Organizing and Managing the Finance Function

A Guide for Sustainable Entrepreneurs

SUSTAINABLE ENTREPRENEURSHIP PROJECT

Dr. Alan S. Gutterman

Organizing and Managing the Finance Function: A Guide for Sustainable Entrepreneurs

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About the Project

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About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project and the Founding Director of the Business Counselor Institute (www.businesscounselorinstitute.org), which distributes Dr. Gutterman's widely-recognized portfolio of timely and practical legal and business information for attorneys, other professionals and executives in the form of books, online content, webinars, videos, podcasts, newsletters and training programs. Dr. Gutterman has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Dr. Gutterman, his publications, the Sustainable Entrepreneurship Project or the Business Counselor Institute, please contact him directly at alangutterman@gmail.com.

Organizing and Managing the Finance Function

§1 Introduction

The finance function raises a variety of organizational and managerial issues that must be resolved and continuously assessed as the company grows and its needs with respect to accounting, controls, reporting and relations with capital providers evolve and change. Globalization, and breakthroughs in technology, has led to changes in the way that the finance function is seen within the company, the role that the function plays in providing value for the company and the most important activities that the finance department carries out on a day-to-day basis. The head of the finance function, generally referred to in this chapter as the chief financial officer ("CFO"), will typically be tasked with management of core responsibilities and activities such as controllership, financial reporting, bank and investor relations, financial planning and analysis, treasury, tax reporting and compliance, internal controls, corporate development and participation in strategic initiatives such as mergers and acquisitions. In addition, the evolution and development of the finance function will require attention to training and development and acquiring the skills and technology necessary to operate in a global environment with assets and revenue sources in many countries.

While the CFO is the executive officer responsible for finance-related activities, finance is obviously a crucial matter for the company and oversight will be carried out by the chief executive officer and the board of directors. At the board level, a finance committee will generally be created to oversee financial policies, strategies, capital structure, and annual operating and capital budget, and often oversee investments, dividend policy, credit and other market risks, share repurchases, and mergers and acquisitions.[1] Foley, writing about the role of the finance committee in the context of a non-profit organization, explained that the committee should be focused on providing financial oversight for the organization, with typical task areas for small and mid-sized groups including budgeting and financial planning, financial reporting and the creation and monitoring of internal controls and accountability policies. Foley noted that in some cases the finance committee might also take on some of the roles traditionally assigned to audit and/or investment committees if the board has not created separate committees for those areas.[2]

Pozen, writing to an audience of chief financial officers at public companies, argued that given the rapidly expanded duties of the audit committee following the passage of the Sarbanes-Oxley Act of 2002 it was no longer reasonable to assume that members of that committee had the time and resources to assess broader financial issues.[3] Pozen

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[1] http://www.ey.com/Publication/vwLUAssets/EY-board-committees-evolve-to-address-new-challenges/$FILE/EY-board-committees-evolve-to-address-new-challenges.pdf

[2] E. Foley, The Finance Committee and Committee Chair Responsibilities (June 8, 2009), https://www.nonprofitaccountingbasics.org/reporting-operations/finance-committee-committee-chair-responsibilities

[3] R. Pozen, Create a Finance Committee at Every Public Company, CFO.com (May 24, 2017), http://ww2.cfo.com/governance/2017/05/create-finance-committee-every-public-company/.

suggested that while audit committees can and should continue to focus on oversight of the details of reporting and compliance processes the board of directors should create a finance committee to review the company's pension plans, insurance coverage, cash management, debt issuance, tax strategies and capital allocation. Other reasons for creating a finance committee include helping the entire board fulfill its fiduciary responsibilities to shareholders and other stakeholders with respect to safeguarding the financial assets of the company by exercising focused attention on the company's financial conditions and operations; protecting the company from legal challenges and liabilities including harm that may be caused by illegal, unethical or incompetent activities by fiscal managers; protecting the company from actual or apparent conflicts of interest; and evaluating the performance of the finance function and the persons leading that function.[4]

§2 Duties and responsibilities of the CFO

It is now commonplace for public companies to develop and publish detailed descriptions of the duties and responsibilities of the CFO. This trend recognizes that regulators and members of the investment community have come to view the CFO position as a co-partner of the CEO with respect to fostering ethical conduct and decision making and making sure that the company establishes and follows appropriate practices with respect to corporate governance. In addition, of course, the CFO is expected to fulfill specific duties described below (e.g., controllership and treasury) and provide effective strategic and financial leadership for the company include active participating in developing and implementing the company's strategic plan and related annual operating plans. On a day-to-day basis the CFO is expected to supervise and manage the financial, tax and accounting affairs of the company in accordance with guidelines established by the board of directors. Finally, other specific duties and responsibilities of the CFO position include the following:

- Serving as an external spokesperson and liaison for the company in the communities in which the company operates, including effectively managing relations with the company's external stakeholders, especially stakeholders in the financial and investment communities;
- Serving as the company's governance liaison to financial rating agencies;
- Communicating in a timely fashion with the board of directors and, in particular, the audit committee of the board, regarding material financial and accounting matters relating to the company;
- Ensuring that appropriate financial, risk management, accounting and auditing policies and procedures of the company are developed, maintained, approved and disclosed, as appropriate;
- With the CEO and other members of the management team, ensuring appropriate and timely disclosure of material information regarding the company;

[4] P. Rabinowitz, "Managing Finances: Creating a Financial and Audit Committee" in Community Tool Box, https://ctb.ku.edu/en/table-of-contents/finances/managing-finances/finance-committee/main

- With the CEO, establishing and maintaining the company's disclosure controls and procedures and internal controls over financial reporting;
- With the CEO, establishing and maintaining proper systems to identify and manage business risks in accordance with guidelines established by the board of directors;
- With the CEO, ensuring that the company has complied with all regulatory requirements for the company's financial information, reporting, disclosure requirements and internal controls; and
- With the CEO, fostering ethical conduct and decision making and making sure that the company establishes and follows appropriate practices with respect to corporate governance.

Obviously the scope of the activities listed above is quite broad and the demands on the CFO are well documented along with empirical information on how quickly a holder of that position can become overwhelmed to the point where CFO turnover has become quite high. It is highly recommended that the CFO take steps to organize his or her activities and identify and focus on those reporting relationships that are the most important for the finance function to be effective. In addition, the CFO should strive to expand his or her sphere of influence by regularly initiating communications with key business leaders throughout the company. These communications should be used as opportunities to get to know the concerns of other leaders and educate and remind those leaders about the role that the finance function can play in assisting them in developing and achieving their strategic targets.[5]

Regulatory changes and market pressures have been important factors in the evolution of the role of the CFO in the US over the last several decades; however, the finance function has also been in transition in other parts of the world. For example, Daum analyzed the evolution of the finance function in European countries through the late 1990s and early 2000s and reported that the role of the CFO had changed significantly and that the CFO had become a key member of the executive board of both large and small enterprises throughout Europe.[6] Daum cited several important developments that drove the changes in the role of the CFO and the entire finance function in Europe during that period including the following:

- The emergence of the shareholder value orientation in Europe beginning in the mid-1990s as global capital markets began to open and private investors in Europe and elsewhere began to demand that firms identify and elevate professional financial executives, able to provide advice in strategy and management, in lieu of the accountants who had previously led the finance function;

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[5] For further discussion of the duties and responsibilities of the CFO and some of the specific ways that the CFO should collaborate with other members of the executive team, see "Governance: A Library of Resources for Sustainable Entrepreneurs", prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org). See also the same Guide for discussion of the duties and responsibilities of the CFO of a public company with respect to corporate governance matters and compliance activities.

