

# “The Making of CFO”

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# Summary

- Evolution of CFO's Role in Business
- Changing Role of the CFO
- Emergence of multidimensional new generation CFO
  - Why a Paradigm shift
  - Paradigm Shift in CFO's Role
- Additional Dimensions of CFO of a conglomerate
- CFO Role – Few More thoughts
  - From Beans Counter to Business Enabler
  - The CFO Function : Yesterday, Today and Tomorrow
  - CFO Qualities
  - Leading Indian CFO's on their roles
- Cases of Failure of CFO's expectations
- Extended accountability under the New Companies Act'2013
- What could be CFO's higher aspiration
- The Best CFOs ?

# A simplified view of evolution of CFO's Role in Business

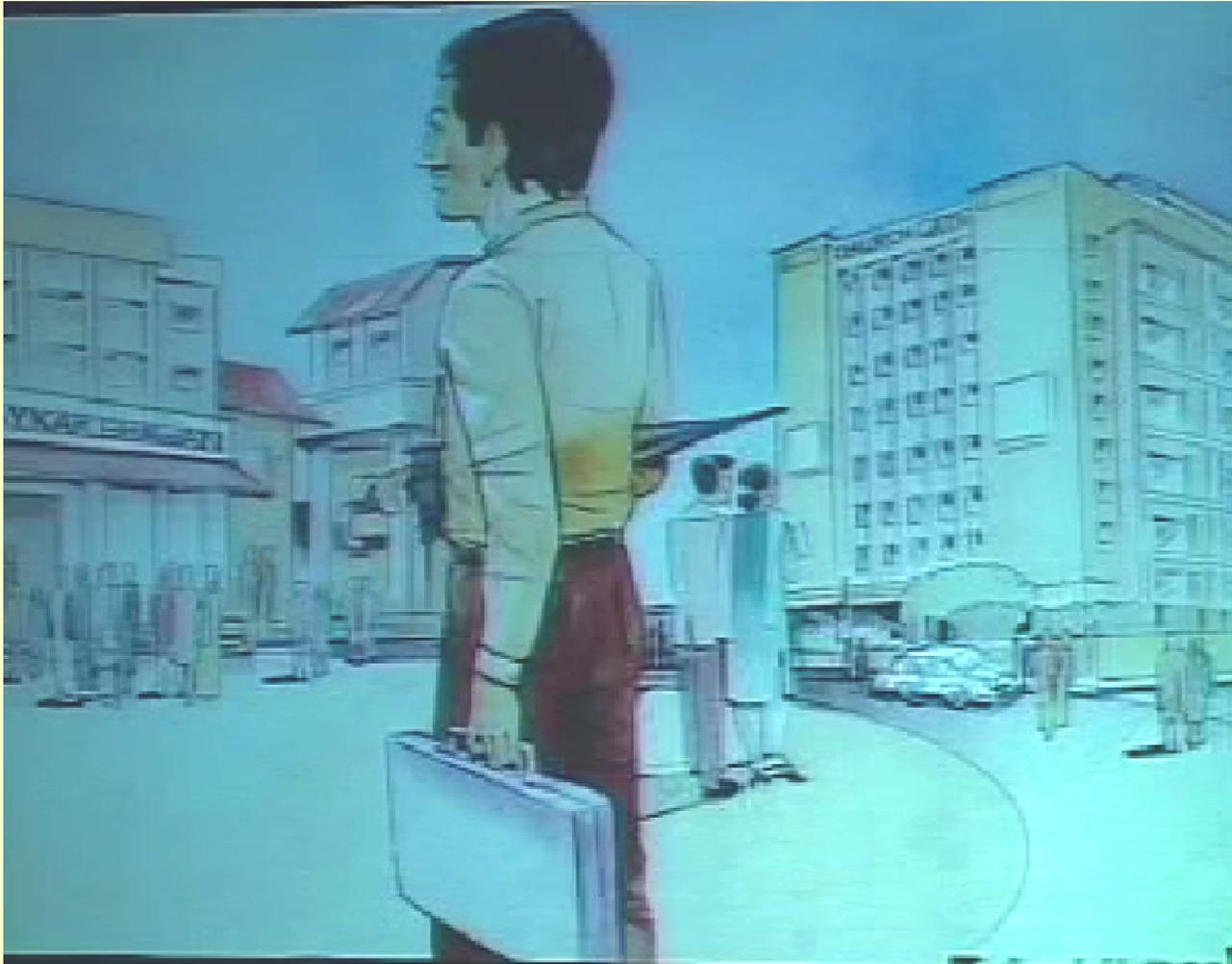
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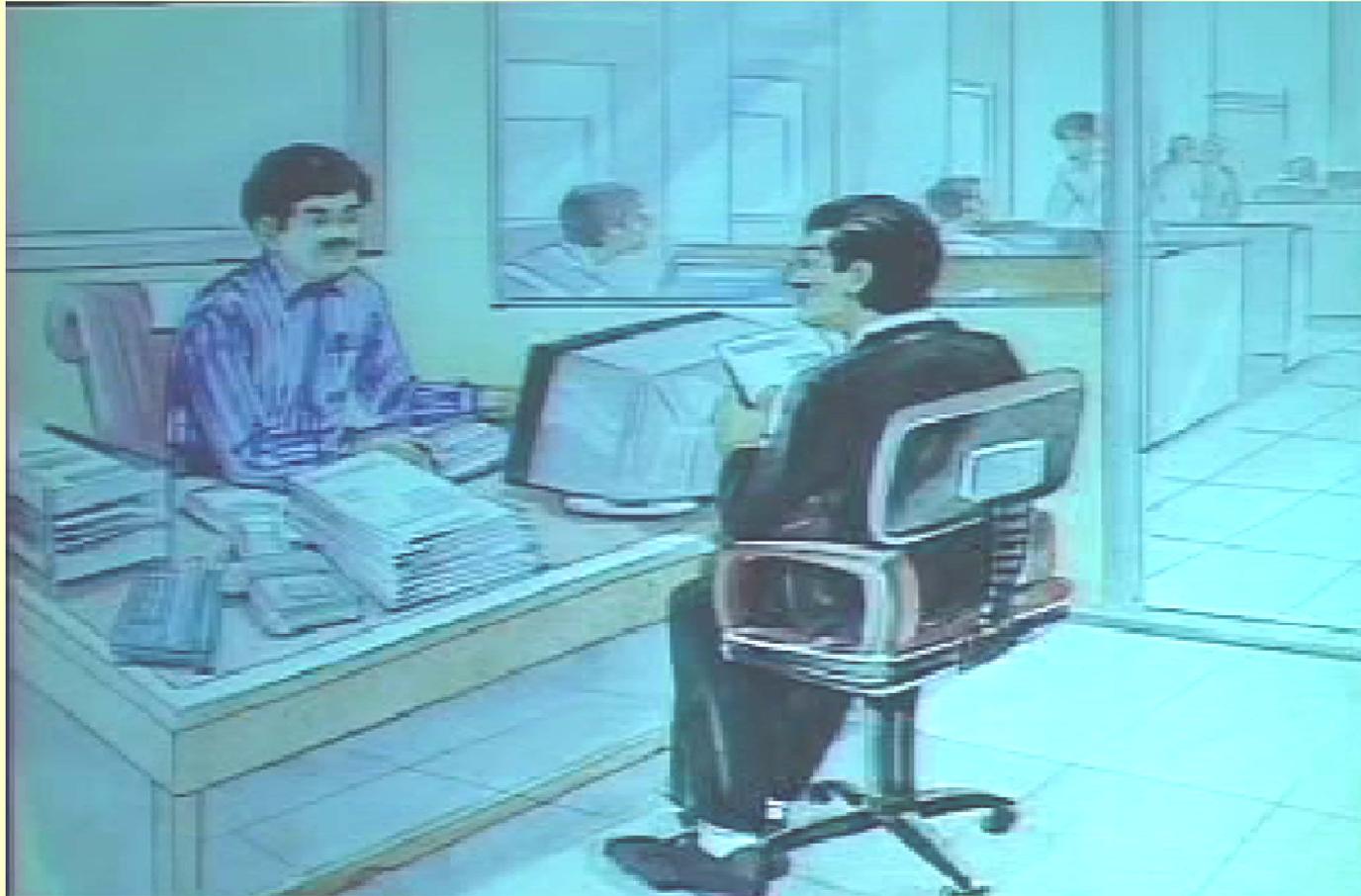
*“The trusted Munim ji”*



