



TIME FOR FINANCE TO TAKE THE REINS: ARE CFOS THE CEOS-IN-THE- MAKING?

EXECUTIVE SUMMARY

Over the last twelve months or so, public attention has been trained on the role of finance professionals as never before. Increased scrutiny of revenue, profits and every expense in between has cast financial directors and chief financial officers in the role of custodian not just of an organisation's bottom line, but its entire reputation.

This paper is the outcome of a one-day workshop involving key financial leaders and Hudson's recruitment and talent management experts. This workshop was designed to explore the challenges of finance professionals as well as debate the qualities of CFO in this new climate.

This initial paper looks at:

- | The demands of finance profession and the challenges it faces
- | The role content, competencies, and behavioural traits of a Chief Financial Officer
- | Our conclusions and recommendations

We want this paper to be the start of a dialogue with you on the future of finance professionals. With this in mind, we invite you to give us your comments so that we can add to our findings.

INTRODUCTION: FROM BACKROOM TO FRONT SEAT

The events of the last two years have not been for the financial faint-hearted. In the midst of such unprecedented economic uncertainty, the finance profession has become much more than guardians of the bottom line. Today, it is imperative they become the custodian of an organisation's entire wellbeing. Not only are they called to navigate the company to safer waters, they must also be active business partners, visible across the organisation rather than tucked away in the backroom of accounting and reporting.

NEW EXPECTATIONS – BUT WILL THEY LAST?

In 'normal' times, the finance function sits in the boardroom as an internal support function, providing a sanity check for the strategy and activities of the organisation from a financial point of view. They work with management on budgeting, forecasting and financial reporting.

These are not 'normal' times, however. The very survival of the company may well depend on how successfully finance professionals navigate in times of high volatility. The complexity of the role has risen – and so have the stakes.

Safe-guarding the financial security of the company has become harder than ever. Not only is revenue shrinking, funding is also limited, with investors far more cautious. To add to the pressure, increased public scrutiny of financial performance has also made it more difficult for finance professionals to operate. This has forced many CFOs to step into the glare of media and stakeholder attention.

More leading financial professionals are being asked to communicate results to the public and reassure investors and analysts on the company's behalf. They are also speaking to internal stakeholders such as the board and employees on the company's strategy and financial performance. Not only are they expected to be transparent with information, they are also expected to understand its internal operations and defend business decisions and strategies undertaken by the company with financial projections of future profits.

In other words, in many cases, finance professionals have become the company's public voice, tasked not only with reassuring stakeholders but with attracting funds by telling a compelling story with numbers.

Our studies have shown that most finance professionals are now spending a significant proportion of their time on activities beyond their 'traditional' remit. In summary, changes include:

- | Restructuring the company and reporting on the changes to individual teams and business units.
- | Scenario-building to include more parameters and requiring non-traditional methods.
- | Participating in strategy planning and providing practical realisation of strategic vision – including establishing and tracking performance indicators.
- | Communicating with external investors and analysts to defend company strategy and provide both financial and operational information in support of company performance and sometimes to stabilise stock prices and attract investments.
- | Providing more dynamic and frequent reporting.



THE MORE THINGS CHANGE, THE MORE THEY STAY THE SAME

The crisis has been widespread and has deeply affected most organisations. Its impact will not be short term. We can predict therefore that business practices will largely remain vigilant to avoid any surprises during economic recovery. Companies will continue to restructure and adjust to maximise operational efficiency with cautious hiring.

While the on-the-job demands have changed from conventional "bean-counting", when it comes to hiring top talents in finance roles, the recruitment practices of many organisations have not changed.

As a profession that has existed for a long time, the requirements used by hiring managers and human resources departments have remained unchanged, with a traditional perception based on a 'template' finance professional. The danger is that until different, modern competencies and requirements are understood and used in finance hires, candidates will be confused by the changing nature of their role, and efforts to develop their talents will be hampered. Essentially, they will be hired for one thing, but expected to do something different, due to lack of clarity at the time of hiring.

PROFILING THE NEW CFO

Based on the changes in job requirements, we found that the profile of a successful finance leader is similar to that of a CEO. The CFO has a strong technical background and function. However, the competencies required to meet with new demands have closed the gap with those found in a CEO (see Fig 1: *The competencies of today's CFO*).

A CFO has to be able to communicate internally and externally, share the company's vision and set sound strategies. The biggest difference is that a CEO is required to actively *lead*, and demonstrate an enterprising mindset that is arguably alien to a CFO's instinctive need to manage risk.

This remains a barrier to CFOs wishing to become CEOs. For finance leaders to realise their potential, organisations must first adapt their hiring requirements when selecting finance talents to fulfill strategic roles so that they understand the skills they are looking for (even if they don't know it yet!).