[6] The discussion in this section is based on Daum, The Evolution of the Finance Function in European Companies and the Future Outlook (2005), which was accessed at Daum's website at http://www.juergendaum.com/news/12_11_2005.htm.

- The continuous stream of legal and regulatory changes in the corporate governance area that required frequent realignment of organizational processes to enhance financial transparency and economic overview;
- The need to harmonize financial and management accounting in order to establish the financial targets demanded by investors focusing on assessing the external shareholder value orientation of firms;
- New external financial reporting requirements and accounting standards, primarily only for these European companies that had begun to be quoted on US stock exchanges and were thus confronted with the challenge to change their accounting systems to US-GAAP and to deal with parallel accounting (prepare two versions of group financial statements); and
- Implementation of ERP standard software (that required a new type of coordination and process integration beyond functions) and of new consolidation, reporting, and planning tools.

Daum also noted that, particularly in the early 2000s, European CFOs were challenged to focus their efforts on improving efficiency and compliance to ensure that their companies could remain profitable even in the turbulent times that followed the Internet bubble burst and the terrorist attacks on September 11, 2001 and that they could navigate the requirements imposed by new laws such as the Sarbanes-Oxley Act in the US. Daum commented that "CFOs thus became the center of attention of investors, supervisory boards, and CEOs practically overnight, and were entrusted with the task of driving the required changes as part of an extensive finance transformation". Specifically, European CFOs were called upon to make improvements in financial transparency, global financial controls, global risk management and overall process efficiency and take steps to reduce the overall costs of the finance function.

§3 Finance function responsibilities and activities

The appropriate decisions regarding the management and organization of the finance function depend in large part upon the scope of the responsibilities and activities that have been placed under the control of the CFO. Commonly designated activity areas within the finance function include controllership, financial reporting, investor relations, financial planning and analysis ("FP&A"), treasury, tax, internal controls and audit, governance and compliance, risk management and corporate development ("M&A"); however, companies often opt to place some of these activities outside of the finance function into other spots in the overall organizational structure and rely on lateral processes to ensure that the finance team has sufficient input into the conduct of those activities. In addition, some companies, generally those in their earlier stages without resources to invest in a large management group, will place major functional activities such as information technology, human resources and/or law and compliance under the supervision of the CFO. As noted above, the CFO is also expected to play a role in the development and implementation of a financing strategy for the company. Finally, larger companies have invested in a "finance center of excellence" in an effort to improve the skills of finance personnel through training and tap the creativity of members of the finance team to design and implement internal procedures that enhance the effectiveness and quality of the processing of transactions and the generation and dissemination of financial reports.

§4 --Controllership

Controllership duties focus on collecting, analyzing and reporting information on activities relating to the company that have already been completed. One of the primary responsibilities of the CFO and finance function is making sure that the company is able to provide interested parties—shareholders, executives, business unit managers, employees, creditors, analysts and key business partners—with accurate and timely historical financial information. The quality of this financial information is critical given the role that such information plays in decisions regarding the company.

§5 --Financial reporting

Financial reporting is often integrated within the controllership duties described above and focuses specifically on the preparation of the reports that include information regarding the assets, liabilities, operations and cash flow of the company. The form and content of these financial reports, generally referred to as the "financial statements" of the company, is dictated by a variety of sources including generally accepted accounting principles and additional regulatory requirements such as those promulgated by the federal Securities and Exchange Commission ("SEC"). There are four main financial statements—balance sheets; income statements, cash flow statements and statements of shareholders' equity. Balance sheets show what a company owns and what it owes at a fixed point in time. Income statements show how much money a company made and spent over a period of time. Cash flow statements show the exchange of money between a company and the outside world also over a period of time. The fourth financial statement, called a "statement of shareholders' equity," shows changes in the interests of the company's shareholders over time. While preparation of its financial statements is the company's responsibilities the finished product will be "audited" by the company's independent outside accountants.

§6 --Investor relations

Investor relations activities involve the communication of information regarding the company and its business and financial condition to members of the investment community. When the company is small investor relations is a relatively informal activity and the timing and content of communications may be dictated by contract as well as local custom. For example, venture capitalists typically require their portfolio companies to prepare and delivery current financial information on a regular basis and will be given the opportunity to meet with members of the senior management team to discuss how well the company is doing against the objectives set out in the business plan that was used to attract capital from those investors. Once the company has gone public investors relations become much more formal and will include preparation and dissemination of periodic reports required by the SEC, shareholders' meetings and related communications (e.g., annual reports and proxy statements) and other events and activities such as conference calls with analysts and financial reporters, appearances at conferences hosted by investment bankers, press releases, podcasts and even blogging by senior executives.

§7 --Financial planning and analysis

Financial planning and analysis ("FP&A") involves critical thinking about the information generated during the financial reporting process to evaluate how well the company is doing with regard to investment of capital and usage of funds in the operational activities of the company's business. Typical elements of FP&A include budgeting; profit and loss analysis, with a particular focus on margins; solvency analysis and return on invested capital. Financial planning involves creating a plan to track and monitor each of the aforementioned elements that would necessarily include an income and expense budget, target operating ratios and other performance metrics, cash flow projections and budgets and a capital budget.

The budgeting process is an essential element of strategic business planning that involves the development of the goals and objectives of the company; the formulation of specific department and overall organizational budgets; and the reporting and follow-up of budget variances and revisions. Every department and business unit should be involved in the budgeting and planning process; however, the finance function generally plays a particularly important role as a facilitator that provides participants with applicable historical information and templates that can be used to ensure that budgets conform to consistent requirements and can easily be reconciled to create a master budget and plan for the entire company. In order for the budgeting process to be most effective it should be done on a continuous basis as opposed to episodically or once a year so that the budget becomes a tool for regular feedback and improvement. Accordingly, the finance function should be prepared to assign permanent personnel and resources to budgeting duties.

When a company is first launched the founders and other members of the senior management team should prepare a pro forma income statement, which provides a sales estimate on a monthly for the first 12 to 18 months of operations and projects operating expenses for each month during the same period; a pro forma cash flow, which reflects the difference between cash actually received and cash disbursed each month during the planning period; a pro forma balance sheet that summarizes the assets, liabilities and net worth of the company as of specific dates during the planning period; and a pro forma sources and applications of funds that analyzes how funds received will be used for expense items and capital investments.