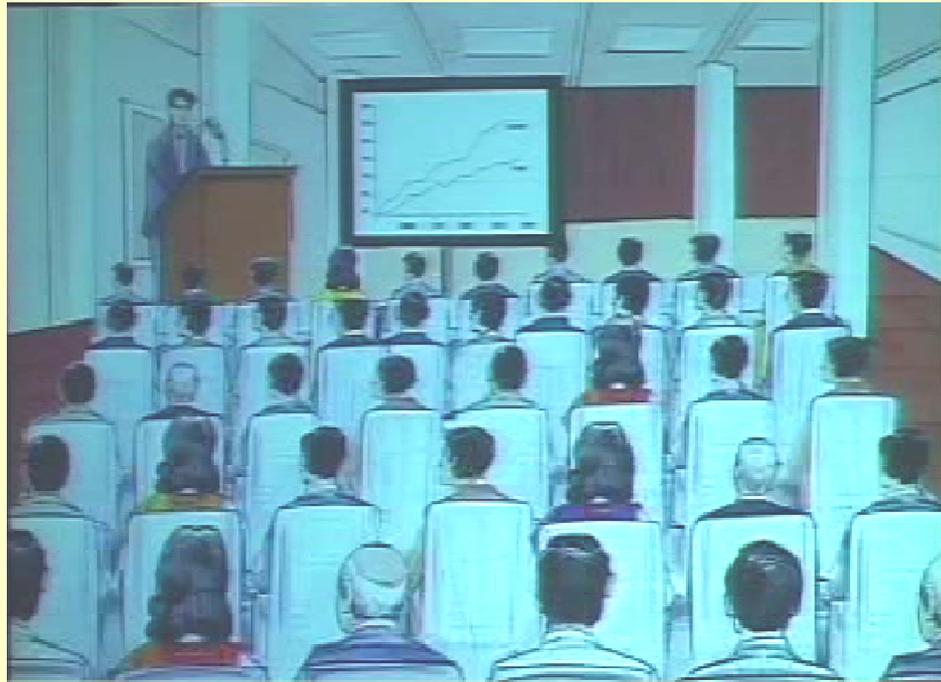
*The Accountant ...handling accounts and tax matters*



*Also a Finance Manager ... arranging loans*



*The Controller ...meeting growing business needs,  
tapping equity markets, controlling finance and other  
functions.*



*IR Meet* *Assisting Audit Committee*



*In The Board Room*



*The New generation global CFO*



# Changing Titles of the function

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- Accountant
- Chief Accountant
- Finance Manager
- General Manager – Finance/Vice President-Finance
- Financial controller
- Finance Director / Chief Financial Officer

# Changing Role of the CFO

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# CFO : Traditional Role

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- Book-keeper and emphasis on recording transactional information
- Report this information
- Complete the statutory accounting
- Get statutory audit completed & take out Annual Report
- Very few regulatory requirement
- Largely owner managed business needed accounting for reference purposes

# Addition to CFO's role in mid seventies and eighties

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- Dealing with Banks & FI's (Resource mobilisation)
- Corporate Taxation & Tax planning
- Planning, Budgeting & Control
- Investments of surplus funds
- Foreign currency risk management

# Paradigm shift in last two decade - emergence of multidimensional new generation CFO

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- Why a paradigm shift
- Paradigm shift in CFO's role

# Why a Paradigm shift

(1/2)

- Changing Business landscape
- Global ambitions of Corporates
  - Increasing geographical spread and size of Businesses (globalisation)
  - Growing Complexity in Corporate functioning
- Widening investor base
- Growing Information needs of multiple stakeholders
- Importance of corporate governance
- Multiple regulatory bodies
- Growing reliance on & expectation of accuracy of financial statements
- Speed and Innovation becoming key success factor
- Multiple Accounting: Management Accounting, Brand Accounting, Human Resource Accounting etc.
- Reporting under different Accounting standards

# Why a Paradigm shift

(2/2)

- **Focus Shift**

- Disclosures
- Fair value of accounting
- Accounting for complex instruments, contemporary contracts, derivatives
- Risk Management

- **Setting of Standards**

- International convergence of accounting standards across major capital markets, implementation of IFRS
- Principals based approach
  - ⇒ Focus on economic substance over form
  - ⇒ Reduce potential conflicting rules

- **Regulatory changes**

- Proposed DTC, GST
- GAAR
- Tightening of regulatory framework - SEBI, IRDA, RBI etc.
- Audit committees (of Independent directors)
- Corporate Social Responsibility

