Evolution of the CFO’s role

European CFO at the beginning of the 21st century

The new role as

Chief Performance Officer

CPM
Opening

- It wasn’t very long ago, and it wasn’t in a land very far away, that the professional life of the average Chief Financial Officer was akin a fairy tale – a fable we might call “Jack and the BEAN COUNTER.”

- In those days, a company’s CEO – this would be JACK could count on steady incremental growth coming from predictable sources.

- His CFO (that’s the BEAN COUNTER) helped tally and report the revenues and profits.

- As in most folk stories, a big, stomping giant showed up – several in fact. The 1. SOX 404, 2. Globalisation and the information technology revolution to name just three, have changed the face of the modern corporation.

- Beset by complexity; confronted by disruptive innovations from outside the conventional value chain; challenged by fickle shareholders, national and transnational regulatory bodies and capital markets in a constant state of upheaval, the contemporary company is not fairy tale!

- The CEO is no longer a carefree Jack. And the CFO, needlessly to say and speaking pro domo, is no bean counter.
Few Business roles have changed dramatically during the last generation as that of the CFO.

Especially over the past years, the pace of evolution has accelerated sharply. Firms eliminate the COO. A survey by the National Bureau of Economic Research found that 20% abolished the COO position between 1986 and 1999. These duties are being reassigned to the CFO, who increasingly finds himself or herself a vital part of the corporation’s leadership team.

With such a profound combination of staff responsibilities and even line responsibilities – that the title “chief financial officer” seriously understates the actual position. We are no longer mere business partners, leading CFOs have to become active, innovative and independent transformation agents. => in other words **Chief Performance Officers**
When most people think about a CFO, they are still thinking about our father’s CFO – an accounting role, may be expanded to tax and treasury“ Said David Shedlarz, CFO of Pfizer in an Interview published by Booz Allen Hamilton shortly.

When we take a look at the CFO’s responsibility today, you also have operations planning and analysis, information technology, strategic planning and M&A. As a member of the senior management you have to take off your technical hat, when you walk in the room.

To better understand current challenges let’s quickly look back on the evolution.
Structure

- CFO’s historic role and changing requirements (Evolution)
- 21st century trends
- Future Role and Challenges of European CFO’s
- Corporate Performance Management (CPM)
- Roadmap to grow to a Corporate Performance Officer
  - Organizational conditions
  - Role of the CFO and Skill Set
  - Cultural conditions
- Summary
History and Evolution of the CFO Role/Agenda

➢ Merchants in the medieval ages until the end of 19th century
  • Only internal financial reporting

➢ Industrialization in the 19th century
  • Increasing complexity of processes and higher capital intensity; stronger legal regulations
  • Internal reporting and – very limited – external parties to be addressed

➢ From production orientation to the Marketing idea of products in mid 20th century
  • Increasing competition and internationalization of markets lead to increased marketing orientation of companies; Client of products gets into the focus
  • Increasing competition in respect to clients, capital and resources (human capital) increases the necessity to report to external parties (such as stock exchange, shareholders, financial institutions ..)
  • Financial Performance & Controlling - especially on the cost side - become the decisive factors of company’s success in the times of growing (international) competition and worldwide overcapacities
History and Evolution of the CFO Role/Agenda

- Globalization in the ending 20th century
  - Easy access to international markets and international division of labour-work/production increase pressure from competition and cost-side
  - Increasingly homogeneous consumer demands / Tastes allow a new dimension in Economies of Scale
  - Quick market changes and technological development make flexible and division of labour/production company strategies a necessity for survival
  - Capital/Financial resources and Shareholder Value become in the context of corporate governance a decisive factor of competitive advantage

- The CFO starts to take over the role of communicating with shareholders and financial markets.

- The CFO is responsible for the financial evaluation and validity of company strategy, however has no active influence on strategic issues.
Present trends

- Globalization continuous and leads to dramatic changes in all relevant markets such as access to financial resources, human resources and consumer markets (i.e. China, Eastern Europe)

- Necessity to increased transparency and communication with the broad public, however also and firstly with the own companies work force.

