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The Role of the Chief Financial Officer in 2010

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The mission of the International Federation of Accountants (IFAC) is the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest.

This booklet was prepared by the Financial Management Accounting Committee (FMAC) of IFAC. The mission of FMAC is:

- To encourage, amplify and supplement programs that focus on the financial and management accountant, as conducted by IFAC Member Bodies to:
 - Provide for the development and support of such professionals; and
 - Build public awareness, understanding and demand for their services;
- To provide an international forum for exchange of information regarding current development and emerging issues that shape the management accounting profession.

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FOREWORD

The Financial and Management Accounting Committee (FMAC) of the International Federation of Accountants (IFAC) explores emerging trends and seeks to represent contemporary best practice in the domain of accounting work concerned with the management of organizations. This is done primarily through a range of publications: annual theme booklets, an annual collection of articles of merit, research studies, International Management Accounting Practice Statements (IMAPS) and guides for practitioners. These publications are available through the IFAC website at www.ifac.org.

Past theme booklets have covered topics like *Management Accountancy in the Year 2004* and *The Senior Financial Officer in the Year 2005*. Such has been the speed of change that these documents describe practice today.

A recent study (No. 11) examined *A Profession Transforming: From Accounting to Management*. This explored emerging trends from the view of 12 member bodies of IFAC representing six countries. Four of the bodies are specialist associations looking at the field of management accounting; the remaining eight are professional bodies seeking to be more responsive, and more representative, of their members working in management-related roles, in business and public practice.

The study explored the 12 professional associations in varying stages and states of transition to the future and each told their own story to date. The insights and changes they were pursuing individually were collectively indicative of an underlying or imminent transformation in the profession.

This is best summarized by stating that the findings identified that the finance function in organizations was transforming – in terms of a value added managerial focus, its area of organizational involvement, the capabilities expected from it and its leadership (the Chief Financial Officer), the consolidation, elimination or outsourcing of much of its work responsibilities, and the radical reduction of its headcount.

It seemed sensible, therefore, to canvas the views of 10 leading chief financial officers to get them to tell their stories. This theme booklet is the result of that exercise. Once again, the members of FMAC identified leaders in their field across many countries, businesses and public sectors. They agreed that this story would be best described through the facilitation of a leading author, and enrolled the help of Robert Bruce, Accountancy Editor of *The Times*.

The Chief Financial Officers are all from companies with easily recognizable names and with views from North America and Europe, together with countries like Argentina and Hong Kong. We thank them for the time they gave to the interviews, but especially for their candid comments and for sharing their insights. It was encouraging, from an FMAC viewpoint, to note that all of them address the role of the CFO in the strategic direction of their companies.

Other notable topics covered included investor relations, acquisitions and the CFO role in corporate governance and risk management.

This theme booklet, *The Role of the Chief Financial Officer in 2010*, tells the story from the individual viewpoints of these CFOs which can be seen in the themes chosen:

Developing a Vision for the Future
Managing the Information Flow
Moving Away from Transactions
Treasury Will Take Priority
Becoming the Process Owner

Part of the Team – But Apart
Chief Planning Officer
Strategic Changes to the Finance Role
Concern About Global Markets
The Importance of Communication

This rich vein of insights, together with our study of a profession transforming from accounting to management, will fuel the work of FMAC in the coming years.

The strategy of FMAC addresses:

- Thought leadership in expanding the field of practice known as management accounting;
- Sharing of best practice in this field globally; and
- Assisting developing countries as they explore the benefits of management accounting.

Finally, my thanks to those members of FMAC who organized this project to bring these leading interviews to our attention. This group consisted of:

Bill Connell, Director of Risk Management, BOC Group plc;
Chris Jackson, Head of the Faculty of Finance and Management, Institute of Chartered Accountants in England and Wales;
Gary Luoma, Professor, University of South Carolina;
Richard Mallett, Technical Director, Chartered Institute of Management Accountants;
Frank Moers, University of Maastricht; and
John Morrow, Vice President, The New Finance, American Institute of Certified Public Accountants.

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The CFO and the Role of Information

Overview by Robert Bruce

A couple of insights from two of the Chief Financial Officers interviewed during this project sum up the scale of the change they expect across the next decade. John Connors is CFO of Microsoft. “People will have access to information in a way that they never had in the past,” he said, “which means the premium on communicating financial information will be enormous.” Jan Hommen is global CFO of the electronic giant, Philips. His message was simpler but no less apocalyptic. “The speed at which you will have to do things will be mind-boggling,” he said.

The interviews with 10 of the greatest CFOs of our era around the world covered a wide range of issues. But it was always information, its uses and power, which lay at the heart of what they were saying. They also thought that the role of the CFO would move towards one where acting as guardian of that information and acting as a steward and compliance officer was the central responsibility. They thought that the position of the CFO as a pivotal role within a corporate structure would continue and the relationship with the CEO, whether as restraining influence, guardian of the corporate conscience, or as the real strategist behind the board’s plans, would be at the heart of that.

They felt that the changes within the role of the CFO would reflect the way the finance function would become a process system, with much of it outsourced or achieved through joint ventures. They felt that the finance function had to remain the bedrock but had to become more strategy-oriented. This would change the nature of the people who became CFOs. Out would go the figures-based CFO and in would come leaders with strong personalities and a wide understanding of markets and cultural issues.

The essence of the changes predicted was that the role of the CFO in the year 2010 would be shaped by their position on a global corporate stage.

Norman Lyle, Group Finance Director of Jardine Matheson in Hong Kong, summed up the way CFOs would change. “The CFO,” he said, “needs to guard the information. The CFO is now often seen as the automatic deputy CEO and is the person who deals with the outside world’. John Schmoll, CFO of Coles Myer, Australia’s largest retail group, thought the CFOs of the year 2010 “will have to be experts at interpreting the information and communicating it to the organization.” Sten Fornell, CFO of telecommunications giant Ericsson, suggested that, as already happens in technology companies, “you are pretty deep in the operational side and you don’t work very much with pure finance.”

“In the future,” said Tony Isaac, who progressed from CFO to CEO at BOC, the industrial gases giant based in the UK, “much of the CFO’s role will include strategic planning, financial planning and risk management.” Iain Lumsden, currently Finance Director of Standard Life, the giant

Edinburgh-based financial services group, is another who is about to become CEO. But he provides a note of skepticism about the growth of information. "I haven't seen a corresponding increase in useful information," he said. "There has been a huge increase in useless information."

But it is the global which dominates. Angela Holtham, who recently stepped down as CFO of Nabisco in Canada, was clear on that. "It is all going to be global," she said. "Everything about a business needs to be global and less and less specific to any given country."

These changes will, in their turn, change the responsibilities of the CFO. "The CFO will need the conviction and courage to stand up to their business colleagues," said Norman Lyle. "For example, when a proposed acquisition just doesn't make sense, the CFO will need to be able to articulate why this is the case and hold his corner." And that will mean a very different type of person. "We are looking for people who are happy not to work in the back room but happy to work on the front foot," said John Schmoll. "People who enjoy communicating and working in teams." And that means that many more CFOs in the year 2010 will have arrived at their role via line-management responsibilities rather than the traditional route via the finance function. "People have to understand the business and have a strong financial background," said John Connors. "But CFOs who did not serve in the finance function will become much more common."

The overall impression given by these 10 CFOs from around the world is one of confidence. The role of the CFO is a strong one and its growth, as the predictions of the year 2010 make clear, is assured. That growth will be based on complex information and its fast delivery but also based firmly on the strengthening of the CFO as the pivotal and increasingly powerful role within the corporate entity of the future.

Developing a Vision for the Future

An interview with Carlos Olivieri

Carlos Olivieri is Chief Financial Officer of Quilmes Industrial S.A. In addition, he teaches finance at two Argentine universities and is a visiting professor at Michigan University, US. He is former CFO of YPF (the largest company in Argentina). Quilmes Industrial is a large beverage company based in Buenos Aires, with a 60% share of the beer market in the southern cone. It has been listed on the New York Stock Exchange since 1996.

For a CFO, Latin America is a very different environment to that of Europe. The sheer volatility of the various economies makes CFOs look upon Europe as a haven of comparatively well ordered finances. And it also means that the work of a CFO is subtly different. All this is exemplified in the thoughts of Carlos Olivieri, CFO of Quilmes Industrial which, based in Buenos Aires, is one of the largest beer and soft drinks companies in the region.

“In emerging markets,” he said, “the CFO has to pay attention to the economies of all the countries involved, like Brazil and Argentina for example.” With inflation or interest rates traditionally running high and erratically there is a very different focus. “It is very different to the US or Europe,” said Olivieri, “where you can predict changes in the economy. Here the changes are so dramatic and the impact of those changes is very important to us.” And a CFO in this environment has to answer very different questions from analysts around the world. “The analysts are very interested in the consequences of government action,” he points out.

That is the background to the world within which Olivieri, as a CFO, has to operate. The nature of the company is different, too. Quilmes Industrial is, in Olivieri’s words, “one company with three different partners.” It is in a certain way a family-owned company (the Bemberg family controls the company), its shares are trading on the New York Stock Exchange and Heineken holds a 15% stake.

So for Olivieri there are three crucial strands to his role as CFO.

First, there is strategy and mergers and acquisition work. “In the last few years the company has moved from producing only beer,” he said. “We have bought several subsidiaries in connection with Pepsi-Cola.” So from a company purely dependent on having the premier brand of beer in the southern cone, it has changed to also have a soft drinks division and produce mineral water. “Quilmes has moved from being a family-owned company to being a big new corporation”, said Olivieri. ‘At the beginning of the 1990s, its sales were \$270 million,’ he said. “Now the figure is \$1 billion.”

Information systems

The second area he sees as crucial is management information systems. Having three very different groups of shareholders means he has to focus his attention on the information all three require. Information to the Bemberg family is produced under European rules because the company's legal address is in Luxembourg. Information for the NYSE has to be produced under US GAAP. "Attending investor and shareholder meetings is very important," said Olivieri. And then there are local accounting principles for companies within the group operating in other countries, like Argentina.