§8 --Treasury

While controllership duties pertain to the historical performance and financial condition of the company, treasury duties focus on activities that are relevant to the company's current and future financial condition—investing the company's money in a way that is consistent with the level of risk that the company is willing to take and that assures that the company will have sufficient liquidity to fulfill its financial obligations on a timely basis. In carrying out his or her treasury duties the CFO must set the capital structure of the company, which includes the optimal mix of debt and equity financing from outsiders and internal financing.[7] In carrying out treasury duties the CFO must become familiar with various short- and long-term investment instruments that can be used to regulate the availability of cash required for day-to-day activities and obtain the highest possible return on investment for excess funds that are waiting to be deployed in capital projects. Given the globalization of financial markets and the fact that companies have an increasing percentage of financial assets located outside of the US the CFP must also be knowledgeable about topics such as foreign exchange and opportunities for financial investment in foreign countries.

§9 --Tax

The tax department within the finance function is responsible for managing federal and state tax compliance for the company and its affiliates, including filing of all required tax returns in an accurate and timely manner. In addition, the tax department is expected to act as a resource within the company for tax planning and tax compliance issues and monitor developments in federal and state tax laws and regulations and their impact on the company. If and when the company has assets and operations in foreign countries the tax department should assume responsibility for compliance in each of those countries and develop the capability to provide international tax planning. Many companies fail to appreciate the value that can be created through structural tax planning and the CFO can significantly impact the overall profitability of the enterprise by proactively pressing business decision makers to seek involvement of tax planners at the earliest stages of planning for major transactions. Since tax is a difficult and complex discipline that requires extensive communication it is important for tax personnel to regularly interact with managers in every business area in order to build trust and allow tax experts to gain a better feel for the operation needs and goals of those managers.

§10 --Internal controls and audit

While all companies, regardless of size and type of business activities, should design and implement an appropriate system of internal controls the topic is especially relevant and necessary for firms that have evolved to the point where they are subject to the regulatory requirements imposed upon public companies under the federal securities laws or the nature of their business and investors dictate that they complete an audit of their financial records performed by independent accountants. In summary, internal controls are processes--implemented by the company's board of directors, management, and other trained personnel—designed to provide reasonable assurance regarding the achievement of objectives with respect to reliability of financial reporting; effectiveness and efficiency of operations; and compliance with applicable laws and regulations. With respect to financial reporting, the main objective of any organization is generally preparation of financial statements for external purposes that are fairly presented in conformity with

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[7] For further discussion of selecting the capital structure, see "Financing Activities for Businesses" in "Finance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles. Accounting systems (i.e., the methods and records that identify, assemble, analyze, classify, record, and report the transactions of the company) are one of the essential elements of internal control and the finance function obviously plays a key, if not leading, role in this area. The CFO and other finance personnel should also be involved in other aspects of internal control including risk assessment, control activities, information and communication systems and self-assessment or monitoring. The adequacy and effectiveness of the company's internal controls should be regularly and continuously evaluated through an internal audit process that will provide an independent and objective assessment of various topics including the reliability and integrity of the company's financial and operational information, the effectiveness and efficiency of the company's operations, the steps taken to safeguard the company's assets and compliance by the company with laws, regulations and contractual obligations. Internal audits should compare actual performance to stated targets and objectives and generate recommendations for improvement.

§11 --Governance and compliance

The CFO should expect to undertake substantial responsibilities with respect to governance and compliance matters largely due to the fact that the CFO now has "co-signing" responsibility with the CEO on various certifications that must be made in regulatory filings with respect to the design and implementation of appropriate policies and procedures. Among other things, the CFO is expected to set the appropriate "tone at the top" with respect to ethical behavior and compliance with laws and regulations and to work closely and cooperatively with the audit and other committees of the board of directors and the company's outside independent auditors.[8]

§12 --Risk management

Risk assessment and management have become hot topics within the business community and the CFO is generally assigned a good deal of responsibility for the design and implementation of some sort of enterprise risk management system. Among other things, the CFO should be involved in the determination of the company's risk profile and ensure that budgeting and planning activities take into account the level of risk to which the company is exposed. Risk management also plays a part in decisions regarding capital structure and investment of funds.[9]

§13 --Corporate development

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[8] For further discussion of the duties and responsibilities of the CFO of a public company with respect to corporate governance matters and compliance activities, see "Governance: A Library of Resources for Sustainable Entrepreneurs" and "Compliance and Risk Management: A Library of Resources for Sustainable Entrepreneurs", prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[9] For further discussion of risk assessment and management, see "Compliance and Risk Management: A Library of Resources for Sustainable Entrepreneurs", prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

The term "corporate development" can have a very broad meaning and encompass almost any plan, project or strategy designed to further the goals and objectives of the company. In the context of this discussion, however, corporate development refers to the expansion of the company's operational activities through mergers and acquisitions, popularly referred to as "M&A". The CFO and the members of the finance team assigned to corporate development activities are responsible for many aspects of integrating new assets and personnel into the organizational structure and making sure that key systems relating to accounting and financial information are quickly and seamlessly aligned so that there is no disruption of the company's ability to report the results of the combined operations of the merged entities. In addition, as part of the performance of his or her strategic duties, as described below, the CFO should be involved in the initial identification and assessment of appropriate M&A targets.

§14 --Strategic duties

The CFO and the finance function also play an important role in the overall strategic planning for the company particularly with respect to analyzing the performance and efficiency of particular business units and forecasting future economic conditions in markets in which the company is currently active and/or wishes to enter in the near future. For example, the finance function should be able to compile and present detailed information on the profitability of various product lines as well as the operation of sales and manufacturing facilities. With regard to economic forecasting the finance function should develop models that can be used to predict how strategic alternatives might work out under various assumptions provided by senior management. The CFO and the CEO, working together, are the two members of the senior management team most responsible for developing, implementing and monitoring the annual operating plan of the company that should include business plans for each business unit, operational requirements, organizational structuring guidelines, staffing plans and budgets.

An interesting study by Deloitte admonishes the CFO design the finance function in a way that enables it to be a key contributor to the strategic planning processes for the company and suggests a variety of ways in which the finance function can provide real value to those processes.[10] Specifically, the CFO should begin by focusing on systems and information, including implementation of enterprise-wide financial applications and upgrades and management of system data; the organization of the finance function, including definition and management of roles and responsibilities within the function; policies and processes; and human resources, including training and development and performance assessment. Once these design elements are in place the finance function support the strategic planning process in the following ways:

- Transaction processing, particularly by processing financial transactions efficiently and effectively;
- Closing, consolidating and reporting, including accurate and timely reporting of financial results and related disclosures to management and external stakeholders;

[10] See Deloitte Development LLC, Breathing Lessons (How CFOs Can Thrive Under Pressure) (2007).

- Performance and decisions, including definition and monitoring of performance metrics and delivery of information needed by management to make business decisions;
- Risk and capital, including identification and management of risks, facilitation of access to capital and design and maintenance of the optimal capital structure for the company;
- Regulations and governance, including monitoring regulations and ensuring compliance and operating and monitoring internal controls over financial reporting activities; and
- Strategy and execution, including providing financial insight into strategic deliberations and executing finance strategies.

