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The Impact of Financial Transformation on The Role and Choice of the Chief Financial Officer

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Abstract:

Financial transformation euphemistically describes the journey which the Finance department undertakes as it evolves into becoming a trusted business partner to the organisation. For the Chief Financial Officer (CFO), who has to steer the Finance department, the journey is fraught with the complexity of balancing transactional optimisation with increasing the span of strategic influence. In the absence of the latter being achieved, the Finance department will remain bound to the perception that financial transformation involves simply reducing the costs of the Finance department while improving operational efficiencies. This article briefly explores financial transformation before the role of the CFO is examined. The article concludes by presenting a model based on market responsiveness and the CFO conservatism as the basis for indicating the most appropriate choice of CFO.

Keywords: Financial Transformation, Chief Financial Officer.

1. Introduction:

The economic crisis has presented Finance departments with opportunities to transform their role from being transaction recording to business partnering (Read, 2006, 227-262). The transforming of the Finance department, while a strategic imperative, ironically requires a more intensive and insightful understanding of the organisations operational issues (Nolop, 2012: 290-310). For CFOs, this represents an opportunity to change and improve the perception of their role into being strategic. To understand what changes are necessary, it is important to ensure that financial transformation is supported by the appropriate choice of CFO. This article explores financial transformation before concluding with a model for selecting the appropriate CFO. It is submitted that the choice of CFO varies based on the degree of market responsiveness and CFO conservatism.

2. Financial Transformation:

The following section discusses the salient features of financial transformation in terms of the role of the CFO and how its influences upon the Finance department.

2.1 Rationale

The question of how to transform finance into a strategic business partner, affects directly on the credibility and the degree of influence, which the CFO is able to exercise in the organisation (Karaian, 2014). Transforming finance, given the commonality of this goal on the CFOs agenda, would appear reasonably straightforward. In practice, achieving this goal proves to be a moving target which requires a CFO to manage multiple variables and conflicting priorities (Parmenter, 2011). The transformation effort requires at a minimum a change in finances goals and objectives, skills sets as well as the processes and tools, which it depends upon to fulfil its function.

Finance has to move beyond the effectiveness and efficiency of processing and recording transactions (Kaplan and Norton, 2006). Instead, the question changes from turnaround times on transaction processing and reporting, to how well is finance embedded into the lines of business? The initial (if not tempting) response is to deploy finance people into the lines of business (Hope, 2006). However, this may prove to be short sighted and myopic as it prevents finance from becoming an integrated service line. This approach would have only marginally increased the level of finance skills in the lines of business. At best, it will improve the degree of understanding of financial metrics within the lines of business. More likely, is the view that the finance resources deployed become responsible for all finance related issues. This is as opposed to empowering the management in the lines of business to become financial astute through leveraging these finance resources to make better decisions.

It also remains that the Finance department will still need to be able to understand the business in order to be able to build relationships with the lines of business. In the absence of these relationships being built, the information, which is required to promote strategic and sound decision-making, may be difficult to harvest from the lines of business (Morris, *et al*, 2009). This is due to the gap between understanding the link between how information is used by finance and the lines of business. Exacerbating this issue is that the volume of information generated by manual day-to-day operations may be difficult to sieve through in real time (Sharma, 2008). As a result, despite the labour intensive commitment of resources, it is only through automating the information analysis using Enterprise Resource Planning (ERP) systems that finance is able to provide value-adding insights.

The impact of manual labour intensive processes has other implications which impacts on the Finance department becoming a strategic partner. Having to comply with regulatory and compliance requirements is time consuming (Bragg, 2007). The aim of compliance is to reduce errors and misreporting which may hide fraud. The challenge is that the complexity and volume of transactions, which may need to be scrutinised, may make it more difficult to proactively determine patterns of occupational abuse and fraud, which may mirror legitimate transactions (Rezaee and Riley, 2010).

Finance, may therefore find it remaining responsible for the performance of the revenue assurance functions in support of the organisation (Pang, 2009).

Without the ability to automate the information analysis, finance is only able to manually establish on a reactive basis when losses occur. The strategic analysis functionality which finance requires to maximise profits, is also necessary for organisational planning and for performance forecasting. While both of these remain priorities for CFO's, the obtaining of this information and its integration may take too long and prove to be inflexible. The ERP system allows finance to be able to correlate multiple performance elements into a seamless whole, through predictive analysis (Watson and Nelson, 2014).

The use of predictive analysis contributes to scenario analysis (Abbott, 2014). A "What-if" analysis (for example), allows finance to test changes to various elements such as the effect of reducing stock holdings in terms of customer responsiveness from a sales perspective. By fine-tuning stock holding, cash flow can be improved and the risk of obsolescence stock being held can be reduced. When finance is looking to guide the business in achieving a particular outcome, the "Goal seeking" functionality allows variables and their interaction to be tested. This allows finance to provide specific indications of what needs to be changed. Thus, advice on improving revenue can be specifically directed at a particular product. Combining this advice with the ability generate budget and/ or forecasting reports means that finance is able to move beyond mechanical planning to proper strategic planning (Coveney, *et al*, 2003 and Maisel and Cokins, 2014). More critically, the inherent organisational silo's, which often make it more difficult to drive intra-organisational co-operation, can be mitigated against. It also becomes easier to ensure with an ERP system that the Finance department is able to track the impact of actual vs. budget changes on future performance.