The third most important strand to his CFO role, which Olivieri sees as the basic one, is that of "running finance and administration." This again relates to the economic volatility within the region. In Argentina, budgeting and finance are crucial. "You have to take account of potential financial crises ahead," said Olivieri. "You have to watch your cash flow constantly so this is generally a key area in Latin America." And there are knock-on effects in taxation. "Tax rules are changing constantly," he pointed out. "For example, last week Argentina changed its tax rules again." In a country where 30% of revenues go to taxes, the task of a CFO is even harder.

All of this colors Olivieri's views on how the role of a CFO might look in the year 2010. With the growth of the group he sees new horizons and new areas that he will be concentrating upon. 'We have to pay attention to shareholder value', he said, 'and with the evolution of the company we will be looking at benchmarking our company with the rest of the industry'. This is really where the work for Olivieri has grown over the past five years and he sees that continuing to grow in the future.

Communicating the changes

Another area he sees as growing in importance is communicating the changes in the company. "Potential investors want more information and want to be in touch with us," he said. And following is the increased importance of corporate governance. "It is very important," he said. "The message from our investors is that they all want us to follow standard rules on corporate governance for the company, and the SEC is keen on that also."

He also sees the CFO role expanding to bring others within the company alongside much more in the future. "Knowledge about the finance area within the company is growing," he said. "People recognize that it is impossible to start a new project without understanding the finance side," he said. "So other people outside the finance function, but within the company, start taking an interest in financial tools."

This inevitably will bring other disciplines together under the one corporate roof. And this is the result of growth. "We are growing," said Olivieri, "and our communication across functions is very active. For example, in the acquisition of a new company, we in the finance function were the leaders in the project but we worked very closely with the CEO and the heads of marketing and human resources," he pointed out. "They are improving their knowledge of the finance function and are taking courses so that we can communicate in the same language."

Improving the relationship

The other trend he sees steadily growing towards the year 2010 is relationships across the company. “We are improving the relationship with the rest of the company,” he said. “The CEO has to understand finance. Finance function issues have to be discussed. Twenty years ago, the board of directors didn’t find financial issues relevant. Now they do. Financial strategy, mergers and acquisitions, tax strategies, communicating with the markets, ensuring that we have good relations with the SEC and the NYSE are all now vital to the company.”

He contrasts this with what happened before. “In the past,” he said, “we reported the financial matters and weren’t involved in the other areas. Now the roles of the CFO and the CEO have grown as we work together on strategy.” The catalyst for this has been growth. “Mergers and acquisitions have been very important,” he said. “The CEO has to focus on the markets. But investor language is very similar to CFO language. So the CEO has to understand it. The market needs the CEO to be alert to the financial implications.” And this applies equally to all other areas of strategy and finance. “When someone offers a merger or an alliance, we of the finance function, are in that meeting,” he said.

Looking ahead to 2010, Olivieri thinks this will have a crucial influence. “In the past, reporting and accounting issues were more relevant,” he said. “Looking ahead to the year 2010 you can see that direct contact with investors is growing. Merger and acquisition activity is growing. So a vision of the future of the company and communicating that is very, very important.”

Antenna

The CFO role will also become the company’s market antenna. “You need to be very alert to the market,” he said. “You need to be alert to the consequences of changes in government regulations. You need to evaluate shareholder value.”

This swing to external sensitivities will bring change. “The importance of the relationship between a company and shareholders is rising in importance,” he said, “while the importance of the CFO’s relationship with the company’s internal affairs is falling.” The role of the CFO will keep moving upwards and outwards. “Internal control is less important to a CFO,” said Olivieri. “In the past it was the responsibility of a CFO. Now it has passed to the financial controller.”

Olivieri plays down other areas of change towards 2010 like ethical and environmental issues, which he sees as more industry-specific and so less universal as trends. “When I worked in the oil industry,” he pointed out, “environment issues were very important. But now in the food and beverage sector they are not so relevant. In the oil industry investors were always asking questions on environmental affairs, but in my time at Quilmes I don’t recall a single question on that matter.” In Latin America, as he makes clear, “the economies of the countries are more important than the environment.”

Inexorable progression

Towards the year 2010 Carlos Olivieri sees an inexorable progression. “Finance is the key area of corporate activity,” he said. “The CFO must provide funds on a good ratio. It is all a question of strategy rather than numbers.”

Managing the Information Flow

An interview with John Schmoll

John Schmoll is Chief Financial Officer of Coles Myer Ltd, with responsibility for several shared services activities including information technology, accounting, administration/payroll and the electronic switch. During his career, Schmoll has had exposure to business environments in Australia, Europe, the UK, US, South East Asia, Africa and Japan. Coles Myer is Australia's largest retailer with annual sales of A\$23.8 billion, and more than 2,000 retail stores.

John Schmoll is the CFO of Coles Myer, Australia's largest retail group. And as you might expect, his view of where the role of the CFO is moving and what qualities are required is colored by his experience in the retail world.

He sees communications as the key to the role of the CFO by the year 2010 and he sees this change as changing everything. The character of the CFO and the type of people which the role will attract will be very different in the future. "We have got to get good at communications," he said. "The training and development of a career will have to change and that will mean a different type of person coming into the profession."

Schmoll is an exemplar of this new role. "I went from corporate roles to operational roles on a regular basis," he said, "and it helped to equip me." This changing of the CFO role means a different type of person will be required. "We will be looking for people who are happy not to work in the back room but happy to work on the front foot, but still in a disciplined way," he said. "People who enjoy communicating and working in teams." This change of emphasis turns the old-style accounting world upside down. "In years gone by, you would not have looked at those qualities and that sort of career brief might not have satisfied someone who wanted to be a traditional accountant."

Schmoll's view of where the CFO role is moving stems from the demands of the retail world. "Within a retail organization," he said, "there is a focus on the customer as well as the shareholder and you have to try and meet the tests and requirements of both." This is trickier than might be thought. "If you overdo the servicing of the customers' needs, you end up running a charity," he said, "and if you overdo the shareholder side, you upset your customers." It is not just theory that Schmoll is putting forward. Coles Myer has had problems in recent years. "We overdid our cost reductions in the stores and customers got fed up," is his analysis. The message is clear. The CFO of the future has to be sensitive to many factors other than the old straightforward financials.

Greater focus

He sees a need for a greater focus on capital allocation. “Where do we invest our capital and get the best returns,” he said, “and earnings growth. This is where we need to work closely with the CEO on strategic thinking. It is a question of trying to run the company at the lowest possible cost of capital but at an acceptable level of risk, trying to get an appropriate risk profile and keep the cost of debt and equity as low as possible.” The CFO of the future will have to follow the Schmoll line: “It is very important to work very hard at capital management.”

Schmoll sees the change as much as one of philosophy as of practical duties. “Traditionally, we have been controllers and record-keepers,” he said. “We need to ensure that we still do that well. But we have to extend it to emphasize adding value, rather than loss prevention.”

This makes the difference between the role of CFO and CEO less wide. “The two roles need to be delineated,” he said. “Someone has to take the final responsibility. The CFO is the financial bloke with the training and experience to provide the background for those decisions.” But Schmoll doesn’t see it as a big issue. “We are all about teams now rather than lines of hierarchy,” he said. “Bureaucratic structures are out. The emphasis is now on team-based structures and support.”

Handled carefully

Schmoll feels that areas like internal control responsibilities and corporate governance will grow, but need to be handled carefully. “Corporate governance is an expanded part of the role,” he said, “and it will create greater demands as it deals with broader markets. Internal controls will always be an essential part of the CFO’s role, and the CFO will always have to ensure that the controls are effective. But as our role expands, it is important to ensure that this doesn’t dilute out old areas of responsibilities.”

The other area where he sees change coming is in investor relations. But again, he sees the clarification of the boundaries of the role as important. “Investor relations is now part of our patch,” he said, “keeping markets completely informed and making sure that you are fulfilling legal requirements and being a good communicator.”

But he sees the issue of share-price management as something which the CFO will have to be wary about in the future. “It’s not our job to manage the share price,” he said, “that’s for the market. We must communicate with the market to allow them to make the best evaluation. That is what drives our investor relations. You cannot be biased in only allowing the market the good news and not the bad news. Bad news has to be passed on. It may be difficult,” he said, “but it has to be done.” It is a very good example of the way in which future CFOs are going to have to put a priority on dealing sensitively with the issues raised by their role.

Harmonized

Another change will make life easier. “We look forward to harmonized financial reporting,” he said. “We are listed in Australia, and the USA and so produce two sets of accounts. We look forward to the idea of producing one. It is not going to change the role of the CFO. But it will make it more effective and will enable us to respond better to the needs of a global market.”

He sees these changes as being evolutionary towards the year 2010 rather than being radical and difficult. “It will be evolutionary change,” he said. “But it is going towards a sensitive shareholder-value direction to maximize your worth to the shareholder.” It will be a very different world. “In the old days,” he said, “you just gave them good accounts. Now you have to maximize the growth of their investment.”

There are also some other areas where he sees change. “Technology will make life easier,” he said. “It will do a lot of the donkey work.” But it will expand the role of the CFO. “They will have to be the experts at interpreting the information and communicating it to the organization.” This access to information, and the role of gatekeeper to that information, will change things fundamentally. “Technology,” he said, “will allow us to focus on other areas.”

Remuneration

He also feels that another area where CFOs are going to have to grow in sensitivity is in remuneration policy. “The CFO has to be involved in how we pay our senior people,” he said. “The CFO has quite a role there which used to be only that of human resources. It is all going to become an issue of how well you communicate it. The key drivers of performance which in turn drives financial incentives.”