§15 Evolution of the finance function

The role, size and organizational structure of the finance function will change dramatically as the company evolves and expands its operations into multiple business units and launches activities in new geographical areas. Changes in regulatory oversight of the company's activities will also be an important factor in how the finance function is organized and operated since the CFO and his or her team will have a key role in making sure that the company complies with its reporting and recordkeeping obligations under applicable laws and regulations such as the federal securities laws in the US. One study on the subject of organizing the finance function conducted by KPMG suggested that the following factors play an important role in defining the function's organizational structure at any given point in time[11]:

- When the function is first formalized the primary focus will be on small number of "core" activities that have traditionally been overseen by "finance", such as treasury, accounting, tax and financial planning and analysis ("FP&A").
- As the company grows and activities are divided up into two or more business units, each of which are accountable for their own profit-and-loss, finance personnel will be assigned to each of these units to prepare the necessary reports on unit performance. The result is a matrix structure in which unit-based finance personnel report both to their unit and to the finance group (led by the CFO) that remains within headquarters.
- The finance function may include "legacy" activities that were properly placed in that function when the company was smaller but now should be shifted to other functions that will have emerged and which are more capable of performance those activities efficiently. A good example is the need to shift the design and administration of technology-based financial systems, originally created to provide ad hoc reports, from the finance function to the information technology ("IT") function to eliminate redundancy and reduce costs.
- The finance function may include departments or divisions that are no longer necessary, and which duplicate and complicate the activities of others in the function,

[11] See KPMG LLP, CFO Advisory—Your Finance Organization: Time to Take Another Look? (2007). The discussion of the evolution of the finance function and the various principles for finance organization design in these sections of the chapter is adapted from the finding described in the KPMG article.

due to influence of senior managers who have carved out their "turf" and acted to protect it against efforts to restructure the roles within the function.

Understanding the various factors that impact the evolution of the finance function is the first step toward identifying changes in the organizational structure of the function that will clarify reporting relationships, facilitate the development and maintenance of core competencies, improve service to key stakeholders and reduce unnecessary costs. After studying the organizational practices of over 30 large organizations KPMG suggested three valuable principles for finance organization design—the finance function should be based on the risk profile of the company; the reporting relationships to the top of the finance function (i.e., the CFO) should be dictated by the key aspects of the company's business model and strategy; and efforts should be made to explore and follow sourcing alternatives that can improve service levels and reduce costs.

§16 --Finance function structure and organizational risk profile

The KPMG study suggests that companies should analyze the structure of their finance function whenever an event occurs that is likely to trigger a significant change in the company's organizational risk profile. Examples of such an event include completion of an initial public offering and the need to comply with the reporting requirements of the federal securities laws and the national securities exchanges; the imposition of new regulatory requirements (e.g., the Sarbanes-Oxley Act of 2002)[12]; increased corporate development ("M&A") activity; and transfer of finance-related activities to third parties through outsourcing arrangements. Sometimes changes in the finance organizational structure itself can create more uncertainty, hopefully temporary, about the company's exposure to various types of risks. This may occur when finance-related activities are centralized or decentralized (i.e., transferred to business units from headquarters) or changes are made in reporting relationships with respect to sensitive risk-related matters such as internal controls. KPMG described some of the changes that companies have been making in their organizational structuring strategies for the finance function and the impact that these changes might have on their organizational risk profile:

- The main reporting relationship of finance personnel working within geography-based business units is changed from the senior managers of the business unit to managers within the headquarters finance group. The risk-related advantages of such a change include higher quality of financial reporting at the corporate level, reinforcement of the control environment and reduced potential for conflicts of interest due to the transfer of authority to determine geographical financial performance (and compensation) to the headquarters finance group. On the other hand, the business units may suffer because imbedded finance personnel may be less responsive to requirements of local business managers and spend less time on management reporting due to the need for them to concentrate on financial reporting.

[12] For discussion of the Sarbanes-Oxley Act of 2002, see "Governance: A Library of Resources for Sustainable Entrepreneurs", prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

- The enterprise risk function is centralized, either in the finance function or in a separate unit that reports directly to the CEO. This type of change should lead to clear accountability for design, implementation and management of the overall risk assessment and management activities of the company; however, processes should be created to ensure that the leaders of all of the business units within the organizational structure of the company understand the company's overall risk strategy and their responsibilities in managing financial risks that may be associated with the activities in their specific business units.
- The reporting relationship of the internal audit function is changed from the CFO to the audit committee of the board of directors. This type of transition has become fairly common following the implementation of the Sarbanes-Oxley Act of 2002 and is now thought of as a best practice in the corporate governance area given that it promotes the independence of internal audit activities from influences of the finance function and other departments.
- The responsibilities of the controllership function are reduced to the core activities directly related to accounting, controls and maintenance of financial records while other "administrative" activities such as oversight of corporate facilities are transferred to other functions and managers (e.g., a chief administrative officer). While this allows the controller and his or her team to focus on complying with key accounting policies it may reduce the level of control and monitoring over assets that are important and which require significant amounts of investment.

§17 --CFO reporting relationships and company business model

The KPMG study emphasized the importance of ensuring that the decisions regarding the reporting relationships to the CFO are properly aligned with the company's business model and strategy and the messages that the company wants to send to its key internal and external stakeholders including other functional departments, analysts, investors and even persons who might be interested in working for the company. Respondents in the KPMG study confirmed that the following core functions almost always report directly to the CFO—controllership, tax, FP&A and treasury; however, the following "other" functional activities may or may not report to the CFO depending on the circumstances and the approach that the company wishes to take regarding the placement of the activities within its organizational structure:

- While the results of the KPMG study showed that corporate development ("M&A") reported to the CFO 36% of the time and was embedded within the FP&A function another 22% of the time, the most popular reporting scheme (42%) was to the CEO. CEO oversight of corporate development activities sends a signal that it is a crucial strategic area for the company and may attract talented specialists to the area who might not be that interested if it was a finance-led initiative; however, companies must be careful about dilution of their expertise due to the separation of necessary analytical skills between corporate development and finance.
- Investor relations generally reported either directly to the CFO (64%) or to treasury (18%); however, a small percentage of respondents (18%) said that the CEO oversees their investor relations activities. CFO oversight of investor relations underscores the

weight that the investment community assigns to financial reporting and creates a natural division of labor with respect to communications to external stakeholders between the CFO (financial performance) and CEO (strategy).

- Risk management responsibilities are generally overseen on a day-to-day basis by a chief risk officer ("CRO") and the companies in the KPMG study group went in three different directions when deciding who the CRO would report to—the CEO (38%), the Chief Operations Officer ("COO") (38%) and the CFO or treasury function (24%). Having the CEO directly responsible for this activity sends a strong message to all interested stakeholders that senior management acknowledges the important of risk management and compliance; however, internal communications channels must be established to ensure that all impacted departments, especially finance, are involved in risk assessment and reporting activities.