- Increasing importance of financial aspects in companies strategies due to worldwide shareholder – value- focus and Return-On-Invested-Capital-focus

- Necessity to convince shareholders, stakeholders and especially capital markets of company’s continuous and steady success story respective cash generation

- Information technology revolution
Present trends

- **CFO is the „Guardian of Capital“ and at the same time „charged with adding value to shareholder wealth“**, meaning
  - Improving and facilitating the information flow within the organization.
  - Transparency of processes (SOX 404 & Risk management)
  - Analysis of financial data in respect to the company strategy
  - Coaching the senior management in respect to financial implications of strategic alternatives

- **NEW Dynamism (reason: former)**
  
  ➔ **PASSIVE entrepreneurial function (CFO)**
  - CFO of the 21st century will increasingly have to act as visionary and strategist and taking increasing responsibility within the company

  ➔ **ACTIVE entrepreneurial function (CPO)**
  - CFOs of large companies have to or have completed a successful transition from being stewards of value preservation to being business partners in value creation
  - Today, the increasingly determined focus on creating shareholder value is yet another prompt that encourages to elevate our identity from reporter to executor
From 1900 until 2005

- **Production-oriented Bookkeeper**
  - 1900

- **Marketing-oriented Bookkeeper/ Controller**
  - 1950

- **Globalisation/Shareholder Value Passive Function (CFO)**
  - 1990
  - 2000

- **Integrative Company Management (Finance/Strategy) Active Entrepreneur/CPO**
  - 2004/5

Source: Ingo. H. Möller, CFO – Meeting Berlin 2005
Future role and demands to the CFO

CFO/CPO

⇒ Value / Performance
⇒ Investments/ Innovation
⇒ Processes
⇒ Financials
⇒ Risk-management
⇒ Communication (Capital markets, banks, internal etc.)

CEO

⇒ Vision
⇒ Strategy
⇒ market positioning
⇒ Communication (Clients, business partners, Public, employees)
⇒ Operations
⇒ Innovation

Legal Requirements (SOX 404, KonTraG, etc.)

Market influences

Third party influences/ demands

Integrative Company Management

Steadiness of Company’s Return/Success

Source: Ingo. H. Möller, CFO – Meeting Berlin 2005
Future roles and external demands to the CFO

- Business partner of the CEO in leading the Company
- Primary counterpart of capital markets
- Detailed knowledge of all relevant markets and business processes and development/definition and changes of such (siehe auch SEC Regulations, SOX 404, Corporate Governance)
- Strategy development, strategy valuation and strategy implementation
- Set up of a company adjusted state of the art reporting
- Integration of risk-management into the Companies decision process and entrepreneurial decision process and the companies strategy
- Creation of a culture of innovation and flexibility, if not implemented
- Implementation of mile stone, new legal requirements (SOX 404, European legislation, Risk management etc.)

⇒ INTEGRATION of all activities and information in one consistent Corporate PERFORMANCE MANAGEMENT SYSTEM
Corporate Performance Management (CPM)

- CPM implies all strategic-, operative- and tactic processes
- CPM integrates these process to a process-circle
- Target:
  
  Increase in efficiency and productivity throughout the value chain
  
  - By putting strategic targets into operation
  - Continuous measurement of short and long term targets and deviations
  - Development of short and mid term measures to ensure the agreed KPI’s / targets

within the framework of an integrated planning and reporting process
CPM: Planning and Reporting integrated as process circle

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Source: Adaptation from Deloitte Touche 2005
Future CFO Role and demands

- Aligning the financial information to the relevant strategic targets
- Common financial language
- Reduction of ad hoc reports
- Standardization in financial reporting
- Utilization of one data base for analysis and comment
- Easy access to finance- and Controlling information via portals.

Increased Efficiency by …

Changed Job-Description

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<thead>
<tr>
<th>Present AGENDA</th>
<th>Potential AGENDA</th>
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<tbody>
<tr>
<td>Ad hoc analysis &amp; business cases</td>
<td>Meta data</td>
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<td>Data analysis &amp; consulting</td>
<td>Ad hoc analysis &amp; business cases</td>
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<tr>
<td>Reporting</td>
<td>Data analysis &amp; consulting</td>
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The new role of the CFO/CPO
Roadmap to become a Chief Performance Officer, CPO

- **Organizational conditions**
  - Reporting Lines
  - Responsibilities
  - Building/ Set up of an integrated Performance Management System
  - Development of employee’s skill set (Employee Skills)

- **Role and CFO/CPO Knowledge base**
  - Accepting the new role
  - Relevant skill set (bean counter & investment banker)
  - Communication and self-marketing

- **Cultural conditions**
  - Values
  - Attitude
Roadmap to CPO – organizational conditions