The use of integrated digital dashboards allows finance to communicate an organisations financial well-being and other performance metrics, and detect problems, which may be obscured through large volumes of data. By linking these dashboards with the organisations core objectives and the goals of stakeholders, it is possible to continually drive and incentivise behaviour, which supports these objectives (Gelinas, *et al*, 2012). The ability to use the automation to reduce the labour intensive manual processes allows resources to be released to focus on more value creating tasks (Mohapatra, 2009). Automation allows the Finance department to shift its focus from relatively low value transactional processing and frees up resources to be able to provide proper analysis, which promotes its role as business partner.

Information needs to be timely, comprehensive and accurate in order to form the basis of planning. Finance needs to be able to ensure that the relevant information, which may affect business planning, is seamlessly made available to the various lines of business. The ERP system allows information from disparate sources to be integrated, consolidated and more importantly distilled into a coherent, cogent picture of the organisations performance that is both unified and provides a single accurate instance (Poston and Grabski, 2001: 271-294). The finance function and the role of the CFO are undergoing significant changes (Hope, 2006). Amongst this change, are the regulatory changes as organisations expand globally and encounter new legislative requirements as they enter new markets to the need for more financial transparency in reporting. These changes require that finance is able to transform itself from providing the traditional compliance and back office functions to enabling the organisation and its leadership to make better decisions (Clements, *et al*, 2004). To achieve this objective, finance has to be able to be agile, capable of seamlessly integrating into the organisations and flexible enough to adapt to changing economic and organisational circumstances.

The challenge which finance has is how does it continue to perform its traditional role, while making this change? The nature of financial transformation will need to be enabled through technology, which is able to promote the necessary collaboration and process optimisation throughout the organisation (Chang, *et al*, 2014). This technology is primarily underpinned by the ERP system and processes which provide the means of institutionalising world-class best practices, and the business intelligence which supports better real time decision-making (Wulf, 2006). However, transforming finance into playing a strategic role also requires that the CFOs role change to accommodate this change in focus.

At the core of these changes, is defining what the expectations are for a finance function (Moag, et al, 1967: 543-555; Carr and Tomkins, 1998: 213-239 and Burgess and Bryant, 2001: 144-150). The role of finance has pivotally changed from performing compliance and reporting related tasks to also incorporating strategic decision support. Driving costs down, improving operational efficiencies and ensuring that the value of finance is experienced at a strategic level, is underpinning these changes. CFO's have to be able to ensure is that their leadership of their Finance department has to be able to credibly and continually demonstrate the value which finance has in terms of shaping to monitoring and advising on the organisations strategic imperatives. Transformation of finance and invariably the role of the CFO involve changing finance from being seen solely as a function to being a service (Institute of Chartered Accountants in England and Wales, 2011: 23-44). The transformation also involves actively promoting the role that finance can play in the organisation and a move away from being seen as a cost centre to a value added function whose value the organisation is willing to invest in. Achieving this goal in practice is often elusive.

The rationale between the value of finance, and the efficacy of the CFO being linked to the extent, to which visible value can be added and demonstrated is intrinsically appealing. The barriers to ensuring that this visible value can be achieved however lie at the crux of what makes the transformation journey so complex. The introduction of technology such as the ERP may affect the internal political dynamics of the organisation, and contribute to the lack of willingness to support the necessary changes (Malhotra and Temponi, 2010: 28-37). As the role of finance and the CFO changes, there will be the fear that the independence of the lines of business will be compromised. Often, at the root of this fear, is that a single version of the truth which the ERP provides and the independence of finance when reporting on organisational performance, may reveal (or implicate) the performance failures of individuals. Adding to the cost of transformation, the required ERP systems and the need to acquire and retain talent, would contribute to the lack of wanting to drive the transformation of finance from being a vision to an implementable organisational reality.

The use of an ERP system and processes to enables standardised organisational processes, which are aligned to world-class best practices. This allows finance to be able to create organisational performance benchmarks for process optimisation and metrics, which can be used to drive operational efficiency (Lee and Lee, 2000: 281-288 and Boersma and Kingma, 2005: 197-219). A common process driven approach, also makes it possible to identify which processes can be outsourced, off-shored or eliminated altogether. Finance can focus on innovating the tasks, which allow it to directly support organisational strategy while reducing the costs of delivering this service (Nohria and Gulati, 1996: 1245-1264). In the absence of adopting this approach, finance has to try to drive efficiencies, which in practice tend to be a (misaligned) focus on cost cutting without the implications being understood. This may lead to (for example) lower revenue in the long run as the organisation may be tempted to reduce its expenditure in innovation and research thereby making it uncompetitive in the long run, even though the cost cutting has generated short-term savings.

