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Building the CFO Function: Roles and Responsibilities

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Roles and Responsibilities

A collaborative research project between
Singapore CFO Institute and
Singapore Management University

Singapore CFO Institute

SMU Singapore Management University
School of Accountancy

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EXECUTIVE SUMMARY

In May 2012, the Singapore CFO Institute, in collaboration with the School of Accountancy at Singapore Management University (SMU) and support from the Singapore Exchange (SGX), embarked on this study with the objective of achieving a better understanding of the CFO function in today's modern corporation.

The study aims to answer a fundamental question – what do CFOs actually do? We examined several facets to this question: the key roles and responsibilities of CFOs; how those responsibilities are structured; whether those roles have changed in importance over time; what roles occupy the most of the CFOs' attention and time; and what factors are challenging or enhancing the effectiveness of the CFO function.

We administered an online questionnaire survey during August and September 2012 to the Group CFOs of more than 700 companies listed on the Singapore Exchange (SGX), and received 117 usable responses. We also separately conducted interviews with three CFOs to garner their views on some of the survey results.

To contextualize our analysis, we partitioned the responses into three groups by their companies' market capitalization – large-cap (>$1 billion), mid-cap ($300-$1,000 million), and small-cap (<$300 million) firms.

More than 75% of the CFOs in our sample are 40 years or older, with large-cap firms generally having more experienced CFOs than small-cap firms. About 89% of the CFOs have at least one professional accountancy qualification; this percentage is higher for small-cap firms but lower for large-cap firms.

Roles and responsibilities

The traditional controllership and compliance functions of the CFO office have not changed. Financial and management reporting, budgeting and tax compliance remain key responsibilities of more than 93% of the CFOs in the sample, and this percentage does not vary much across companies of different sizes.

The increasing complexity and scope of the finance function, however, has clearly brought upon CFOs other roles beyond controllership and compliance. Analysis of business unit performance is identified as a key responsibility today by 92% of the CFOs – again, this percentage is similar across companies of different sizes. Other key responsibilities include financial risk management (91% of CFOs) and cash management (89%).

Certain key CFO responsibilities tend to differ across companies of different sizes. Capital structure management is identified as a key responsibility by 92% of large-cap CFOs but only 65% of small-cap CFOs. 92% of large-cap CFOs are responsible for raising capital, but only 73% of small-cap CFOs are similarly responsible. Relative to large-cap companies, small-cap companies may rely significantly less on capital markets for funding, and achieving an optimal capital structure may be less of a priority or concern for them as opposed to other objectives such as growing the business.

While financial risk management is a responsibility for 91% of the CFOs, enterprise risk management (ERM) is a responsibility for only 67% of the CFOs. Yet ERM tops the CFOs' selection as the role that has increased the most in importance in recent years. In addition, CFOs in the sample also regard the ability to manage enterprise risk as the second most critical factor challenging the effectiveness of the CFO function today.

More needs to be understood about the role of ERM both in organizations and in the CFO Office. As enterprise risks permeate many facets of the business operations and extends beyond the financial aspect, how those risks can be tracked and mitigated and who can best oversee them are key issues to be addressed going forward.

Functions occupying most attention and time

Analysis of business unit performance ranks highest in terms of time spent – 61% of the CFOs identified this as the responsibility that occupied the most of their attention and time in the past 12 months. Strategic planning was next, with 49% of CFOs spending most of their time on it.

These two functions were demanding of CFOs' time for all companies, but somewhat more so for large-cap and mid-cap firms than small-cap firms.

Large-cap companies' CFOs also spent significantly more of their attention and time on enterprise risk management, investor relations and capital structure management relative to mid-cap and small-cap companies. Small-cap companies' CFOs, on the other hand, spent more attention and time on financial and stock exchange reporting as well as cash management functions.

CFO as business partner

In recent years, many CEOs as well as board members have come to regard CFOs as not just gatekeepers of the organizations' finances but also business partners who are expected to support the strategic mission of their organizations.[1] We examined this perspective from the lenses of the CFOs themselves.

The findings are consistent and assuring – more than 95% of CFOs in our sample agree on their role as a business partner to both their CEOs and the business unit heads in their organizations.