- **New Companies Act, 2013**

# Paradigm shift in last decade :

## - Emergence of multidimensional new generation CFO (1/3)

- Strategic Role, as part of Core team



- Define core vision for organisation

- Develop sustainable business strategy

- Value creation champion



- Performance measurement

- Forecasting and Business Intelligence

- Efficient Financial & Resource Management



- Raising resources

- Capital allocation strategy

- Managing Cost of Capital (WACC)

# Paradigm shift in last decade :

## - Emergence of multidimensional new generation CFO (2/3)

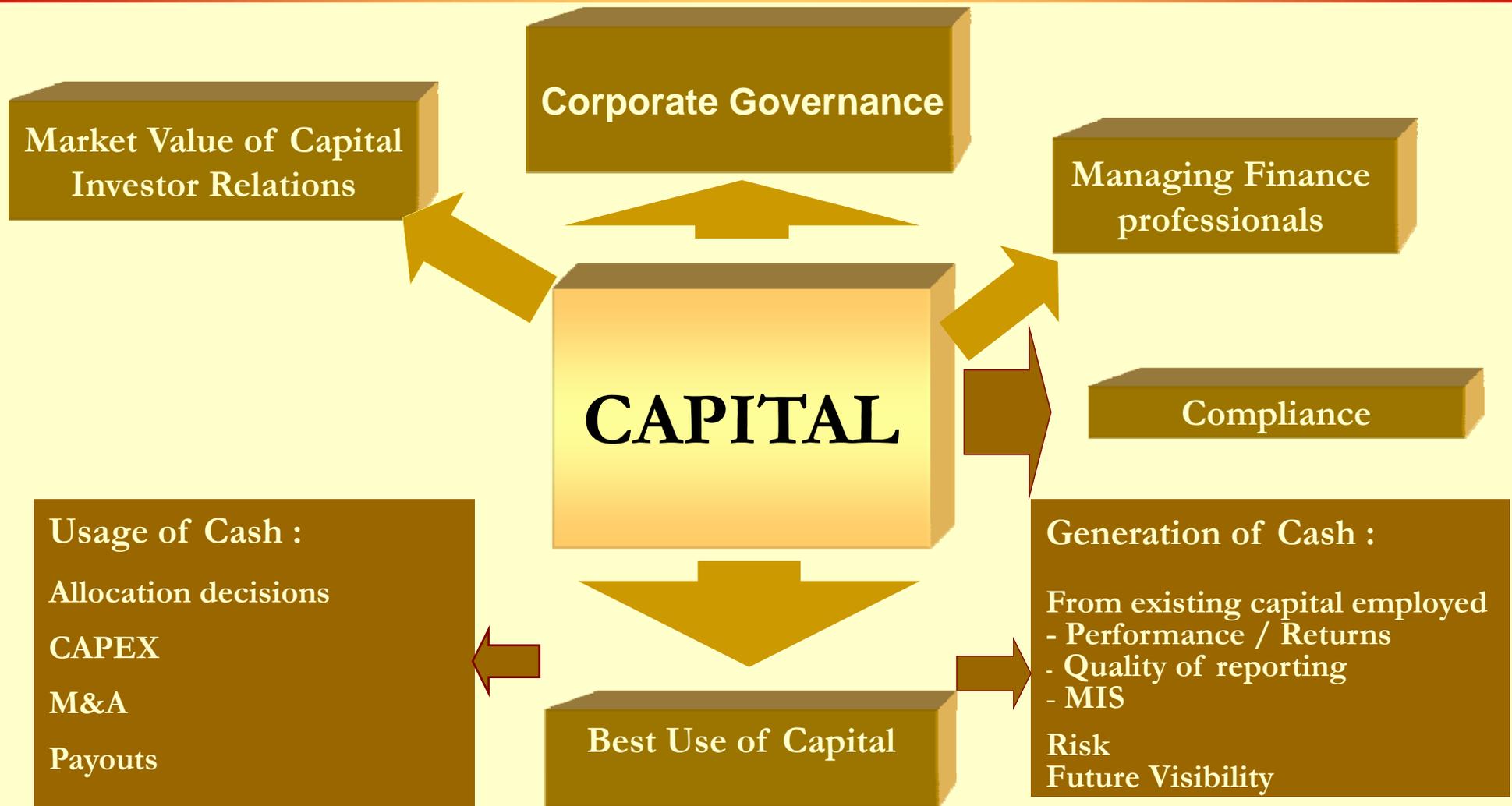
- Business & Financial Restructuring
- Mergers & Acquisitions
  - Deal Maker
- Risk management 
  - Defining Business risk & work out mitigation plans
  - Decide on Trade off between risk & return
  - Minimise litigation risk
- Corporate Governance 
- Disclosure and Transparency Standards 
- Sustainability Reporting

