If ever there was proof of a fast changing world, it is in the events that took place over the past 10 to 12 months. The speed with which commodity prices slid, inflation cooled, economies slowed, capital markets seized, and the mighty financial institutions fell, took everyone by surprise. The slide is nowhere near over and no one knows how far the bottom is. Businesses are responding by re-calibrating their growth expectations, re-drawing plans, laying-off employees in thousands and dusting off old books of wisdom that preached moderation. Accordingly, CFOs have suddenly had to change gears, and make a sharp course-correction. From charting out plans for IPOs, new capacities and acquisitions, their focus is now on preserving cash, cutting costs and riding out the storm.

However, the long-term evolutionary forces such as globalisation, competition and technology, among others will continue their inexorable march. In the larger scheme of things, the current economic environment is but an obstacle. Likewise, the same forces are shaping the role of the CFO and the direction will remain the same, though the short term focus will continue to shift in response to the immediate changes in the business environment.

To understand what will be the key themes for the finance function over the next four to five years, we talked to some leading CFOs who have won the IMA CFO Award over the years. Through their lens and insights, we have identified the following key trends and imperatives for CFOs.
Multiple hats and bigger canvas

CFOs are increasingly taking on a greater responsibility beyond the core finance function. The results of the most recent CFO Connect survey (detailed findings in this issue), show that more than half the CFOs are also responsible for legal and procurement functions, and about 40 per cent also handle the IT function (see Chart 1). It is relatively less common for CFOs to look after the human resources function, though when they do, the outcome can be very positive for the organisation. (See On My Mind section in this issue.)

TV Mohandas Pai, winner of the first CFO of the Year award in 2001, presently heads human resources, education and research at Infosys Technologies and has excelled at both. Neeta Revankar, Chief Financial Officer, Sasken Communication Technologies, winner of the CFO Award for Excellence in Finance in an SME in 2005, has taken on the responsibility for HR, IT, administration and purchase, in addition to finance. Ms Revankar had stepped in to take charge of HR during organisational restructuring. “Today, I spend more time on HR than finance,” she says and adds, “This is possible because I had a capable second layer of leadership in finance.” Because of a formal succession plan in place, she has been grooming the second line of leaders and exposing them to the audit committee. Having played a role in organisation-wide incentive planning, ESOP schemes and compensation decisions, this was a little easier, she feels.

Ms Revankar’s goal is to make Sasken the number one employer it once was. She also wants to inject greater discipline and efficiency in this function. In the case of IT, her biggest contribution is in taking optimal capital investment decisions and making them more cost effective. She leans on the second layer for all technical matters. Where CFOs are responsible for the IT function, it is very important to have strong Chief Information Officers (CIOs) reporting into them.

Raj Dutta, Executive Director, Quattro BPO Solutions won the Award for Excellence in an SME in 2003, when he was the CFO of Wipro Spectramind Services. He is currently responsible for all corporate services, including HR, IT and finance.

Kewal Handa, who won the CFO of the Year Award for Excellence in Finance in an MNC in 2004, is currently Managing Director, Pfizer India. He believes that CFOs should lead projects involving cross-functional teams and those who aspire to be CEOs should take up P&L responsibilities for parts of the business. Ms Revankar agrees with him, and says this broad-banding is good for her career.

The value creator

Millions of trees have been cut to write about the ‘CFO as a strategist’ and ‘partner of the CEO’. And, like all clichés, there is more than a grain of truth in this. CFOs have stepped outside the dark shadows of their controllership role to sit at the high table. “The department is no longer considered the prudish ‘business-prevention department’ that does not understand the arithmetic of risk and reward. Finance is now a necessary part of strategic discussions because the skill sets provide valuable insight to the viability of business leaders’ initiatives. This trend is going to reinforce itself over the next few years,” says Mr Praveen Kadle, Managing Director, Tata Capital, who won the CFO of the Year Award in 2004, as Executive Director, Finance and Corporate Affairs, Tata Motors.

Mr Dutta is a member of the board and plays a key role in all strategic decisions. He says, “I am part of the four-member team that looks at all strategic issues, such as change of direction, new businesses and divestments. It is a far meatier role than that of a typical CFO.” Ms Revankar adds that since the IPO of her company in 2005, she has been spending more time with the leadership team, and empowering the second level in the finance department to take on more responsibility.