Schmoll’s experience of the retail world has led him to believe that the rest of the business sector is learning from the disciplines of the retail business. “The concept of having to look after your customers will become something which drives all companies,” he said, “making sure you are constantly encouraging the company to use those tests in all that they do.” He gave an example. “Buyers should be thinking of customers at the same time as shareholders,” he said. “They should be getting stock levels down, for example, but they should also be thinking of what the impact might be on the customer in terms of choice.” You couldn’t have a better example of the way that the role of the CFO will integrate business thinking and approach across an organization. ”

It is all about organization and focus,” said Schmoll. ‘Keep the CFO focused and don’t burden them with the traditional areas and traditional thinking’.

Moving Away from Transactions

An interview with Angela Holtham

Angela Holtham was, until recently, Senior Vice-President and Chief Financial Officer of Nabisco in Canada. She had held that office since 1997 and was responsible for the finance and legal functions with a staff of 85. Nabisco's annual sales in Canada exceeded C\$1 billion. In December 2000, Kraft Inc. acquired Nabisco Inc., and the Nabisco entity was wound down over the first half of 2001.

For Angela Holtham, the role of the CFO has seen great changes and these changes will bring about a quickening evolution towards a fundamentally different role by the year 2010. Holtham was Senior Vice-President and CFO with Nabisco in Canada and her recent experiences putting together the new structures after Kraft acquired Nabisco have confirmed her views.

“The role of the CFO has been evolving,” she said. “But it is at very different stages in different enterprises.” Her contention is that the evolution is leaving the traditional underpinning of the role behind and embracing a wider and more common range of responsibilities. “The role is changing from being ‘The Guardian of the Books,’” she said. By which she means: “All those things which are not adding value but need to be done.” The role is moving “to the business strategy side and away from the transaction side.”

Some of this shift comes about simply because of the way that things are done in a technological age. Holtham argues that “the traditional CFO’s responsibilities are being transferred to the IT function.” As computer systems take over more and more, transaction processing is vanishing from the finance function but the control aspects become more important. “It becomes more of an audit function than a ‘doing’ function,” is how she puts it. “The CFO is involved more in ensuring that the information is right, rather than actually being involved in the process of creating the information.”

She sees this as requiring clarification between CFOs and CEOs. “There is a tendency for CEOs to underestimate control as part of a CFO’s role until, of course, things go wrong,” she said. Then the CEO sees it as the heart of the CFO’s role. So the CFO in the year 2010 is going to have to be very good at ensuring that accidents never happen. “CFOs need to catch the variances early,” she said, “and spot when things are going in the wrong direction. They need to be able to explain and/or correct things before they get out of control.”

This area of the CFO’s life will become more complex, partly because of technology. “As anything becomes electronic”, she said, “it increases the potential to get out of control.” But equally, an e-business world enables you to keep tabs on the financial systems using more sophisticated tools.

“More and more,” said Holtham, “you have to be dependent on ensuring the process is right rather than individual checks. It is the same direction that auditors are moving. Auditors, more and more will audit the system rather than check large numbers of individual outputs to see if they are right.”

Heart of global thinking

The CFO in the year 2010 is also going to be at the heart of a thinking that is global rather than local. For Holtham there is no alternative. “Businesses are going to have to be global,” she said. “Here in Canada, GAAP used to be different from that in the USA,” she pointed out, “so we used to have a fair bit of reconciling to do.” But now that has all changed. “Now the differences are insignificant,” she said. “There really isn’t any room for being different as far as reporting is concerned. Anyone trading on US stock exchanges has to follow the rules of the Securities and Exchange Commission. It almost doesn’t matter what the local rules are. It has more to do with consistency for investors than with accounting principles *per se*.”

She feels that this aspect of globalization will encompass other areas, like quality standards for example. As trade barriers between countries disappear, it will be imperative to have global standards to assure potential customers in other countries that your product is of the quality they expect. “It is all going to be global,” she said. “Everything about a business needs to be global and less and less specific to any given country.” For the CFO, she sees this change as being beneficial.

The CFO will also have to have a greater influence on investor relations and use that role to ensure that reputation management is pursued effectively. “I was looking at the results of one of our competitors this week,” she said. “The story that the company was telling was one thing. But there are many other ways for sophisticated investors to hear what is happening and to get the detail. So the key for the CFO is to ensure the company establishes credibility so that investors trust that you, the company, are telling the full story, both the good and the bad.”

Get involved

She also thinks that the role of the CFO in risk management will continue to grow in importance. “As companies get bigger and more global,” she said, “the CFO is going to have to remember what business the company is in. Hedging, both in commodities and financial markets, for example, must be seen as a form of risk management, not something to be used speculatively to make money, unless of course market speculation is your business. For most companies, hedging is a means to eliminate risk, not to create risk.”

This delineation of the CFO’s role toward the tools of risk management is a key one. “There will be more and more sophisticated instruments out there,” she said. “The CFO has to understand what they can all do so that they can be employed without increasing the risk to the company.” She cited pension funds as an example which will grow in importance as baby boomers age. “There are so many synthetic instruments for investing pension funds,” she said. “The CFO will have to thoroughly understand their risk potential when talking with the investment managers to avoid inadvertently changing the fund’s risk profile.” So it is not all strategy. It is detail as well.

She felt the same approach will need to be adopted when dealing with investment banks. This comes under the growing CFO responsibility of strategic thinking. “The management team has to decide on

the vision for the company,” she said. “And the CFO has to make sure that the company can get where it wants to go. They have to determine how much growth can be created internally by, for example, new product launches or cost savings, and how much must be sourced externally. The CFO has a key role to quantify and ensure that plans are realistic and responses to investment banks’ proposals need to be based on that.”

Holtham’s vision of the CFO in the year 2010 is a combination of the practical and the strategic. But it is also one where the CFO has a key role as both catalyst and the person in charge of the alarm bells. “The CFO will need to keep up to date,” she said, “and know what the trends are and not let the company ever get stale. It is the CFO’s role to remember that a company and its ideas and its abilities always need refreshing.”

Tension

She also thinks that the CFO’s role in the world of corporate governance will continue to grow. “The CFO and the legal department,” she said, “tend to be seen as the policemen. As directors are forced to take on more and more personal liability, they will be watching more diligently for what might potentially go wrong. “They will,” said Holtham, “look to the CFO to warn them when it is time to get their antennae up and working. The more they read stories about directors being sued the more they will rely on the CFO.”

“The CFO,” suggested Holtham, “has to be there to watch, should the company be going astray. The CFO’s vantage point is so broad. They get to see everything. Most other functions within the organization don’t.” So the company’s management will rely on the CFO to let them know if the company is subtly, even unconsciously, changing tack, or moving towards actions which no longer quite fit the strategy.

“This means that maintaining a good relationship between the CEO and the CFO will become more difficult,” she said. “If the CFO disagrees on a change in strategy or on the impact of some action on the current strategy, then the CFO has to work it all through with the CEO, without damaging their important relationship. It is never easy, but you have got to do it.” The CFO and CEO must always act as a cohesive team.

The resulting growth in interpersonal skills and communications will, in itself, change the role and the perception of the CFO both within and outside the organization. “We almost never call ourselves ‘accountants’ anymore,” said Holtham. “We are now ‘the finance people.’” She provides an example of how the role is changing. “Over the last two years, we have developed product teams,” she explained. “They consist of representatives from marketing, sales, operations and finance. The finance people understand their role within the team. It is very much the same as the CFO’s role inside the higher management team. That finance manager has an obligation to educate the CFO on what developments there are within that product team as well as to work within that team, establishing trust and confidence among its members. They have to learn to balance both relationships, even when they appear to conflict.”

Focus

This new world brings a new focus on the skills of the CFO. “There is the traditional attention to detail and analysis,” said Holtham, “plus communications and problem-solving abilities. They all just have to be part of the package if you want to be successful.”

“The basics of control and accuracy are a given,” she concluded. “The CFO has to provide confidence, but with a minimum of resource so that the resource can instead be channeled to activities which add value to the organization.”

Treasury Will Take Priority

An interview with Heinz-Joachim Neubürger

Heinz-Joachim Neubürger is Head of Corporate Finance and Chief Financial Officer of Siemens AG, as well as being a member of its managing board. He joined Siemens in 1989 after working in the corporate finance business, and was appointed to his present role in 1998. Siemens is a global provider of electrical engineering and electronic products and services. It had sales of € 87 billion in fiscal 2001, is active in more than 190 countries, and employs around 450,000 people.

Like many CFOs, Heinz-Joachim Neubürger finds his views are colored by the feeling that economic activity over the next few years is going to be more fraught for the CFO than it has been in recent years.

“Treasury will take priority over the accounting aspects of the role,” he said. He feels that the overall role of the CFO will remain stable and in terms of what it may look like in the year 2010: “The role may not change that much in fact.” The difference is going to be in the role of treasury functions. “I expect the role of the CFO as it relates to treasury,” he said, “will be a more pronounced factor in the future.”

This gets to the heart of how the role of the CFO will change. “Accounting is going to be less relevant,” he said, “but to keep a company afloat in difficult times, treasury and cash are the important things, not book profit. The importance of treasury grows in a more difficult macro-economic environment,” he said. The most important job a CFO has, is to ensure that the company stays financially healthy, and can meet its obligations at any time.”

He has a warning for CFOs with recently established companies. “Perhaps over the last 10 years start-up companies, for example, have assumed they can go back to the capital markets whenever they need more funds,” he said. “But the market will not be there every time in the future. Treasury functions will be more important.”

That is not to say that accounting and reporting will not be important. But, as Neubürger pointed out: “There is now a consensus in the direction we have to go.” This is the question of global reporting standards. “We have to promote harmonized global standards,” he said, “which do not take a political influence.” He harks back to the point in the mid-1990s when the battle in America over reporting share options drew public protest from companies, and very well-funded lobbying of Congress. “Hopefully, that was the first and the last time accounting standards were debated in

Congress,” he said. The message is clear. The creation of global financial reporting rules should be free from the squabbling of politicians. “The objective,” he said, “should be to drive the initiative forward without political interference.”