Challenges to, and enablers of, effectiveness of CFO function

The increasing complexity of the CFO function today potentially poses challenges to the effectiveness of the finance function in organizations. The survey asked CFOs to identify factors which they consider to be most challenging to the effectiveness of the CFO function in their organizations.

Standing ahead of the pack is the ability to attract and retain talent – 54% of the CFOs identified this as the factor that is most challenging to their effectiveness today. This is followed by ability to manage enterprise risks (43% of CFOs), uncertain or volatile economic conditions (40%), and compliance burden (32%).

In contrast with challenges, the survey also asked CFOs to identify factors which are enablers of effectiveness of the CFO function in their organizations. Relationships between finance and business units as well as competency of finance staff were the top two enabling factors.

A few factors were particularly insightful because they were identified as challenges to effectiveness by some CFOs and enablers of effectiveness by others – board and governance processes, organizational strategy, and ability to manage enterprise risk as well as financial risk.

The state of board and governance processes was identified as a significant enabler of finance's effectiveness by 44% of the CFOs, but as a challenge by 27% of the CFOs. Similarly, the ability to manage financial risk was identified as a significant enabler by 42% of the CFOs, but as a challenge by 15% of the CFOs. Ability to manage enterprise risk, however, was more a challenge (43% of CFOs) than an enabler (26%).

This result suggests that there may be significant differences across firms in terms of the state of their board and governance processes, their organizational strategies, and their ability to manage enterprise and financial risks, and that these differences potentially affect the effectiveness of the CFO function in organizations.

There were significantly more large-cap CFOs who identified board and governance processes as an enabler than as a challenge, but small-cap CFOs were quite divided on the impact of board and governance processes on finance's effectiveness. Large-cap CFOs also generally identified their ability to manage enterprise risk as an enabler of effectiveness, but there were also a significant number of them who identified it as a challenge.

Overall, the evidence suggests that improving an organization's board and governance processes, organizational strategy, and ability to manage enterprise and financial risks can potentially lead to a more effective finance function in the organization. ■

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[1] *See, for example, Singapore CFO Institute and ACCA, "The value of the modern CFO: Board directors' perspective," 2012; CFO Research Services and KPMG, "A new role for new times: Opportunities and obstacles for the expanding finance function," 2011.*

Profile of CFOs

We received 117 complete and usable responses to the survey. To contextualize our subsequent analysis, we partitioned the responses into three groups according to their company's market capitalization.

Table 1 shows the distribution of responses as well as response rates by company market capitalization. For convenience, we refer to these three groups as large-cap, mid-cap and small-cap companies respectively.

Table 1: Distribution of responses by company market capitalization.

Company size-group	Market capitalization (S$ mil)	No. of responses	Response rate
Large-cap	More than $1,000	24	24.5%
Mid-cap	$300 – $1,000	18	18.9%
Small-cap	Less than $300	75	14.2%
TOTAL		**117**	**16.2%**

Figure 1 shows the gender distribution of the CFO respondents. The proportion of male-to-female CFOs was 75:25. This proportion was also reflected in the large-cap companies, but the proportion of male CFOs was lower for mid-cap companies and higher for small-cap companies.

Figure 1: Distribution of CFOs by gender.

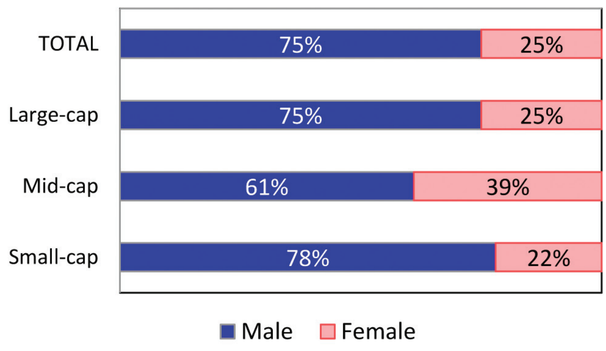


Figure 2 shows the age distribution of CFOs in our sample. More than three-quarters of CFOs are 40 years and above. Large-cap companies tend to have older CFOs while small-cap companies tend to have younger CFOs. This is also seen in Table 2 which shows that large-cap CFOs tend to be relatively more experienced compared to mid- and small-cap CFOs, as the former are usually called upon to lead more complex tasks.[2]

Figure 2: Distribution of CFOs by age group.

