DUTIES OF FINANCIAL DIRECTOR FROM BOARD’S PERSPECTIVE

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Abstract:
The article aims to present the changing role of the financial director. It also aims at presenting the expected profile of the financial director (CFO) designed by the boards of the corporations. These expectations seem to stem from the changes in the perception of the role of finance and financial policy. Having carried out research for the selected job advertisements, the authors found that nowadays the boards are looking for the financial manager having a wide scope of duties, from designing corporate strategy through ensuring that every business decision is grounded in solid financial criteria to fund and report outcomes and progress on strategic goals. The conclusions drawn from the observations and collected data may constitute a viable basis for more comprehensive research. A possible direction of such research includes looking for an answer to the question whether the financial director is partnership or is it just the steward and has to perform assigned duties according to the course of action agreed by the owners and the CEO. The uniqueness of the approach of this article lies in analysing the role of the financial manager in a broader sense, where he is viewed not to be a person hired merely to raise funds.

Keywords: financial director, CFO, financial policy
1. THE CHANGING ROLE OF THE FINANCIAL DIRECTOR – LITERATURE

OVERVIEW

For four decades after the second World War in countries of Western Europe and the United States the financial function was a back office function performed by treasurers or controllers, whose duties were confined to tasks like bookkeeping and preparing financial statements, and monitoring debt and capital structure (Zorn, 2004, pp. 345-364). Operational managers, from manufacturing to sales and marketing, dominated most decision-making processes in firms. Apart from overseeing reporting and preparing financial statement, the financial manager was also involved in creating the budget – typically well after production decisions had been made (Zorn, 2004, pp. 345-364, Whitley 1986, pp. 171-192, Altman, 2002, pp. 10-11).

In the traditional approach towards the financial policy, finances were viewed as one of the aspects supporting realization of the established vision. Creating a strategy plan assumed financial strategy to be one of a few functional strategies. Financial strategy, being a functional strategy, was to provide financial means to fund resources necessary to realize the enterprise’s strategy. The main task of financial strategy was supposed to adjust managing of capital structure, debt policy and policy of financing current assets to the general strategy of the enterprise. That means that, in a traditional meaning, primarily those decisions were made which were material by nature, i.e. organization of a production process, provision of materials, sales of finished products, the rate of investing in the enterprise’s assets. These decisions determine the level and timing of necessary expenditure and the demand for financial means. The key role of the financial sphere is vital to provide funds for realizing activities assumed in the real sphere. The level of liquidity, profitability and risk are only the results; the results of the decisions taken in the area of real activities (organization of production process, the scope of investing and developing activities) and decisions on financing (often irrespective of the cost of financing) (Hommel & Fabich & Schellenberg & Firnkorn, 2012, p. 2).

It should be emphasized that in a traditional approach the enterprise’s objectives were defined through finance (maximizing profits) and yet, at the same time, activities in the sphere of finance were reduced to obtaining financial resources. Moreover, finances were viewed as subservient to other functional strategies; the reliance between finance and other functions realized in the enterprise were neglected. The above approach unavoidably arises conflicts and threatens the efficiency and efficacy of business models. Furthermore, such limitation on the role of finances places them beyond risk and liquidity, and distorts the business continuity.

The role of CFO has evolved significantly in countries of Western Europe and the United States in recent years. It is no longer restricted to managing funding and capital structure. CFOs are increasingly getting involved in all areas of company management including strategy selection and operation. CFOs are currently facing a variety of challenges, which requires they tackle their job differently. The full utilization of this potential requires CFOs get involved in non-finance matters and to assume control of an explicit process of coordinating company’s investment and financial policies. Hence, CFOs increasingly become enablers for the strategy selection process (Hommel & Fabich & Schellenberg & Firnkorn, 2012, p. 2).

The changes started in the late 1970s and early 1980s. These years laid the foundation for the emergence of a new finance idea of control which, ultimately, would put the focus on “core competencies” and place the management of stock price at the very center of corporate decision making. During this period, largest corporate organizations (especially in the U.S.) underwent substantial reorganization. Along with the changes on the product market and capital market in 1980s and 1990s, it is more common to promote financial manager to the rank of the chief (often second to the chief executive officer). This signaled a fundamental redistribution of managerial roles, with greater relevance of financial considerations built into executive structure and decision-making process. Benefiting from their enhanced visibility and power, CFOs gained critical say in key strategic and operational decisions, from evaluating business unit performance, inventing new ways to leverage capital, managing acquisition and divestitures, and fending off hostile takeover attempts, to serving as the company’s primary ambassador to investors and financial analysts (Zorn, 2004, pp. 345-364, The Superstar CFO, 2011, Sharma & Jones, 2010, pp. 1-15).