However, each of them admitted that the larger responsibility and respect, is not a given, but has
to be earned. “The finance department is itself responsible for raising its profile by convincing business of its analytical capabilities, acumen to understand business decisions and superior understanding of the reporting / regulatory requirements, rather than (it being) an autocratic order from the senior management leadership team,” says Mr Kadle.

“It is about being entrepreneurial, and considering every problem as one’s own,” quips Mr Dutta. He adds, “It prepares you for a bigger role. You get up every day feeling different.” CFOs also need to sell themselves not only upwards, but also sideways. Peer acceptance of their ability to play a strategic role is very important, believes Mr Handa.

CFOs are also directly contributing to business success. Mr Ravi Nedungadi, President and Chief Financial Officer, UB Group, has helped his vendors to get finance and expand capacities. This not only assures the supply of inputs and reduces risk, but also builds strong loyalties, whose value to business is immeasurable. He is also working on creating a rural value chain that is a long-term project to develop the supply of key raw materials, while at the same time improving the livelihood of farmers. Mr Nedungadi won the CFO of the Year Award in 2007.

Mr Ravi Sud, Chief Financial Officer, Emaar MGF, who won the CFO of the Year Award for 2003, as Vice President, Finance, Hero Honda Motors, agrees. He adds that he has also helped vendors grow by providing direct financial assistance and using the clout of Hero Honda Motors to get loans at better terms. This allowed the company to set up three manufacturing facilities and increase its production substantially. It is today the market leader.

The ultimate proof of the CFO’s capability to play the larger strategic role is in being elevated to CEO, as in the case of Mr Handa and Mr Kadle. However, this is not the only logical career movement for CFOs. Mr Nedungadi sees himself playing a larger role in the finance function in the coming years.

The CFO has to, on the one hand, wield the entrepreneurial sword, and on the other, make sure it does not harm the company and its stakeholders. He needs to make sure that at all times the game is played by the rules and that risks are within acceptable limits.

**The conscience keeper, not just score keeper**

The Satyam episode has brought the issue of corporate governance and ethics to the fore once again. “The pendulum has swung towards the controllership role of the CFO,” says Joy Basu, Chief Financial Officer, Rediff.com, and winner of the 2003 CFO Award for Excellence in Finance in an SME.

Since the start of this decade, regulatory changes, in response to corporate scandals have shaped the CFO’s role. The Sarbanes Oxley Act of the US vastly increased the responsibilities of CFOs, holding them responsible for accuracy of financial statements. It requires companies to put in place a number of “inter-locking controls from the level of the foot-soldier to the general”, as Mr Basu puts it. He laments that “the level of documentation required is quite high and it is likely to increase.” Mr Sud agrees and says, “CFOs will certainly be more cautious about what decisions they take and what papers they sign.”

However, compliance is not all there is to governance; and risk - personal and professional - is also not the best reason to engage in it. Governance is about taking the right decisions that balance the interests of all the stakeholders. And since every strand of the financial trail in a company passes through the CFO’s office, it is natural that his/her role in ensuring governance is central. From a matter as simple as the approval of a medical bill to a large related party transaction, the finance department is involved. In a large company, because of the sheer number of transactions, it is not possible for the CFO to be personally involved in everything. “It is

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vital therefore to have a team that is absolutely clean and is also seen to be clean. My team can withstand any pressure in the company,” says Ms Revankar. This is because they know that she will stand up for them in any stand-off. Mr Kadle echoes a similar sentiment, saying, “It is imperative that the finance team, which is the conscience keeper of the organisation, is selected after careful deliberation and diligence.”

CFOs are often under pressure from business development colleagues to take a soft line on some practices considered common in industry, especially those related to revenue recognition. By making non-negotiable and transparent rules, CFOs can set boundaries of acceptable behaviour and contribute to the governance agenda. Mr Nedungadi set up rules that remove discretion over how to classify receivables. The spirits business is ‘cash and carry’ but sometimes, the sales teams can sell it on a ‘carry and cash’ basis with a maximum of 72 hours of credit. If the outstanding is not cleared in this time period, the account of the region that made the sale is debited. Ms Revankar says that as CFO she sets the tone in the organisation that it is okay to defer the revenue to a later quarter than book it prematurely.