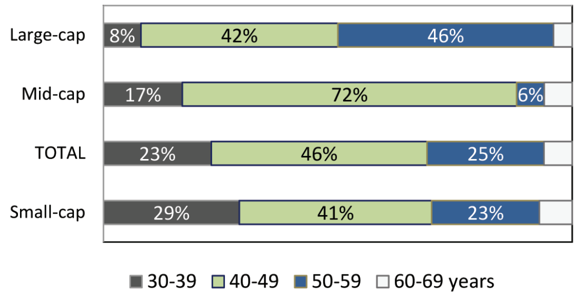
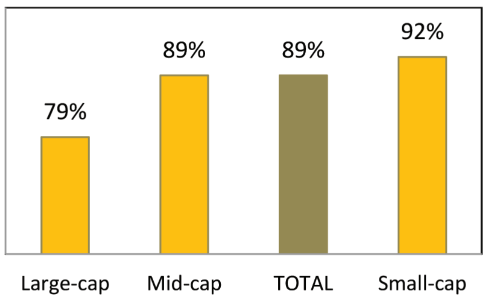


Table 2: Median work experience of CFOs (years).

Company size	Years in current CFO appointment	Years in previous CFO appointments	Total work experience
Large-cap	3.5	4.0	24.5
Mid-cap	3.5	2.5	20.0
Small-cap	4.0	2.0	20.0
TOTAL	**4.0**	**2.0**	**21.0**

About 89% of CFOs hold at least one professional accountancy qualification (see Figure 3). The proportion is marginally higher at 92% for small-cap companies but significantly lower at 79% for large-cap companies. ■

Figure 3: Percentage of CFOs with professional accountancy qualification.

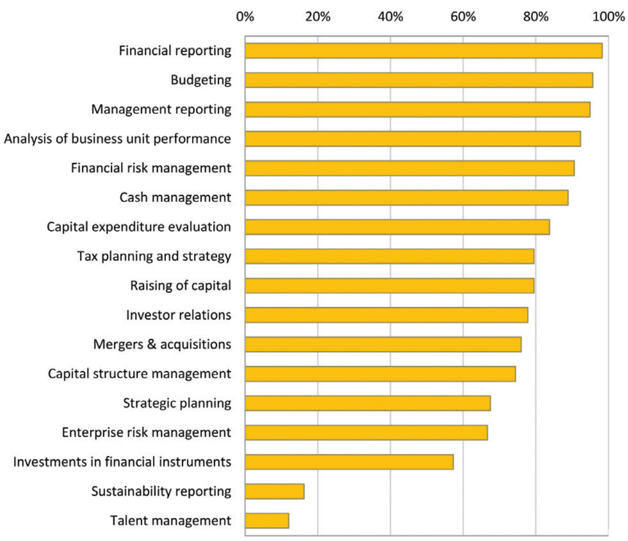


[2] *See, for example, Ernst & Young, "The DNA of the CFO," 2010.*

Roles and Responsibilities of CFOs

The survey asked respondents to identify from a list of suggested functions those that fall within their responsibilities as Group CFOs, whether directly (i.e. they perform the functions themselves) or indirectly (i.e. they have direct reports who perform those tasks or assist them in performing those tasks).

Figure 4: Percentage of CFOs who identified functions as their key responsibilities.



Financial and management reporting as well as budgeting remain key responsibilities of most CFOs – more than 95% of CFOs listed these as among their key responsibilities. This percentage does not differ much across companies of difference sizes.

Analysis of business unit performance is also a key role for 92% of CFOs. Another key role is strategic planning, though for a somewhat lower proportion (68%) of CFOs. These two functions also appear to be key roles of CFOs regardless of company size. Financial risk management is also key role for 91% of CFOs. As one CFO whom we interviewed pointed out, CFOs today often lead and execute strategies to hedge currency and interest-rate risks for their organizations.