While analyzing the nature of modern understanding of financial policy it is worth noting that every decision made in the enterprise has got its financial consequences and it is reflected in the level of
profitability, liquidity, and risk. Therefore, any decision, before it is taken (even the one of development concerning the purchase of particular components of fixed assets), is to be preceded by the analysis of potential effects of its impact on the level of risk, profitability, the level of liquidity, security, continuity of performance and generated profit (both hidden and disclosed) with taking into account external environment of the enterprise’s functioning in the industry (Hommel & Fabich & Schellenberg & Firnkorn, 2012, p. 2).

Every area of the enterprise’s activity (even referring to real activities) has got its financial consequences, and that is why financial policy is integrated with other spheres and policies of the enterprise’s activity. Financial policy deals not only with setting goals in financial dimension but also with methods of realizing these goals (tasks). The tools of financial policy are to be adjusted to the goals set and the manner of performing.

2. THE REASONS FOR CHANGING THE ROLE OF THE FINANCIAL DIRECTOR

Promoting the finance manager to its strategic role became more popular in the 80s and 90s. There are some explanations why firms in Western Europe and the United States may have come to promote the finance managers to the level of chief (Zorn, 2004, pp. 345-364).

The developments of the financial director’s role are certainly reflective of increased capital market pressure to deliver satisfactory performance to shareholders. (Hommel & Fabich & Schellenberg & Firnkorn, 2012, p. 1). The most important explanation points to firms’ primary dependency on access to capital and calls for explicit attention to funding crises that prompt management to restructure the nature of financial expertise within firms (Prechel, 2000, p. 248). Firms experiencing a capital crisis should be particularly susceptible to elevating the finance manager to the rank of a CFO. The new bond market and other emerging financing techniques enabled firms to restructure liabilities and ease their financial distress (Zorn, 2004, pp. 345-364).

Furthermore, driven in part by the explosion of defined contribution plans and the growing popularity of mutual funds as a form of investment among American households, institutional investors came to be the dominant group of corporate stock owners. In tandem with professional money managers, security analysts also enhanced their scrutiny of individual firms. The preferences of this group of actors carried important implications for managerial roles, and thus the CEO-CFO was bound to become the dynamic duo (Zorn, 2004, pp. 345-364, Chief Finance Officer, 2004, p. 5, Oglesby & Iversen & Iezzi, 2009).

It was also observed that a higher CFO adoptions during the later period (1980s and 1990s) was also a reflection of the CFOs’ expanded role during the era of shareholder-value capitalism. Equity and debt markets have become more challenging. Regulatory changes affecting research recommendations and new credit instruments provide a more transparent view of underlying securities’ values. Investors turn over portfolios more rapidly and have less faith in reported financial data in the wake of recent accounting and governance scandals. The result is increasing intensity of engagement between the CFO and the capital markets. The CFO came to manage relations with shareholders, market expectations, and the firm’s stock price. CFOs held conference calls and reported updates about sales, costs, and acquisitions and divestitures much more frequently. They also began to issue profit warnings in the hope of changing analysts’ forecasts to bring them into line with the profits that the firms would actually report. If the management of expectations or the use of accounting dodges failed, many a CFO did not shy away from boldfaced lying about revenues. Ultimately, the CFO’s job thus came to involve not only public relations but also the development of accounting gimmicks that would enable firms to meet investors’ expectations (Altman, 2002, pp. 10-11, Mellon & Nagel & Lippert & Slack, 2012, p. 10).

