

# Beyond balancing the books

The job of the chief financial officer has changed more than that of any other corporate executive. **LYNETTE KHOO** reports

**C**HIEF financial officers (CFOs) are now required to go beyond their traditional role of balancing the books to a broader role of managing risks, preserving liquidity and maintaining shareholders' confidence.

Their evolving and expanding role as an important business partner to the CEO has cast the spotlight on the type of skills and experience that they should possess.

Given increasingly complex issues they have to grapple with when they help to formulate business strategies, CFOs are expected to be corporate all-rounders and hold a diverse set of skills.

"CFOs today are expected to take up more responsibilities like risk management, corporate governance and disclosure, investor relations, strategic planning, merger & acquisition etc. Diverse education and training will definitely equip CFOs with the necessary knowledge and skills to better meet such expectations," says Keegan Chua, CFO of BH Global Marine.

Francis Yau, CFO of Megachem Ltd, notes that in the past, CFOs and finance executives were primarily focused on financial reporting, control issues and capital-raising. But today, the CFO is expected to be a strategic business partner to the CEO.

"With wide-ranging responsibilities such as managing top- and bottom-line growth, ensuring that the right technology is deployed, managing risks and communicating financial performance and strategy to external shareholders as well as shareholders, the CFO's job has changed more than that of any other corporate executive," he says.

"Adding to that are ever-increasing demands from external environment such as more intense regulatory scrutiny, increased volatility in the financial markets and globalisation," Mr Yau adds.

Tham Sai Choy, managing partner of KPMG Singapore, notes that the CFO has moved from a passive role to one of proactive engagement – akin to moving away from being a rear view mirror to an intelligent directional navigation system.

While all CFOs should have a core set of financial skills, they do not all need to have identical skills, he reckons.

"For a start, CFOs must look beyond the numbers. This requires an understanding of the drivers of the business that the CFO operates in, whether these are trends in technology, supply chains, or export markets, just to name a few," Mr Tham says.

"The CFO needs to marry these skills with his core financial skills to bring insights to the business, to enable management decisions to be made more quickly, and remedial actions to be identified more accurately," he adds. "To use an everyday analogy, it is not just about driving the car. It is about being able to understand the terrain and mission to get to the desired destination safely, in the fastest time and at the lowest cost."

## How good is diversity?

Granted, having a greater diversity of skills will be a major plus for the CFO. But observers note that it should not be diversity for diversity's sake. Some are concerned that a major deviation of training and experience from the accounting or finance function could be counter-productive.

A survey by KPMG Institutes last year threw up some stark findings. Three-quarters



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– Tony Tang, CFO of KSH Holdings

of chief financial officers (CFOs) or equivalents at some 461 listed firms were not CFOs in their previous role.

Half of the CFOs at these companies are less than three years into their current job, including 20 per cent who have held the position for less than a year.

And some 20 per cent of the CFOs were not previously in an accounting, finance or audit-related role. About 20 per cent did not have a background in accounting.

The numbers have caused some discomfort among some CFOs themselves on con-

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cerns that the quality of financial reporting and other controls could be compromised.

"I cannot imagine that too big a deviation from accounting or finance would not affect the discharging of duties of the CFO in an entity, especially if that entity is not a big organisation where there is a team of well-qualified and experienced accounting or finance-trained staff," says Chong Chou Yuen, CFO of Tuan Sing Holdings.

He believes that a CFO should preferably be accounting and finance-trained, given the frequent changes in financial reporting standards in recent years that make it more difficult for non-accountants to understand and keep up-to-date.

But Mr Chong notes that there could be exceptions, especially if the person has become well-acquainted with the accounting and finance issues through his years of corporate

experience and has the support of well-qualified and experienced staff.

A good CFO certainly needs to empathise with the difficulties in business decisions, understand the vision of the CEO and his board of directors, and balance the needs of different functions in the organisation when suggesting a solution or action, Mr Chong says.

But Mr Chong adds that he does not subscribe to the view that a non-accounting or finance-trained CFO would be better in these areas. "I would believe that it has more to do with the CFO's own outlook of the business, his view on the CFO's role in the entity and

whether he could reconcile the needs of the business from a pure accounting/finance silo with the needs of the whole business," he says.

Concurring, Mr Chua of BH Global notes that as accounting standards and regulations are constantly revising and disclosure requirements get more sophisticated and demanding, it will be challenging for CFOs to catch up on the continuous revisions if they do not have a good foundation in accounting practices. This may affect the quality of financial statements, he says.

KSH Holdings CFO Tony Tang, however, notes that good CFOs do not have to be cut from the same cloth, as there are people with varied experiences who could do the job of a CFO well. For instance, CFOs with strong prior corporate or banking experience, supported by a strong organisational control system



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and strong finance staff, may be able to fulfil the role.

Ensuring a strong system of corporate governance and robust financial reporting is not enough. In today's environment, CFOs are expected to do more than this, including fund-raising and risk management in business transactions, Mr Tang observes.

But he would find it surprising if CFOs of non-accounting background make up a significant proportion given that the CFO controls two important components of an organisation: money and information.

"For me, I myself came from accounting and audit background and I have been in the company for many years and I have held this position for quite a number of years. That has certainly helped me fulfill my role as a CFO. I would say it is some sort of an added advantage to both the person doing the job and the company itself," he says.

"Back to the fundamentals. While we say that the CFO need not have accounting or finance background – he could be law-trained – once he becomes a CFO, he must strive to learn or be familiar with financing, accounting. In today's environment, IT structure is important as well. The legal aspect of the business is also important, such as intellectual property rights."

## Training matters

Darryl Wee, country head of ACCA Singapore, notes that the expertise in accounting and finance is generally taken as a given for CFOs. But CFOs are expected to go beyond this, so education and training for CFOs is expected to become more extended, complex and varied.

"Diversity in education and training will ensure that CFOs are able to perceive and appreciate the inter-connections between the different components of the business and address the needs of different stakeholders in a meaningful way," he says. Continuous training of CFOs is needed to ensure that CFOs can address challenges in changing environments, Mr Wee adds.

Mr Yau of Megachem believes that training in accounting, finance is the minimum for a CFO. Apart from the professional training, some years of corporate experience before one plunges in to be a CFO is necessary.

CFOs are also required to keep abreast of changes in regulations, accounting standards, technology and developments in financial markets and the global economy, he notes.

Most CFOs agree that the professional development of CFOs will be enhanced with the CFO Institute.

The CFO Institute is an initiative proposed by the Committee to Develop the Accountancy Sector (CDAS) that is envisaged to become the avenue for training of CFOs for Singapore and even the region.

It was set up last year at the inaugural CFO-targeted networking event held by the Pro-Tem Singapore Accountancy Council (SAC), which is tasked to roll out CDAS' proposals.

KPMG has also launched its own version of "KPMG CFO Institute" in March last year to provide a forum for CFOs here and in the region to exchange ideas, discuss pertinent issues with their peers and benchmark best practices.

Mr Tham of KPMG notes that one way to help CFOs become greater visionaries is to encourage them to share more ideas and solutions so that they may gain new insights into their businesses.

The KPMG CFO Institute provides such a forum for CFOs to learn about emerging issues through focus groups, roundtables, knowledge exchange and other training programmes.

Mr Chong notes that while training through the CFO Institute or a well-designed MBA programme could help, these programmes are no substitute for the CFO's own consistent and broad-range reading to keep himself up-to-date.

Mr Yau suggests that, perhaps, a "Singapore Corporate Leaders Institute" offering professional development across multiple disciplines would be better since the challenges corporate executives face today cut across many disciplines.

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