Enterprise risk management, however, is a key role for only 67% of CFOs. Recently, the debate has surfaced whether CFOs should also take on the role of CROs (Chief Risk Officers) in their organizations. Enterprise risks may be more pervasive across the organization, covering many facets of the business and operations rather than just the financial aspect. The question remains whether CFOs are in the best position to oversee the management of such risks, or whether they should instead be overseen independently of the CFO Office.

In spite of the prominence it has received, sustainability reporting does not appear to be a key role for most CFOs, even for large-cap companies. But CFOs may not necessarily be the ones overseeing this function.

Talent management appears not to be a key role of CFOs either. However, talent management may not be limited to the finance function alone, so CFOs may not identify it as an expressed responsibility within their office. This appears somewhat at odds, though, with a subsequent observation (see Figure 11) where CFOs identify the ability to attract and retain talent as the most critical factor challenging the effectiveness of the finance function in their organizations.

Figure 5: Percentage of CFOs who identified functions as their key responsibilities (by company size).

Roles of CFOs relative to company size

Several roles appear to differ across companies depending on size. Figure 5 shows selected roles and responsibilities of CFOs by company size.

More large-cap CFOs are responsible for raising capital, capital structure management, and tax planning than small-cap CFOs. 92% of large-cap CFOs viewed raising capital as a key role, but only 73% of small-cap CFOs viewed likewise. Similarly, 92% of large-cap CFOs identified capital structure management as a key role, but only 65% of small-cap CFOs considered this to be so. Small-cap firms are likely to rely less on capital markets for funding relative to large-cap firms, and achieving optimal capital structure may be less of a priority or concern for them.

Mergers and acquisitions also feature as a key role of CFOs. CFOs may be called upon to identify or evaluate acquisition targets, and carry out due diligence and deal execution. They may also be involved in leading post-acquisition integration work. Still, mergers and acquisitions feature more frequently as a key role of CFOs for small-cap firms (83%) than large-cap firms (67%). Small-cap firms may have more limited access to third-party expertise to consult on acquisitions and hence may depend largely on their CFOs for such advice.

Relative to large-cap CFOs, a higher percentage of small-cap CFOs are responsible for certain functions such as stock exchange reporting, internal audit, legal, and human resource management. Large-cap companies may have separate offices handling these functions instead.

The proportion of CFOs who are responsible for talent management is somewhat higher for large-cap companies (21%) than small-cap companies (12%). Still, as pointed out earlier, the overall incidence of talent management as a responsibility of CFOs appears low. ■

Centralization versus Decentralization of functions

To gain a better understanding of how the finance function is organized and structured, the survey asked CFOs to identify whether a function within their responsibility is a corporate office function only or a Group-wide function, and if the latter, whether it is managed centrally or decentralized.

Figure 6 shows how various finance functions are organized and structured in companies. The figure shows the mean centralization score (across all respondents) for each selected function – a score of 1 implies the function is highly centralized at the corporate office level; 2 implies the function is group-wide but still centralized; and 3 implies the function is highly decentralized to the business units. Functions in grey have scores very close to 2.

Figure 6: Centralization vs. Decentralization of selected functions.

As expected, most functions of a transactional nature, such as general accounting and management of operating assets and liabilities, tend to be decentralized. On the other hand, capital structure management, strategic planning, mergers and acquisitions, and raising of capital are largely corporate office functions. Tax planning and strategy is largely group-wide but centralized, in contrast with tax compliance which is largely decentralized, given that tax liability is often determined by legal-entity and tax-regime considerations.

Capital expenditure evaluation and cash management appear less obvious with regards to centralization. Some aspects of these functions may be decentralized to business units where decision-useful information resides, while other aspects may require supervision, control and monitoring at the central office level.

Also less obvious on how it is organized is the internal audit (or internal control) function. The function score of 1.82 suggests a high degree of centralization. However, internal audit may not be synonymous with internal control, so an aggregate score may not fully characterize the different context between these two functions. ■

Evolving importance of functions over time

Functions may change in importance over time. The survey asked CFOs to rate how each of their functional responsibilities has changed in importance over the last three to five years.