Selling financial transformation to the lines of business and senior leadership of the organisation appears to be initially very compelling (Iversen, 1998: 7-9). However, while finances role in terms of compliance and reporting is mandatory, there is no specific requirement compelling an organisation to invest in transforming its finance function. The narrative relating to transforming the Finance department also competes with a similar rationale, which can be applied to transforming other back office functions (such as human resources). Thus, decision makes in the organisations are faced with having to evaluate their investment into transforming finance with similar arguments offered by the heads of other back office and compliance/ governance functions.

The role of Finance is different from other functions competing for the funding/ support to transform, as Finance is involved in the end-to-end processes of the organisation and has a specific compliance role, which directly affects stakeholders. The transformation of the Finance department is about moving the focus away from solely optimising a single process in an organisational operational silo. Instead, transforming finance is about optimising the end-to-end processes in a way which leverages and taps into the organisational synergies to deliver effectiveness, efficiency and sustainable growth. The transformation process therefore creates a microscope through which process optimisation is viewed and enabled in the context of supporting broader organisational goals. Finances ability to transform, is therefore a cornerstone of achieving a broader organisational transformation.

Achieving financial transformation requires strong executives support amongst the lines of business that understand not only the effects of the transformation of finance but will also support this process (Kumar, 2010: 110-114). For the financial transformation process to enjoy support, it is necessary to have a clear framework and a definition of victory (UK National Audit Office, 2013). The latter is essential to ensure that organisational expectations can be managed and that there is clear understanding of what outcomes can be realised, and the timelines for achieving these goals (Sutcliff and Donnellan, 2006: 218-221). Certain risks remain inevitable. There is always the prospect of trying to commingle other organisational imperatives into the financial transformation process, which (for example) may be related to the job roles and structures which may need to evolve. The result is that focus can easily be lost on what the actual end goal was. Similarly managing the day-to-day operational responsibilities while trying to drive financial transformation may place both the resources and the systems under pressure. A proper change management process is therefore essential (Hope, 2006: 211). Similarly, the changes from a series of legacy systems to an integrated ERP system, which institutionalises standardised world-class best practices, will also need to be simultaneously managed. The organisational capacity and maturity, combined with an appetite for financial transformation and the necessary financial support is essential.

2.2 Finance Transformation Challenges

Hargrove (2008) described the challenges associated with financial transformation in terms of people/ organisation; process and technology.

2.2.1 People/ Organisational Challenges

Implementing a financial transformation project is resource intensive. This will require the organisation to assign dedicated resources/ time or accept a quality/ service delivery trade-off. An unintended consequence, which may also simultaneously have to be addressed, is the potential for resource turnover, as activities may change and evolve. It may also take time for the benefits of the financial transformation project to be realised (KPMG, 2013). Minimising the degree of uncertainty and retaining finance staff requires a combination of communication, employee buy-in and proper career planning (Deloitte, 2008; Chartered Institute of Management Accountants, 2009 and PWC, 2013). These elements may contribute to minimising the loss of key resources, thereby undermining the likelihood of the financial transformation project being successful.

Without a clearly defined roadmap, the financial transformation can quickly descend into a series of ad-hoc interventions, which are framed as improving finance. Instead, these efforts while well intentioned may be counterproductive as it divides management’s attention, creates conflicting priorities and divides resources amongst too many tasks. Overcoming this challenge requires that the CFO drive a single agenda which is aligned to delivering distinctive outcomes which are linked to organisational priorities. This approach will potentially mitigate against the risk of a change in priorities or goals, whenever the lines of business complain about the pace, goals, or costs of financial transformation.

Implementing any project, which has significant implications on how the organisation operates, requires proactive change management. For financial transformation, the changes in which are necessary to improve effectiveness and efficiency will affect the lines of business (Association of Chartered Certified Accountants, 2012). To address these changes, the organisation needs to balance the potential for increased complexity and risk against the potential benefits. Managing this balance may also be complicated by a part of the organisation being in a state of transition as the financial transformation is taking place, while the rest of the organisation is still operating using the pre-transformation processes. Equally important in ensuring that the sustainability of managing this balance, is addressing external parties such as suppliers who may be part of the organisations business eco-system. The organisation may find that its failure to engage its stakeholders (such as suppliers) in the financial transformation journey, compromises the supply chain. This may negatively affect the service delivery of the lines of businesses and the responsiveness to organisations customers. As soon as this starts to impacts on the organisations profitability, the financial transformation project may experience pressure, as the lines of business perceive that this project is directly affecting their revenue targets.

2.2.2 Process Challenges

While a financial transformation roadmap is essential to helping the organisation unfold how it is going to achieve this objective, a clear operating model is crucial to translating this roadmap into implementation (Capgemini, 2014). In the absence of adopting this approach, the risk is that while the CFO is able to pilot the necessary journey, an organisation level understanding of how the necessary changes are to be implemented may be lacking. Ideally, developing a sound operating model should be accompanied by operational metrics, which can be used to facilitate the institutionalisation of the changes in the operating model. These metrics should be incorporated into the organisations balanced scorecard, devolved across the different lines of business, and included within employee's performance scorecards.