The KPMG study also mentioned the importance of considering the span of control of the CFO and the finance function, noting that the ability of the CFO to effectively manage all the areas under his or her responsibility becomes more difficult as more functions are assigned to the finance function. Among the companies in the KPMG study the average number of functions reporting directly to the CFO was seven and this number did not include reporting relationships within the finance function such as those maintained with the managers of the finance functions in market- or product-based business units. Companies in which the number of CFO reporting relationships greatly exceeds the average must look for ways to decrease the burden of the CFO through organizational restructuring (i.e., combining two reporting functions, moving a function down to a lower level in the organizational hierarchy or transferring the function outside of the finance area altogether) and/or, as discussed below, increased reliance on shared services and business process outsourcing.

§18 --Sourcing alternatives

Almost all of the companies included in the KPMG study indicated that they rely heavily on various sourcing alternatives including shared services and business process outsourcing ("BPO"). Simply put, shared services refers to the process of centralizing the resources associated with an activity that previously had been carried out in multiple locations within the company's organizational structure into a single dedicated unit that acts as the internal provider of the outputs of that activity for all the business units within the company. Done correctly, shared services allows companies to be more efficient and eliminate redundancies while hopefully developing centers of excellence that can add value to all of the business units that rely on the services. BPO involves hiring a third party to manage and perform business processes that had previously been performed internally. In many ways, BPO is the opposite of shared services yet is done for many of the same reasons; namely, reducing costs and tapping into specialty skills available from outside service providers. While BPO is similar to outsourcing of information technology activities the term is used to describe strategies focusing on financial and administration processes, human resources activities (e.g., payroll) and customer service activities (e.g., remote call centers). The KPMG study described several qualitative factors that appeared to drive companies toward sourcing including better scalability as transactional volumes increased, allowing finance to keep pace with business growth; improved service levels to the various business units by enabling “centers of expertise” for key finance disciplines; and consolidated controls, reducing the effort and cost associated with documenting and testing controls in order to satisfy audit and/or other regulatory requirements such as the Sarbanes-Oxley Act of 2002. Companies also embraced sourcing as a viable and effective strategy for reduction of expenses by shifting transactional headcount to lower cost locations.

The KPMG study argued that finance-related resources, particularly headcount, could and should be segmented based on scope (enterprise versus business unit) and the type of services provided using the resources (decision support versus transactional) in order to determine the proper level of sourcing for a company’s particular business model. For example, at the enterprise level the finance function should focus on, and retain direct control over, specialty services that provide essential support for management decisions including internal audit, strategic planning, treasury, tax planning and compliance, external reporting and insurance and risk management. Some of the unique characteristics of specialty services include externally defined activity, high profile “mistakes”, difficulty in measuring performance and high-impact/specialty skill set. On the other hand, once the company reaches a certain size and volume of transactions the finance function should seriously consider sourcing transaction-based services such as accounts payable invoice processing, travel and expense vouchers processing, general ledger entries and reconciliation, fixed assets, payroll and payroll tax processing, cash management and lockbox and event management. Common characteristics of transaction-based services include high volume, efficiency focused, repetitive activity, easily measured performance, consistent customer requirements and transaction/service-oriented skill set. At the business unit level, responsibility for analytical services such as financial budgeting and forecasting and financial analysis and ad hoc reporting should be kept in-house while sourcing alternatives should be explored for transaction processing services such as month-end close processing, statutory accounting, regional accounting and billing and collections.

§19 Training and development

While personnel in the finance function should obviously possess the requisite technical and professional skills to complete their current assignments it is important to implement a training and development program that allows the members of the finance group to build and maintain an understanding of the operational activities and requirements of the company’s business. In this way the finance team can bring practical advice to the table when decisions need to be made and it is beneficial to the CFO for his or her group to be perceived internally as innovative and something more than just “number crunchers” and “bean counters.” One part of the training and development program should be ensuring that finance personnel have an opportunity to serve in different business units throughout the company so that they learn and understand the performance metrics for these units and the information that managers in those units need in order to make decisions and set an effective strategy.

§20 Management of the global finance function

The finance function of a global company must contend with a variety of issues that extend beyond the traditional duties and responsibilities described above. Among other things, the CFO of an international business will need to consider local economic and financial conditions in each foreign market where the company is operating and make decisions about the best way to capitalize foreign subsidiaries and repatriate profits from the activities of those subsidiaries. Capital structuring decisions for foreign subsidiaries are complicated for a variety of reasons. First of all, the business model used for a particular activity in a foreign market may be quite different than other markets due to unique local factors. In addition, however, the CFO must consider current, tax and country risks that will impact the valuation of local assets and the programs that are used to incentive and reward local managers.[13]

A company that is operating in a number of different foreign markets has a real opportunity to achieve a competitive advantage in the finance area through careful and adroit balancing of capital sources and uses across national borders; however, there are risks associated with some of these strategies that must be taken into account given that the company will be exposing itself to greater legal and political risks when entering into transactions with financial institutions in foreign markets. Some of the opportunities that typically come up include the following:

- Given that interest is generally a deductible expense for tax purposes in most jurisdictions the CFO can reduce the company's global tax bill by concentrating borrowing activities in countries with higher tax rates and then lending the excess borrowed capital to subsidiaries in countries with lower tax rates. The timing and size of profit repatriations from foreign subsidiaries to the parent can also impact overall tax liability.
- The ability to raise and transfer funds in multiple markets can be an advantage when local capital market conditions make it difficult for foreign subsidiaries to raise capital from sources in their own countries. For example, if interest rates get too high in a particular foreign country a US company may loan funds to its subsidiary in that country and the ability to receive such loans may provide the subsidiary with a significant advantage over local firms that are shut out from new capital.
- Global companies can and should develop strong centralized treasury functions with expertise in hedging their exposure to current fluctuations. Hedging can be accomplished in a number of ways including the ability of the company to borrow in different foreign currencies.
- Companies that grow globally can take advantage of a number of new international investment opportunities provided that they develop the necessary expertise and local knowledge to identify and reasonably quantify business and country risks in the applicable foreign market.

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[13] The discussion of the global finance function in this section is based on the presentation in M. Desai, "The Finance Function in a Global Corporation", Harvard Business Review, July-August 2008, 108-112.