# Paradigm shift in last decade :

## - emergence of multidimensional new generation CFO (3/3)

- Statutory compliances
  - Proposed DTC, GST
  - GAAR
  - Tightening of regulatory frame work - SEBI, IRDA, RBI etc.
- New Companies Act, 2013
- Assisting Audit Committee & Board of Directors particularly on -
  - True & Fair View of Financial Reporting
  - Coordinate Internal Audit
  - Co-ordinate / Manage Statutory Audit
- Investors Relations 
- Information Technology planning
- Integration of financial & non financial activity
- Public face for Organisation and a spokes person

# Role of the Finance Function



**Additional Dimension  
in case of CFO of a conglomerate**

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# CFO's Role - Few more thoughts

- CFO – From Beans counter to Business Enabler 

- CFO – Yesterday, Today and Tomorrow 

- World-class CFOs improve effectiveness 

- CFO Qualities 

- Leading Indian CFOs on their roles 

# Cases of Failure of CFO's expectations

## The case against Andersen

Enron has hurt the Big Five accountants' efforts to expand into legal services, says **Jean Eaglesham**

Does the Enron debacle sound

SATURDAY JUNE 1, 2002

### KPNQwest files for bankruptcy

**THE ECONOMIC TIMES ON SUNDAY**

**NICE TO KNOW**  
Blanc Check  
Sancerre wines are a pleasant change from the usual Chablis > P 8

**PROPERTY**  
Sky isn't the Limit  
Mumbai's skyscrapers are getting extremely difficult to fill > P 6

**GLOBAL INDIAN**  
Motel Patel  
Gujaratis in US have scripted an entrepreneurship success story > P 7

www.economictimes.com

### Most Fortune 500 cos have dicey financial statements

Most Fortune 500 companies' financial statements are "dicey" and "hard to understand," according to a new report from the SEC. The report, which is the first of its kind, says that the SEC has found "significant" weaknesses in the financial statements of many of the largest companies in the United States. The report also says that the SEC has found "significant" weaknesses in the financial statements of many of the largest companies in the United States.

**FORTUNE**

**System Failure**

Corporate America, we have a crisis.

**HOW ENRON SEDUCED WALL STREET**

- The Deal Machine
- A Mystery CFO
- The NewPower Debacle

### Energy scandal deepens as Reliant admits fake trade

By Julie Eade in New York

The scandal engulfing the US energy trading sector deepened yesterday after Reliant Resources

booked revenues like Enron did and the real risk here is that if contracts have been staged based on prices that were manipulated and covered by illegal activity, up confidence among crediting agencies, regulator investors. But shares of companies continued to

**Probe forces Tyco chief to quit**

Life and times of Tyco's Dennis Kozlowski

Career at industrial giant comes to sudden end as Kozlowski reveals he faces investigation for tax evasion

By Peter Shelton in New York

Dennis Kozlowski, the beleaguering executive who saved Tyco International's life one of the world's largest pharmaceutical companies, resigned yesterday after having said he would be under criminal investigation for tax evasion.

His resignation was expected to trigger negotiations over what will be one of the largest net operating losses. Tyco officials said Mr. Kozlowski's contract had been voided by his resignation, which was officially described as being for "personal reasons." However, "good faith" discussions between the two firms are expected to start within a few days.

1992 Takes over as CEO of Tyco

1997 Buys firm's optical cable business from AT&T for \$850m

1999 Analyst alleges Tyco tipped near

2000 SEC gives Tyco clean bill of health

**Fallen idols**

The overthrow of celebrity CEOs

CHIEF EXECUTIVE

Satyam

XXXX Airlines

Worldcom files for Bankruptcy

NSEL

# On extended accountability under the New Companies Act'2013

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“CFO has been included as a “Key Managerial personnel” u/s 203 of New Companies Act 2013”

- Is it a better recognition of the position?
- Or putting additional responsibilities through the Act?
- Is it a result of various governance failures/frauds?
- Has expectation from CFO substantially increased ?
- The challenges before CFO in discharge of his responsibilities.