A potential risk of not properly articulating these operational metrics and simply replicating them into balanced scorecards is that they are likely to be misunderstood and poorly scored (Schneiderman, 1999: 6-11). Performance measures should reflect the relative degree of importance ascribed to the achievement of financial transformation. Too many measures being evaluated in a performance management process are likely to result in a dilution of the desired effect, as employees and lines of business are still able to achieve their goals by selective choice (Ittner, et al, 2003: 725-758). This involves choosing which performance goals to focus on. Under these circumstances, it becomes difficult to identify where the failure to achieve financial transformation is due to weaknesses in the strategy, plan and/ or operating model or the implementation thereof. While the former requires that, the organisation may have to fine tune how the translation of its financial transformation vision into practice, the latter involves managing the dynamics of change management and obtaining buy-in.

The translating of financial transformation into clearly operational metrics may also be compromised by not completing linking the changes in business requirements to organisational outcomes. Without understanding the business requirements, it is not possible to prioritise which processes should be focussed upon. It is also not possible to convey to the lines of business and other stakeholders, whether the necessary financial transformative changes are warranted in terms of a cost benefit analysis. In the absence of the rationale for the changes in processes being fully understood and communicated, and the link to performance metrics being clear and coherent, resistance to change should be anticipated. Overcoming this resistance to change requires a constant emphasis on linking business requirements of the financial transformation to distinctive and measurable outcomes.

2.2.3 Technology Challenges

Organisations are able to leverage more data rich resources to provide key insights, which are to improve performance, drive effectiveness and promote efficiency (Lönnqvist and Pirttimäki, 2006: 32-40). The volume and complexity of data, which organisations collect, require business intelligence systems to analyse, collate and distil into actionable insights. However, the extent to which this is possible is not dependent on the technology used, but also the quality controls, which are implemented when this information is initially captured (Yeoh and Koronios, 2010: 23-32). Without these controls in place, the insights and analytical capability provided by the ERP system is likely to become compromised (Vosburg and Kumar, 2001: 21-31). The standardisation of processes introduced by the ERP system to a certain extent provides a means of mitigating against this risk, by ensuring that the way in which information is captured is standardised. Quality and input controls in these ERP systems are designed to mitigate against incorrect information being captured, and the built in cross-checking of information can also flag erroneous information.

The ERP system can facilitate financial transformation. However, implementing an ERP system in itself is not financial transformation. Without this distinction being made, the implementation of the ERP system may overwhelm the focus of the financial transformation project. This risk may also naturally occur where the Chief Information Officer reports to the CFO, and the project is managed through IT. In these situations, implementing an ERP system without the pre-requisite processes and structure may undermine the potential contribution that the system is able to make to financial transformation.

3. Role Of The CFO:

The role of the CFO has both changed, and evolved, due to a combination of both environmental factors, as well as specific events. This includes the changes in accounting rules in 1979, which had a potential impact on reported earning s to the corporate scandals of Enron, WorldCom and Tyco. (Zorn, 2004: 345-364) The golden thread which links both the environmental factors and these specific incidents may reside in the view that the role of the CFO has evolved, as part of providing the stakeholders with more confidence in terms of the financial and other decision making information, which they have to rely upon (Spanyi, 2006: 30 and Nor-Aziah and Scapens, 2007: 209-247). It would not be amiss to consider this a means of overcoming the agency-principal problem. Stakeholders are often beset with the challenge of continually trying to ensure that management acts in their best interests, while relying upon information, which is provided by management, which is susceptible to being manipulated in order to promote a particular outcome (Freeman, 1994: 409-421 and Shankman, 1999: 319-334).

From the changing global economic environment, to the impact of internal financial pressures, stakeholders have to re-evaluate how they safeguard their investments. In turn, the changing role of CFO's reflects these changes. The Association of Chartered Certified Accountants and the Institute of Management Accountants (2012) considered these changes to a CFO's role and categorised these changes in terms of: (1) Regulation; (2) Globalisation; (3) Technology; (4) Risk; (5) Transformation; (6) Stakeholder Management; (7) Strategy; (8) Reporting and (9) Talent and Capability.

3.1 Regulation

Regulations impact on CFO's from two broad perspectives. This has to be managed effectively and efficiently in order to minimise any disruption to an organisations business activities, while ensuring legislative compliance. The first perspective relates to financial disclosure requirements, which legislatively impose a mandatory obligation on the CFO. This requires the CFO to ensure that (as an example) that financial statements are adapted to take into account any disclosure changes (Wang, 2010: 885-920). The second perspective involves managing the cost of compliance (Alles, *et al*, 2004: 17-22). CFO's face an ever present fiscal pressures, and competing internal demands for resources (Miranda and Picur, 2003: 28-36). This results in CFO's having to balance a tightrope between funding compliance with regulations with the trade off against using these funds to invest into activities that increase returns to stakeholders.

