




What's next for the CFO?

Where ambition meets reality



In broad terms we see that the CFO's role has expanded so greatly that there is now a conflict between varying demands which has serious implications for CFOs and their companies.



The role of the CFO today

We took 250 of the world's most powerful and influential business people: C-suite executives from companies in the US, Europe and Asia, turning over at least US\$1 billion. We asked them questions about the role of the CFO, and the answers they gave us provide some interesting insights.

In broad terms we see that the role of the CFO – in which we include Head of Finance or Finance Director – has now expanded so greatly that there is a conflict between varying demands, and this has important implications for CFOs and their companies. At a time when businesses want their CFO to become actively engaged in the strategic direction of the business, participating in strategy development, leading M&A activity, and providing leading indicators for predicting business performance, they themselves believe that they are still far too distracted by the demands of compliance and corporate governance.

Globally, almost one-third (31%) of respondents to this survey agree that the CFO does not have enough understanding of the wider issues the business faces. In North America, this figure shoots up to 50%. If somewhere between one-third and half of CFOs are focusing on risk, governance and technical accounting issues, who is steering the business financially?

For many years the CFO has moved from one primary role to another, as circumstance dictated. During the heady days of the nineties, the pressure was on to move from scorekeeper or custodian to strategic partner. As the climate changed after Enron and the introduction of International Finance Reporting Standards, Basel II and Sarbanes-Oxley, the CFO was forced to switch back into a more defensive role.

Both roles need to be fulfilled but the evidence of this survey and our experience reveals that often this is not happening. It is also clear that the overloaded CFO can no longer do everything. Working with their CEO and the board, CFOs now have a unique opportunity to decide where to focus finance in response to the business agenda of their company and industry. We expect to see more tailored initiatives as CFOs reallocate their time and resource across the key roles of finance.

Given the rapidly changing environment in which businesses need to operate today, driven by increasingly global markets, global competition and financial regulation, it is unsurprising that the CFO's role is undergoing change too. Change is an inevitable component of the CFO's world, and it is therefore also unsurprising that there is little consensus on what the changed role entails.

Globally, almost one-third (31%) of respondents to our survey agree that the CFO does not have enough understanding of the wider issues the business faces.



Our research and work with leading organizations provides us with a strong indication of what is happening. The CFO is being pulled in all directions by the conflicting demands of the various roles that their position entails: business partner, commentator, scorekeeper and custodian. There is simply more of everything to do today than ever before. Today's CFO may struggle to step up to this ever more demanding role but could anyone actually fulfill all roles? Are we seeing a vacuum opening up, into which another role or function could move – to provide more of the business partner capability? Could we see major strategic input coming instead from the COO, the marketing function, or the CIO or could this vital role be diffused across a number of functional heads?

It seems that the accounting function is at a crossroads. Under-funded and overstretched, will the CFO in future fulfill a purely technical accounting role? Are we more likely to see accountants from the accountancy profession rather than business-oriented finance people with MBA qualifications? Or will we see the CFO, mandated to be a strategic partner, demand – and receive – more corporate resources to carry out both the business partner role and an increased governance role? How can today's CFO follow in their predecessor's footsteps and become the natural successor to the CEO if they do not have the time to engage with the rest of the business, as they should and, as our survey shows, they want to?

It seems that the accounting function is at a crossroads. The CFO must make some important decisions, first of which should be to automate and streamline finance function activities so that they can free up scarce resources and time to move more into the role of business partner.



