Future role of the CFO

Presented by:
John Higgins, Partner, Transaction Advisory Services

15 February 2012
Agenda

8:30–8:45  Introduction

8:45–9:15  Complete the CFO survey

9:15–10:00  Presentation on role of CFO

10:00–10:20  Tea/coffee break

10:20–10:50  Questionnaire results and comparison with Ernst & Young CFO survey
A few items to kick off:

► Ernst & Young in Ireland
► Ernst & Young Transaction Advisory Services
► Ernst & Young Entrepreneur Of The Year® (EOY)
► Enterprise Ireland and SME sector
► Enterprise Ireland and EOY
SME sector was a key part of our transactions business in the boom/Celtic tiger era. Sector has gone quiet, from a transactional perspective in recent years.
The future role of the CFO

- Ernst & Young has carried out two detailed surveys on the future role of the CFO:
  - The DNA of the CFO: A study of what makes a chief financial officer, Ernst & Young 2010
  - Finance forte: The future of finance leadership, Ernst & Young 2011

- Our presentation today is based on the findings of the 2011 study:
  - A survey of 530 CFOs across Europe, the Middle East, India and Africa and
  - Interviews with leading CFOs and future finance leaders across these regions
Part one
Questionnaire
Let’s first complete a questionnaire

► We have picked three important topics from the overall questionnaire to test with you today:
  ► Topic 1 – Changing role of the CFO in the next three to five years
  ► Topic 2 – Looking in more detail at the current attributes of a CFO
  ► Topic 3 – Possible development areas for CFOs
► No right or wrong answer – just your view
► We will compare your views to the views of the 530 CFOs we surveyed in Europe
Completing the questionnaire

► All attendees should have a questionnaire
► Please complete the questions on an individual basis (15 minutes)
► One attendee at each table should complete the summary page (we will distribute), which will aggregate the individual results (15 minutes to discuss and aggregate)
► Please put your table number and the number of attendees on each summary page
Questionnaire scoring

► Topic 1 – Changing role of the CFO. Please choose one viewpoint:
  Much more important/Important/No change

► Topic 2 – Current attributes of a CFO. Please choose one viewpoint:
  Strongly agree/Agree/Other

► Topic 3 – Development areas for CFOs. Please tick only those topics that you think are the most important development areas for CFOs
### Aggregation/Compilation

<table>
<thead>
<tr>
<th>Topic 1</th>
<th>3 Year's time</th>
<th>No. of attendees</th>
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<tbody>
<tr>
<td></td>
<td>Much more important</td>
<td>Important</td>
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<tr>
<td>Skill 1</td>
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<table>
<thead>
<tr>
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<tr>
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<td>2</td>
<td>8</td>
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<tr>
<td>Statement 2</td>
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<table>
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<tr>
<td>Development area 1</td>
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<td>Development area 2</td>
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</tr>
<tr>
<td>Development area 3</td>
<td>2</td>
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</table>
CFO’s contribution – overall summary of our study

Execution:
- Trusting the numbers
- Providing insight

Enablement:
- Getting your house in order
- Funding organizational strategy

Development:
- Development of business strategy
- Communication to the external marketplace
We believe there are core skills, areas of knowledge, experiences and relationships to cultivate in order to excel in each of these six areas of the role ...
1. Ensuring business decisions are grounded in sound financial criteria

- Commercial view
- Identifying financial risks
- Profitability analysis
- Challenge
- Communicating financial implications
2. Providing insight and analysis to support CEO and other senior managers

- Communicating financial information
- Understanding profitability
- Understanding risk
- Forecasting future performance
- Identifying corrective action
3. Leading key initiatives in finance that support overall strategic goals

- Drive change
- Communicate the vision
- Engage with business stakeholders
- Bring together business stakeholders
- Sponsor delivery of major change
4. Funding, enabling and executing strategy set by CEO

- Funding the business
- Prioritizing investments
- Developing strategic plans
- Understanding the key value drivers
- Turning strategic plans into operational plans
- Monitoring progress
5. Developing and defining the overall strategy for your organization

- Translating strategy into clear goals
- Identifying financial and other risks
- Creativity/ability to think “out of the box”
- Providing robust financial challenge
6. Representing the organization’s progress on strategic goals to external stakeholders

- Communicating performance
- Perspectives on performance
- Detailed knowledge of KPIs
- Positive communication
- Taking a forward-looking view
- Anticipating and responding to questions from banks and investors
Selected quotes

“CFOs who do not have [communication] skills but excel in the traditional aspects of finance are now regarded as rather quaint and antiquated. They may be very good at what they do, but they wouldn’t be their own replacement.”