Exacerbating the challenges of this balancing act, is when the required compliance requires an investment in not only monitoring and evaluation (from a disclosure perspective), but especially where the legislation requires changing modes of operation and production (Clarkson, *et al*, 2011: 122-144). The impact of complying with regulation may also affect the sustainability of the organisation, as it increases costs, and notably the impact on production practices may influence the dynamics of resource allocation, production and the investment decisions (Datar, et al, 2014). As CFO's have to ensure that the organisation, remains a "going concern" in order to protect the stakeholders investment, this may also change the way in which they fulfil their role as trusted business advisors.

As an example, a changing labour practice that requires that organisations implement a minimum wage regime, results in the cost of production increasing. To remain competitive, the organisation needs either to increase productivity, implement more automation or shift its centre of production (Weaver, 2011 and Flinn, 2010). The cost of changing equipment, production sites to the modes of production may be constrained by previous investment decisions. Similarly, the need to address the costs of the organisational implications, such as costs of reducing the number of employees to the new costs associated with customs and tax in a new location, require a skilful grasp of how cost factors influence the dynamics of competitiveness.

Against this backdrop, competitors are also responding and adapting to these changes. This impacts on the decision making options available to CFO's who have to be able to understand how their counsel were translated into practice, and what this will means to an organisation prospects (Houser, 2011: 25 and Miller, 2012). Essentially, CFO's have to counsel on what are the best options available to an organisation, while taking into account that the elements, which may influence these decisions, are variable, and that decision-making often occurs under circumstances of potential uncertainty. Ultimately, each of these decisions (or lack thereof) by the CFO would still invariably impose a cost on the organisation, which influences its sustainability (Agarwal, 2013). To safely navigate the storms of uncertainty, the role of the CFO requires that a prudent course be charted between these costs against the costs of complying with implementing the minimum wage regulation.

3.2 Globalisation

Globalisation provides both opportunities and challenges to CFO's (Wu, et al, 2011: 840-843). Access to global markets offers the promise of new sales and growing an organisations business footprint. Practically, entering new markets may prove to be a challenge. As the organisation expands globally, it is likely to also discover new competitors, who are also looking to expand their sales (Comeau, et al, 2014: 103-112). It is also likely that the expansion into new markets will require organisations to determine the extent to which they wish to outsource their production and supply chain (Ehrhardt and Brigham, 2011). This decision requires a CFO to determine the extent to which an investment in another market can be justified by the risk of exposing/ sharing an organisation's competitive edge/ intellectual property. The use of legal agreements may appear to provide a degree of protection. Enforcement would still require that the CFO make an investment in legal fees to protecting the brand/ image of the product, especially where this related to fast moving consumer goods and/ or fashion.

3.3 Technology

Technology has also changed the dynamics of how CFO's undertake their role, in guiding their organisations (Pavlatos, 2012: 242-254). CFO's are able to outsource business processing to different geographic regions and/ or time zones. It is also possible to "chase the sun" thereby leveraging technology to switch the processing of a transaction, across times zones in line with the start of the business day, in a different geographic region (Rockliff, 2005: 117-123). The result is that CFO's are able to and potentially able to achieve three days of productivity in a 24-hour cycle.

Previously, CFOs utilised historic data to make predictive decisions that guided their investment choices and formed the basis of their strategic contributions. Arguably, the nature of financial information and its analysis provides decision-makinginformation that is historically valid or is applicable to a point in time (Kaplan and Anderson, 2007). With technology, it is possible to engage in predictive decision-making, based on heuristic technology, which can predict reasonably accurately the consequences (Chorafas, 1992 and Basel, 2012). It is also possible to test potential scenarios, thereby providing a decision-makinghorizon that a CFO can leverage when proactively providing advice to the business.

Earned value management (for example) is easier to monitor, thereby allowing CFO is to make course corrections about their decision-making (Stratton, 2006). Using technology, tools and functionality become available which allows for the automation of finance processes and supports driving operational effectiveness and efficiency and reducing costs (Gupta, 2000: 114-118). The reduction of costs can result from performance improvements or through a lower headcount. As Finance is seen as being a cost centre, reducing costs becomes an inherent focus area of the CFO. Technology provides the means of doing so while improving the degree of decision-making.

3.4 Risk

The outcome of the improvement in business processes ensures better decision making as there is a greater likelihood of alignment and synchronisation of information flows (Spekman and Davis, 2004: 414-433). CFO's have to leverage risk in order to balance the choice of business operations and investment against the potential losses as part of ensuring sustainable growth (Shim and Siegel, 2008). In the context of global economic uncertainty, and the increasing focus on regulatory compliance, CFO's are often challenged to differentiate between risk management being seen solely as regulatory compliance.