So much to do... so little time

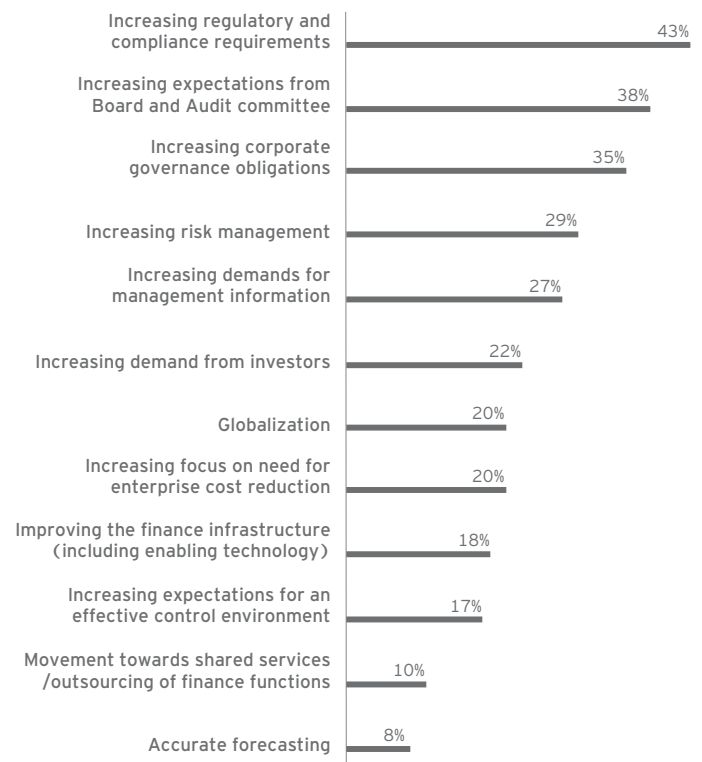
It seems evident that the CFO's role has expanded over the last decade and 97% of our respondents confirmed this feeling. We asked respondents to name three factors that they felt were responsible for the expansion of the CFO's role. The largest major factor was the need to comply with regulatory and compliance requirements, cited by 43% of respondents.

The next five clear factors in descending order were:

- ▶ Increasing expectations from Board and Audit Committee
- ▶ Increasing corporate governance obligations
- ▶ Increasing risk management
- ▶ Increasing demands for management information
- ▶ Increasing demand from investors.

Corporate governance is seen as more of a driver in Asia-Pacific and North America than elsewhere, while pressure from the Board and Audit Committee is seen as the main driver in Europe, with corporate governance coming some way down the list. Does this mean that European CFO's are ahead of the rest of the world in meeting the governance challenge – or is it possible that another wave of governance pressure could impact them from the East and West?

Which of the following factors have most contributed to the changing role of the CFO?



Select up to three.



In the face of these widespread demands, we were keen to know which activities took up most (and least) of the CFO's time. We asked them to classify how they would like to spend their time and how they actually spent it.

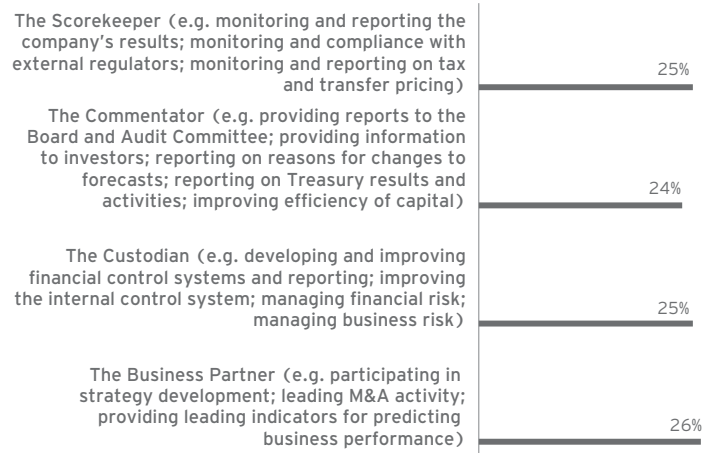
We asked them to pick between four typical roles:

- ▶ **The Scorekeeper:** monitors and reports the company's results; monitors and works with external regulators; monitors and reports on tax and transfer pricing
- ▶ **The Commentator:** provides reports to the Board and Audit Committee; provides information for investors; reports on reasons for changes to forecasts; reports on treasury results
- ▶ **The Custodian:** develops and improves financial control systems; reporting; responsible for internal control system, and managing financial and business risks
- ▶ **The Business Partner:** participates in strategy development; leads M&A activity; provides leading indicators for business performance.