Also, it is the CFOs mandate to influence the top management on governance issues, especially in promoter-run companies. She argues that, “If all CFOs take a position on what they would not do, they can make a big difference.”

Mr Nedungadi, however, cautions that if promoters want to defraud, there is little that CFOs can do. In such cases, it is not just ethical but also practical for CFOs to quit. Reputation once ruined can never be salvaged. The other important pillar of governance is quality of the auditor. “It is not just the partner who counts, but equally the audit manager on the ground,” says Ms Revankar, adding, “We have big fights with them, but at the end of the day, we also have a lot of respect for each other.”

The value protector

The dynamism and uncertainty of the business environment and the increasing complexity of businesses themselves, is exposing companies to greater and newer risks. The extreme movement in exchange rates in the past six months is testimony to this. Due to the sharp volatility of exchange rates, exporters and importers have suffered. Commodity price movements have likewise burnt deep holes in the pockets of suppliers and buyers alike over the past few months.

However, this is just one kind of risk. A business faces many others. “A manufacturing company faces risks stemming from labour force unrest, technology obsolescence, competitive moves, exchange rate and interest rate risks among others,” asserts Mr Sud. Clearly, CFOs cannot be the owners of all risks that are outside their domain. But of all business functionaries, they perhaps have the best grasp of the subject of risk and mitigation strategies, and can catalyse risk management efforts across the company. A CFO Connect survey conducted in August 2008, shows that the role of the Chief Risk Officer (CRO) is still not pervasive, and the CFO is responsible for such initiatives (see Chart 2).

According to Mr Dutta, in a medium sized company, only the leadership has the risk management mindset and one among them has to step up to take this role. He has deputed three of his team members to take charge of different risks - such as information security and infrastructure. In an industry where the company takes responsibility for transportation of employees round the clock, risks that involve their safety is very high. Years ago when still with Spectramind, Mr Dutta had worked with a telecom company to create a solution, which allowed tracking of vehicles.

Mr Sud agrees that risk management is a key role for CFOs today and will only become more critical. He remembers that months before the two-wheeler finance industry dwindled, starving prospective buyers of loans, he had started cultivating relationships with regional Non-Banking Finance Companies (NBFCs), so that when the

“It is not enough just to think clearly, but also to communicate well.”

Ravi Nedungadi
President and Chief Financial Officer, UB Group

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big banks pulled the plug. Hero Honda had some options. In some companies risk management is a separate function, headed by the CRO. CFOs in such companies are mainly responsible for financial risks. Tata Chemicals is an example (see cover story of CFO Connect, August 2008 issue), of a company where risk management practices have evolved.

Ms Vishakha Mulye, Executive Director, ICICI Lombard General Insurance, holds the view that CFOs need to keep monitoring the environment, understand its implications for the business, and bring that knowledge to bear on the company’s strategy. Ms Mulye won the 2006 CFO of the Year Award for Excellence in Finance in a large corporate as Chief Financial Officer and Treasurer, ICICI Bank.

In the coming years, volatility will only increase, as velocity of change goes up, making risk management even more difficult and urgent.

From gunboats to chequebook

In the April 2008 issue of CFO Connect, Mr Nedungadi had written an article under the same title as above on how conquering the world is not about invading other countries with gunboats, but about buying assets globally. Indian companies have been on a buying spree, and UB Group did so a few years ago. On the face of it, there seemed to be a great strategic fit in most cases. Many acquisitions were inspired by the demand in overseas markets, which has suddenly plunged, raising doubts about the viability of those investments. Some others were hit by the unexpected changes in commodity prices. With the capital markets in deep freeze, some companies are unable to roll-over their loans, which has plunged them in great difficulty, if not a crisis. However, there is little doubt that globalisation of Indian business will continue after the current hiatus. The ability to identify opportunities, conduct global due diligence, raise global capital and integrate global teams, are skills that will be much in demand. “Once capital account convertibility comes about, overseas acquisitions will increase. In any event, a global mindset will be crucial for success,” says Mr Dutta.

