

The Evolution of the Role of the CFO in European Enterprises

Impact on and Future Prospects for Controllers and Controlling – Results of a Study of Current Finance Transformation Projects

By Juergen H. Daum

- Nowadays, CFOs must be able to unite two very different tasks: on the one hand, they have to make risks manageable and safeguard governance and compliance; on the other hand, they have to identify channels for profitability and new growth while actively contributing to the company's advancement.
- This cannot be achieved without a fundamental transformation of the finance&control (F&C) function: of processes, systems, organization, and skills.
- First of all, the transnational standardization of F&C processes throughout the enterprise by automating them to a large extent and consolidating back-office tasks into a shared services organization is reducing the load on local F&C business partners.
- The second step entails developing and qualifying local F&C business partners themselves, who gain a strategic significance for the successful implementation of the partly contrary CFO duties on an enterprise-wide basis.
- These developments, which are currently evident in many European enterprises, have a significant impact on the future role and profession of controllers and on controlling itself as a discipline.

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New Requirements for CFOs and for the Finance & Control Function

Once primarily characterized by administrative duties and internal tasks, the function of Chief Financial Officer and the Finance & Control department has undergone a radical change over the past years. Today, not only are CFOs actively included in the decision-making processes in key corporate development phases, they also drive company growth in tandem with the CEO. But they are also required to "sell" the company convincingly to investors at roadshows – a challenge that requires extrovert selling skills. In addition, securing intelligent financing for larger investments or M&A deals nowadays calls for excellent negotiating skills and not just an understanding of complex financial instruments. What's more, CFOs must feel just as home with legal requirements, accounting regulations, and the demands of financial supervisory authorities and stockmarkets as they do with their company's core business and market environment.

Finally, as a business partner and navigator, they must drive profitable growth and safeguard good governance and compliance at the same time. This presents CFOs and their area of responsibility, Finance & Control, with an enormous challenge.

Essentially, they are called upon to fulfill two very different tasks simultaneously. On the one hand, they have to act as a steward by sounding a note of caution, making risks transparent and manageable, and ensuring good corporate governance in observation of legal requirements and accounting principles. On the other hand, they have to assume the corporate role of navigator by indicating channels for profitability and new growth while actively participating in the advancement of the company.

CFOs have risen to this challenge. By initiating a comprehensive financial transformation process in their companies designed to redefine the Finance & Control function, they have established a basis that will enable them to fulfill these tasks. This requires not only realigning the Finance & Control organization, processes, and information systems, but also establishing a new culture and self image in Finance & Control as well as honing the skills of F&C employees - also in terms of their behavior. In a discussion round with the author, Wolfgang Reichenberger, former CFO and member of the Executive Board at food giant Nestlé, summed up the situation as follows:

"We have to really live this dual role, these two very different roles. And this means not only to have two different mindsets, but to act in two very different ways. The co-pilot role [Nestlé's term for the navigator role - comment from the author] requires that you should continuously challenge and drive for innovation. And that means, for example, also to nurture sometimes a spirit of creative destruction [which essentially means questioning established, traditional procedures - comment from the author]. [...] On the other side, in your stewardship role, you have to be concerned at the same time with [...] 'guarding the financial peace'. It means you have to innovate, but at the same time you have to keep the financial governance. You have to make sure that your innovation doesn't put your Finance & Control framework and the financial and operational stability at risk." (Daum et al, 2007, page 599)

The reward for success takes the form of new career opportunities, among other things. Recent trends both at home and abroad have seen CFOs being regarded almost as the natural candidate to take over management of a major division and more and more as the successor to retiring CEOs. The skills involved are increasingly providing the qualifications for a top job in business, and Finance & Control is becoming the training ground for management talent.

Financial Transformation Phase I: Standardization of Processes and Information Systems - Establishment of a One Global Finance & Control Platform

In many companies, the fundamental transformation of the Finance & Control function resulted from a restructuring of the business organization, which was necessary due to increasing internationalization. One example of this is the Henkel Group. In 1999, the Group decided to organize its business transnationally along global divisions instead of by country. For Finance & Control, this meant that it also had to realign itself on a cross-country basis and transform the Finance & Control area divided into many local units into one, transnational Finance & Control organization with its own self-image as a professional business services organization in the company. This transformation is often accompanied by a change in nomenclature - in the case of Henkel, Finance & Control became "Henkel Financial Services". (See Daum and Mackrodt, 2008).