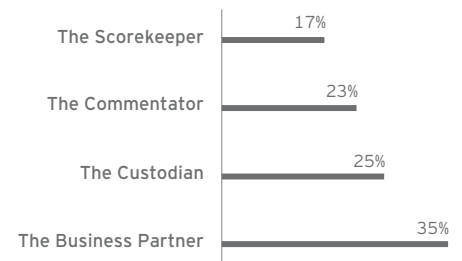
The responsibilities of the CFO are evenly distributed across these four roles, indicating that there is broad agreement on the components. But asked about where they felt their attention should be allocated and the desired balance of these components, CFO's aspire to spend much less time as scorekeeper and much more time on supporting the business as a business partner.

There is a disconnect between where CFOs are currently focused and where they want to be. 35% of respondents felt that the CFO should spend more time being the business partner.

Which activities do the CFOs allocate their time to?



Which activities should the CFOs allocate their time to?



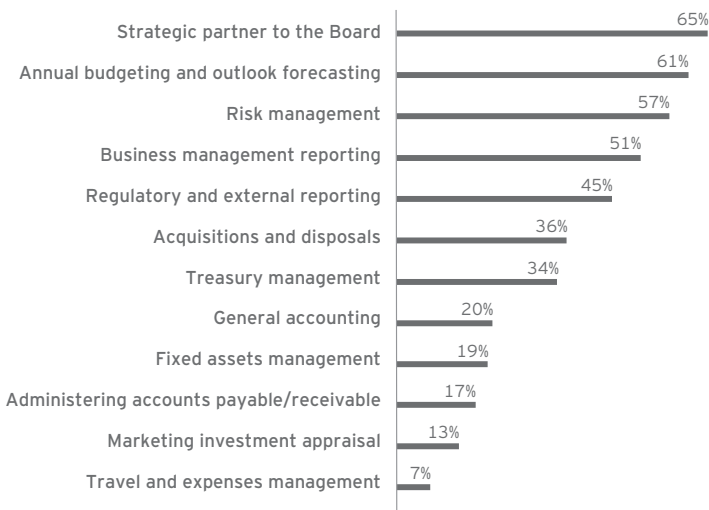
Our respondents see five key areas of activity for the CFO

These key areas are:

- Strategic partner to the Board
- Annual budgeting and outlook forecasting
- Risk management
- Business management reporting
- Regulatory and external reporting.

The message is clear. The CFO has to be both a strategic partner and someone who will also keep the governance issue firmly under control at the same time. However, there are exceptions to this. North American respondents saw the annual budgeting and forecasting process as being most important, which suggests that recent regulatory pressure has been forcing CFOs to get the business basics right. Respondents from financial services companies saw regulatory and external reporting as being most important, with the need to be a strategic partner to the Board coming third in the list of priorities. In such highly regulated industries, it is perhaps not surprising that priorities tend towards compliance, but nevertheless, there remains a strong appetite among financial services executives for the CFO to sharpen their focus towards strategic issues.

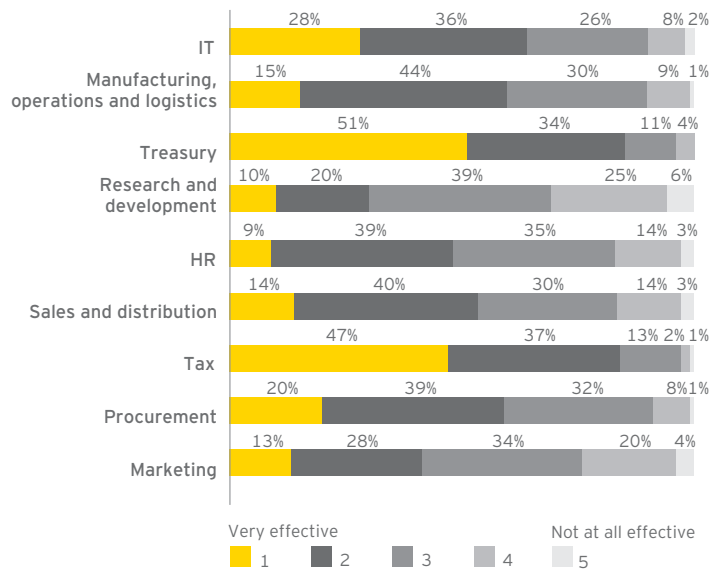
Which of the following activities do you think are the most important areas of focus for the CFO?



Please select up to five.

