how good your people are and how well you service the business — if the numbers aren’t robust you have a problem. There is no question that IFRS have presented challenges for FCs around some of the basic areas of responsibility that were perhaps taken for granted. After several years of intense work, financial processes are generally operating at a high standard, particularly in the consolidation and group reporting functions. Yet regulatory challenges continue and the pressure is on once again for finance to improve efficiency and effectiveness. Our research indicated two areas of future importance around the day to day delivery from the finance function:

- a) Enabling the processing of transactions and closing the books in the most effective manner.
- b) Dealing effectively with the technical issues that arise from changes in the business model, new contracts and M & A activities.

Many FCs have had to hire in technical specialists to cope with the difficulty of the new regulations. Some of those repeated just how important it is for the FC not to get too caught up in the technical details of new accounting rules.

It is good to hire an extremely proficient technician to deal with these. Charles *“Life has become very complicated in the technical accounting space,”* he explains, *“it has reached the point where I have a technical accounting expert and I can’t imagine life without such a role or such a person.”*

4.1.4 Improving efficiency

However, large you are a promoter of finance, at the end it is a back-office function and is subject to annual yield and efficiency pressures. Undoubtedly new IT systems and process standardization have helped eliminate the scheduled work of the finance function and drive down costs. Most of the respondents were demonstrative about the benefits of IT investments and shared service centers. *“We think there is more mileage to be had from standardization and underpinning great controls. This will lead to more efficient information flows which will recycle into better business performance.”* Head of external reporting The cost of finance as a percentage of revenue has dropped consistently since 1992. Richard Sandwell, Lead partner, Finance and performance management, Ernst and Young states, *“Over the last 10 to 15 years we have seen the total cost of finance as a percentage of turnover reduce by between 30 and 50 percent. This has been driven by continued investment in enterprise resource planning software tools and by delivery models such as shared service centers. We have also seen the most efficient cope with the burden of IFRS more cost effectively due to common processes and standardization.”* The risk for finance is that there is a acuity that money has been pumped in to address the change in the regulatory environment and that it will all be extracted out. Finance needs to show it can invest the savings it has made into value-adding opportunities before the budget is stripped away again. There is an opportunity for FCs to take these savings generated from better IT and processes and apply them to more added-value activities, e.g. more useful reporting and project work. Unpredictably given the press they often receive, SSCs had passionate support from those who had invested in them. Their impact is clear is not only to deliver substantial cost savings, but also enhances the quality.

4.2 Roles of FC’s

The finance function can be explained into 4 major roles:

- a) Analyst
- b) Business partner
- c) Scorekeeper
- d) Custodian
- e) Team Manager

Analyst

Have an open conversation with the board about management reporting and what will help them to make better decisions with discussing the following:

- a) Including more non-financial KPIs.
- b) Delivering the reports electronically.
- c) Providing more added-value commentary.
- d) Driving for relevance and brevity.

Business partner

Control your broader experience and forecasting and investment appraisal skills to help the businesses. Be a friend to the business, not a barrier. Of course, the FC is also a team manager. Given the shortage of talent, it is essential that leadership skills should not left behind.

Scorekeeper

Invest in IT and process improvement — it will save money and time in the future, and help controls. Software has improved recently; take advantage of it to optimize the operating model.

Consider the use of shared services to drive consistency and efficiency. There are so many victorious examples to be learned from and even though transition threat is significant it can be managed.

Custodian

Be strategic and upward opinion and don't get pulled into detail unnecessarily. Delegate to a technical assistance, but keep an eye on their work carefully (Barrett, 2003). Remember that the ultimate responsibility for compliance remains yours.

Team manager

Enhance human assets as people — recruit the best and focus on their career growth. Investing in personal development will help improve the skills of your team — and it will also improve retention!

Use innovative recruitment and staff development strategies. In particular, FCs concurred on the need to lead and manage well. *“Effective financial controllers have got to be able to lead teams and be technically proficient. You have to be able to step out of the detail, develop and coach people. You have to be strategic.”*

5. Personal development of Financial controller

The study resulted whether FCs wants to be CFO and the results were unpredictably split. Whilst many FCs were striving for CFO, 50% were comfortable staying where they were (Matthews and Lloyd, 2000). After all, not everyone needs to be a CFO, many find their current role pleasing and challenging enough or see the next step as becoming a finance director. Whatever their individual ambitions, it is clear that being an FC is a facilitator to other opportunities. Mark Freebairn, partner at executive search company Odgers Ray and Berndtson specializes in financial roles and thus is uniquely placed to comment. *“Because FCs is being given the responsibility for internal finances by finance directors,”* he explains, *“their role has become much more significant. People who came in to do the number two role ended up with a much bigger role than they expected, and they are now getting to do the number one role because of it. The obvious moves for a group financial controller are either to be promoted internally to the group finance director role, or into one of the larger operational finance roles, or to go externally into a smaller finance director role.”*

For those who want to embrace the challenge, the rewards are better than ever. Freebairn believes, *“FCs today is absolutely the heart of an organization. Everything flows through the FC. The role of the FC used to be one of the least exciting roles within a finance function but the changes that have happened over the last few years have made it much more stimulating and business critical.”*

The right FC role can also be a stepping stone towards a higher profile role: many FCs move on to become CFOs. Freebairn continues, *“To have undertaken the financial controller role at some point in your career is unquestionably an asset.”*

The FC's role is changing rapidly from being essentially technical to being administrative in nature.

FCs has robust business understanding and acumen (Sherman and Andrew, 2012). The huge gaps rely between importance and performance. The key three areas are:

- a) Communication skills
- b) Leadership skills
- c) Technical accounting

The main conclusion is that FCs needs an impressive area of skills, In order to succeed in current challenging marketplace. Given these needs, the research shows that many FCs are undertaking surprisingly little training. This seems a false economy.

One FD, when asked what his expectations are of a FC, commented, *“That is an interesting mix really. There is a basic requirement to get it right, so accuracy, reliability and being on top of things are important. That feeds to control as well, so making sure everything is properly dotted across to control. Once you have delivered that you are then into making sure the right information goes to the right people, i.e. that the chief executive gets the report that he wants. Then the real value added... is proactive, timely, insight. “*

6. Conclusion

Whatever your career goal is, number of actions could be considered as:

- a) To seek out more opportunities widen your thought in order to get involved with investor relations.
- b) Sketch your career with write a personal development plan.
- c) Choose your company accordingly along with FD's; don't leave it up to them to choose you.
- d) Get assorted experience in the business to move around in different units so you have a deep knowledge of the overall business needs of the marketplace.
- e) Concentrate on communication and interpersonal skills training which will emphasize on communication, leadership, influencing and networking.
- f) Don't involve much in technical detail which allots lower-level technical accounting to a safe pair of hands.
- g) Pull your wider experience, forecasting and investment appraisal skills to help the business.

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