There are, however, potential pitfalls that must be recognized and overcome before moving forward with the actions described above. First of all, consideration must be given to the costs and risks associated with borrowing in a particular market. Costs are not the same and the scope of creditors' rights varies substantially among jurisdictions. As a result, it may be imprudent to borrow in a given country even though other factors, such as tax rates, make that country an attractive option for capital. Second, consideration should be given to how local managers will react to carrying large amounts of debt on their balance sheets and having profits repatriated at times that make sense for the parent but which may not be optimal in relation to activities in their businesses. In each case the performance of the local manager may be negatively impacted unless appropriate allowances are made in the way that the performance is measured. Third, allowing local managers to rely on easy financing from the parent may prevent the subsidiaries in their countries from becoming more self-sufficient over the long term. Fourth, expertise in managing currency exposures must be carefully monitored to ensure that decisions are made for sound operational reasons and not from an overly speculative perspective that can result in large and unnecessary losses in a failed attempt to "beat the market." Finally, the CFO and other involved in making investment decisions in foreign markets must be sure that all of the information used is reasonable and accurate. For example, when local managers know that their projects will need to overcome higher discount rates due to a greater perceived level of country risk they may be tempted to manipulate projected cash flows and this means that the assumptions underlying these projections must be aggressively challenged and tested. Care should be taken not to blindly follow discount rates as guides to foreign investment decisions since this may lead to overinvestment in countries with a low discount rate, but with limited upside potential, and underinvestment in emerging countries with high discount rates that have the potential to grow substantially in future years and reduce the level of risk associated with operating in those countries. Before making final decisions based solely, or primarily, on discount rates companies should step back and see whether the countries that would be selected using just that criterion fit their overall strategies for market growth. If a market of particular interest has failed to make the cut further examination may be warranted before it is set aside.

A truly global finance function is a relatively new phenomenon and companies are still learning how to best tap into the availability of internal capital markets with potential sources of funds in countries around the world. At an organizational structure level companies must decide on the appropriate amount centralization of decision making regarding financial strategies. As noted above, financial arbitrage may best be handled by a specialized team of experts at the headquarters office focusing exclusively on operational objectives; however, capital investment and risk management decisions in certain key foreign markets might best be left to local managers provided that policies and procedures are in place to monitor the strategies they elect to follow. The CFO of a global company should also work to build and maintain a professional staff with appropriate training in international finance areas and should ensure that staffers rotate globally to gain a direct understanding of issues in multiple foreign markets. Finally, while the global finance function, like other activities inside a growing company, should be making decisions based on appropriate policies and procedures it is important for the

CFO to allow appropriate exceptions when needed to pursue important strategic objectives such as initiating investment activities in new foreign markets when the financial risk profile associated with the investment is perhaps less clear than would other be desired in a perfect world.

§21 --Controls and culture

While there are indications of convergence with respect to the roles of the CFO and his or her finance department among global companies it is nonetheless necessary to take into account the potential influence of the characteristics of societal culture on the finance function. In particular, several fundamental elements of societal culture are likely to have some impact on how companies design their financing and accounting activities. For example, societal culture influences and communication patterns within organizations including reporting systems and methods used to collect, analyze, distribute and use information. Culture also plays a role in how activities are controlled within organizations and how performance is measured and rewarded. In addition, differences in control and accounting practices can be identified between countries with civil and common law backgrounds. Finally, Asian companies can be distinguished from the their counterparts in the West by their different orientation toward time and the strong collectivism that leads to blurring of distinctions between departments, subsidiaries and entire firms that are commonly owned. The sections that follow highlight some of the ways that national or regional cultural factors might influence the design and use of accounting systems and financial controls.[14]

§22 ----United States

In order to understand the cultural issues that the leader of the finance function of a US-based company might encounter as he or she develops a global financing function, it is useful to begin with a discussion the unique nature of accounting and controlling in the US and the influence of US accounting principles worldwide. Nurdin noted that attitudes toward controlling, and the subjects of interest to American accountants and controllers, are influenced by the strong individualism in American societal culture which leads to heavy reliance on tracking of individual and group performance and allocation of "rewards" based on such performance (e.g., commissions for sales representatives and stock options and cash bonuses for executives and senior managers). While there is a slowly building movement toward international accounting standards it is certainly true that generally accepted accounting principles ("GAAP") developed and applied in the US regularly impact accounting practices around the world given the strength of the US economy and capital markets and the operations of foreign subsidiaries of US companies whose results will need to be consolidated into the accounting records and results of their parents. According to Nurdin, the controller in the US is "in charge of 'producing the numbers', and in particular the cost and managements accounts".[15] Cash management is

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[14] The discussion in the following sections is adapted from G. Nurdin, International Business Control, Reporting and Corporate Governance: Global business best practice across cultures, countries and organizations (Oxford, UK: CIMA Publishing, 2009).
[15] Id. at 110.

handled through a separate treasury function that does not report to the controller, which maintains and improves internal control, and US firms rely on business analysts to analyze the accounting information generated by the controller in ways that can be used by line managers for decisions. Controllers are rigorously trained to become certified public accountants ("CPAs") and follow a career path that could lead to the chief financial officer position. In contrast, business analysts have a heavier dose of management training in their backgrounds and follow a non-financial managerial career path (i.e., chief executive officer or similar role).

§23 ----Latin countries

The Latin countries include those countries in Europe that trace their historical roots back to the Roman Empire as well as those countries outside of Europe who were exposed to the Latin culture during periods of colonization. Two traits of Latin culture have an important influence on accounting and control techniques in Latin countries: high "power distance", which explains what Nurdin referred to as a system of "fiscal patrimonial accounting"[16]; and the Roman rule of law which has survived today as the so-called "civil law" system that is code-based, universal and lacking in latitude for interpretation by judges and others assigned responsibility for enforcement. These cultural traits lead to accounting practices that Nurdin described as follows: "[a]ccounting 'principles' are not principles anymore per se, they are rules which are part of a law (the accounting law) and thus economic transactions are pre-codified", by law, as are their respective accounting entries and recording mechanisms . . . no 'customization' or no 'industry-specific' is allowed; thus one size fits all".[17] Also important is the need for accounting practices to facilitate identification and measuring of "value added", which is the basis upon which a substantial percentage of the tax revenues in the Latin countries are calculated. Nurdin observed that "the continental states insist on enforcing an accounting and reporting structure by law that puts value added at the center of a company's set of controls; regardless if the valued-added concept makes management and control sense or not . . . [a]nd in the immense majority of businesses, value added as a controlling and managerial concept is of no help at all to management and controllers".[18] Nordun noted that "little importance is culturally given to management and cost accounting" and little time is spend on analysis of financial data.[19]

§24 ----Germanic countries

The Germanic countries have been heavily influenced by the same historical factors and cultural influences found among the Latin countries; however, the Germanic peoples do have their own unique intrinsic cultural traits developed during their efforts to establish their own imperial identity (i.e., the "Holy Roman Empire"). Nordun conceded that "[t]he structure of the accounts in German countries today is also pre-coded by norms and the contents are also heavily taxed and state statistics are oriented like in the Latin

[16] Id. at 101.
[17] Id.
[18] Id. at 102.
[19] Id. at 103.

world".[20] In traditional firms located in Germany, the German part of Switzerland and Austria, controllers are focused on "addition of costs" with a bookkeeping mentality based on uniform accounting standards and "chart of accounts". Nordun noted, however, that since industrialization has a longer history in Germany than in the Latin countries one sees a bit more of an accounting "spirit" in the Germanic countries. It should be noted that German controllers are highly trained at universities and are well seasoned through rigorous apprenticeship programs.