An interesting challenge of the close relationship between regulatory compliance and risk management has to be addressed by CFOs in the banking sector. The Basel II (New Capital Accord) links the ability to successfully manage risk is linked to cash reserves that need to be maintained (Hampton, 2009). For banks with poor risk management, there is a requirement to maintain higher capital reserves. These banks have to compete to generate the same (if not better) competitive returns to attract customers, with a smaller investment base. This implies that these banks would have to make the funds available for investment work harder, due to the higher capital reserves being maintained (Khanna, 2008). It is unlikely that these banks would be able to compete successfully with a smaller investment, which would force these banks to address their risk management. CFO's in this context have to manage risk as part of ensuring that their banks remain competitive.

The extent to which granting credit can be used to create growth opportunities for a business represent an ongoing risk which CFOs need to constantly manage. From using prior credit information to delving into new insights into buying patterns, CFOs have to be able to drive opportunities to sell more, while ensuring that the degree of exposure is not needlessly offset by the increase in sales (Salek, 2005). This balancing act requires a degree of precision, as the potential for default, may expose the business to considerable losses.

To manage these risks, CFOs use risk management techniques such as stress testing to establish what the potential impact of a default could be. For stress testing to be successful, there needs to be a very strong relationship between the sales function and finance (Atrill, *et al*, 2012). The challenge, which CFOs face in managing this relationship, is that there are competing priorities thatinfluence the extent to which the CFO can adequately manage the associated risks. A sales function which is motivated by increased commissions from a growth in sales, may be tempted to allow customers to purchase more without ensuring credit worthiness or affordability (Giroux, 2006 and Petrucelli, 2012). In turn, a finance function, which is attempting to ensure that it, is able to manage its debtor's days and bad debt provisions, will want to limit credit expansion. To manage this balance, the most appropriate risk measure is for CFO's to link commissions to bill payment, thereby ensuring that there is an alignment between increased sales and growth with financial sustainability.

Managing risk for CFO's is akin to framing the canvas of financial performance for an organisation. Risk influences the focus of a CFO's decision on how to allocate investments in resources across the organisation (Fabozzi, *et al,* 2008). An understanding of the nuances of the influences of risk management allows the CFO to consider various scenarios. Against the backdrop of these scenarios, CFOs are able to consider the costs and risks of pursuing new business opportunities, through leveraging effective risk management. The failure to manage risks by a CFO will lead to lost opportunities, thereby influencing on growth or at worst to pursuing opportunities, which result in financial losses due to bad debts, or by allocating investments/ resources incorrectly thereby undermining the organisations ability to compete (Mellon, *et al,* 2012). To successfully navigate this risk, the role of the CFO should also incorporate creating dynamic metrics and measures that provide for better scenario planning thereby creating a continuum of more granular decision-making.

3.5 Transformation

The transformation of finance into becoming a business partner is as much about achieving an alignment with the lines of business as it is about reducing costs. The challenge facing CFOs is that the outsourcing of components of the finance function have unintended consequences that are often left unaddressed, in the quest to lower costs.

As an example, the degree to which process specialisation has occurred in the Finance department has resulted in finance professionals spending most of their careers in a specific function. Previously, finance professionals would have been rotated throughout the finance environment, thereby providing a more holistic grounding and understanding of the different facets of managing finance (Jones, *et al*, 1998: 204-215; Zeff, 2003a: 189-205 and Zeff, 2003b: 267-286). This would have also provided the ideal training opportunities for developing a CFO who is able to understand both the dynamics of finance. When combined with time spent in a hands on position learning the nature of the business at the operational coalface, the prospective CFO would be able to understand how to transform both Finance as well as achievement the alignment between Finance and the lines of business.

CFO's attempting to transform both their finance functions into becoming business partners, often struggle to overcome their lack of knowledge of the business processes and the operational business aspects, whichinfluence on the lines of business (Liebowitz, 2000: 3-10). Financial transformation, requires as much a transformation of CFO (and the corresponding role/ function), as well as the finance function itself (Favaro, 2001: 4-8). Paradoxically, the strong financial skills that may have resulted in the appointment of the CFO may prove to be the Achilles heel. At the level of a CFO, it is not necessarily the financial skills which are the differentiators between "good" and "great", as opposed to business acumen, a sound understanding of the business, and an ability to create and sell a common definition of victory across the organisation (Cunningham, 2005: 6; Thomson, 2008: 35-41; Thomson, 2009: 13-14 and Kambil, 2010: 43-45). The challenge of becoming a business partner, as a goal of financial transformation, has proved to be perhaps more elusive despite a remaining a vital role of CFO's.

3.6 Stakeholder Management

Stakeholders rely upon the CFO to provide an independent view of the organisational health and prospects of sustainability. For CFO's, this presents the responsibility to balance the independence which their role calls for, with promoting the necessary decisions required to drive the organisation forward (Sjöblom, 2008: 161-181). The CFO's control over the organisational purse strings is often seen as being stifling and preventing growth. As a result, the CFO is expected to go beyond this gatekeeper role and be able to explain the rationale of the choices made by the organisation to stakeholders. This balancing act requires a blending competing priorities with the ability to communicate and obtain buy in amongst the organisational leadership of the necessary trade-offs. Daw, *et al* (2011: 82), in citing the example of the CFO for United Nations Children's Fund, has suggested that CFOs are also responsible for ensuring that Finance supports the organisations brand, by ensuring that resource allocations demonstrate the direction of the company's brand.