Figure 7 shows the responses. CFOs rate each function on a score from 1 to 5, where 1 = much less important today than three to five years ago, 2 = somewhat less important today, 3 = little change in importance, 4 = somewhat more important today, and 5 = much more important today. The figure shows the average importance score for each function.

Clearly, CFOs rank enterprise risk management as the function that has increased the most in importance in the last three to five years. Following closely in increased importance are strategic planning, cash management, financial risk management, and analysis of business unit performance.

Not surprisingly, functions relating to general accounting or the management of operating assets and liabilities such as receivables, payables and fixed assets (not shown in Figure 7) have not changed much in importance over the years.

Very few CFOs regard any function to have declined in importance over the years. However, some 9% of CFOs consider investments in financial instruments to have declined in importance over the past three to five years, which coincides with the period of the 2008 global financial crisis.

Figure 7: Relative importance of function today versus 3-5 years ago.

Functions occupying most of CFOs' attention and time

The survey asked CFOs to identify the top five functions that occupied the most of their attention and time over the past 12 months or past annual financial reporting cycle. Attention and time spent is defined as that which they spent either performing those functions themselves or supervising their staff who performed those functions.

The results are shown in Figure 8. The figure shows the percentage of CFOs who identified that function as among their Top-5 functions occupying the most of their attention and time in the past 12 months.

Analysis of business performance ranks top as the function that most CFOs (61%) spent considerable amount of their attention and time on. This was followed by strategic planning (49%). Other responsibilities that consumed significant amounts of the CFOs' attention and time include stock exchange and financial reporting, mergers and acquisitions, enterprise risk management and investor relations.

However, financial risk management, talent management and forecasting do not appear to be functions occupying relatively much of CFOs' attention and time.

Company size and time spent on functions

The size of a company may determine the relative amount of attention and time required of specific functions. CFOs of large-cap firms may be required to spend more of their time on functions that CFOs of mid-cap or small-cap firms may otherwise not. Figure 9 shows selected functions that CFOs within each of the three company size-groups spent most of their attention and time on.

Figure 8: Percentage of CFOs who identified function as occupying most attention and time.

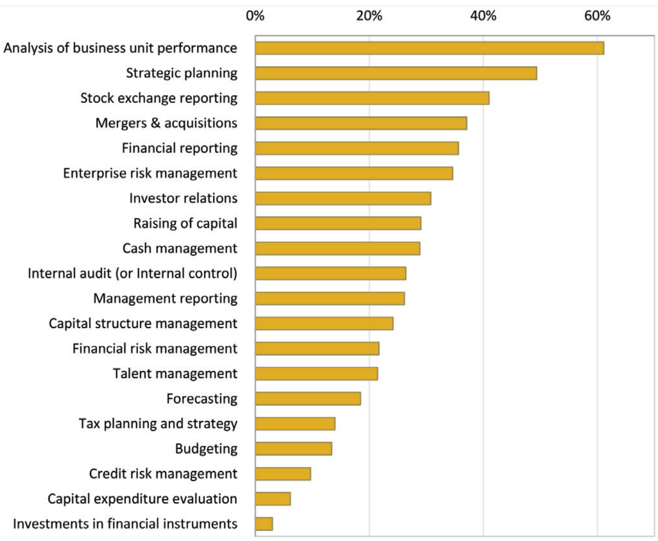
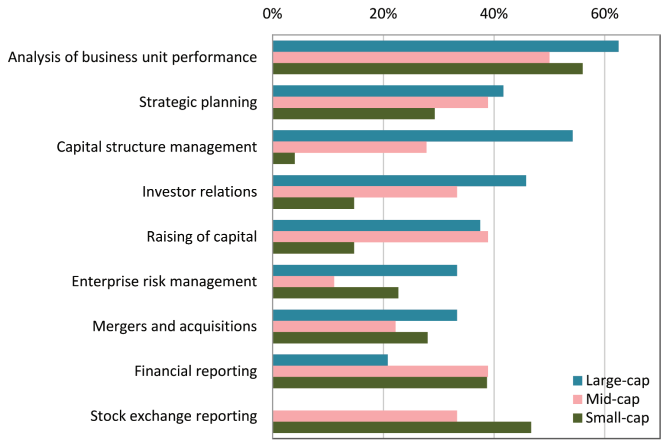


Figure 9: Percentage of CFOs who identified function as occupying most of their attention and time (by company size).



