Chartered Institute of
Management Accountants

THE ROLE OF THE CFO ON THE MODERN BOARD

INTRODUCTION

This briefing is based on the discussion at a recent CIMA event, 'The role of the CFO on the modern board'.

It considers the role of the CFO in the context of the evolving board agenda and offers five practical tips for how the CFO can help the board to ensure that it makes good use of its limited time.

The discussion was chaired by Gillian Lees, Head of Governance and Risk at CIMA, and comprised:

Sir Charlie Mayfield
Executive Chairman of the John Lewis Partnership

Jean-Marc Huët
CFO of Unilever

Keith Luck
Finance & Commercial Director, Strategic Partnerships at Serco and President of CIMA

Charles Tilley
Chief Executive of CIMA and Vice-Chairman of Great Ormond Street Hospital.

THE NEW BOARD AGENDA

The role of the modern board is very challenging. Not only have boards come under greater scrutiny following the 2008/9 global financial crisis but they are faced with greater complexity and uncertainty.

One such example is the disruptive impacts of the digital world and new technologies, which seem to be creating just as much turbulence as economic conditions. No wonder this has been described as 'orchestrated chaos'.

Investors and other stakeholders are expecting more from organisations and the boards that oversee them. They want greater transparency about the overall performance of the business and its operations. And with social media, there is no hiding place. Those who govern companies need to work hard to achieve and retain trust – 'transparency with conviction'.

It is no longer good enough for boards to 'tick the boxes' to demonstrate compliance with corporate governance codes. They need to provide effective oversight of the company's strategy, performance and risk to ensure the long-term sustainable success of the organisation. To do this, they need a thorough understanding of the business so that they can engage effectively with the management and offer constructive challenge. The board conversation needs to focus on the resilience of the business – understanding the trade-offs between risk and reward.

Alongside this, boards need to set the right 'tone from the top' and demonstrate the right ethical behaviours. They need to be ferocious guardians of reputation.

THE ROLE OF THE CFO

'Guidance on board effectiveness' issued by the UK Financial Reporting Council says that 'the CFO has a particular responsibility to deliver high-quality information to the board on the financial position of the company'.

We believe that there's much more to it than that.

The CFO is the guardian of the integrity and rigour of all management information, both financial and non-financial, from inside and outside the organisation, across different time frames. The CFO needs to ensure the provision of quality metrics.

Furthermore, the CFO connects the dots by providing an understanding of how the different parts of the organisation come together to create value and where the tradeoffs are. No amount of information and analysis is useful unless it can be communicated with impact. Most boards are usually drowning in information, so the CFO needs to influence better decisions by communicating insight that meets the board's needs and is simple and transparent. These responsibilities form the basis of the CGMA® Global Management Accounting Principles, which were launched in October 2014, following a period of extensive consultation.

The discussion group agreed with this view and saw the role of the CFO in terms of two key perspectives – tasks and relationships. These are explained on the next page.

THE FOUR KEY TASKS OF THE CFO

1

Financial security

First and foremost is for the CFO to ensure that the organisation is financially secure. However conservatively financed the business, market turmoil can be such that there may be a real prospect that the bills can't be paid. Financial stability in the short-term can therefore not be ignored. But it's also important to work through the longer-term financing issues, such as the management of the most significant liabilities such as pension contributions. To be truly on top of the numbers, the CFO needs to understand what is driving the business.

2

Compliance and control

Building on this, the second key responsibility goes beyond financial control to the wider business controls and to ensure that these remain fit for purpose as the organisation grows, evolves and becomes more complex.

3

Strategic direction

The CFO needs to help the business navigate the shifts in the way the business is changing and advise on strategic direction. This comes down to understanding the business model within the context of the external environment. What are the moving parts in the business and what are the implications for the organisation? CFOs need to spend significant amounts of time reflecting on external developments and understanding the wider context in which their organisation operates. Dexterity and the ability to be agile are critical, so a key criterion for CFO performance is the ability to act and react in a speedy manner.

4

Building capability

The CFO must lead the finance community within the organisation as a whole and build capability for the future. This forms the basis of the four core relationships that the CFO must foster and manage (see **page 5**).