3.7 Strategy

The test of any strategy lies in its implementation, and the evidence for the report card is found in the financial statements. The extent of organisational well-being will also invariably be mirrored in the financial records of the organisation (Aidemark, 2001: 23-40). The CFO is therefore able to ascertain the efficacy of the organisations strategy, and to recommend the necessary course corrections. Being able to translate the necessary changes into clear, concise and coherent recommendations makes the CFO a vital gear in driving the organisations growth (Demerjian, *et al*, 2012: 463-498 and Epstein and Wisner, 2001: 1-10). The challenge, which CFOs have to be able to address, is that the volume of potential indicators and metrics can easily become overwhelming (Williams and Williams, 2003: 30-39 and Thomsen, 2003:

20-25). Overcoming this challenge requires that CFOs drive the right blend of business intelligence and process optimisation to guide both competitive insights and predictive foresights.

3.8 Reporting

Reporting is perhaps the most pervasive element of the CFOs role, and is intrinsically understood to be part of what is expected from the CFO. However, there has been an increase in the reporting on the social and environmental impact of the organisation. The integration of financial reporting with the social and environmental aspects is referred to as triple bottom line reporting (Norman and MacDonald, 2004: 243-262). CFOs will have to incorporate these diverse elements of social and environmental aspects, without necessarily having control over the performance of these objectives. Exacerbating this challenge, is that CFOs who have a traditional financial background may not necessarily be *au fait* with what is required to drive performance improvements in the social and environmental aspects of the organisation. Practically, it may also influence the time and the degree of focus, which the CFO can spend operating at a strategic level. This is because the CFO will more likely need to spend more time, and become more involved, to create the culture of sustainability that underpins this reporting.

An alternative view would be that the CFO, as part of driving the stakeholder management is better prepared to drive such a discourse on integrating both the financial and the social and environmental aspects (Campbell, *et al*, 2012: 61-68). This view would be supported by the need to integrate reporting and provide a single view of organisations performance and its prospects for sustainability (Burkett, 2013: 6-10). For triple bottom line reporting to be successful, it will need to be seamlessly and meaningfully incorporated by CFO's into the annual financial statement (Willard, 2012). As the CFO is practically responsible for the production of the annual financial statements, it is essential that CFOs are able to articulate the triple bottom line reporting in the annual financial statements.

To address the triple bottom line reporting, CFO's are going to have to develop different reporting mechanisms. This would require an alignment of the trade-offs between pursuing the financial objectives of growth and profit with the corresponding impact on social and environmental objectives (Eccles and Krzus, 2010). The challenge that CFO's have to address is how to maintain the dynamic equilibrium that reconciles these potentially conflicting goals, when organisational politics may shift the scales.

3.9 Talent And Capability

With global outsourcing of financial processes, CFOs have to be able to spot and develop talent across multiple geographic regions, diverse cultures and potentially different lines of business (Thomson, 2009: 13-14). As future finance expertise may need to be drawn from the lines of business, CFOs need to be able to develop career development programmes, which open up careers in finance to lateral hires (Nolop, 2012: 313). Conversely, as finance resources may need to develop an understanding of the business, there is likely to be a flow of finance resources into the business. CFOs therefore have to ensure that there is a pool of talent and capability available, to address the inflow and outflow of resources. Invariably, as the complexities of triple bottom line reporting and harnessing global outsourcing of production and processes occur, the skills and abilities of finance professionals will need to evolve. Pivotally, the transformation of the Finance department is interwoven into the fabric of developing talent and capability.

4. Market Responsiveness And The CFO:

Having discussed the role of the CFO in this chapter, Figure One(below) presents an exploratory model which posits a relationship between market responsiveness and CFO conservatism. This model is part of the unique contribution to knowledge which this article makes and aims to demonstrate the potential for CFO suitability.