As seen from Figure 9, analysis of business unit performance and strategic planning appear to be functions on which CFOs across companies of all sizes spent the most of their attention and time.

For capital structure management, investor relations and raising of capital, however, large-cap CFOs generally spent more attention and time on these functions than mid-cap and small-cap CFOs.

Mergers and acquisitions was another function that occupied most of the CFOs' attention and time, regardless of company size, although a somewhat higher proportion of large-cap CFOs ranked it in their Top-5 list than mid-cap and small-cap CFOs.

On the other hand, CFOs of mid-cap and small-cap firms spent more attention and time on various aspects of reporting (financial and stock exchange) than their counterparts in large-cap firms. None of the large-cap CFOs in our sample identified stock exchange reporting as among their Top-5 list of functions in terms of attention and time spent.

CFO as Business Partner: What CFOs themselves say

In recent years, the business community has come to regard the CFO as not just a gatekeeper of the organization's finances but also a business partner supporting the strategic mission of the organization. Many of these views have originated from CEOs as well as board members.

We are interested to look at this business-partner perspective of the CFO's role from the lenses of the CFOs themselves. The survey asked CFOs to indicate to what extent they agree (or disagree) that one of their key roles is to be a business partner to their CEO as well as heads of business units in their organization.

Figure 10 shows the number of respondents who indicated the degree of their agreement or disagreement on the business-partner role of a CFO.

It is assuring to note that the vast majority (more than 95%) of CFOs either strongly agree or somewhat agree on their business-partner role.

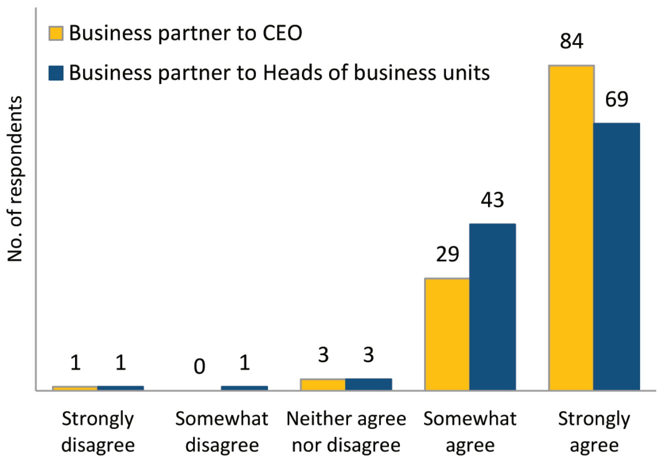
One CFO respondent made the following observation with regard to the business-partner role:

> There is a danger of the CFO wearing too many hats, in what could sometimes be conflicting roles as a gatekeeper and a friendly business partner. While the contribution of a CFO to the organization is enormous, returns are often achievable only by having the company taking on more risk, which may be contrary to the CFO's gatekeeper role.

We posed this observation to the three CFOs whom we separately interviewed in addition to our online questionnaire survey. Noting that such conflicts could sometimes arise, one of the CFOs interviewed gave this response:

> This is often where the finance function can add value to the business. Can finance offer advice on how the deal could be better structured so as to mitigate the risks? How can the business be protected from those risks? ■

Figure 10: No. of CFOs who agree to business-partner role.



Factors challenging/enabling effectiveness of CFO function

Challenges to effectiveness

Given the increased scope and complexity of the CFO function today, many challenges may confront the CFO and affect his or her ability to function effectively in the organization. These challenges may be internal to the organization or driven by the external environment.

The survey asked CFOs to identify the top five factors (from among a list of suggested factors) which they consider to be most challenging to the effectiveness of the finance function in their organizations today.

Figure 11: Percentage of CFOs who consider factor as challenging the effectiveness of the finance function in their organization today.

Figure 11 shows the percentage of CFOs who consider each of the selected factors as challenging the effectiveness of the CFO function today.