Global reporting standards

The introduction of global reporting standards will also have other consequences for the CFO in the year 2010. “On the accounting side, the CFO will have to deal with the reporting infrastructure and the technology involved but also the skills infrastructure.” Neubürger is not sure the current people are up to the job. “It is a question of do we have the right people in the company and with the audit firms to properly allow global reporting,” he said.

This ties into another concern. Neubürger looks ahead to 2010 and wonders whether fashion and demography are going to provide problems. “We need to have people motivated enough to join the profession,” he said, “and there is the question of whether demographic trends will support the need for more accountants.” The real problem, in Neubürger’s view, is that a new order of global reporting standards will require an influx of highly-qualified accountants at the point when the implications and consequences of the new global regime become apparent. “We need a sufficient supply of accountants, and I think there will be a gap in the supply of accountants,” he said.

Demographics

Demographics will also have another potentially devastating effect on the ability of the CFO to deliver results in the year 2010. “I think that if you look at continental Europe,” he said, “there are many companies which do not have funded pension schemes. Many pension plans are based on pay-as-you-go. In a world with the demographic changes we expect and lower inflation and lower interest rates, many defined benefit plans may evolve into very costly plans.”

For Neubürger, this seems an important problem ahead and one which has not been properly predicted or understood. “The whole question of pension commitments,” he said, “will create a drain on cash and consequences for the profit and loss account, and I am not sure it has been suitably addressed. It all needs to be re-evaluated,” he said, “and when that happens, the whole question of the allocation of investment between stocks, bonds and real estate will surface.” In such a scenario, it is no longer appropriate to focus equity valuations for example, on EBIT, when the “I” reflects the cost of the pension commitments. Therefore, he argues for going back and assessing the performance of companies on an EPS or net profit basis.

The CFO in the year 2010 will also have a very different world of technology to deal with and the key issue will not be how to use it, but how to ensure that it fits and is integrated to the best effect right across the organization. “Beyond the reporting side,” said Neuburger, “looms the whole concept of e-business. CFOs will have to have a single set of set-ups to build the infrastructure required by e-business, ensuring that we have a consistent set of ERPSAP installations, for example. Providing the infrastructure for e-business beyond CRM, logistics, *etc*, is going to be a tremendous challenge for CFOs.”

Neubürger sees the CFO’s role as split between the operational and the functional, under which he includes strategy. “Reporting and treasury are the two sides of the operational function of the CFO,”

he said. “The strategic role is how the business portfolio could be developed further to create shareholder value. At the moment it is taking a back seat,” he said. “But it will not go away. A more difficult economy means companies will have again to be more objective and rational about divestments and acquisitions.”

Dialogue

On the finance function side, he sees dialogue as the most important skill for the future. “I personally have always made a point of close dialogue with rating agencies,” he said. “Talking to fixed-income security investors, as well as equity investors. A dialogue with your credit facilities providers is very important also. You cannot leave that solely to the operational and treasury people.”

When it comes to the future development of areas like internal control, Neubürger takes a simple view. If standards need to change in the future, it is simply because people have not been doing it properly in the past. “The internal audit function is key, and always has been key, to ensure that everyone stays in line,” he said, “to ensure the integrity of financial reporting and to ensure that people continue to operate in an appropriate fashion. That will not change. If it does, then it just means CFOs have not paid enough attention to it in the past.”

Two-tier board

Corporate governance is another area where he believes that, if it is already properly implemented, great change is not likely. Partly, this stems from the structure of corporate entities in Germany. “In Germany,” he pointed out, “you have a two-tier board structure. The management board is responsible for the day-to-day operations and the integrity of the accounts. The supervisory board mandates the auditor and receives the auditor’s report and has to rely on the management board to deliver the figures.” So corporate governance could have a role in aligning accounting with global reporting principles. But Neubürger is confident. “Major European companies implicitly comply with good corporate governance principles,” he said. “Good corporate governance is critical and may be improved, but it’s not a broad-based issue.”

He felt the same approach was also likely to prove true on the questions of the development of environmental and ethical reporting. “Environmental reporting has been with us for quite some time,” he said, “and in the future, it will not take up a larger element of company reporting. But any properly managed company cannot neglect environmental reporting, and so will always include reports.” The same is true of ethical reporting. Neubürger pointed out that there were no global standards, but principles had been laid down. “Every major organization subscribes to the existing recommendations,” he said. “We comply with them. Full stop.”

The future role of the CFO in strategy is another where Neubürger expects little change in the years ahead. “The CFO will have to support, and perhaps initiate, the thinking about strategic initiatives,” he said. “In the structure of Anglo-Saxon companies, the CFO has to establish priorities and analysis,” he said, “and point out the weaknesses of any plan. I think that over the next 10 years there will be no major change in that. There will still be the short-term priorities about which elements of a business portfolio should be kept or divested, whether they provide shareholder value or are just a cash drain.”

Teamwork

As for the role of the relationship of the CFO and CEO by the year 2010, Neubürger takes the view that a teamwork approach is both inevitable and desirable and that it will derive from the structure of each individual company. In particular, he feels the CFO has, by the nature of the role, an overview which other directors are less likely to have. “In Siemens, we would see it as a team,” he said. “The CEO, the CFO and the head of personnel policy have to take the role of objective observers. The other directors have their particular portfolios to follow.”

In the end, for Neubürger the emphasis must be on that element of overview. “You need,” he said, “objective analysis to create a proper platform for the company’s decisions.” The finance function’s mandate continues also in 2010 to provide it.

Becoming the Process Owner

An interview with Jan Hommen

Jan Hommen is Executive Vice President and Chief Financial Officer of Royal Philips Electronics, one of the world's biggest electronics companies and Europe's largest, with sales of € 37.9 billion in 2000. He joined Philips in April 1997 from Alcoa. Philips is a manufacturer of color television sets, lighting, electric shavers, color picture tubes for televisions and monitors, and one-chip TV products. It has 192,000 employees and operates in more than 60 countries.

As Global CFO of Philips, Jan Hommen has an appropriate technological vision for the role of the CFO in the year 2010. "The speed at which you will have to do things," he said, "will be mind-boggling." But to set alongside that view, he has a refreshingly straightforward view of the type of person the CFO of the future will have to be and the type of qualities he or she will have to possess.

"The CFO in the year 2010," he said, "will be a person with a financial education and a business education who has been in a number of jobs both financial and business. They will be people who understand the finance function but can also run a business." And there will be a team element. "The CEO and the CFO equally are people who can run a business. The CFO looks at finance and processes. The CEO looks outwards at strategy."

But, as his first comment about the mind-boggling speed suggests, Hommen sees great changes in the process side. "There will be a much more internet- and web-based environment in companies and that will have a major impact on how internal processes are structured. So companies will be much more communicative." But the problem will be the ability to deal with all the information, particularly from a finance function viewpoint. "There will be so much information that it will no longer be feasible to have it in one person's head."

So the CFO moves up a step. "The CFO becomes the process owner and makes sure that the technology will be exploited while working in a much more open organization," he said. "The CFO will work to make sure everyone has the facts and the figures to enable them to make a contribution. That will be the number one role for the CFO."

As a result, the finance function responsibilities which have traditionally been at the heart of the CFO role will lessen. "It will still be a very heavy part of the job," he said. "But it will not be full-time. The job of the CFO will move to areas like strategy-making, mergers and acquisitions and deal-making. It will be important to get the financial markets excited. It will be important to raise funds anywhere."

This, for Hommen, will be the true test of globalization. “Globalization will have succeeded,” he said, “when you can sit at your screen and tap financial markets if you need funds. Treasury people will be able to sit in one location and do that around the world.” Along with that revolution will come another one forced by business pressures. Currencies, as they are doing in Europe, will merge. “Foreign exchange problems will disappear,” he said. “There will be a dollar bloc, a euro bloc and another currency bloc probably based on China, and those three blocs will determine the major currency flows. In Europe,” he said, “there will be a lot of tax harmonization. By 2010 the euro will have respect and status.”

Hommen thinks that investment banks will change to reflect this. “They will become global banks and there will only be a few of them,” he said. “They will continue with transaction business and get paid for that.” But he sees big changes elsewhere. There will be huge growth in boutique organizations which will have fees based on advice, and not transactions. “Big companies will want to be close to someone who is more objective,” he said, “and these people will be paid for their unbiased opinions. So the CFO will see the boutiques as his partners to enable him to tap the financial markets fast.”

Other areas of responsibility

But there are other areas of responsibility where life will become harder for the CFO. Hommen cites pensions as one. “Pension funding will become a critical issue. Pension legislation will have to be made much more sophisticated. People will want funded pension funds and not just a promise that they will be paid,” he said. “So asset and liability management of pensions will become a much more important part of the CFO’s role.”

Another area where life will become tougher is the legal side. “Legally,” he said, “the CFO’s role will become much more complicated. Issues like ethics, openness, disclosure, for example. Standards of ethics and business principles will have to become a major element,” he said. “The CFO will become a compliance officer.” This internal responsibility will grow. “Internally,” said Hommen, “the CFO is the conscience of the organization, making sure that things are done right, that the numbers are right, and that they are available fast and quick.” The speed will change everything. “Companies will have the ability to close their books at will,” he said. “Direct cash-flow accounting will become prevalent and the standard for multi-national companies. And that will require much more professional and proficient systems.”

Hommen is deeply pessimistic on another issue – that of harmonizing the rules of financial reporting at a global level. While other CFOs look forward to an era when only one set of accounts will grant them access to funds worldwide, Hommen sees greater confusion ahead. “The USA and the international accounting organizations are getting into a big conflict,” he said. “Companies will have to maintain different sets of books at great expense to satisfy the regulators. Big multi-nationals will become more feisty because they will have to produce several sets of accounts,” he said.