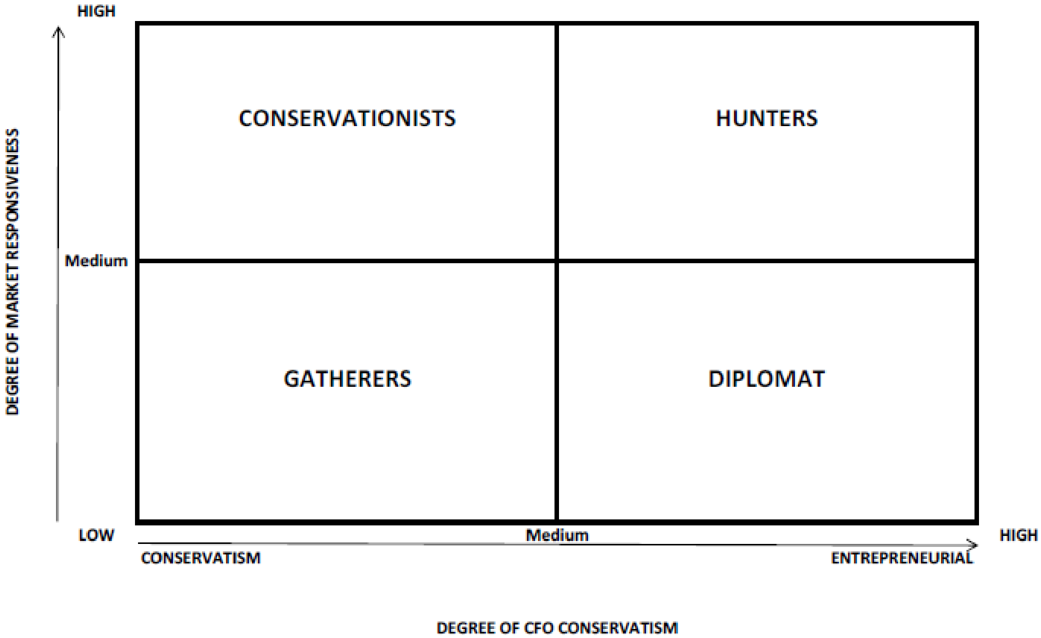

Figure 1: The relationship between the degree of responsiveness and the extent of CFO conservatism as part of indicating CFO suitability for promoting financial transformation

Gatherers have a low to medium degree of conservatism as well and operate in a low to medium responsive market environment. CFOs operating in this quadrant, are required to exercise financial conservatism and to focus on preventing the organisation from investing in medium to high risk ventures. Typically, savings/ purchasing and mutual aid schemes which operate for the benefit of their members would fall into this category. Conservationists operate in medium to high responsive markets, but are required to have a low to medium degree of conservatism. In these environments, the business has to be fairly responsive to market changes, but the CFO is required to still remain fairly conservative, in order to ensure that the organisations financial risk profile does not expose it to unnecessary financial risks. Banks and financial institutions are examples of such organisations where the applications of sound financial management require that the CFO remains relatively conservative, while the banks still need to be responsive to market dynamics.

Diplomats describe CFO's who operate in low to medium responsive markets, which require a medium to high entrepreneurial level of CFO. CFO's operating in these environments have to negotiate between the various lines of business to identify opportunities to drive the growth of the business. Types of organisations which may fall into this category would be market leaders who are dominant players, and whose CFO's are expected to find and generate new opportunities. As these organisations are market leaders, the opportunities to grow the business may be relatively fewer, requiring the CFO to be more agile than the business leadership. Hunters describe a high to medium responsive market environment, which requires a similar degree of entrepreneurial spirit from the CFO. These types of organisations would be (for example) start-ups where the lines of business expect the CFO to be a fully-fledged trusted business partner, and fully participate in guiding the direction of the business. From Gatherers to Conservationists to Diplomats to Hunters, the degree of financial transformation and business partnering progressively increases.

The CFO is the responsible official for the Finance Department. The transformation of the Finance department will be influenced by the way, in which the role of the CFO has changed, and is influenced by legislation. Having established how the role of the CFO has evolved, financial transformation will be discussed in the context of the role of the CFO, and the Finance department.

5. Conclusion:

The role of the CFO has evolved to take into account the pressures from the stakeholders, to the challenges of the global economy. Financial transformation, was always an agenda item on the CFOs to do list, but has now become a priority.The challenge of successfully achieving financial transformation has focused on the changes which the Finance department needs to make as opposed to the selection of the most appropriate CFO. This has resulted in a potential dissonance between a Finance department and the CFO. While the Finance department is mechanistically trying to fulfil the role of being a trusted business partner, the tone from the top which is set by the CFO may not be synchronised with the required degree of responsiveness/ conservatism which is required. CFO's and Finance departments embarking on financial transformation should focus not only on successfully addressing the critical success factors, but also achieving this fit.

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أثر التحول المالي على دور واختيار المدير المالي

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الملخص:

يصف التحول المالي مجملا الرحلة التي تتعهد بها الإدارة المالية مع تطورها لتصبح شريك تجاري موثوق به للمنظمة. وبالنسبة إلى كبير الموظفين الماليين (CFO)، الذي يجب أن يتولى إدارة الشؤون المالية، فإن الرحلة محفوفة بتعقيد الموازنة بين تحسين المعاملات مع زيادة فترة التأثير الاستراتيجي. وفي غياب هذا الأخير، ستظل الإدارة المالية ملتزمة بالإدراك بأن التحول المالي ينطوي ببساطة على خفض تكاليف إدارة الشؤون المالية مع تحسين الكفاءة التشغيلية. يستكشف هذا المقال باختصار التحول المالي قبل دراسة دور المدير المالي. ويختتم المقال بتقديم نموذج يستند إلى استجابة السوق والمحافظة على المدير المالي كأساس للإشارة إلى أنسب خيار للمدير المالي.

الكلمات المفتاحية: التحول المالي، المدير المالي.