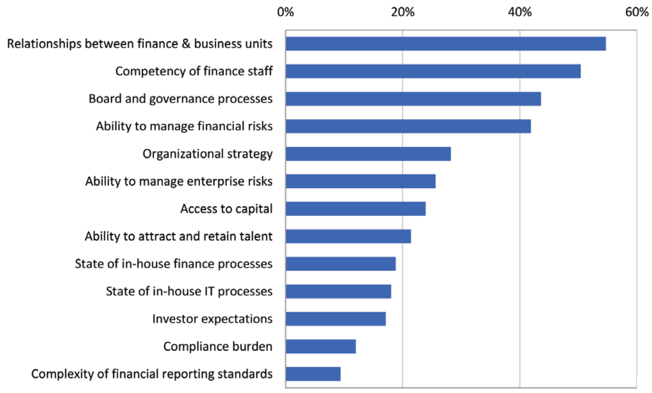
One factor stands ahead of the pack – the ability to attract and retain talent. More than half (54%) of the CFOs identified this to be a key factor inhibiting their effectiveness.

This observation in itself may not be new, as competition for talent has always been an on-going challenge even for successful organizations. What is somewhat contrasting, though, is that talent management hardly figures as a function that CFOs spent the most time on (see Figure 8), nor is it widely considered as an expressed responsibility of most CFOs (see Figure 4).

Two other factors rank not far behind – ability to manage enterprise risk, and uncertain or volatile economic conditions. More than 40% of CFOs identified these to be significant challenges to the finance function. Other factors also considered challenging to finance's effectiveness include compliance burden (32% of CFOs), board and governance processes (27%), organizational strategy (26%), and organizational complexity (21%).

On the contrary, ability to manage financial risk does not feature highly – only 15% of CFOs identified this factor as a challenge to finance's effectiveness.

Figure 12: Percentage of CFOs who consider factor as enabling the effectiveness of the finance function in their organization today.



Enablers of effectiveness

To contrast with challenges, we also asked CFOs to identify the top five factors (from among a list of suggested factors) which they consider as most significant enablers of effectiveness of the finance function in their organizations today.

Figure 12 shows the percentage of CFOs who identified selected factors as enablers of effectiveness of the CFO function.

While most CFOs consider ability to attract and retain talent to be the most critical challenge, half of the CFOs regard competency of their finance staff as one of the most significant factors enabling the effectiveness of the finance function in their organizations. Another factor enabling finance's effectiveness was relationships between finance and business units.

The state of board and governance processes, the ability to manage financial risk and organizational strategy were also regarded as significant enablers of finance effectiveness by 44%, 42% and 28% of CFOs respectively. Yet at the same time, as seen from Figure 11 earlier, 27%, 26% and 15% of CFOs respectively also regarded these same three factors as challenging the effectiveness of the finance function. We examine this apparent anomaly further below.

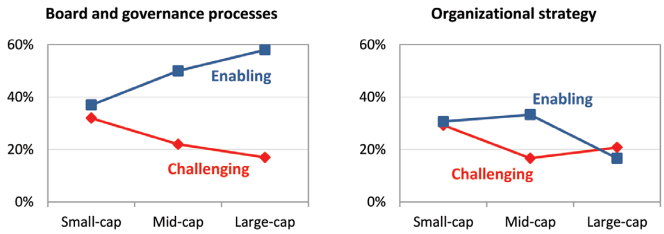
Effectiveness of CFO function by company size

Companies of different sizes may experience different challenges to and enablers of finance's effectiveness. Even for companies within the same size-group, the same factor may be regarded as challenging for some and enabling for others.

We examine three pairs of factors, separately for different company size-groups, that CFOs identified as most challenging to or most en abling of the effectiveness of their finance function within their organizations – board and governance processes with organizational strategy, ability to manage enterprise risk with ability to manage financial risk, and ability to attract and retain talent with organizational complexity.

Figures 13 to 15 show the results. Each figure shows the percentage of CFOs within each of the three company size-groups that identified each selected factor as most challenging to or most enabling of finance's effectiveness.

Figure 13: Board and governance processes vs. Organizational strategy – Percentage of CFOs who consider factor as challenging/enabling effectiveness of finance function (by company size).