The CFO solution was also popularized among a broad set of firms as a solution to a profound regulatory change in earnings-reporting requirements in the 1980ies (Zorn, 2004, pp. 345-364) and 2000ies (e.g. Sarbanes-Oxley Act of 2002). After changes in accounting and reporting requirements and until the accountants can come up with a common language, someone must make a free translation from accounting into English language. The person best suited to serve as this translator is the financial executive. (Bergson, 1980, p. 181, Herbert & Murphy & Wilson, 2004, pp. 43-45). Recent corporate scandals have also driven tougher regulatory requirements that put more demands on the CFO. Most prominent is the US SarbanesOxley Act (SOX), although companies based in other
countries are beginning to face similar tightening in regulation or accounting requirements. For the Finance function, such changes mean that a fundamental focus on getting the numbers right and ensuring appropriate controls is again the first order of business (The CFO Role and How It’s Changing, 2009, p. 1).

A wave of mergers in the 1980ies (especially in the United States) put a significant percentage of corporations at risk of being taken over. The CFO became critical in fending off hostile takeover attempts, in part, because the adjustment of financial figures for inflation was extended to internal reporting. Firms issued and received hostile takeover bids, merged into or acquired other firms, divested of unrelated business units, and implemented stock buy-back programs. This provided CFOs with a powerful strategic tool with which they could help their bosses better identify poorly performing business units (Zorn, 2004, pp. 345-364).

3. THE PROFILE OF THE FINANCIAL DIRECTOR – SURVEYS REVIEW

One of the surveys was carried out by Ernst and Young in 2010 and in 2011 among a group of more than 530 CFOs from EMEIA - Europe, Middle East, India and Africa (Views. Vision. Insights. The evolving role of today’s CFO, 2013). While the emphasis certainly varies by organization — and depends in part on factors such as the organization’s competitive position and the prevailing economic environment — the report highlighted six principal activities that fairly represent the contribution of today’s top finance executives. They are the following:

1) ensuring business decisions are grounded in solid financial criteria,
2) providing insight and analysis to support the CEO and other senior managers,
3) leading key initiatives in finance that support overall strategic goals,
4) funding, enabling and executing the strategy set by the CEO,
5) developing and defining the overall strategy for the organization,
6) representing the organization’s progress on strategic goals to external stakeholders.

In this survey across EMEIA, almost 60% of 669 CFO respondents judged themselves to play a key role in “providing insight and analysis to support the CEO and other senior managers in strategic planning.” And 49% of them said they play a key role in “leading key initiatives that support overall strategy,” and in “ensuring business decisions are grounded in sound financial criteria“. 56% of the EMEIA respondents said that other managers across the business routinely turn to finance for advice on strategy. More than 60% say the visibility and respect accorded finance has improved in the last three years. This perspective is largely corroborated by the participants in the Americas, who also suggest that CFOs play an important role in providing a financial perspective on operational challenges, and can prompt internal changes or help drive initiatives that improve the business.

Another survey was conducted between in 2011 of 263 senior financial executives across Canada (Beyond the numbers: The evolving leadership role of the CFO, 2011). The leading responsibilities of the CFO as seen by financial executives were three-fold: financial reporting and accounting (98%); supporting executive team decision making (97%); and budgeting and forecasting (also 97%). Tax compliance/planning (86%) and risk management (85%) were duties shouldered by slightly fewer CFOs, according to survey participants, followed by corporate governance (71%). Not surprisingly, evaluating M&As (65%); corporate finance and public markets (63%), board advisor (59%), and the integration of M&As (51%), were not universal as a CFOs responsibilities in these areas would depend on the type and situation of the organization at a particular time. In addition, 41% of CFOs were also responsible for operations. The majority (78%) of CFOs believe they are currently fulfilling this “strategic CFO” role to some degree. When asked to define the role the CFO has in the strategic planning process, nearly half of all finance executives surveyed said the CFO at their organization is involved in setting strategic direction along with other members of the senior management team. About one-third said the CFO acts as a strategic advisor to the management team, including providing business advice and input beyond financial implications.