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**What could be CFO's higher aspirations?**

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# The Best CFOs

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- The Finance Minister as “CFO of the Country”
- The “Boss at Home” highly empowered CFO

**THANK YOU**

# CFO - From Beans Counter to Business Enabler.....

## 1. Value preservation and value creation

- Identify low-return businesses and develop specific cannibalization/ exit strategies
- Improve trading capabilities – acquiring and integrating, dressing for sale, lowering acquiring/divesting transaction costs

## 2. Manage risk, don't eliminate risk

- Transform the risk management function from a controller/ restrictor into a business enabler – driving the pace of business entry and exit by managing rather than minimizing risk

## 3. Loosen control without losing control

- Eliminate low value control, compliance, budgeting, and planning systems Change/decentralize control processes to allow faster mobilization around opportunities without reduction in overall control

## 4. Decentralize the balance sheet

- Create capital accountability and enable resources to organize rapidly around opportunities

## 5. Manage talent to drive change

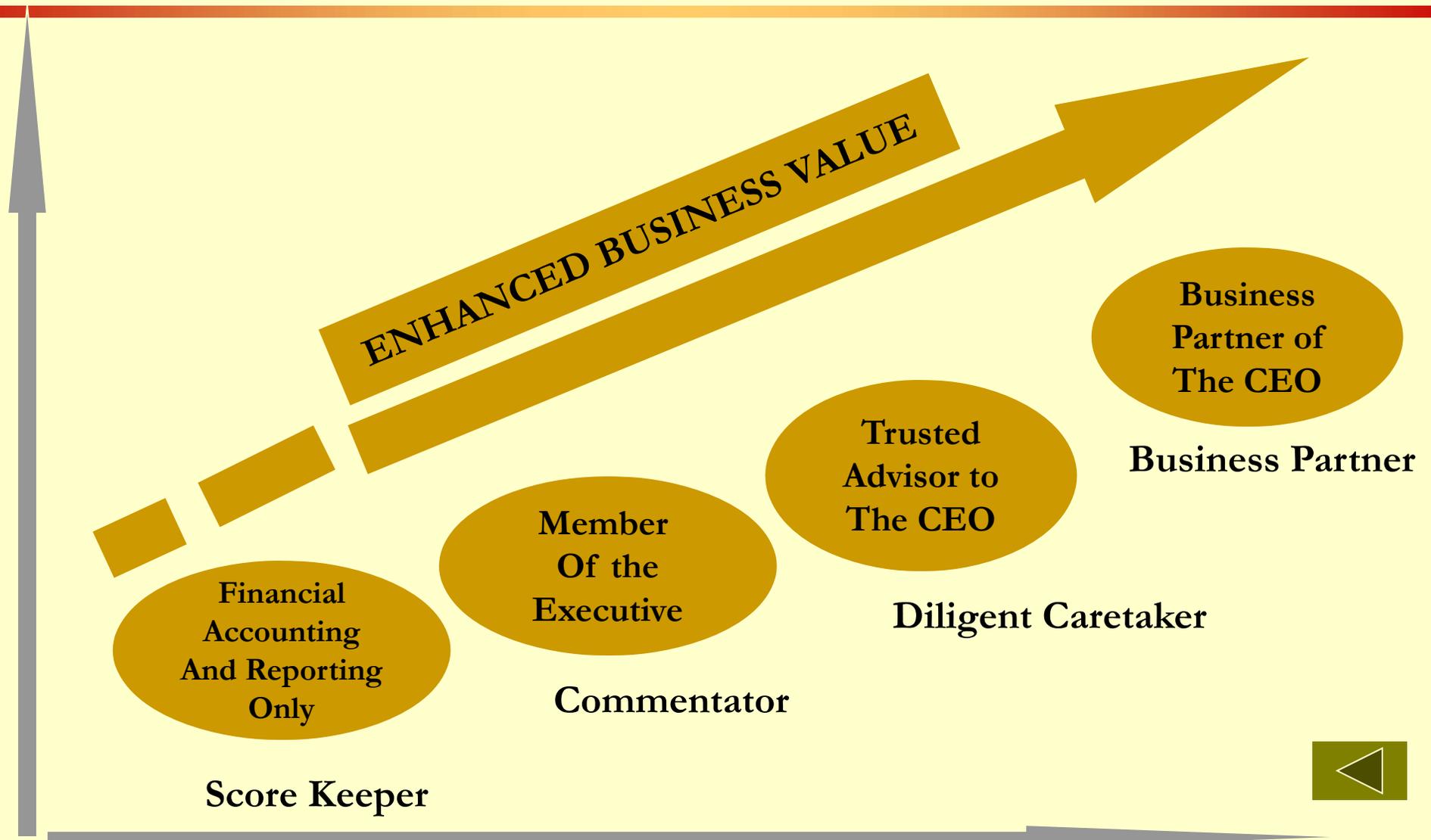
- Strengthen the use of HR levers – recruiting, developing, deploying, retaining – to create a culture which prides change