§25 ----British countries

While the Latin and Germanic countries follow the "civil law", Britain and its former colonies organize their laws and rules around common law principles that are based on precedents established over time by judicial interpretations and which can be customized to fit particular situations. In the accounting area this approach has led to reliance on "generally accepted principals" applied throughout the accounting profession and adapted for the unique issues that arise on an industry-specific basis. Perhaps most importantly in contrast to the Latin and Germanic countries "[t]he purpose of British accounting and controlling is . . . mostly management- and shareholder interest oriented, and not primarily for the state . . . [and] the key to British accounting is information to management".[21] Nurdin also explained that managers in Britain managers use accounting information to make decisions and that while tax accounting is done and necessary the data is maintained on separate ledgers. Nurdin described several instances where the chart of accounts used in British accounting follows a flexible approach that is based on key business processes. For example, companies use a more robust and flexible concept of "cost of goods sold" rather than the strict measure of purchases from third parties required in the Latin and Germanic countries to track "added value" for tax purposes and also follow research and development costs to assess entrepreneurial effort, sales and marketing costs and administrative costs that incorporate applicable support functions.[22] Professional training for aspiring managerial accountants and controllers has a long history in Britain and British training and qualification practices have had a substantial worldwide influence.

§26 ----Scandinavian countries

The culture cluster referred to as the Scandinavian countries is generally thought to include Denmark, Norway, Sweden and Finland and the Baltic countries such as Lithuania, Estonia and Latvia share similar cultural characteristics. Nurdin interestingly described the cultural background in these countries, which are famously egalitarian, as a "farmer attitude" and observed that "the word 'controller' in itself is not even commonly

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[20] Id. at 104.
[21] Id. at 106.
[22] Nurdin provided a graphic illustrating how societal culture drives the structure of profit and loss statements in different countries that emphasized how Latin countries focused on determining and measuring "added value" while Anglo-Saxon countries were more interested in "profit/EBIT". See G. Nurdin, International Business Control, Reporting and Corporate Governance: Global business best practice across cultures, countries and organizations (Oxford, UK: CIMA Publishing, 2009), 74.

employed in businesses as it conveys a sense of rigid rules, distrust, power, audit, etc."[23] Scandinavian firms typically use the word "economist" when the subject turns to accounting and accounting standards and practices are strongly focused on the relationships between cause and effect: in Nurdin's words, a "scientific view" or an "engineer's view" of the situation within corporations. For example, Scandinavian accounting specialists are known for their efforts to design systems that facilitate the pursuit of things such as "profitability tracking".

§27 ----Asian countries

Nurdin observed that differences between the Western countries described above and Asian countries with respect to attitudes relating to control and accounting measures can be traced to two fundamental cultural factors: the concept of time and commitment to long-term goals in Asia, which contrast sharply to the short-term focus dictated by stock exchanges in the US and Europe; and the emphasis on collectivism and "networking" in Asian countries, which muddles boundaries between firms and between subsidiaries and other groups within a single firm. Nurdin notes that Asian firms tend to follow a holistic view of the world in general and organizational structures in particular and thus are less interested in the surgical analysis of financial activities and performance of each business unit that is so popular in the West. However, this does not mean that Asian companies operate free from controls; however, the controls are not imposed externally but instead are created internally in the form of well-known production systems elements such as "lean manufacturing" based on "just-in-time" and continuous improvement. Simply put, Asian managers and employees, working together, continuous collect information about the production process in "real time" through observation and immediately integrate that information into needed corrections in the process without the complex "information factory" activities used in the West that include analyzing data away from the production process and then re-converting the results into information given to managers to make decisions long after the event that created the original data occurred.

§28 ----Developing countries

Nurdin explained some of the ways that national or regional cultural factors might influence the design and use of accounting systems and financial controls in developing countries.[24] For example, accounting and control techniques in Latin countries are likely to be influenced by two specific traits of Latin culture: high "power distance", which explains what Nurdin referred to as a system of "fiscal patrimonial accounting"[25]; and the Roman rule of law which has survived today as the so-called "civil law" system that is code-based, universal and lacking in latitude for interpretation by judges and others assigned responsibility for enforcement. These cultural traits lead to accounting practices that Nurdin described as follows: "[a]ccounting 'principles' are not principles anymore per se, they are rules which are part of a law (the accounting law) and thus economic

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[23] Id. at 111.

[24] G. Nurdin, International Business Control, Reporting and Corporate Governance: Global Business Best Practice Across Cultures, Countries and Organizations (2009).

[25] Id. at 101.

transactions are pre-codified", by law, as are their respective accounting entries and recording mechanisms . . . no 'customization' or no 'industry-specific' is allowed; thus one size fits all".[26] Nordun also noted that in Latin countries "little importance is culturally given to management and cost accounting" and little time is spend on analysis of financial data.[27] With regard to control and accounting measures in Asian countries Nurdin argued that differences from the West could be traced to the concept of time and commitment to long-term goals in Asia, which contrast sharply to the short-term focus dictated by stock exchanges in the US and Europe; and the emphasis on collectivism and "networking" in Asian countries, which muddles boundaries between firms and between subsidiaries and other groups within a single firm. Nurdin noted that Asian firms tend to follow a holistic view of the world in general and organizational structures in particular and thus are less interested in the surgical analysis of financial activities and performance of each business unit that is so popular in the West.

The South African Institute of Chartered Accountants ("SAICA") conducted research in 2010 on the roles and responsibilities of CFOs of the 40 largest companies listed on the leading South African stock exchange (JSE Ltd.).[28] The research was based on a model developed two years earlier by the SAICA that identified four key roles for CFOs: planner and strategist (i.e., providing financial leadership through financial planning and strategies aligned with business strategies); compliance and transaction officer (i.e., taking responsibility for transactional and financial reporting, compliance and strategy implementation); growth and innovation catalyst (i.e., continuously finding new ways of creating shareholder value by looking outside of the organization); and corporate governance, citizenship and people manager (i.e., helping to build corporate governance structures, taking up responsibilities of the organization as a good corporate citizen and nurturing relationships inside and outside the organization). Some of the major findings of the research, which included analysis of the responses of the target CFOs to a questionnaire inquiring about a variety of matters include the specific roles of the respondents and their ideas regarding the hard and soft skills necessary to fulfill their responsibilities, were as follows:

- The respondents, all of whom replied soon after the darkest hours of the global financial crisis, indicated that the role of planner and strategist was most important and would continue to be the most important into the foreseeable future. As for other roles that were likely to increase in importance going forward the respondents pointed to growth and innovation catalyst and corporate governance, citizenship and people manager.
- The five most important soft skills for the CFOs of the largest listed companies were: leadership, which was considered to be the most important by a wide margin; problem solving; communication and change management (on the same level of importance) and influencing skills. Looking ahead three years, they ranked the five

[26] Id.
[27] Id. at 103.
[28] The discussion of the roles and responsibilities of CFOs of large South African public companies in this section is based on South African Institute of Chartered Accountants, The South African CFO of the Future, http://www.saicacfo.co.za/Home/Executivesummary/tabid/60/Default.aspx

most important soft skills as: leadership, problem solving, communication, influencing and relationship building, the latter two soft skills ranking on the same level of importance.