There is a clear and predictably high level of collaboration between the CFO and back office functions such as treasury (85%), tax (84%) and IT (64%). The first two are traditional CFO strengths, while the third (often the direct responsibility of the CFO) represents a prime area of concern: large investments and the potential for major over-spends or project over-runs – all potentially serious problems. Collaboration with IT was described as effective by nearly two-thirds (64%).

How effective is the collaboration between the finance function and the following business functions in your organization?



Please rate on a scale of 1 to 5, where 1 = Very effective and 5 = Not at all effective.



When it comes to value creation activities, we find that the finance function collaborates best in those areas that are more operational: manufacturing, procurement and sales and distribution. However, in the more future oriented areas such as R&D and marketing, the collaboration is weaker. Globally, just 30% think that the relationship between finance and R&D is effective. In Europe that figure plummets to 19%, which is only slightly better than the European figure for collaboration between finance and marketing (18%). Finance can provide valuable insights to marketing and R&D, and can help these business units understand the finance levers for business decisions, but these departments have very different mindsets that need to be understood.

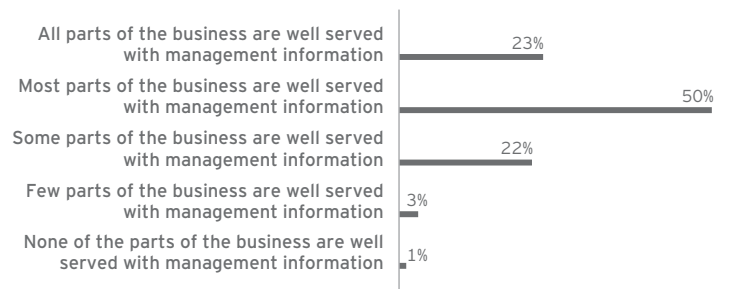
Furthermore, those relationships that are seen as least effective (R&D, HR and marketing) tend to be cost center functions, whose performance and contribution can be intangible and difficult to measure. It could be argued that the CFO is shying away from difficult challenges and more significantly from areas where future strategy is determined.

Just as the responsibilities of the CFO have changed, so have the skills required for success in the role. 88% of respondents agree that it is no longer enough for a CFO to be good with numbers.

When we move away from areas of traditional financial expertise, the survey shows that CFOs are found wanting. Just over one respondent in four said that, at best, only some parts of their business were well served by management information.

Finance should provide insight to marketing and R&D to drive business value. Internal cultural differences and mindsets may need to be broken down and understood.

Is your finance function doing enough to make management information available to the business?

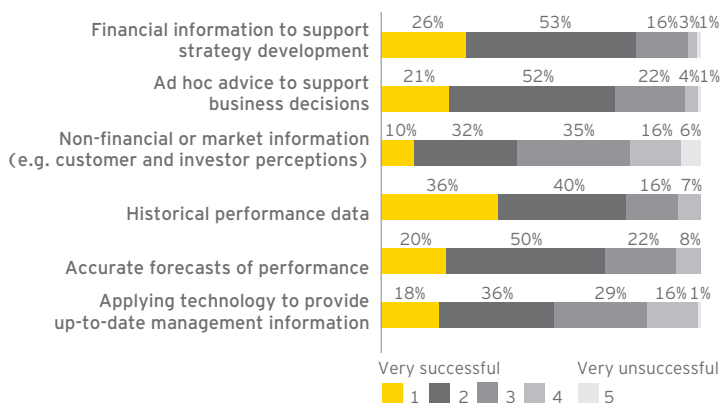


Please select the answer that most corresponds to the situation in your company.

CFOs are good at providing financial information to support strategy development and historical performance data, suggesting they are better at analyzing data than predicting future performance. However, CFOs are not very successful at integrating non-financials into the business. Respondents in Europe, in particular, point to the weakness of this capability, with only 28% saying that the function is effective in this area. CFOs themselves appear fully aware of this weakness – only a third of them think that the provision of non-financial information is effective, compared with 52% of other executives. Applying technology to provide up-to-date management information rates a disappointing 48%.



How successful is your finance function at providing information and insight around the following areas?