Hommen is trying to be realistic. He doesn’t believe the politics of harmonization will allow it to come about. “I’m afraid harmonization of standards will not happen. It will be an opportunity lost,” he said. And it is all down to simple politics. “The accounting professions want to have as many opinions as possible. And governments find it hard to allow someone else to set their standards,” he

said. He sees the reluctance of both accounting professions and governments to give up their domestic sovereignty as the stumbling block. The result will be divisive and infuriating for organizations like Philips.

“So we will have international standards as well as US GAAP and the Asian countries joining one or the other,” he said. “So I don’t expect much more clarity. I hope I am wrong because it would be a big benefit if we could get harmonization.”

Risk management

Another area where he hopes for greater simplicity is risk management. “Too often it has been associated with derivative-risk only,” he said. “It has become too complex. We will see a return to simple risk management and it will become more linked with strategy risk.”

Corporate governance is another area where he predicts change driven by simpler goals. “Corporate governance will become more and more organized towards the needs of the businesses in your company,” he said. “It will be governance related to how many times you meet, for example, and on levels of accountability. Governance will be a function of complexity and the strategic objectives of your organization.” Here he sees a much greater role for shareholders. “There is a trend towards getting shareholders more involved in decision-making,” he said. “They will become more powerful in deciding governance elements and decisions on acquisitions over and above a certain amount. Furthermore, disclosure and transparency on governance elements like salary levels, bonuses and stock options of top management will become much more important. The responsibility of the board of directors for governance aspects towards shareholders will increase, as a result of which, highly professional outsiders are needed for these positions and that means that getting good board members will become more difficult.”

In such a world, the relationship between the CFO and the CEO will become ever more important. “It has to be a very tight relationship,” said Hommen, “otherwise it doesn’t work. You need to create some balance on policy, decision-making and accountability. They will be team players more and more but having their own responsibilities.” In this, the changes that Hommen expects in the basic finance function will help. “Lots of simple accounting processes will be part of the accounting system you install,” he said. “They will be WAP-based and shared. They will be part of the extended enterprise. Customers, shareholders and employees will be involved. And as a result, it will make the CFO more free to be strategic.”

Other areas, like the advance of environmental and ethical reporting, he sees as inevitable. “Society is demanding that companies show their accountability to society,” he said, “and environmental and ethical reporting are simply part of that. By the year 2010, they will be a given and seen as absolutely normal.”

Investor relations

Another area which will be transformed by the growth of information will be investor relations. “It will be so important to make sense out of the information,” he said, “to explain the business model, the strategy you are following, to show the value-based management and the evaluating of scenarios. Scenario-planning will become an area which the CFO will be much more involved in.”

It will all come down to who can best make sense of the information and put the key messages across. “By explaining,” he said, “you expose yourself to what the assumptions are. The market will be in more discussions with the company on strategy, on how good your resources are, for example, or how good your people-management is.”

This is the measure of how far Hommen thinks things will change. The finance function will still underpin the business. But the outside world will be measuring the business by very different yardsticks.



Part of the Team — But Apart

An interview with Norman Lyle

Norman Lyle has been Group Finance Director of Jardine Matheson in Hong Kong since 1997. Before that, he worked for Zeneca Group plc where he was General Manager of Finance. He was President of the Chartered Institute of Management Accountants in 1998. Jardine Matheson is a multinational group with a portfolio of seven core businesses focused primarily on the Asia-Pacific region, with interests in over 30 countries and revenues of over \$10 billion, employing some 150,000 people.

Norman Lyle is a straight-talking character. He is also a man who has been involved in many issues. He was President of the Chartered Institute of Management Accountants. He knows his world backwards. Not surprisingly, he sees the world of the CFO in the year 2010 as not just being tougher than now, but also as about “being tough.”

“Historically,” he pointed out, “the CFO was seen to be a number-cruncher. In the future, that will be taken as a given.” The figures are just part of the turf, of the CFO’s background. They are not going to be center stage anymore. “CFOs are now expected to contribute to strategic and management thinking,” he said. “So CFOs will be more business people. They will have a sense of the marketplace. They will be part of the business team.” But there is one crucial difference here.

Lyle thinks that the CFO will always have to be a person apart. The CFO has to be in the midst of that business team but, alone among its members, he or she has to be someone else as well. “They have to be constructive and supportive,” he said. “But there is also the role of stewardship. They have to be the conscience of the business as well. They have to ensure that the salespeople, for example, do not get carried away.”

For Lyle, the factors which will forge a different world in the year 2010 are wider business issues. “What will the business environment be like in 2010?” he said. “Customers are going to be more demanding, and they will have much more access to information,” he suggested, “and that influences the type of people who you will need to fulfill the CFO role.”

He sees the formation of this new world in current trends. “Competition is intense. The old monopolies are going,” he said. This is as true for Hong Kong as anywhere else. “People understand Asia more so there is more competition here.”

So it is not just a shift to the mass of information which e-business has created which will change the nature of the people who become the CFOs of the future. Lyle stresses the personal skills. “Hierarchies are less apparent,” he said. “It is now a question of team-working across companies. So you need an ability to lead which the old number-crunchers didn’t have.”

Lyle sees the end of the finance function as it used to be. The back-office activities will be commoditized and outsourced. He draws on his experience at Jardines. “We have a joint venture with Ernst & Young,” he pointed out. “It’s called One Resource Group and it does all the number-crunching, the bank reconciliations and the invoices. It also does the negotiating with suppliers for non-trading items, like fuel oil, for example.”

As a result of this type of trend, Lyle thinks that companies will have to change their priorities. “Companies are going to have to decide what their core competencies are,” he said. Research and manufacturing could be the most important areas and companies would outsource everything else, for example.

“The new type of CFO will have a pretty strong personality,” he said. “They will have high talent, high caliber and have high technical competence, though that should be taken as read in a good controller. This will be particularly important in the days when international accounting standards are universal. The CFO will need to know where to go for information.” Lyle is a tenacious opponent of the idea of local GAAP.

Stewardship

But it is Lyle’s concept of stewardship which drives his views on ethics and corporate governance. “The CFO will have to have a strong element of stewardship,” he said, “and will have to have a fair amount of courage, which is not the case with many CFOs today.”

The era of the strong and dominant Chairman may be coming to an end. “It will change because people will be more in the public eye,” he said. “There will be more and more publicity, a tightening of standards and more visibility. So it will become easier for the CFO.”

But this new world will also mean that the CFO has to operate in a more subtle way. “The CFO will have to deal with ambiguity,” he said. “Things are not black and white. To have sound business judgment means that they need to have a comprehensive understanding of the business they are operating in. They need a deep and broad knowledge. There can be no ivory towers anymore. The CFOs have got to get out and talk to people.”

Lyle extends this principle to internal control. “The best way I find of ensuring internal controls are working is talking to people and looking them in the eye,” he said. “If someone doesn’t like meeting people and does not enjoy the cut and thrust of business, then they are unlikely to be a CFO in 2010. Historically, if you were a good numbers man and sat in the back office you could be a good CFO. Not anymore.”

Turned upside down

The world of investor relations is another which Lyle thinks will be turned upside down by the year 2010. He cites problems which CFOs already have to deal with. The tightening up on rules in the USA about individuals talking to groups of analysts is one example. “In the USA, for example,” he said, “you have more volatility and profit warnings because the pendulum has swung too far the other way. Investors are the owners of the company and in the end you need to communicate with them, but without giving them privileged information. It is a very tricky balance. CFOs have got to be wary of being too outgoing and overselling the situation.”

This tricky business is going to become ever more tricky with the rise of e-business technology. “It will become more and more immediate as information is given to shareholders over the internet,” he said. “By the year 2010 it will be universal and real-time information and the whole issue of markets and access to information will be very important.” Here Lyle felt the CFO is the key person. “It will be very easy to get into information overload,” he said. “The CFO has an important role to ensure that what is being collected is relevant and meaningful. And you will have to be careful about competitive information. You will have to manage the process.”

This is the difficulty. There will be more real-time access to information but the danger is that with a mass of information available, people will find it misleading. “The CFO,” said Lyle, “needs to guard the information.” He thinks that in many ways, the CFO’s job is that of the CEO. “The CFO,” he pointed out. “is now often seen as the automatic deputy CEO and is the person who deals with the outside world.”

Key heartlands

The CFO will also become ever more the person who deals with risk management. And risk management will become another of the key heartlands within an organization. “It will revolve more and more around risk assessment,” said Lyle, “to ensure that we can all sleep at night. The CFO will be the person to identify the key risks which could cause major movements in the share price. For example, if someone goes off with the petty cash in an overseas subsidiary, that is unfortunate but if someone in our Hong Kong head office goes off with cash through the treasury systems, that could be very damaging. So the CFO will be responsible for contingency plans which will mean that the CEO can focus on whether they ought to be in that business at all.”

“This,” Lyle thought, “will be the key role of the CFO by the year 2010.” It is the idea of the CFO as gatekeeper and guard. “Systems will give people more access to information,” he said. “So people may not be able to identify risk so easily because the information is flowing so rapidly.”

Another issue for 2010, that of green issues and environmental reporting, will grow in stature. Lyle adopts a simple principle here. “If you measure then you get improvement,” he said. “Environmental issues are important. There was opposition from business in the early days. But the issues force you to think, then measure their effect and then rectify things. For example, the chemical industry is much, much improved.”

One issue which Lyle felt will be lower down on the list of priorities in the future will be corporate governance. But the reasoning behind that thought is that so much has already been accomplished.

“Corporate governance in 2010 will be second nature to companies and therefore not so high on the agenda,” he said. “Successful companies have to maintain a reputation and the majority of companies have already responded. The business environment is very different to what it was 10 years ago.”