## 6. Refocus the executive agenda

- Rebalance the agenda to increase time spent on creation and prevention of destruction

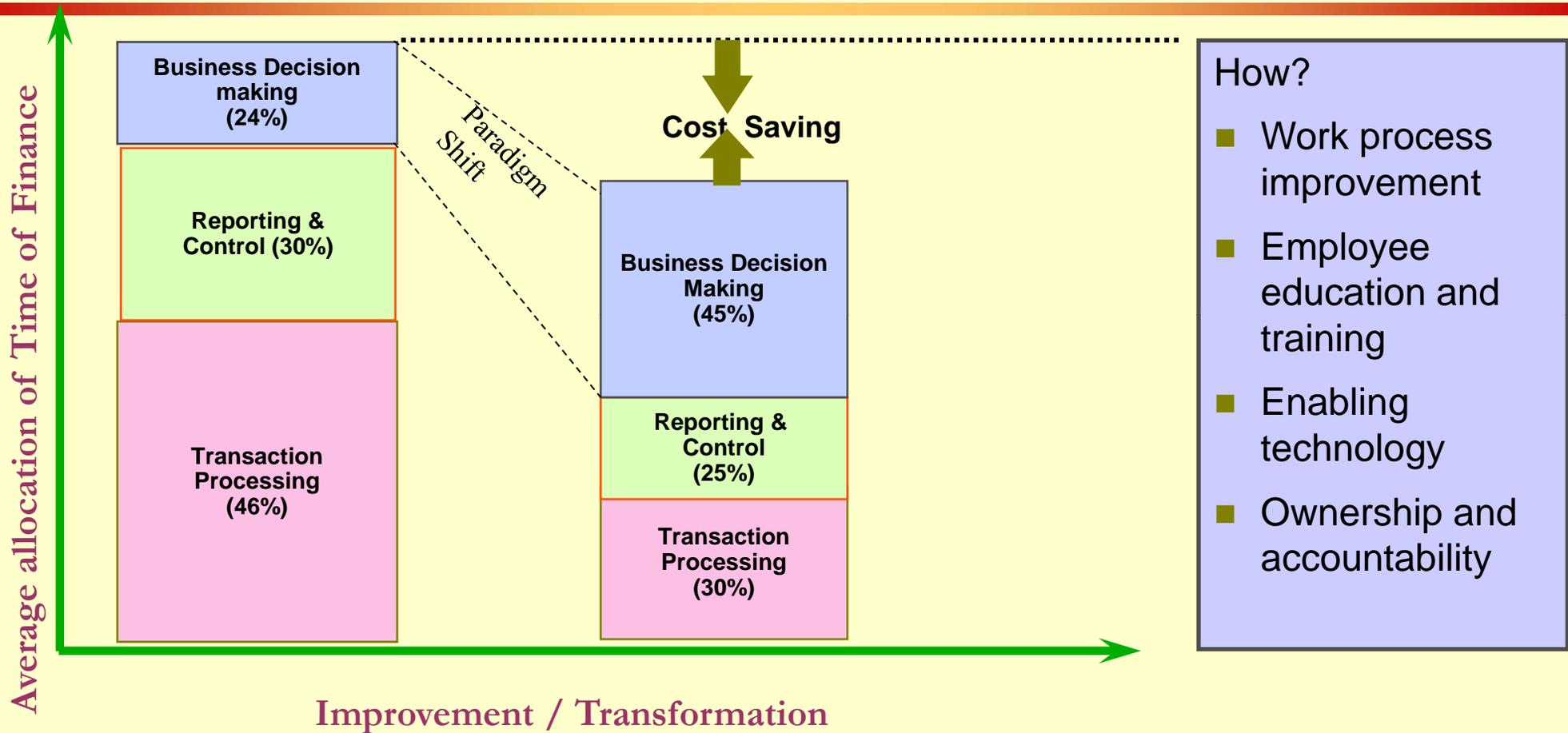


# The CFO Function : Yesterday, Today and Tomorrow



“Accounting is no longer only about counting of Beans, but also enabling growing the Beans”