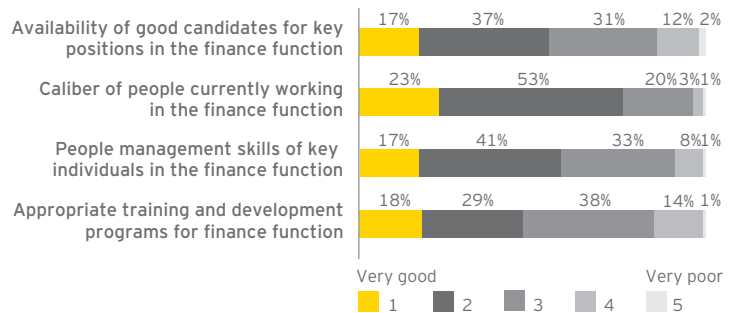
Please rate on a scale of 1 to 5 where 1 = Very successful and 5 = Very unsuccessful.

Does a picture emerge of an IT and communication-averse individual who is more comfortable analyzing fact-based past performance where he or she cannot be challenged, than looking ahead? Does the CFO feel happier away from the strategic role? Is he or she being forced there because there is no one else to carry out the rest of the job?

On the positive side, more than three-quarters of respondents were happy with the quality of the people working in the finance function (rating them as either good or very good), although there seems to be scope for improvement with a need to develop the people management skills of key individuals. Over half of respondents were less than happy with the training and development opportunities available. It is a critically important area but a picture is emerging of high caliber people who would benefit from more investment in professional development. Respondents are also fairly equivocal about the availability of good candidates, with just over half considering that this is either good or very good. In combination with a relatively low level of confidence in training and development, this suggests that there may be talent problems for the finance function around the corner.

CFOs want to develop key people but they do not know how to move talent through the organization in a way that motivates and keeps that talent.

How would you rate the following aspects of your finance function?

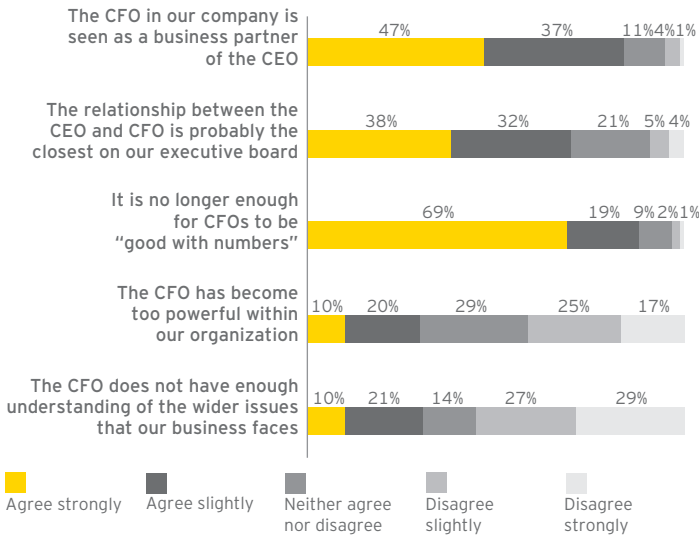


Please rate on a scale of 1 to 5 where 1 = Very good and 5 = Very poor.



So what, in the end, does the rest of the C-suite want? The CFO is seen overwhelmingly (84%) as a business partner of the CEO. The CFO wants more strategic influence and believes the CEO expects it. But it is no longer good enough for the CFO just to be good with numbers.

Please indicate whether you agree with the following statements



Working with their CEO and the Board, CFOs now have a unique opportunity to decide where to focus finance in response to the business agenda of their company and industry. We expect to see more tailored initiatives as CFOs reallocate their time and resource across the key four roles of finance.



Where next for the CFO?

According to our survey, the challenge is clear. Those traditional skills – being good with numbers, and acting as a scorekeeper, custodian and analyst – are still highly prized. Indeed they are seen as a pre-requisite. But they may not be enough.

Either we will see CFOs operating in a pure technical accounting role or we will see them finding a way to balance the need to act as a strategic partner and to deal with the demands of compliance and corporate governance.

To do that, they will need to keep the business better informed and to realize that they may need to operate outside their comfort zone, dealing with big strategic issues alongside the CEO, focusing more on the future than the past and working more closely with the strategic, value creating areas such as R&D and marketing. This is likely to have the effect of making the CFO far more aware of the wider issues that the business faces. As revealed by our survey, half of all CFOs in North America are currently out of touch with these issues.