Fig 1: THE COMPETENCIES OF TODAY'S CFO

Information management	Task management	Interpersonal management	People management
Developing vision	Steering	Networking	Inspiring
Business understanding	Managing business	Relating	Directing teams
Managing complexity	Identifying business opportunities	Influencing	–

1. Information management skills are important when managing complexity. This is vital, considering the changes in the market, confusing external factors and the need to integrate with internal financial and operational management to form decisions and opinions. In addition, CFOs will have to justify decisions by modeling scenarios and reporting.
2. Traditional interpersonal management skills and responsibilities have evolved to include external stakeholders and even the public.
3. People management has also evolved as the team could be smaller, due to cost cutting, and more diverse. This is significant in companies where shared service centers are located outside the home country, which can mean cultural, language and time-zone differences.
4. Task management – finance leaders will have to learn to use their technical capabilities not only for their own success but to deliver a message that is accessible to internal and external audiences in spite of its technical origins.

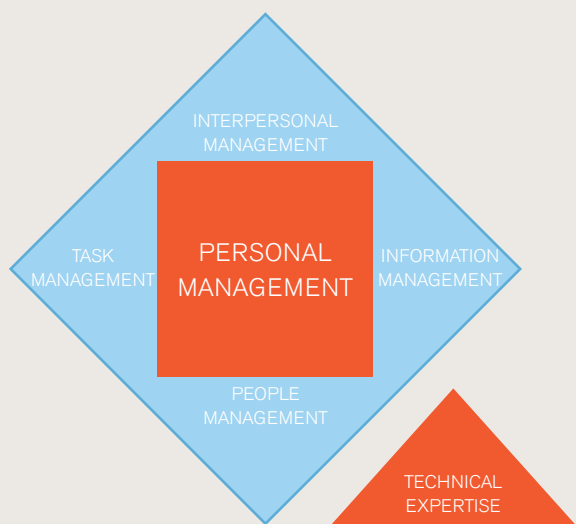


Fig 2: THE 5+1 COMPETENCY MODEL

The Hudson 5+1 Competence Model[®] has been developed by Hudson's Research & Development department. This model is based on an extensive study of more than 100 competence models of international companies and of recent literature about human resources.

The 5+1 Competence Model[®] is a generic model and, therefore, can be used for different jobs and roles. It has been built up from five 'competence clusters', in particular, Information Management, Task Management, People Management, Interpersonal Management and Personal Management. The competence clusters, and also the competences within these clusters, have been ordered hierarchically. An additional cluster includes technical or organisation-specific knowledge and competences.

The use of competence profiles allows us to create recruitment profiles in a clear and unambiguous manner. This will guarantee finding the right person for the job.

A selection procedure that is based on a competence profile will, moreover, guarantee a successful interview and an effective assessment. Sharing knowledge will be made easier because one and the same method is used. All parties involved in the process will speak the same 'language'.

THE CFO AS CORPORATE HERO

Ultimately, the profile of the successful 21st century finance professional is of one who has the trust of people and the courage to act for the good of the company. Finance leaders always had to exude confidence in order to navigate teams through choppy waters. Now they must also secure the trust of investors and rally internal teams to act decisively in times of rapid change.

No wonder, then, that the personality traits that top the list of an ideal finance leader are among the most admired and exceptional:

- | Courage and independence of thought
- | Charisma and self-confidence
- | A strong ethical approach to accountability
- | Serenity in the face of pressure
- | Good thought leaders, sharing ideas and listening to others
- | Thinking in terms of suitable business models
- | Being able to set up a strong performance-driven organisation

CONCLUSION

The reality is that CFOs with all the right qualities may still be slipping through the net, due to outdated recruitment practices. Even if they are selected, they may be less effective than they could be if the leadership of the organisation does not encourage and nurture the CFO's new role.

If both the CEO and the CFO do not forge a strong level of trust, CFOs may act in contradiction to their character or choose to stay neutral in their advice and internal positioning.

For the CFO of the future to succeed, he or she must be given space to advise in a way that may – compared to the 'traditional' CFO – appear outspoken, but will nonetheless be in the best interest of the company. Any organisation can benefit from a combination of the cautionary reflex of the finance profession and the enterprising quality of a CEO, reaching a formidable blend of positive forces rather than a competition between egos.

At the same time, CFOs should also leverage recent events to develop their competencies to reach the next level. If the CFO can learn to step into a 'leading' role and learn to subvert their cautionary reflex and be more enterprising, the future of a CFO is indeed that of a CEO in the making.

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