The financier

The last few years were characterised by easy liquidity, which fuelled rapid expansion in capacities and geographic reach. Global listings, domestic IPOs and private equity deals were the big themes. Complex and colourful financial instruments also kept the learning curve steep. All this came to a grinding halt as the financial markets froze. CFOs are currently scrambling to arrange debt at the best terms to keep the wheels turning. However, when the markets turn, perhaps later than sooner, businesses will expand again as inventories work their way out of the system and capacity utilisation gradually increases. The tide of capital which went away from the shores of emerging markets will also return and CFOs will need to access the capital markets again. Chart 3 above, based on the survey by CFO Connect suggests that a large number of CFOs want to experience this over the next three years (also see On Your Mind section in this issue).

Over the past few years, Indian CFOs have tasted private equity (more than a third in the sample), and have by and large liked it. “I have learnt a lot,” says Mr Dutta, and adds, “You have to learn to distinguish the shark from the dolphin.” In the coming years, shareholder activism, focus on corporate governance, regulatory issues and globalisation of finance will keep the role of CFOs as financiers of growth challenging.

Outgoing, not just outstanding

Gone are the days when a CFO used to be an inward looking nitpicker, communicating in monosyllables. Today, he / she is the face of the organisation for investors, analysts, regulators and shareholders. Additionally, CFOs interact with the Board and its committees much more

“CFOs should lead projects involving cross-functional teams”

Kewal Handa
Managing Director, Pfizer India
frequently now. In many organisations, they also interact with customers and suppliers. Ms Revankar spends a lot of time on road shows in addition to regular analyst calls, and so does Mr Basu. Clearly, poor communication skills can be severely career limiting. As Mr Nedungadi says, “It is not enough just to think clearly, but also to communicate well.”

Communication is not about being glib, but about striking the balance between disclosure and discretion, being persuasive without being aggressive and being sincere without being naïve. Currently, when the whole corporate sector is facing a crisis of confidence, CFOs need communication skills all the more to reassure stakeholders. Ms Mulye believes CFOs should be able to inspire trust and make stakeholders believe in them, as they will expect much more transparency.

The people manager

Not very long ago, attracting talent and stemming attrition were among the top challenges faced by CFOs. A survey conducted by CFO Connect in September 2007, elicited a high response on this subject, indicating the pain it was causing them. The attrition rate was quite high then, and so was wage inflation. With the economy decelerating, the talent market has cooled substantially, but the underlying shortages will resurface as soon as the economy gets back on track.

One of the challenges of people management is that the current workforce has people from two generations. On the one hand, the finance function is staffed with people from the old school who are stable, but who do things the old way. On the other are those who are highly talented, but mobile. “The job of the CFO is to retain both these sets of people, and they also need regular training, both in functional and soft skills,” says Mr Nedungadi.

Mr Dutta believes that spending quality time with the team and listening and responding to their problems can go a long way in creating allegiance, and he learnt the importance that personal touch plays from a former mentor. “We cannot pay the best in the industry. It is only the sense of belonging that has kept attrition at a minimum in the finance function,” he says adding, “The key challenge is to ensure a growth path for everyone in the department. If people get better growth opportunities outside, they will be tempted to leave.”

Developing people to take on a larger responsibility is a win-win proposition. It creates a growth opportunity for the lower layers, and frees the CFO who can then play a larger role. For instance, Ms Revankar started distancing herself from finance operations while making sure that she had enough touch time with the team to mentor and guide it. She has been able to take on much more responsibility as a result, as discussed earlier in the article.

The more things change, the more they remain the same

The role of the CFO has expanded in all directions, but the core around which it has happened remains unchanged. It is as important today to make sure that financial accounts are robust, accurate and timely; the finance function lean and efficient; controls in place and enforced with rigidity and the business has access to capital at the right time and at the right price. These fundamentals will never change and there will be newer challenges in these areas. A move towards IFRS, for example, will keep CFOs busy over the next couple of years. Similarly, the use of information technology to ensure timely reporting, analysis and compliance will become more important. Keeping pace with the changes in regulation will be absolutely essential as well. The house has to be in order first before one can step out to play a larger role.

The evolution of the CFO’s role that is already underway will continue, but the broad contours of where it is headed over the next four to five years are now emerging. What is clear is that tomorrow’s CFO will be a more complete professional.