The initial strategic focus of this transformation is to standardize Finance & Control semantics, processes, master data/data formats, and systems. The objective is to reduce complexity, improve process and service quality, and naturally efficiency by establishing a uniform Finance & Control language, a common understanding of process best practices, and a standard process design based on one information system platform. The resulting **single** Finance & Control infrastructure then forms the basis not only for boosting process quality and efficiency, but also for significantly improving control, risk, compliance, and governance management: one process and system platform means that these issues can be examined and controlled at just one location.

A key catalyst in establishing a Finance & Control infrastructure that can provide the basis for the new, transnational Finance & Control organization, is the concept of consolidating transnational Finance & Control processes in a shared services organization. European companies, however, have adopted very different approaches to achieving this goal.

Some companies – generally those with origins in countries with an Anglo-Saxon business culture – have started by switching to a shared services organization immediately. One of the objectives here is to reduce Finance & Control costs significantly through labor arbitrage, that is, by establishing shared service centers in low-wage countries in an effort to cut labor costs. At the same time, the shared services organization project acts as a driver for harmonizing process definitions across national boundaries and standardizing finance control processes, which are then rolled into the shared services centers country by country or process by process from the local process centers. From then on, they are managed centrally for all local locations, thus boosting efficiency through scale effects and a higher quality of service. The benefit of this approach is that it produces cost savings in the short term as a result of labor arbitrage.

Companies with origins in continental Europe, such as Henkel, typically focus on process reengineering first. The objective here is to automate transactional processes to a large extent in order to eliminate manual processing. More so than with an immediate switchover to a shared services organization, this requires the implementation of a standardized information system platform - preferably based on a single system instance, or at least a standard system template - that can guarantee process integrity and standards even though processing is still distributed among several locations. The shared services center organization is not implemented until the second step. Due to the high level of standardization and automation achieved in the first step, it can operate efficiently right from the outset. The benefit of this approach is that cost savings and quality improvements are usually sustained – there is less of a threat of most of the cost savings being consumed by rapidly increasing salary costs at the selected location for the shared services center because the proportion of the operating costs attributed to personnel costs is much lower due to the high degree of automation. One possible disadvantage is that cost savings are delayed and staggered, with some being achieved with the automation and standardization of the processes and others with the switchover to shared services.

Where do the companies stand at the end of Phase 1 of the financial transformation?

The companies have established uniform standards and efficient working procedures internationally for Finance & Control - also in the areas that are not yet included or

not planned for inclusion in the shared service center, for example, business planning, analysis and management reporting, and manager self-services for analysis and reporting.

Finance & Control has also been established as a professionally managed business services organization with clearly defined interfaces to business and a clearly defined division of labor.

In the area of transactional processes, or the actual shared services, a basis has been established for subsequently outsourcing subprocess or entire processes to one or more providers.

As far as expert services are concerned, companies have now often taken the first steps towards establishing centers of expertise (CoE) where treasury and cash management, controls, risk management, compliance, as well as decision support and business intelligence are concentrated. This allows companies to merge their expertise and talent throughout the group so that they can be deployed more effectively and further developed. The centers of expertise then assume responsibility centrally for the support of local Finance & Control staff, for example, with regard to further developing the process concepts and consolidating best practices so that the wheel does not have to be reinvented every time a new problem arises.

The result is the basic structure of a new business model for Finance & Control (see Fig. 1). All of the tasks that are handled more efficiently and with a higher level of quality in a 'Finance Transaction Factory', i.e. in a shared services center, or can profit in terms of effectiveness, securing knowledge, and aggregating experience through centralization in centers of expertise are removed from the local business in the countries and relocated to the business support services. Responsibility for supporting the local decision makers and managers stays with the business itself and is assumed by the remaining F&C employees, the F&C business partners. The development of their role is the focus of Financial Transformation Phase II.