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Example: the retail sector

The impact of technology is fundamentally changing the way people shop with most retailers having to adopt the so-called 'bricks and clicks' model where they have both a physical retail outlet and an online offering. The difference is not just that they are two different channels, but one is principally a fixed cost business while the other is principally a variable cost business.

As long as sales channelled through the fixed cost business are above a certain level, the marginal profitability on every sale is high while, of course, it remains roughly the same when those sales are channelled through the variable cost business. The complication arises when sales transfer from one channel to another, for example, customers order online rather than going to the shop. The way the numbers work is that for every £1 of sales that shifts from the fixed cost channel, you might need to generate £2 from the variable cost channel to maintain profitability. It's this sort of financial transition that the CFO needs a strong handle on.

The added complication is that usually it is the same customer shifting between channels. It's therefore necessary to focus on customer profitability rather than sales/channel profitability.

The CFO needs to both understand these shifts and articulate them in a way that the board can engage with in order to plan for the future. Performance measures that match this new reality are also required.

Each member of the discussion group emphasised the importance for the CFO to demonstrate strong business acumen, in particular the need to understand and integrate what is happening in the business as a whole, often having to rely on imperfect and fast-changing information. They agreed that this was more important than ever, given that they were encountering unprecedented levels of volatility in their businesses.

Also emphasised was the need to embed the right values and behaviours. While problems will happen and things will go wrong, the key is to be transparent and act immediately and decisively. The discussion group emphasised the need to set the right tone from the top so that everybody in the organisation is clear about what is and what is not acceptable.

THE FOUR KEY RELATIONSHIPS OF THE CFO

1

Head of HR for finance

Leadership, tone from the top and people selection is fundamental. As Jean-Marc Huët emphasised, 'People are my primary responsibility'. This underpins all four of the key tasks as there is no chance, for example, that controls and compliance checks are going to hold the business together. They must be reinforced by the right behaviours, training, coaching, development and the tone from the top. The CFO must strive to provide objectivity and integrity for the entirety of the organisation.

2

The CEO/CFO relationship

The very nature of the role means that CEOs will usually be self-confident, persuasive individuals and the CFO plays an important role in providing checks and balances. A key competency is to choose the right 'battles' on where to have most impact in a challenging but constructive way.

3

Management team member

The CFO works with peers, helping and supporting the CEO to drive the agenda. In some cases, this is a filtering role of determining which issues and challenges can be sorted within the peer group and which need to be escalated to the CEO for resolution.

4

Executive director of the company

Key aspects of this role involve informing the agendas for the audit committee and providing the second view on how the organisation is doing, in addition to the CEO. The CFO should also recognise the importance of the role of the chairman of the organisation to good governance and therefore work on building a constructive relationship.

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The CFO and the chairman

Tomorrow's Chairman, the latest output from the Tomorrow's Company Good Governance Forum, celebrates and explores what makes great chairmen, now and in the future. CIMA is a member of the forum.

Recognising that there is little practical guidance and support for company chairmen about what 'good' looks like in fulfilling their role and how best to achieve it, Tomorrow's Chairman meets this vital need.

The guidance is provided in the form of five letters from experienced board participants, including the CFO. In total these letters form a rounded view of the combined leadership of the board and suggest some of the different perspectives that should be present around the boardroom table.

www.tomorrowschairman.com

FIVE TIPS FOR MAKING GOOD USE OF BOARD TIME

How can the CFO help to ensure that the board makes good use of its limited time?

1. **Plan carefully,** even aggressively, in securing the time required to focus on the most important issues, for example, by giving priority and quality time to strategic discussions and fitting the routine issues around them rather than the other way round.

2. **Manage expectations,** for example, it may not be possible or wise to complete a major strategic discussion in one day. It may need to be supported by site visits, specialised briefings and/or in-depth work on historic and future performance before all these strands can be brought together to make strategic decisions.

3. **Use opportunities for free-flowing conversation,** for example, at dinners the night before the Board meeting. These can also be valuable for leveraging the diverse talents of the non-executive directors by getting them to talk about their skills and experience.

4. **Think carefully** about what the board needs to hear and don't assume that the 40-slide presentation is always the best approach. Instead, make strategic use of pre-reads and concentrate on facilitating a meaningful discussion.

5. **Use technology effectively** as an enabler to bring people together and keep communications flowing. Telephone and video conferences make it possible to organise meetings without expecting everybody to be in the same place.

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