Deloitte’s surveys of Chief Financial Officers refers to major Irish based companies. The survey was conducted in March 2013, and CFOs of listed companies, large private companies and Irish subsidiaries of overseas multi-national companies participated (The role of the CFO in challenging times, 2013). Managing company performance clearly presents the greatest challenge for CFOs. 40% of respondents identified company performance as the top challenge with the multiplicity of stakeholder relationships ranked as the second most challenging aspect of the CFO’s role (20%).
Dealing with uncertainty follows closely behind the top two challenges as 16% of CFOs consider economic or strategic ambiguity to be the third most challenging aspect to their role. 88% of CFOs recognise the need to place greater emphasis on managing change to drive business transformation, evaluate and execute strategies. This reflects the expanding role of the CFO and the growing involvement in strategy and change initiatives. Similarly, 82% of respondents are placing greater emphasis on developing relationships with senior executives and alignment on strategic decision making and financial objectives. Risk is also a priority for CFOs reflecting the continuously uncertain market conditions. 65% of respondents recognise the need to place greater emphasis on their role as a gatekeeper of risk and the requirement to provide a financial perspective to risk management. Transaction processing (27%), followed by consolidate, close and report (23%) and performance and decisions (19%) are considered to be the top three most time consuming activities performed by the finance function. This indicates that the more traditional aspects of the CFO’s role continue to constitute the greatest portion of a CFO’s time. As the finance function evolves and interacts with other organisational functions, CFOs are increasingly involved in influencing non-financial as well as financial measures. This is reflected by survey respondents as 94% of CFOs disagree with having finance focused solely on financial reporting. At the same time, 59% of respondents believe that the finance function spends too much time on financial and management reporting rather than understanding what is driving the business. 64% of CFOs believe that business managers have a good set of key performance indicators (financial and non-financial to aid decision making). In addition, 94% of those surveyed believe that the finance function has a good understanding of the organisation’s future expected performance. The expanding role of the CFO to incorporate a greater emphasis on strategy and overall company performance represents a key theme, reflecting the evolving role of the CFO and the finance function. CFOs are also confident in their ability to manage and be involved in the strategic direction of the organisation, underpinned by the 94% of respondents who believe that the finance function has a good understanding of the organisation’s future expected performance. The need to juggle various initiatives including organisational change and transformation will continue to grow in importance for CFOs, diminishing the time spent on traditional finance activities such as transaction processing, consolidation, close and reporting activities.

Another survey was carried out in Singapore in the 1990s. The data was collected after surveying 42 organisations (Kai, 1996). Their main fields of duties refer to taxation (60%), financial management and financial performance (58%), treasury operations (57%), management information systems (preparing and interpreting management accounts (50%), corporate strategy and setting financial strategic objectives (40%), and M&A and divestment (32%).

Undoubtedly, the role of the CFO is no longer what it was used to be before. The role is no longer a simple functional position but it has evolved to a strategic one. The CFO is no longer a mere accountant and is not to take on the job of planning and managing capital structure. The CFO has come to create and implement business strategy, manage relations with shareholders, and market expectations.

The authors were interested whether the same changes refer to the scope of duties of Polish financial director though Poland has different institutional and cultural context, and different historical conditions.

4. METHODOLOGY

The research carried out consisted of the analysis of the job advertisements content posted on the web portal pracuj.pl in the period from 1st January to 28th January 2014. The advertisements were placed directly by enterprises seeking candidates for the post of a chief financial officer (CFO) as well as by headhunting agencies which were commissioned by their clients to carry out recruitment. In particular, the scope of responsibilities assigned to the post of the CFO was the subject of the detailed analysis. The sample covered 48 job advertisements for the post of the CFO on the territory of Poland. The sample was determined on prior exclusion of those advertisements in which the scope of responsibilities was not specified. Due to the fact that in the majority of cases recruitment took the form of hidden recruitment, the researchers carried out a profound analysis of particular advertisements to identify and eliminate those ones which referred to the same post.
5. RESEARCH FINDINGS

The tasks of the CFO presented in the analysed advertisements were grouped. Special attention was put to the tasks connected with the CFO’s participation in creation and execution of the company’s strategy. In 12 cases (25% of the analysed advertisements) the CFO was expected to co-operate and realize the strategy in the area of finances, which, in some advertisements, was referred to as either strategy or financial policy.

It is also expected that the CFO will provide substantial support for the decisions taken by the Board of Directors (27% of cases), which primarily involves preparing reports and analysis necessary to take decisions by the Board, and which was pointed out by as many as 69% of employers.

The CFO’s tasks may also involve managing operating profitability, and, in particular, seeking and indicating solutions which are to foster the increase in profitability (31% of the advertisements) through, among others, carrying out the analysis of margins gained by particular products, as well as determining the price of sales. Another important area of the CFO’s performance is tax management viewed not only as overseeing the accuracy of clearings done with tax offices, but, first of all, as undertaking those activities which foster tax optimisation (33% of cases).