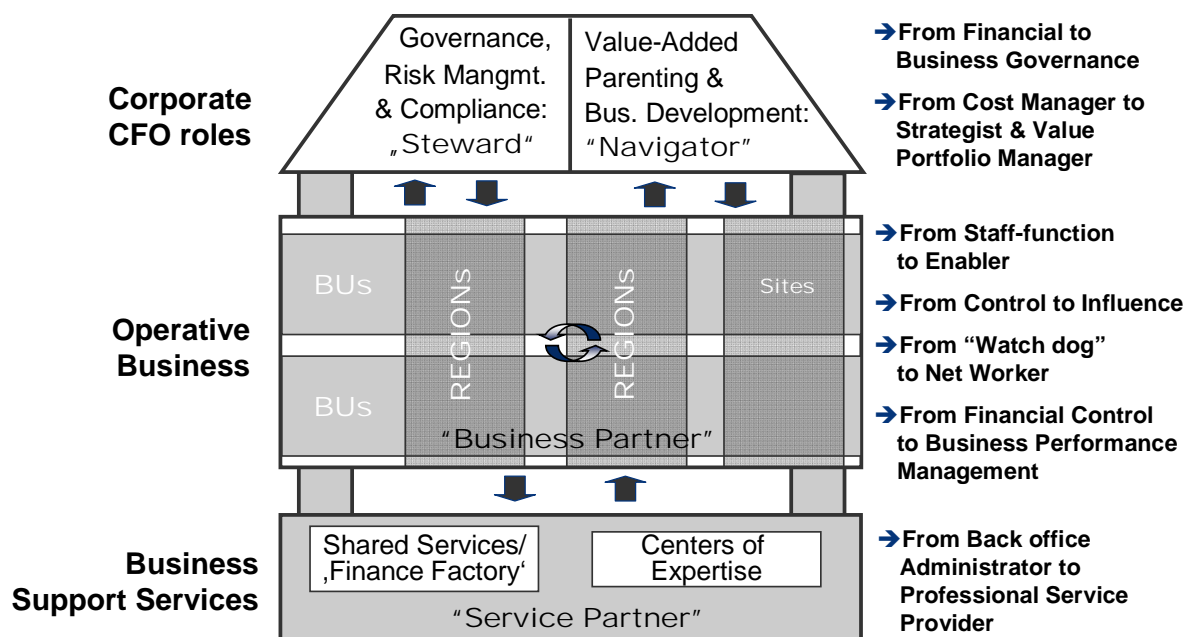


Figure 1: Basic Structure of the New Business Model for Finance & Control: 'Enabling Business Partnering'

Financial Transformation Phase II: Development of the Business Partner Role and Competences – as a Steward and Navigator

In Phase II, CFOs must realize their role that they are required to fulfill from a corporate perspective, that is, that of steward **and** navigator, across national and division boundaries. This can only occur on site where day-to-day business takes place. That is because: 'all business is local'. But a CFO cannot be everywhere at once to act as a consultant to the business when business decisions are taken. For this reason, CFOs require a functioning, effective, comprehensive Finance & Control organization that can actually fulfill the local business partner role and must be prepared as such. Development of the local role of the F&C business partners in operative business, therefore, gains a crucial strategic significance in terms of the success of the entire financial transformation process and the future success of the CFO.

The initial focus here is usually on developing the navigator role since this represents the greatest challenge for the local F&C employees, who up to then were primarily engaged in back office planning, reporting, analysis, and governance control tasks rather than functioning as consultants, active business developers, and 'copilots' for the business. An example of this is the mission statement for the Finance & Control division of a consumer product group, which the CFO formulated as follows at the start of Phase II:

"Our mission: To drive sound business decisions making and innovation planning to maximize Group long-term profitable growth, cash flow and total return to shareholders. We embrace the role of change agents, drive long term value creation

and ensure the highest standards for stewardship and governance throughout the company".

Whereas Phase I concentrated on the subject of processes and systems, Phase II focuses on the role of the business partners as 'consultants', 'influencers', and 'change agents', and thus on the subject of 'people', 'organization', and 'finance culture'.

The local Finance & Control employees must display new skills and competencies - particularly in terms of their behavior. Rather than quietly doing the groundwork in the background, they must become active networkers that use their expertise, communication skills, and presentation abilities convincingly to shape and facilitate the company's strategic and operative decision processes. As well as professional competence with business know-how that extends beyond financial aspects, this requires leadership, communication, and change agent skills in particular.