The results in Figure 13 are telling. The majority of CFOs generally regard board and governance processes as enablers more than as challenges. Also, more large-cap CFOs consider their board and governance processes as enablers than small-cap CFOs.

For small-cap companies, CFOs are quite divided on how they view the impact of their board and governance processes on finance's effectiveness – 37% of CFOs consider it as an enabler but a close 32% of CFOs consider it as a challenge. This suggests that there may be considerable differences in the state of board and governance processes among small-cap companies, and that improving such processes can potentially lead to a more effective finance function.

A somewhat similar, though weaker, trend can also be seen for organizational strategy and its impact on finance's effectiveness (Figure 13). Firms with a sound and well-communicated strategy are likely to find it an enabler of finance's effectiveness, while those lacking one are likely to find it a challenge.

Figure 14: Ability to manage enterprise vs. financial risk – Percentage of CFOs who consider factor as challenging/enabling effectiveness of finance function (by company size).

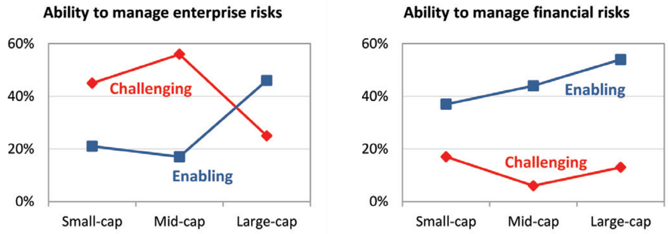
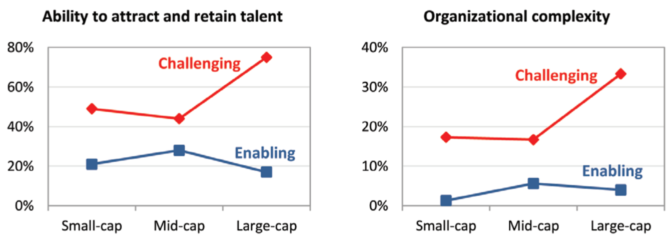


Figure 14 reveals a marked contrast between the ability to manage enterprise risk as opposed to financial risk. Most CFOs seem to regard ability to manage financial risk to be quite under control and contributing to the effectiveness of their finance function.

On the other hand, CFOs generally found managing enterprise risks a challenge to their effectiveness, except for large-cap companies where more CFOs regarded their firm's ability to manage enterprise risks to be an enabler of, rather than a challenge to, their finance's effectiveness.

From Figure 15, the majority of CFOs across companies of all sizes identified ability to attract and retain talent as one of the most challenging factors affecting their effectiveness. However, a significantly higher proportion of large-cap CFOs (75%) than small-cap CFOs (49%) considered this a challenge, which is somewhat surprising given that large companies should potentially be better able to attract talent than small companies.

Figure 15: Ability to attract and retain talent vs. Organizational complexity – Percentage of CFOs who consider factor as challenging/enabling effectiveness of finance function (by company size).



However, from Figure 15, a significantly higher proportion of large-cap CFOs (33%) than small-cap CFOs (17%) considered organizational complexity as a challenge to finance's effectiveness. Is organizational complexity somehow impeding the ability to hire talent suitable for the organization? Is it also impeding the ability to retain talent? Does organizational complexity require exceptional talent to manage it, and this talent is in short supply? ■

CONCLUSION

While the increasing complexity of the CFO function in today's organizations has resulted in an expanded suite of roles and responsibilities for the CFO as well as the expectation for the CFO to be a partner to the business, the traditional controllership and compliance functions have not changed.

However, CFOs are also assuming responsibilities for raising capital, capital structure management and financial risk management. Enterprise risk management as a CFO responsibility is less clear, but CFOs regard enterprise risk management as increasingly important over the years and the ability to manage it is a significant factor challenging the effectiveness of the finance function today.

Board and governance processes, organizational strategy, ability to manage enterprise risk, and ability to attract and retain talent are also significant factors that can either challenge or enable the CFO's effectiveness. Improving the state of these elements in the organization can potentially enhance finance's effectiveness to the overall business. ■

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