In 92% of advertisements specifying the tasks of the CFO, participation or oversight of the planning process and budgeting were recognized as his/her assignments, but then more often these tasks were connected with budgeting rather and variance analysis than creating financial planning. Among activities defined as financial planning and budgeting one may point at one area which may be referred to as costs management.

In 38% of cases of the analyzed advertisements, the CFO is expected to create the cost budget, to carry out the cost variance analysis against adopted forecasts, and consequently, to come up with the solutions which would optimize the level of costs in the company.

Traditionally, the role of the CFO is to assess the profitability of investment projects, which is indicated in 27% of cases and raising finance (33% of cases), as well as the overviewing its using, especially when such resources were received from the EU. Raising funds quite often means responsibility for carrying out Initial Public Offer on the WSE (Warsaw Stock Exchange), which was also pointed out by the advertisers. The assignments of the CFO also lie in managing liquidity which was expected in 58% of the reviewed advertisements.

Generally, as it was also presumed, another significant area of the CEO activities is overseeing accountancy and, specifically, overseeing the process of creating financial reporting as well as other documentation in compliance with the governing laws (86% of cases).

A wide range of duties arising from performing a function of the CFO makes him/her obligated to maintain relations with external institutions (tax offices, banks, GUS – the Main Statistical Office), or with investors, and the oversight of making up documentation to meet the requirements as was shown in 65% of the analyzed advertisements.

Risk management is yet another area related to finances, though in only 15% of the analyzed advertisements such activities are viewed to be assigned to the CFO’s responsibilities. Performing managerial functions undoubtedly requires that the CFO have competencies to manage the subordinate staff of the financial, accounting controlling departments, and others (50% of the analyzed advertisements).

6. CONCLUSIONS

The research carried out allows to draw the conclusion that the tasks of the CFO, defined in majority of the analyzed advertisements, result from a rather traditional approach to his/her in the company. The role of the CFO is directly related to taking due care about the company’s bookkeeping, preparing analysis necessary to take decisions by the Board, budget planning, managing liquidity or raising funds. Obviously, the CFO is also a person responsible for the relations with external entities in matters arising from the duties he performs, and a person who is in charge of the financial and accounting units.
Additionally, there is much focus on the necessity of undertaking activities or showing possible solutions in the operational activity of the company which would lead to maximize profitability, cost reduction and tax optimization.

In a modern approach, the CFO contributes to the company’s strategy, but first of all, he/she works out and executes the financial strategy/policy. In the research sample a large minority of employers were aware of the need for the CFO to take part in this process. Therefore, the achieved results are in line with the conclusions drawn from other research presented in this publication.

The research done, however, is not free from some limitations. The subject of the analysis were the advertisements, in which a scope of responsibilities of the financial director was defined. Yet, it is hard to acknowledge whether the tasks mentioned in the advertisements will actually be performed by the persons hired to this very post as it seems the headhunting agencies are likely to affect the content of job advertisements or advertisers may be influenced by the content of other similar advertisements. The research methodology applied at this stage, however, does not allow to make an unambiguous reference to the problem posed above.

Comparing the results of our findings with those most cited in the literature (carried out by Ernst and Young) it is possible to note that they cover only in two points: funding, enabling and executing the strategy set by the CEO, and providing insight and analysis to support the CEO and other senior managers. This remark might lead to conclusion that Polish financial director position might be perceived as a traditional one. One reason for this might result from historical and institutional specific of Polish companies and economy. Market economy has been present in Poland for twenty years. And Polish companies are still learning. That is why the educational programs still need to be verified and should include the latest world trends in management techniques.

The conclusions drawn from the observations and collected data may constitute a viable basis for more comprehensive research. A possible direction of such research is to determine the effective power of the financial director. This direction includes looking for an answer to the question whether the financial director is partnership in running business and is able to exercise its power and take decisions or is it just the steward and has to perform assigned duties according to the course of action agreed by the owners and the CEO.

Another possible direction of research is to identify the position of financial director among others functional directors (in particular production director). This will help to identify whether the company is finance or production oriented. This direction also helps to answer whether assigned responsibilities might be effectively implemented by the financial director.
REFERENCE LIST