How are the local business partner role and the related skills developed?

First, the role and the task it involves must be clearly defined. The business partner roles should be embedded in the business as far as possible. This entails describing and defining the role of the business partner for the decision makers at all relevant levels and ranks within the business. The aim here is to establish a uniform model within the company that can be implemented and "lived" in operational units of a similar type (see Fig. 2). This includes creating an effective F&C governance model, which becomes more important the more the company adopts a decentral management model. The purpose of this F&C model is to promote standardized management and control of the F&C activities as well as uniform F&C methods throughout the group, even if the local F&C employees report formally to the local business manager. The key elements of this F&C governance model are: Clearly defined reporting channels leading to the corporate CFO – at least in the form of a 'dotted line', the right of the CFO to propose or even nominate persons to fill local F&C positions, responsibility of the corporate F&C division for the professional development and training of all F&C employees in the group, and installing a strong group-wide F&C culture so that all local F&C employees feel part of **one** F&C team.

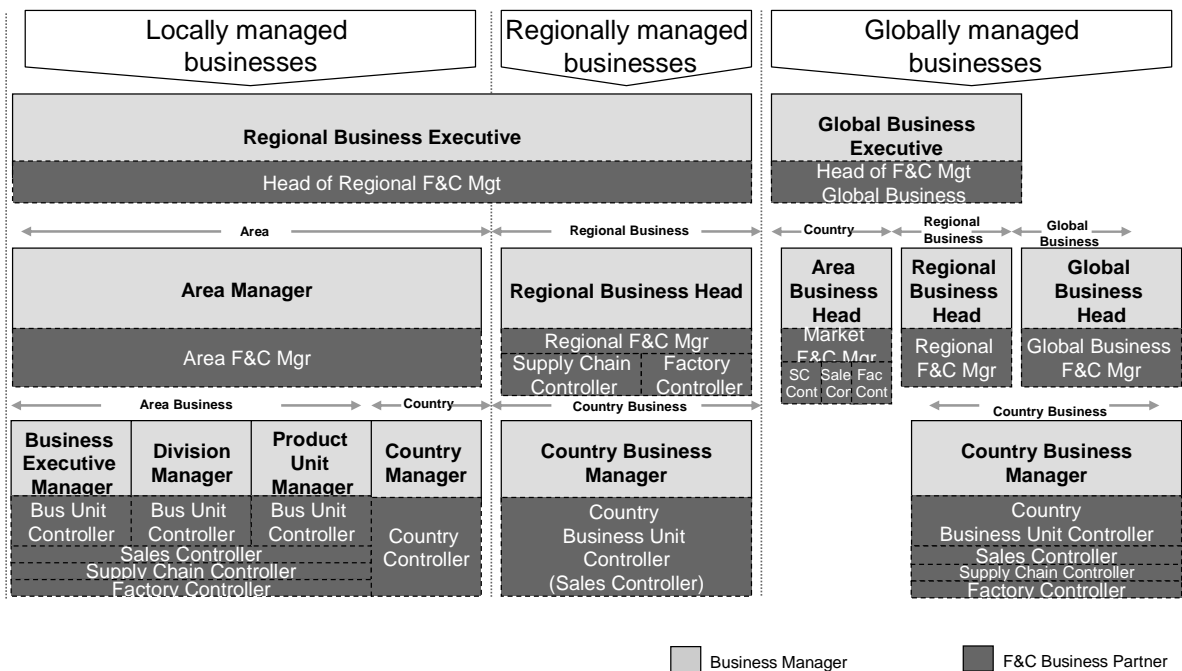


Figure 2: Clear Definition of the Roles and Tasks of the F&C Business Partners for Each Manager Role at all Levels/Business Dimensions in the Company - Example

The second stage involves developing the local F&C business partners themselves. A corporate Finance & Control academy or a firmly established corporate F&C training program and corporate F&C career framework are traditionally used here.