➢ Reporting Lines
  • Executive-level with reporting line to Non-executives / Supervisory board

➢ Responsibilities
  • Accounting, Controlling, Treasury, IT, Tax, ..
  • Risk Management and Post Acquisition Integration
  • Interface to Legal Compliance und Corporate Governance
  • Performance Management and incentives (HR)

➢ Set up of an integrated Performance Management System (1)
  • Classic accounting and reporting tools
  • Strategic information system
  • MIS- / Business Intelligence-systems
  • Balanced Scorecard, EVA ...
Roadmap to CPO – organizational conditions

➢ Set up of an integrated Performance Management System (2)
  • Separation of process in two dimensions/directions
    ▪ From Supplier to client → horizontal dimension
    ▪ From vision / strategy to implementation → vertical dimension
  • Definition of Key Controls (KC) und Key Performance Indicators (KPI)
  • Definition of KC/KPIs not just by industry – definition of company specifics and per business Unit and permanent deviation controls
  • Target: Synchronization of all relevant processes

➢ Development of Employee-Skills
  • Scaling up due to outsourcing/shared services
  • Less routine and more analysis capabilities needed (IFRS, SOX, Strategy)
  • Cost of overhead (0,8% of turnover) as competitive advantage
Roadmap to CPO – organizational conditions

Interfaces of an integrated management

Source: Ingo H. Möller, Berlin 2005
Roadmap to CPO – organizational conditions

INTEGRIERTES PERFORMANCE MANAGEMENT SYSTEM
Toolbox of the CPO

STRATEGY / VISION

MIS

Legal. Requirements  Capital marktes-expectations  Value Driver  Legal Reporting  Risk-management  Others

The new role of the CFO/CPO
Roadmap to CPO – Fulfilling the new role

➢ **Self-Esteem/ Understanding**

- Take initiative and look for responsibility / pro-active vs. reactive
- Ambition, gaining detailed market and process Knowledge
- Out of the box thinking, Helicopter view
- Entrepreneurial drive **Skill set**
- Overall business skills versus financial expertise
- Strategy, Human Resource, Finance, Marketing, Accounting
- Industry specific knowledge can and has to be learned

➢ **Communication und Self-Marketing**

- Active Positioning is an integral element of leadership
- Active marketing of own added value and success
- Understand importance of informal and formal networking
- Create transparency on all company levels
Roadmap zum CPO – Cultural conditions

Also the cultural conditions are to be created by the CFO/CPO!!!

➢ Values

• Teamwork & Acceptance of different views
• Trust in openness, honesty, fairness and courage
• Being reliable
• Practice an open doors policy
• Support employees taking over responsibility / Empowerment
• Client and Service-orientation
• Mistake accepting organization

➢ Attitude

• Acceptance of the new role by management, colleagues and organization → CEO und CFO are jointly responsible for reaching the companies goals!
• Positive acceptance of change
• Global view vs. Department/ Business Unit Thinking
Summary (1) Raising the Bar

- It should be clear that the bar has been raised substantially for the CFO/CPO.
- But although the challenges are large, the potential rewards are even more substantial for individuals like us and for their organizations. In an environment in which investors demand sustainable growth, precise forecasts and earnings reliability, executives who can help their companies achieve these goals quickly become valued players.
- The old CFO model simply won’t do in this era. Only the CPO can meet the requirements of the modern corporation.
- Fortunately, we, the CFO is well positioned to play this new role. We do have a unique vantage point having a company wide view. Indeed a recent survey by Booz Allen Hamilton showed that good CFOs have an innate ability to understand what makes each business portfolio tick. In addition, the CFO’s traditional responsibilities in accounting and compliance give a tremendous amount of independence and objectivity to the position.
- The CFO/CPO has only one core constituency: the shareholder! This fact, combined with the trusting relationships CFO/CPO’s develop with senior business executives, should allow the CFO to move seamlessly into the CPO role. That role, we discovered, is no fairy tale, but the new reality for CFO’s in Europe and throughout the world!
Summary

➢ Past CFO role
  • Finance oriented
  • Focus on correct numbers
  • Self-understanding: financial correctness

➢ Raising the Bar => Today’s CFO/CPO role
  • Focus on an overall company view
  • Self-understanding: active entrepreneur

Every CFO can and should become a CPO
THANKS FOR YOUR ATTENTION!

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