Great changes

An area where he foresees great changes is in the management of the balance sheet. “It is obviously important for CFOs to have an understanding of their balance sheets so that they have access to capital,” he said. But the changes he sees up ahead are nothing to do with the companies and their CFOs. They are all to do with the banks. “Banks are being driven towards fee-earning rather than lending as their main activity,” he said. “They will be keener on bond issues, for example, so they can get the fees without long-term risk.” He sees this trend as being accelerated by the Basel Accord on capital ratios, which he feels will have an effect of discouraging banks from lending. “The banks,” he said, “will be pushed towards fee-driven income to drive up their return on equity. So margins on bank lending will increase.” He felt that would have a severe effect on many companies by simply reducing choice. “Many companies are not large enough for the wider markets and have to borrow from banks,” he said.

This will have a great effect on CFOs. “It will be very much more important to be able to negotiate,” he said. “The CFO will have to understand where you can get access to capital, particularly in growth businesses.” And this skill of negotiating will spread to the requirements of the CFO when it comes to mergers and acquisitions. He thinks that the regulatory authorities will become much more aggressive in this field. “CFOs will need to have the ability to deal with investment banks and venture capitalists,” he said. And that means more emphasis on treasury skills. “So management accountants will be more important than financial accountants,” he said, “which also applies to risk management skills as well.”

Ever more close

With Lyle’s view that the role of the CFO and the CEO are going to become ever more close, his views on the way that relationship will work in the year 2010 are key. “Clearly they will have to have a good relationship,” he said. “The CFO has to be the CEO’s right-hand man and the two of them have to have daily and frequent contact. So the CFO has to have the chemistry and empathy. The CFO needs to be a well-rounded businessman.”

But for Lyle it is also more than that. “The CFO needs to be able to read the situation,” he said. “People often won’t be direct and certainly, in my experience, this is the case in the Asian and African cultures.” So in the end, the changing role of the CFO is going to move more towards the Lyle view of the CFO as a business person and a risk manager. “The CFO will need the conviction and courage to stand up to his business colleagues,” he said. “For example, when a proposed acquisition just doesn’t make sense, the CFO will need to be able to articulate why this is the case and hold his corner.”

Chief Planning Officer

An interview with Sten Fornell

Sten Fornell is Executive Vice President and Chief Financial Officer of Telefonaktiebolaget LM Ericsson. He joined Ericsson in 1982 and was appointed Vice President and Head of Finance and Control in 1986. Ericsson describes itself as “the world’s leading supplier in telecommunications with the largest customer base, including the world’s top 10 operators.” Ericsson provides total solutions covering everything from systems and applications to mobile phones and other communications tools.

By the year 2010, suggested Sten Fornell, CFO of telecommunications giant Ericsson, in Stockholm, the use of the title CFO may no longer be appropriate. The role of what we currently call a CFO will be very different. “By the year 2010,” he said, “you may not have the title of CFO as such. It will be more complex than that. There will be a team to be run and all of its members will come from a broad knowledge-based understanding of the organization. “It may,” he suggested, “be time to change the name of the CFO to something like Chief Planning Officer.”

In Ericsson, Fornell said, it already worked like that. “Working in high technology,” he said, “you are pretty deep in the operational side and you don’t work very much with pure finance. This will be even more so by the year 2010.”

The future of the traditional finance function could be very different. “Transaction processing may not happen within the company anymore,” he predicted. “Treasury services may be a shared-service concept carried out with your bank.” Fornell feels that companies need to rid themselves of anything that is not the core of their purpose and that by so doing, companies will be able to see their strategy more clearly.

“The general trend towards outsourcing,” he said, “is just another way for companies to become more focused. It will be easier to run companies which are more homogeneous and more focused.”

Fornell sees the role of finance as comprising three different strands. The first is the most basic. “The processing of transactions and information,” he said, “will be put into a shared-service concept by 2010.” So the basic fundamentals of the CFO’s work will move away from the company. The second is what Fornell terms business control. “This is the very broad role,” he said, “becoming the controller in a management function, working in a management team, taking responsibility for reaching our objectives in the long-term and the short-term.” This is the point, as he emphasized, where the CFO is “working in a broad management team.”

Gray zone

Fornell's third strand is "a gray zone in between." This is the connection. "It is where people are reporting or making the analysis. We call it financial support."

As for the future, Fornell wonders whether the first strand, the processing, will still be part of the role of the CFO. "The processing of transactions may not exist in 2010," he said. "It is not part of the core business," he said. "Companies could sell it to outside organizations specializing in these activities. Or it could be sold to the existing management as a form of buyout."

The "gray zone" of financial support will have been revolutionized by the year 2010. "We will have rationalized it," he said. "There will be common tools and common methods. It will still be part of the core of the business but it will use a lot of computer tools." And it will stretch across the organization, crossing barriers and taking it out of the strictly financial zone. "Financial analysis and market analysis will be integrated," he said, "which will also avoid duplication."

The second strand, that of business control, will be where the action is in the year 2010. "It will still be there," he said, "but as a broader competence integrating financial skills with management skills, for example." And technology will enable it to be one simple system. "You will rationalize it," he said. "There will be a commonality of tools, methods, computer systems and ways of presenting things. In Ericsson, there is no reason for us to have separate systems in China and Argentina, for example."

Fuel

Part of the developments to fuel this will be the harmonizing of financial reporting rules. "It would be a good thing if finance people could agree on one set of accounting standards," he said. "It is definitely an area for improvement. At present, we use Swedish GAAP and Chinese GAAP and International Accounting Standards and US GAAP and so on, and it could all be cleared up and made better."

Motivating this by 2010 will be technology. "Real-time reporting will be a concept we will have to deal with," he said. "Internally, it will change our behavior for the better and people will be able to change things on an immediate basis," he said. "Externally, it will mean we can provide the market with constant information. We are approaching a perfect market economy where information is available to everyone at the same time, all the time."

Risk management, particularly following the bombings in America, will change. Fornell said: "There will be a lot of discussions of risk management now." The result is likely that, by the year 2010, risk management will be an even more complete wrap-around package than it is now. "It will be a comprehensive approach across all the different activities in a company," he said. And he had one particular priority. "Data security will be a challenging area," he said.

Comparable route

Corporate governance and the question of good ethics in reporting would also follow a comparable route. "Real-time information and the harmonization of information will facilitate corporate governance in general terms," he said. "Simplified governance and good ethics is high up on my

agenda. Keep it simple and demonstrate high ethics.” His emphasis on the importance of simplicity in the future widens its application. “Big companies are, by necessity, complex so it is important to create simple structures,” he said, “so you can create a good platform for good corporate governance all the way up to board level.”

Fornell sees a continuing and growing involvement for the CFO in strategy by the year 2010. “The CFO is a broad business controller,” he said. “The CFO will be very much involved both in strategy formulation and strategy execution. In tough times, the CFO will be very much involved and in good times, the CFO will also be very involved to ensure that the company stays on top. That is the real trick,” he said, “to stay on top in the good times.”

High-level team

As for the relationship between the CFO and the CEO, he felt there would be little change by 2010. “I don’t think there will be a big difference,” he said. “It is more a matter of the relationship between partners. Everyone in a high-level team has a lot of experience. It is more a matter of complementarity when it comes to personalities.”

Fornell took the view that the role of the CFO and the rest of the team was like any other organizational problem – one that depends on different types of people for its strengths. “The CFO role is a broad role,” he said, “buying into every part of the company. And that will create good cooperation and some tension. To allow some tension into a relationship is a good thing.”

Strategic Changes to the Finance Role

An interview with Tony Isaac

Tony Isaac is Chief Executive Officer of the BOC Group, one of the world's largest industrial gases companies with its headquarters in the UK. He joined BOC as Finance Director in 1994, having previously held similar positions with Arjo Wiggins Appleton and GEC Plessey Telecommunications. BOC employs over 43,000 people and operate in some 50 countries.

For the majority of his career Tony Isaac was a finance man. This culminated in his role as Group Finance Director at the BOC Group in England. Then in the year 2000, he became the company's CEO. He brings a different perspective to how the role of the CFO will have changed by the year 2010. From his background and experience, he knows how solid and necessary an effective finance function must be. But he also knows that strategically, things are changing fast for the finance role.

The first change he pointed to was the merging of parts of different disciplines within a company into a shared services core. "Potentially, we will see not only financial services centers," he said. "But also customer services, IT and human resources all joined together." Like some other CFOs in this project, he sees the value of creating separate entities to provide the services that a company requires. "BOC has moved towards that in the last four years," he pointed out. "Financial services centers bring together all the transactional work." And he sees no reason why all four of the service disciplines he mentioned should not be combined by 2010, bringing together people with transactional skills as well as people skills.

The benefits are clear. The future will mean that service centers will provide all of the servicing skills. And that, in Isaac's view, will include basic management accounting. "The role of the business finance manager will be that of a finance director within their own business unit," he said, "and they will provide help with the strategic thinking. The translation of financial accounts into management accounts will disappear."

This is the first of the big changes that Isaac foresees by the year 2010. "We will have only one set of data," he said. "Many managers will be very computer literate and will get their day-to-day needs from databases within the company. So they won't need the management accounting which goes on in a company at the moment."

But the biggest change of all is going to be the operation of companies in a truly global market. "This will provide challenges for the CFO who will need wider and wider knowledge of markets and cultural issues." And the means of doing business will become more complex. "Most companies will

find that a lot more of their business will be done in areas like Asia and South America, where they will operate in joint ventures with local partners, and again the cultural issues will be important.”

This also connects with the place of internal controls and risk management in the CFO’s portfolio by the year 2010. “Risk management will be a major item for their agenda,” he said. “Line managers will become more pro-active. Management teams will realize that it is not a burden. They will be working on eliminating or managing risk. And that means that the old financial stewardship role changes. There will be two areas: the facilitation role for risk management; and the risk assurance work checking internal controls on a selective basis.”

But Isaac thinks that globalization of data will crack much of this problem. “By 2010,” he said, “we will have moved towards single instant data, using common data around the company. Then the chance of error and the need for some basic financial control should reduce significantly. You are already getting more robust systems which are all-embracing. So progressively, it is improving. Combined with the idea of shared services covering everything from human resources to the financial function that in itself should ensure quality and commonality of data.”