- In respect of hard skills, strategic planning skills were most important to the respondents in 2010 and were expected to remain so over the next three years. Other hard skills that the CFOs expected would become important included general business knowledge and trend analysis, risk management and business process knowledge, funding, funds management and treasury knowledge, and performance evaluation and knowledge of key performance indicators.
- The responsibilities that occupied the most time for the respondents included strategic planning, advice and management as well as risk identification, assessment and management; liaison with the board, audit committee, internal audit and external audit; and investor, stakeholder and market liaison. Relatively little amounts of time were invested on information management and IT maintenance and management or sustainable development and sustainability reporting.
- With regard to consultation, the respondents consulted frequently with the CEO and with other senior members of their finance teams and also consulted more often with their external auditors than internal auditors.
- With regard to perceived risks and challenges the CFOs most frequently mentioned adequate capital provisioning, risk and risk management, liquidity, strategic planning and implementation of new corporate governance practices.

A similar type of survey conducted and discussed in 2009 by the Association of Chartered Certified Accountants among 256 finance executives working in Mainland China and Hong Kong indicated that they were taking a more active role in strategic management areas such as risk identification and management, capital expenditure decisions, overhead cost reduction initiatives and were also closely involved in the oversight of specific routine transaction matters such as credit control, cash collection and tax planning.[29] Survey results also indicated that, apart from the specific responsibilities of the CFO, companies in China and Hong Kong were become more heavily involved in increasing and improving internal communications and making changes to their budgeting and forecasting processes.

Finally, a summary of the key points raised at a 2012 conference of over 50 CFOs from various Latin American countries—primarily Columbia, Ecuador and Mexico—highlighted the following trends and challenges in that region[30]: costs of finance in Latin American countries are generally much lower than for comparable US companies and Latin American companies spend more time and resources on transaction processing and less on performance management and analytics than their counterparts globally; Latin

[29] The discussion of the roles and responsibilities of CFOs of large public companies in China and Hong Kong in this paragraph is based on the Association of Chartered Certified Accountants, Role of CFO Gains Importance in Crisis Mode, http://www2.accaglobal.com/databases/pressandpolicy/hongkong/3222880 The full research report referred to in the article, titled "Crisis and Finance – The CFO's New Environment in Mainland China and Hong Kong" is published on: http://www.accaglobal.com/mhc/2009/events_held/hongkong/reports.

[30] Oracle Enterprise Performance Management Blog, Key Finding from Latin American CFO Summit, https://blogs.oracle.com/epm/entry/key_finding_from_latin_american

American companies rely less on technology, and more on their finance staff persons, than companies elsewhere in the world and this would appear to be an opportunity for Latin American companies to improve productivity by increasing their use of relevant technologies; the level of controls and corresponding costs of compliance are relatively high among Latin American companies leading to a high degree of complexity and the need for changes to strike the proper balance between controls and efficiency; and salaries and staffing levels vary from country-to-country within the Latin American region. CFOs in Latin America, like their counterparts in other parts of the world, predicted that the demands on their organizations would increase in the future as economic uncertainty persisted and noted that this trend would almost cause significant growing pains particularly since their finance departments were already understaffed and operating without the technological resources available to enterprises operating in the US and Europe.

§29 Global CFO surveys regarding the role of the CFO and the finance function

A survey of 300 CFOs from all around the world formed the basis for a report published by The Conference Board in 1997 that, among other things, identified interesting regional differences in CFO priorities and initiatives.[31] According to the report, CFOs in the US showed the greatest tendency to; take a leading role in shareholder value initiatives; align compensation and reward structures; have their own compensation linked to stock price; spend more time with their CEO; and be responsible for strategic activities such as mergers and acquisitions. For their part, European CFOs showed the greatest tendency to: face shareholders from a wide range of constituencies including governments, families and industrial or financial partners (i.e., banks); face the strongest challenges from unions; rank reducing the number of sites and streamlining reporting as top priorities; and spend the most amount of time on accounting and controls. In other words, European CFOs necessarily were very involved in tending to stakeholder, as opposed to strictly shareholder, interests due to the specific cultural, legal and financial system in which they operated. Finally, Asian CFOs, particularly those from Southeast Asia, showed the greatest tendency to: lead initiatives to enhance revenue; face challenges in financing acquisitions; and face challenges in recruiting, training and retaining skilled finance staff.

Another survey of CFOs from over 300 companies dispersed around the world captured some interesting comparative data on their views regarding the overall value of the finance function and the relative important of individual functions.[32] Some of the specific results included the following:

- CFOs in Australia and New Zealand had the highest opinion of the contribution that the finance department made to the value of the company as a percentage of market capitalization, with CFOs from Asia (excluding Japan) a close second. Japanese

[31] S. Gates, CFO 2000: The Global CFO as Strategic Business Partner (New York: The Conference Board, Inc., 1997).
[32] H. Servaes and P. Tufano, CFO Views on the Importance and Execution of the Finance Function (Deutsche Bank, January 2006).

CFOs had the lowest opinion of finance department contributions to market value among the various regions.

- Just over half of the CFOs in Germany and in the Eastern Europe, Middle East and Africa region were members of the board; however, only 3% of the CFOs in North America were board members and none of the CFOs in Australia and New Zealand served on the board. Percentages for other regions were as follows: Western Europe excluding Germany, 39%; Japan, 32%; Latin America, 30%; and Asia excluding Japan, 24%.
- At least 64% of the CFOs in each of the regions agreed that the following statement best described the business philosophy of their company: "The business is run for the benefit of shareholders but taking into account the needs of employees, customers, suppliers and other stakeholders"; however, there was noticeable support among a minority of North American CFOs for the concept that "the business is run primarily for the benefit of shareholders" and 8% and 12% of the CFOs in Asia (excluding Japan) and Japan, respectively, believed that their businesses were run primarily for the benefit of the people of their countries.
- When asked which of the functions in their finance departments were the most valuable to their companies the CFOs from each region chose the following: Asia (excluding Japan): capital structure, risk management, working capital management, making investment decisions and financial planning and analysis; Australia and New Zealand: capital structure and tax management; Eastern Europe, Middle East and Africa: capital structure, by a large margin; Germany: working capital management; Japan: debt issuance and management, bank relationships, cash management and working capital management; Latin America: capital structure and debt issuance and management; North America: capital structure, debt issuance and management, tax management, mergers and acquisitions, business disposal decisions external financial reporting/accounting and financial planning and analysis; and Western Europe (excluding Germany): capital structure, debt issuance, bank relationships, making investment decisions.
- Across all regions the CFOs were most satisfied with the way that their departments handled debt issuance and management and bank relationships and indicated they spent most of their time on the following functions in any given month: management reporting/accounting, financial planning and analysis, investor relations and banking relationships. Interestingly, however, CFOs in North America spent less than 10% of their time on banking relationships while their counterparts in regions such as Asia and Japan spent almost 30% of their time on banking relationships.
- Across all regions risk management was a high priority for the CFOs in terms of an area which they thought should be given more attention and resources.