# World class CFOs improve effectiveness



# CFO Qualities

- Patience, patience, patience
- Must be able to say 'NO'
- Must be able to say 'YES'
- Must be constantly on the look out for new ideas and concepts
- Must be flexible, responsive and international
- Must have strategic orientation and business acumen
- Must be willing to enforce good governance and compliances
- Independence of thoughts



**But the good news – Need not be Superman  
That role one leaves to the CEO**

# Leading Indian CFO's on their roles (1/2)

- *Exiting from non core business is a key task for CFO – “Its not just about getting out, but at the right price & at the right time.”*
- *“In our Group CFO has emerged as Dy. CEO”*
- *“The CFO is in the best position to know the strength of the organisation. It is up to him to set bench marks & determine the company's unique positioning & strength, or weakness”*
- *“We aren't just number crunchers any more. I have to get involved in every major decision the company makes because there is a cost issue involved in each of the decisions.”*



# Leading CFOs on their roles

(2/2)

- *“with several of the organisation’s business units competing for the capital, the role of the CFO becomes pivotal in ensuring that Capital gets allocated in the most optimal manner across business unit”*
- *“The CFO is now setting the rules of the game ...(but) though the responsibilities have increased , so have the risks. If you cut corners, you are more exposed than the CEO”*



# Strategic Role

- CFO should be part of core vision team – defining “Vision Statement”
- Strategic partner to line management
  - Develop sustainable business strategy
- Cannot perform “allocation of capital” task without strategic context
- Cannot perform IR role without understanding strategic context



**CFO is an alter ego to the CEO – to really influence and deliver in strategy**

# Value Creation Aspect

- Understand where value is created in value chain
  - CFOs as Value Chain captains
  - Disaggregate businesses and study each separately
  - Benchmarking
- Good information metrics required
  - Downward cascaded MIS systems
  - Deployment of IT tools / systems
- Must focus line management on correct value creation measures
  - Identify key value drivers
  - Put systems in place to measure both financial and non financial measures
- Shareholder value creation
- Market value of Capital



# Effective Financial & Resource Management

- Raising resources
  - Capital Markets – Debt / Equity
  - Banks & FI's
  - Domestic & Overseas markets
- Choice of Instruments
  - Debts
  - Equity
  - Convertibles
- Managing Cost of Capital (WACC)
- Capital Allocation Strategy
- Treasury
  - Investment of surplus statement
  - Risk v/s Returns



# Risk Management

(1/2)

- In the globalising economy, Risk Management is very critical
- CFO needs to constantly balance generation of cash and its utilization in value generating activities
- In a “stretching-for-growth” corporation, this will be a fine balance
- Understand the risks in the system
- Both quantifiable and non quantifiable



# Risk Management

(2/2)

- **Quantifiable risks**

- **FX risk**
- **Financial / Capital structure risk**
- **Commodity risk**
- **Derivatives**
- **Quality of assets**
- **Project execution risk**

- **Non quantifiable risks**

- **Processes / systems**
- **Event risk**
- **People risk**
- **Capturing the full picture**
- **Sustainability**



# Corporate Governance

- Corporate Governance is first about values and then about structure, system and processes
- Should not be just “check list” concept but should be a way of life
- CFO has to facilitate good CG practices across organization as it leads to immense benefits
  - Valuations of company
  - Attracting capital at lower cost
  - Attracting and retaining talented human capital
- CFO is accountable to the Board & Audit Committee for providing accurate information
- Fair, transparent and clear financial reports to all constituents/stakeholders.
- Internal compliance and control mechanisms function effectively



**“People who deal with other’s monies are but trustees acting for others”-  
President Roosevelt in moving the Securities Act in the US Congress in 1934**

# Disclosure & Transparency Standards

- Quality of financial reporting
  - Best Accounting Practices
  - Correct measurement of capital employed
  - Correct measurement of returns
- Credit Ratings
- Corporate Governance framework and ratings
- Emphasis on Minority Shareholders interests
  - External perception management
  - Independence of Board of Directors
  - Active Audit Committee.



# Investor Relations

- Maximize market value of capital employed
- Be the company's ambassador
- Proactive investor relations
- Focus line managers on P/E multiples, not just E
- Investors focus on CFO's standing in an organisation
- Every company has the same product – its stock
- CFO Must treat investors as his owners as well as customers
- Growing significance of IR as
  - Ownership is distancing from management
  - Emergence of large investors