Quality of the people

For Isaac, the main challenge in achieving this is the quality of the people working for the company. “There will need to be a continual development of people for the finance function. You will need a continuing flow of good people who you have developed in-house, have come through a graduate scheme, or have come from outside.” And the changes which will flow from shared services will have an effect here as well. “Splitting the role between finance and services will be difficult for the people developed in-house,” he said. “Finance service centers could be seen as the less exciting areas and the business finance manager roles will be the popular ones because people there would be dealing with the total business team and all the business issues.” How this will be resolved is a question for the future. This is not a fair view – Isaac believes it will remain absolutely critical to have both high quality financial information provision and finance management input to the business.

There is also the challenge of investor relations. “Anyone who becomes a CFO has probably not had experience of investor relations before,” he said, “and it’s a pretty steep learning curve.” Isaac sees this as becoming evermore complex across the next decade. “Companies,” he said, “will go to many different marketplaces for equity or debt. More and more, UK companies have American listings and are also trying to grow a set of relationships with French, German and Dutch shareholders, for example. This trend will accelerate.”

This development will go hand-in-hand with changes in financial reporting. “There will be some harmonization of financial reporting,” he said.

Environmental reporting

Another area which will become much more important is environmental reporting. “There is no alternative to substantially more environmental reporting,” he said. “Safety statistics, for example, bring their own issues in making sure that the data is correct.” And the concept is still in its infancy when it comes to comparable figures across even industry sectors. All that will change by 2010.

“Trying to get commonality in a particular industry or across the FTSE 100, for example, is very hard,” he said. “But getting and understanding a commonality of data is very important.”

The driver of this change, of course, is investment. “The potential investors in 2010 will be looking at environmental and ethical reporting as well as good corporate governance and risk management,” he said. “By then, we will find that executive management teams will really understand the risk issues for themselves,” he said. “They will have regular risk reviews and it will be high on the agenda. Risk, safety and environmental issues will be significant agenda items for the board. They will demand much more frequent reporting and review.”

“Executive directors have to accept the responsibility for the assets and the whole well-being of the organization.” He sees change coming in the way that remuneration is set. “There is a gathering momentum for major companies to agree to remuneration structures at annual general meetings and debate it in advance with significant numbers of the shareholders. That will be significantly formalized. Investors will demand it and I expect that to happen before 2005, let alone 2010.”

Active

The role of the CFO in strategy will continue to increase towards 2010. “Many CFOs are already active members of the strategy team,” said Isaac. “Many are already involved in mergers and acquisition work, in how the business should be shaped, or in the debating of investment decisions. Lots of organizations find that financial and strategic planning has moved into the CFO’s arena. In the future, much of the CFO’s role will include strategic planning, financial planning and risk management, for example, though the CFO could potentially also lose direct authority over the financial services function if the shared services concept progresses.”

The CFO in 2010 will continue to have a significant role. “The CFO will probably be privy to more information than any others in the executive team,” said Isaac.

Isaac, having moved from Finance Director to CEO knows more about this than most. “The relationship between the CEO and the CFO should be a close one, but then so should the relationship of the CEO with all of his director reports,” he said.

“In terms of knowledge and information, the relationship between the CEO and CFO is an exceptionally close one,” said Isaac. “The CFO should be privy to all of the main discussions. But it is not only the CFO, but the senior finance business management within the business units.”

Concern About Global Markets

An interview with Iain Lumsden

Iain Lumsden has been Finance Director of Standard Life since 1990. He joined the company in 1967 on graduating from Oxford University and qualified as an actuary in 1971. He was Chief Actuary of the company from 1984 to 1990. Standard Life is the biggest mutual life insurer in Europe and one of the largest life companies in the UK. It has operations in the UK, Canada, Germany, Ireland, Spain, India and Hong Kong.

In several ways, Iain Lumsden is unusual in this project. Although he is Finance Director with the giant Edinburgh-based financial services group, Standard Life, and takes over as Chief Executive in 2002, he is not an accountant. He is an actuary. “I work for a mutual,” he said, “and I am an actuary by training so many of the things that interest CFOs are not of interest to me.” The world of financial services is a different one to that in which many CFOs work. “I have some similar functions but there are differences.”

This colors his view of the issues that the CFO in the year 2010 will be having to grapple with. “From my point of view,” he said, “the first big thing on the horizon is a degree of concern about the operation of the investment markets.” Here he sees the way the markets are now run as being untenable in the long run. In particular, he worries about the degree of perceived pressure brought to bear on CFOs by shareholders.

“I have the concern of an institutional investor about the volatility of the markets and globalization,” he said. Investing across borders and into huge businesses which are very diverse in aspirations and products within their organizations creates problems. “It has become very difficult to see precisely what industry you are investing in,” he said. And he worries about the way the market is changing. “There is a question mark, for example, over the traditional view of the out-performance of equities over bonds,” he said. “Investment performance may be a very different game in the future.”

These are symptoms of what Lumsden sees as an overall worry. “I have disquiet about how the investment markets have been developing,” he said. He looks in particular, at the technology, media and telecommunications (TMT) sector. Here he looks back with amazement at how individual investors insisted on committing large amounts of money with unreasonable expectations and how institutional investors seemed powerless to stop it. Investors wanted their money there and, against all the warnings, insisted. “We were receiving large amounts of money to put into the equity market at a time which we thought was daft,” he said. “Institutional investors were following the trend,

knowing it to be unreasonable, but fearing the consequences of not following.” He cites an example. “The government auction of third-generation phone licenses was ridiculous,” he said.

CFOs from other backgrounds may be happy with the way the markets work. They may have share options which depend on it. But for Lumsden, it is a different concern. “The market does not respond,” he said. “It is not efficient.” He argued that the very high volatility in the markets worked against investors. “Investors find it impossible to deal at the price quoted,” he said. “The market is not a very happy place to be in.” And he is unhappy about the lack of judgment. “Institutional funds are mandated to be invested in particular areas,” he said, “with no real discretion.”

This is where he fears for how things will look by 2010. “I have a disquiet that things may be changing in a low inflation-environment with low interest rates. Equities may not out-perform bonds by anything like the difference they have in the past”.

Question the balance

As a result of these likely changes in how the investment markets work, Lumsden thinks that the CFOs’ view of the world will change. “CFOs will start to question the balance between issuing equity and issuing debt,” he said.

Another area which worries him is the growing influence of regulation, a feature which has started to influence the financial services world far more than the more usual arenas of the CFO. “For us in a financial institution, regulation has become a major issue,” he said. “There are a number of strands, but the key one is the spread of clandestine state control of the industry. This is of much greater significance than people have noticed. Regulators have been consolidated into the single Financial Services Authority, some 3,000 people strong, and it is beginning to be far more interventionist. We are already getting almost weekly instructions.” Lumsden’s view is that the FSA doesn’t have the expertise to do this sensibly. “They are not capable of doing it and so many of the instructions are daft and later have to be rescinded. For example, bluntly, I cannot believe that the FSA interventions have helped the Equitable Life situation one little bit.”

Disastrous

Lumsden takes the view that the increase in this type of regulation, which doesn’t simply provide the rules but also insists on laying down how a company should administer them, will have a disastrous long-term effect on the organizational efficiency of companies. “The CFO will find the same in the accounting area,” he said. “Regulators insist that you set up risk management bodies but they also prescribe the ways of reporting risk and the organizational structure required. Incompetence stems from regulatory pressure.”

Increased state regulation

But the consequences of increased state regulation in the financial services world are what really worries Lumsden about the future. “In our industry, low cost and low capital usage are going to be much more important,” he said. “The pressures will be on low cost because of the view that our charges are too high as an industry. But the consequence of that is you put the emphasis in the industry on doing the minimum job cheaply rather than doing a good job. We will have to compete

on cost and so have difficulty in differentiating ourselves by product. The external perception will cause us to emphasize low cost/low value services rather than fit the service to the need.”

The other danger is low capital. Here Lumsden’s *bête noir* is the theory of shareholder value. “People will try to maintain returns on equity which are unattainable and unjustifiable,” he said, “and the only way to do that is to minimize capital usage. But capital is what keeps us solvent. So insurance companies, for example, will have to run closer to insolvency to maintain the required return on capital. This will increase the use of exotic financial instruments like derivatives and the use of ways of taking things off balance sheet.” And the whole process will be compounded by the economic pressures on investment banks. “They will need to keep selling these things just to make ends meet,” said Lumsden. At the heart of Lumsden’s argument, there is one principle which has become out of kilter. “Shareholders do not accept that, if inflation has come down, then so should their returns.”

Conventional view

Lumsden also thinks that the conventional view that the roles of CFOs and CEOs will become closer over the next few years is wrong. “The likelihood is that the CFO role in an organization will become more distinct in the sense that the CFO will be looked on as a counter-weight to the CEO rather than being seen as part of a team,” he said. For him, it is the inevitable consequence of regulation and corporate governance. “Plcs are beginning to see the CFO as a necessary counterweight,” he said. “There is no sign of shareholders losing confidence in the abilities of non-executive directors but the ability of non-executive directors to exert control is limited. In our industry, the change will happen because the regulators will look on the CFO as a counterweight. The regulators will want a lot more auditing and that automatically puts the CFO into the middle-man position.”

Lumsden insists that, in an ideal world, the CEO and the CFO would work as a team, but by 2010 the demands of the regulators will have made this terribly difficult. “It would be ideal to have the CEO and CFO working together,” he said. “But the regulators will dictate that if the CFO cannot endorse something which is material to the company and which the CEO wants to do, then the CFO will be under an obligation to report the CEO to the regulator.”