The purpose of the F&C Academy and F&C training program is to provide a suitable training and development program that will prepare the local F&C business partners for their new role and gradually nurture the required skills. New professional competence is developed as part of an F&C training program by examining past business cases with experienced managers and projecting and discussing them in terms of current problems. The program also includes intensive support: Participants are surveyed at regular intervals to determine whether and how they have been able to apply what they have learned and what results this has yielded. They can also request support if necessary. Courses and workshops are also offered to develop communication, presentation, and negotiation skills. At the same time, the centers of expertise (for example, the Decision Support CoE) develop programs that proactively drive certain topics throughout the group with the business. To do so, they develop new tools and processes in order to provide greater decision support for marketing investments, for example, improve management of the R+D project portfolio, control the extended supply chain, production control, and so on (see Fig. 3). These developments also include the necessary change to the business itself, which is promoted together with business management and the training provided for business managers as part of the F&C training program.

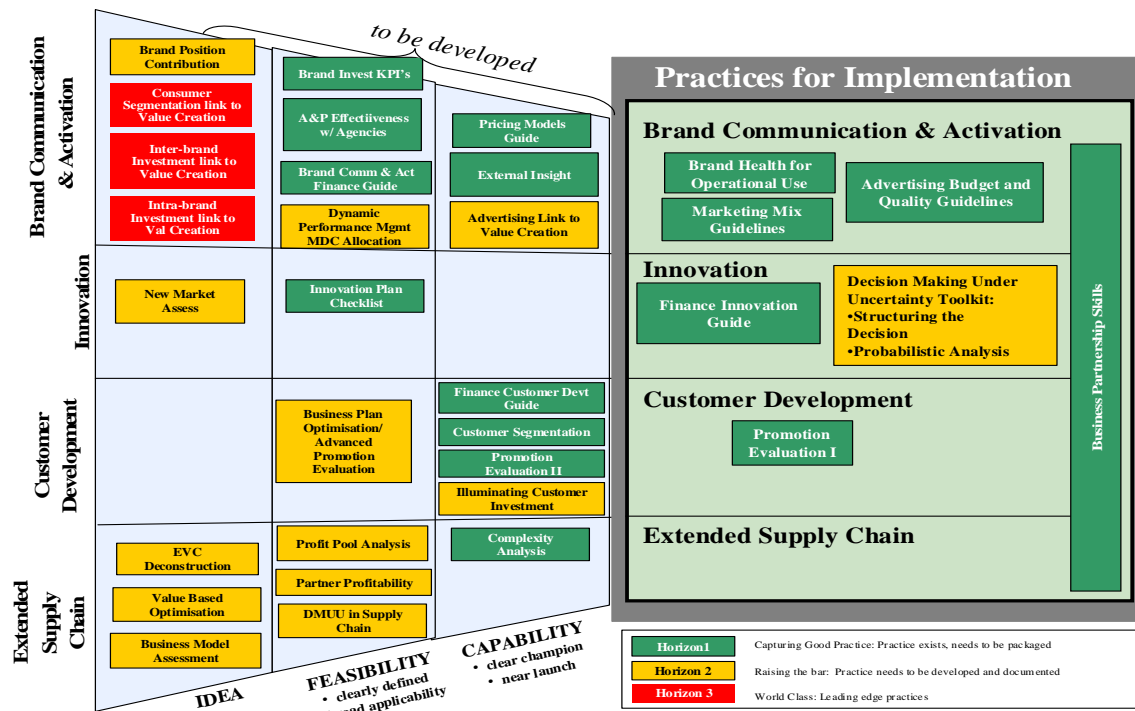


Figure 3: Development Pipeline for New Controlling Methods and Tools of the 'Decision Support' Center of Expertise – Example: Consumer Products

The F&C career framework establishes a standard throughout the group for fostering F&C managers and F&C high potentials above and beyond their current position in the group. This begins with clear rules for hiring F&C employees locally. While previously only local requirements were catered for here, the aim now is to ensure that the demands of other potential, indeed international, tasks are taken into consideration in the company. The career framework also sets out and describes the career paths that are required within F&C in the group so that the business partners' requirements will be covered in the future, as well as the criteria for promotions, and how the corresponding decisions are taken. The overall objective is to provide transparency through standardized rules and procedures and to ensure that existing talent is actually identified and fostered.

What do companies achieve in Phase II of the financial transformation?

The business partners have been locally established and clearly defined roles and responsibilities have been elaborated.

Thanks to the extensive training programs, at least a critical mass of the local F&C business partners will be able to use the business expertise and communication skills they have developed to play a more active role in the process of making and supporting decisions.