A number of important themes have emerged from our research requiring serious consideration by the CFO. What is clear is that the current and ever expanding role of the CFO is not sustainable. They must now make some decisions about their areas of leadership and their priorities if they are to move further along the spectrum towards their natural role of business partner. Recognizing the already full in-tray of the CFO, there are three priority actions to consider:

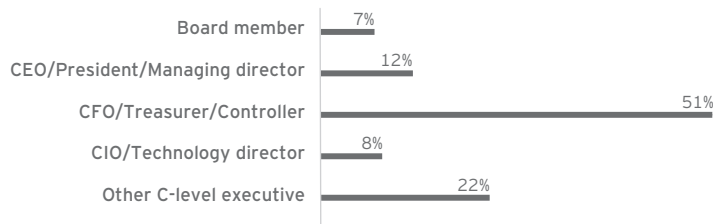
- 1. Streamline scorekeeping and custodian processes to free up resources to focus on value-adding roles:**
CFOs should restructure and simplify their more traditional finance responsibilities. For many CFOs, the compliance agenda is now understood and under control. CFOs have the opportunity and capacity to take stock, re-allocate finance resources and focus more on becoming a proactive business partner. For many of them, this may require significant reengineering of the finance function.
- 2. Expand finance function influence on strategy by focusing more on the integration of financial and non-financial information:**
CFOs should seek to further influence strategy by expanding the role of the finance function and requisite finance skills into other business areas. This is likely to include forward-looking business activities such as marketing and R&D. The integration of financial and non-financial information should be a key priority for the business, ensuring that future strategic and operational decisions are grounded in financial reality.
- 3. Identify and build a pool of talent – for success and succession:**
The CFO must play a role in developing career paths that extend beyond technical training – fostering skills in business partnering and creating a pool of natural successors.



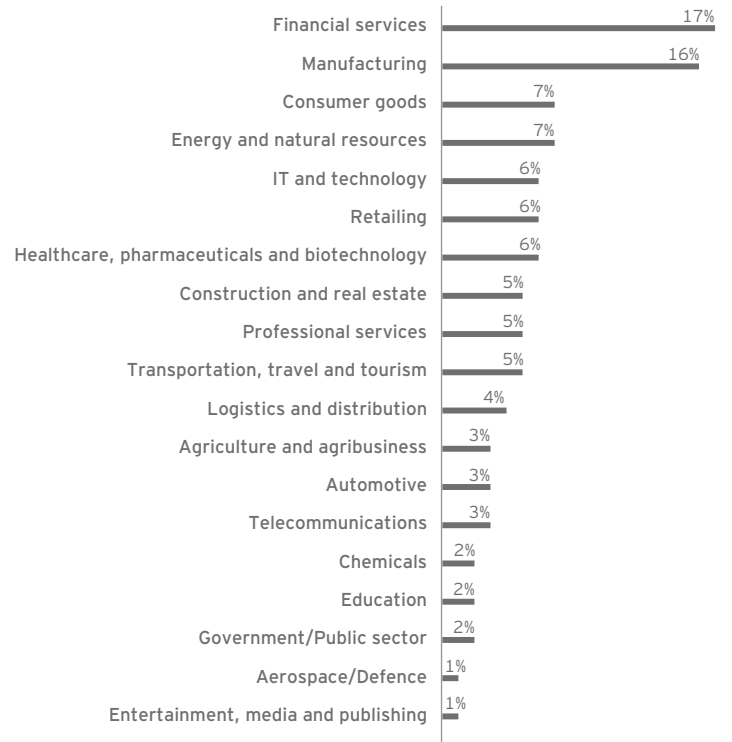
Survey details

For this survey, The Economist Intelligence Unit interviewed 251 C-suite and board level executives on its panel. The respondents included a significant number of CFOs, drawn equally from the US (31%), Europe (34%) and Asia (33%) with the remainder coming from the rest of the world. All executives polled worked for businesses with a turnover in excess of US\$1 billion and businesses were cross-industry. The interviews were carried out during September and October 2007.

What is your title?



What is your primary industry?





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