In the financial services industry, the rise of information and the responsibility of the CFO is also working in a different way. The financial services world doesn’t make anything in the manufacturing sense, but its ability to create wealth depends entirely on information and paper. “I am skeptical about consultant-led theories that information systems will make CFOs more powerful,” said Lumsden. “The amount of information we get is astonishing. That growth will continue. But the importance will be in synthesizing the information. I haven’t seen a corresponding increase in useful information. There has been a huge increase in useless information.”

Different role

For Lumsden the CFO has a different role here. “The CFO has to identify the underlying drivers and that is becoming more difficult, not because of the amount of information, but because the underlying realities are becoming more difficult. You need a very good information system to track the investment side.” But motives are becoming confused and tangled. “It is becoming much harder

to distil what is really important to us and what is important to the regulators,” he said. “This is nothing to do with computers. It is much more to do with greater activity in the investment markets and regulatory requirements.”

On the strategic side, he thinks that the CFO’s role will change by 2010 and move much closer to an operational role. “CFOs have always been involved in the strategic team,” he said. “But the regulatory pressures will mean that CFOs will have less time for strategy. In organizations like ours, you will see moves towards something which is not traditional in this country with the CFO becoming much closer to the role of the Chief Operating Officer’. For Lumsden, this move towards what has always been seen as the American model would inevitably mean that the CFO would be less involved in strategy. Instead, the CFO would become a provider of the means of strategy. “I recognize the analysis of strategic issues requires information and the CFO has an awful lot of information. However, I think that American model is how it will go.”

Priorities

He also feels that by 2010, the role of the CFO will have to have changed completely in terms of priorities. “CFOs will have to become much more customer-focused,” he said. And by that, he did not mean that CFOs simply have to take an interest in customer issues. He sees that ultimately an emphasis on shareholder value and control issues destroys the customer base. “In our industry, CFOs spend about a third of their time talking to institutional investors,” he said. “The emphasis of their role is on corporate governance and controls. Yet they never talk about their customers. The CFO needs to get away from this unbalanced view. Ultimately, long-term shareholder value comes from a good customer interaction.”

But the theories of maximizing shareholder value tend to look elsewhere for means of maintaining progress. “In the past few years,” said Lumsden, “you could improve share-holder value by organizational change, but that is not sustainable long-term. You run out of non-customer focused activities to work upon. CFOs need to change their focus and spend more time on their customers than on control and shareholder value,” he said. “This is where the financial institutions all have serious problems.”

The Importance of Communication

An interview with John Connors

John Connors is Chief Financial Officer of Microsoft Corp, responsible for its IT organization and manufacturing/licensing operations, as well as business operations. He joined Microsoft in January 1989. Microsoft is one of the world's largest companies by market value, operating in software, services and internet technologies. Headquartered in Redmond, Washington, US, the company operates subsidiary offices in more than 60 foreign countries and employs nearly 44,000 people worldwide.

As you might expect of the CFO of Microsoft, John Connors has a view on how the communication of data is going to influence the role of people like himself over the next 10 years. "The biggest difference from 10 years ago," he said, "is the real-time global distribution of data. We are going to just continue to see enormous increases in the use of all forms of communication and the costs of communication will drop precipitately."

The world of the CFO in 2010 will, in that sense, be very different. "People will have access to information in a way they never had in the past," he said, "which means the premium on communicating financial information will be enormous." This not only changes the message. It also changes the messenger. "CFOs will have to have more coaching in communications skills," said Connors. "They will have to become much more effective at framing their company's story consistent with the company's financial story." And there will be less time in which to do it. "There will," suggested Connors, "be little opportunity to explain detail or nuance."

This, in turn, means a change in the type of person who will be a CFO in the future. "I think we will see more and more CFOs come from line organizations rather than the traditional finance route," said Connors. He cited his own example as being partly a move towards this. "I started in finance," he said, "but I worked in product and worked in sales and I worked in Paris." He notes how the changes are happening. "Here in Seattle, Boeing hired a high-profile CFO who didn't stay long," he said. "Then they hired a guy from their aircraft line and he's doing a great job."

He sees this change as inevitable. "People have to understand the business and have a strong financial background," he said. "But CFOs who did not serve in the finance function will become much more common."

Having said that, Connors' views on the requirements of the CFO in 2010 are much more traditional than you might expect. From his position watching over the current American economy, as well as

the global economy, he has learned some strong lessons in recent years. “If you look at the role of the CFO today there is probably much more similarity with the role of the CFO in 1990 than there is with the role of the CFO in 1998,” he said. “There has been a return to business basics. The aftermath of the bubble years has put the role back to ensuring revenue forecasting and setting appropriate estimates of return to shareholders.”

He sees the great dot.com crash as having had a searing effect. “The extent to which people have lost wealth is a lesson which will not be forgotten for a long time,” he said. And he feels that the effect will have a strong influence on what skills the CFO will need over the next decade. “I expect the economy to grow more slowly in the next 10 years,” he said. “And so the CFO role will be one of increased importance as companies have to allocate resources more judiciously and be astute as to what areas will provide shareholder value and which will provide risk.”

The way CFOs have traditionally viewed technology will also be affected. “The CFO will have to be much more focused on the role of technology to return real business value,” he said, “instead of being opposed to technology because it is an increasing cost.”

Truly global

Another of Connors’ themes is the need for global companies to be truly global not just in their markets and their views, but also in the people who work for them. This has an obvious effect on the role of the CFO and the finance function. “The CFO in 2010,” said Connors, “will have to have a very open and clear perspective on diversity in the work-force. Any leader in finance will have to have an inclusive workforce or they will have a difficult time recruiting talent. Microsoft is a very global company with a diverse workforce,” he said.

“Our success allows us to attract people from all around the world. But we built our company with local people around the world so we have a multi-cultural workforce. It is a diverse cultural mosaic,” he said. “Companies will have to adjust to that.”

He sees the global economy as inexorable. “Almost every industry today is moving towards being global,” he said. “For example, there are BP petrol stations all over the USA. Twenty years ago that would have been unheard of – a non-American business in petroleum here.” This will bring enormous change. But it will also, he thought, bring a slow-down in global growth.

“There isn’t an economy in the world which can afford to be protectionist,” he said. “Japan feels real pressures today because it is facing competition for the first time in retail and distribution.” The world is growing closer. “It is a very, very pervasive challenge,” said Connors. “What you are doing in Los Angeles is just as important as what’s going on in London, Paris or Tokyo.”

This has an upside and a downside. “It increases opportunities,” he said, “and severely increases the stress of running the company. The stress of executing your decisions successfully and the increasing growth in anti-global sentiment.” This is why he, unlike many CFOs, thinks that the importance of the finance function will increase rather than decrease. “In the short-term, people are having to face the fact that if the top-line needs to be adjusted downward then, to protect profits, you’ve got to take costs out,” he said. “It reminds the finance function of the brutal reality of the profit and loss account and increases the role of the fundamental finance function.”

The result is straightforward. “Companies will need to have a very, very solid business plan and will need to have a more realistic sense of the risks than people have had in the last few years,” he said. Understandably, he sees some of this as being specifically related to the American economy. “The reversal in America’s worldwide growth is being felt most severely in the USA and because of dot.com hyper-growth it feels like a recession,” he said.

Other economic trends will also impact the role of the CFO in the future. One of these will be energy policy. “Over 50% of all known oil reserves have been used,” he pointed out. “The level of investment to increase energy to meet demand is huge. It touches every industrialized country,” he said. “It is a drag on everybody’s growth rate.”

This is what he describes as the politics of energy. “It is virtually impossible to increase people’s wealth if you have an energy-supply problem,” he said. “We don’t have a plan. Over the next 10 years, energy prices will be much higher and that will have a big effect on growth. So there will be a slower growth rate and the role of the CFO will be much more like it was in the 1980s’.”

But globalization will also bring other changes to the role of the CFO. “We will see a convergence to simple worldwide rules for accounting as investment capital moves more rapidly worldwide,” he said. “People will increasingly expect a convergence to be forced between US GAAP and other standards.” This will have an enormous impact on the role of the CFO. “It has a big effect on how finance students are taught, for example,” he said. “It accelerates globalization. Everyone will speak the same financial language.”

Investor relations

This brings more change. “Financial information will spread so rapidly that the role of investor relations will become inseparable from corporate communications,” he said.

“There will be a need to manage the investment community globally and in real-time. You will no longer be just talking to a handful of analysts.” The same effect will change corporate governance. “It means that your constituencies are global in nature,” he said. “The CFO will need to be much more aware of every country’s practices but from within a global framework.”

Connors has strong views on the way that the positions of CEO and CFO should be kept separate. “It is primarily the role of the CEO to create a vision and a strategic plan,” he said. “When I hear a strategic plan has come out of the finance function, I know that that is a stock to avoid.” His view is that “the financial function should be the ballast.” And they also need to be the guardians. “Product people will always want more resource,” he said. “Sales people will be overly optimistic. The role of the finance function is to validate and challenge those assumptions. Plans need to have a credibility and a reality.”

Wrestling match

“The risks need to have been made known and the elements which will execute the plan provided for,” he said. “Strategic planning needs to be driven from the top by the CEO and the chairman,” he said. “Then there has to be a wrestling match over resources and the fine-tuning of the plan. The

finance function tries to be conservative and cautious in not letting the cart get ahead of the horse.” For Connors there is a simple rule. “You need to deliver what you say you will deliver,” he said. “The market likes that. It all starts with the finance function ballast beneath your strategic plan and not promising something you don’t think you can deliver.”

But Connors also believes that the stress of senior management will grow over the next decade. “Any company without a strong CEO in the next 10 years is going to have a major challenge,” he said. “It is an almost inhuman role today. The CEO needs a strong team and the CFO has to be part of that. But people need to know where the buck stops. And that has to be the CEO.”

Connors’ view of the future is again colored by the past. “The CEO role got lost in the last few years,” he said, “and shareholders lost trillions of dollars in wealth. There has been nothing like it since the early 1970s and the 1923-29 period.”