The development projects handled jointly by the centers of expertise and the business departments have developed new, improved tools and processes for current key business tasks, such as marketing, R+D, or supply chain management.

These are now showing initial, positive results and are being deployed in finance business partnering to boost efficiency.

At the same time, the F&C training program has been extended to include business decision makers. As such, it serves to further qualify business managers in F&C subjects and provides the foundation for even greater efficiency in finance business partnering.

The CFOs are unanimous in the opinion that the role of steward must be implemented before the navigator side of the business partner role can be developed. Or, in the words of Paul Koppelman, CFO at Commercial BHP Billiton, the marketing arm of the BHP Billiton raw materials group:

"The stewardship role is your platform. If you are not filling yet all the gaps in your stewardship role, don't even try to build up the business partner role, because you do not have credibility. And credibility starts with stewardship and it builds on it." (Daum et al, 2008, page 63)

The case of a well-known, major European enterprise is interesting in this context. Just over two years ago, the CFO decided to embark on a program designed to realize the local role of 'steward' as part of a business partner concept. The aim was to develop a framework that would enable new, local managers, for example, to gain a quick overview of the governance, business, and compliance risks in their area of responsibility together with their F&C business partners when they assume their new position, and to learn how to tackle these. This is intended to help the new manager to "sleep well at night" and to establish the F&C partner as a trusted adviser and qualify him or her as a future navigator.

Impact on the Role of the Controller and on Controlling as a Discipline: Success Factors and Future Prospects

For controllers, the trends described above enhance their role and function in terms of status, but also make high demands on them. In the remodeled Finance & Control organization, controllers now play a strategic key role: that of business partner for business manager and executives, who support them as steward for governance, risk, and compliance, and as well as navigator, who controls business performance and drives business development and who is 'part of the team'.

The trends in terms of shared services and centers of expertise will relieve controllers for the most part of tasks that do not create value. As a result, they can focus entirely on their new business partnership duties. But this role must also be truly lived. Being able to say "no" as a steward while also looking forward as a navigator and helping to perceive and systematically leverage opportunities as well as risks essentially demands personality and soft skills. Communication skills, presentation skills, persuasiveness, creative and abstract thinking, in-depth business know-how, and the ability to think from the perspective of both the customer and market are the success factors here.

Professionally, good controllers in the future will stand out due to their specialist knowledge and experience of certain business functions or activities, and through a combination of this specialist business knowledge with finance/controlling know-how. This will require more business experience. In the future, therefore, controllers will switch between controlling and business positions much more frequently and will also

be more active at the interface to business functions: as an R&D controller, marketing controller, supply chain controller, purchasing controller, and so on.

Controllers who succeed in expanding on the business partner role and mastering the balancing act of steward and navigator, in becoming a controlling expert with an eye for detail and broad business and marketing know-how, and in developing the necessary leadership competence and soft skills can look forward to attractive career opportunities both in business and in finance - be it as a manager of a key business function, or as CFO of an operating unit. In this way, the position of controller can become a veritable career stepping stone.

The primary consequence for controlling as a discipline and for the institutions responsible for this discipline (controlling associations, training companies, and academia) is that a much more international approach and international initiative will be required in the future to develop it further.

Financial transformation across national boundaries will also mean that controlling standards implemented in transnational companies will be jointly defined by stakeholders from a whole variety of countries and thus from different controlling cultures. In the long term, the dominating influence of the local controlling culture where the company has its headquarters that was shaped by local controlling associations, training institutes, and controlling experts will gradually decline as controlling concepts have to confront competition in the form of best practice concepts from other countries and business cultures.

Even though systematic controlling standards at transnational level can be found mainly in large enterprises at present, it can be assumed that these will also have a major impact on small and midsize business too as a de facto standard. This is primarily due to the fact that the experts responsible in major enterprises are increasingly forming international networks to elaborate best practice standards jointly that can then have a 'lighthouse effect' on other, smaller enterprises.

Essentially, this means that controlling associations, controlling training institutes, and the controlling academia will also have to internationalize and will have to define and further develop these standards in collaboration with partner organizations abroad so that they can continue to play a key formative role. The objective here must be to elaborate broadly accepted 'international management accounting standards' (see Daum, 2007).

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