**John Cryan**
Group CFO, UBS

“I think it’s almost impossible, and therefore inadvisable, for potential CFOs to try and build their career by working in every single financial discipline, from treasury to tax and investor relations”

**Caroline Raggett,**
A Managing Director, Russell Reynolds Associates
The study identified nine developmental areas

1. Gain a breadth of finance experience
diversity more important than vertical focus
2. Develop commercial insight
consider option of temporarily stepping out of finance
3. Seek out M&A experience
get post as well as pre-deal experience
4. Obtain a balance of traditional and non-traditional skills
core finance not a differentiator
5. Develop leadership and team-building skills
leading the business, not just finance
The study identified nine developmental areas (cont.)

6. Get international exposure, particularly in emerging markets
to be effective across the business portfolio

7. Gain experience of finance transformation initiatives
to be able to lead/sponsor major change programs

8. Get exposure to the market and its stakeholders
communication and networking skills will differentiate

9. Build effective relationships with the board
proactively look for opportunities
How did CFOs get to the top?

The above graph is based upon the career paths of Group CFOs at the top 100 EMEIA companies in the Fortune 500 (as at October 2010). The most popular route to the Group CFO position is highlighted in bold.
Gender, age, qualifications

Gender

<table>
<thead>
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<td>30-39</td>
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<td></td>
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(Shown: percentage) Base: all respondents (530)

Qualifications

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<tr>
<th>Qualification</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBA</td>
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</tr>
<tr>
<td>Chartered accountant</td>
<td>29</td>
</tr>
<tr>
<td>Master's degree in finance</td>
<td>24</td>
</tr>
<tr>
<td>Business/accountancy related bachelor's degree</td>
<td>13</td>
</tr>
<tr>
<td>Other post-graduate degree</td>
<td>10</td>
</tr>
<tr>
<td>Other university degree</td>
<td>8</td>
</tr>
<tr>
<td>Company secretary/cost accountant</td>
<td>6</td>
</tr>
<tr>
<td>PhD</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
</tr>
</tbody>
</table>

(Shown: percentage) Base: all respondents (530)
Where will the next CFO come from?

- Either is equally likely: 36%
- Internal Candidates: 43%
- External Candidates: 21%
Tea/coffee break – 20 minutes
Welcome back!
Part three
Questionnaire results
Topic 1 – Changing role of the CFO

In your view, how much more important will the CFO skills and capabilities (set out in the questionnaire) be in three years’ time?
Change in importance over next three years

- Skills to lead a team made up of diverse groups:
  - EY survey-Much more important: 27%
  - EY survey-Important: 40%
  - EI attendees-Much more important: 53%
  - EI attendees-Important: 23%

- Ability to execute business strategy:
  - EY survey-Much more important: 33%
  - EY survey-Important: 40%
  - EI attendees-Much more important: 73%
  - EI attendees-Important: 23%

- Ability to innovate (new ideas, processes, etc.)
  - EY survey-Much more important: 28%
  - EY survey-Important: 44%
  - EI attendees-Much more important: 71%
  - EI attendees-Important: 21%

- Ability to design business strategy:
  - EY survey-Much more important: 28%
  - EY survey-Important: 42%
  - EI attendees-Much more important: 54%
  - EI attendees-Important: 38%
Change in importance over next three years

- Mentoring and motivational skills:
  - EY survey: 8%, Much more important; 35%, Important
  - EI attendees: 18%, Much more important; 41%, Important

- Communication and stakeholder management skills:
  - EY survey: 44%, Much more important; 35%, Important
  - EI attendees: 23%, Much more important; 34%, Important

- Deep technical skills in finance:
  - EY survey: 17%, Much more important; 29%, Important
  - EI attendees: 30%, Much more important; 26%, Important

- Negotiation and diplomacy skills:
  - EY survey: 42%, Much more important; 33%, Important
  - EI attendees: 18%, Much more important; 37%, Important
Findings from study

► CFOs from fast-growing markets are more likely to think that the ability to design and execute business strategy will become more important skills for CFOs in future

► Skills to manage diverse teams are seen as much more important in mature market:
  ▶ Suggests the CFO role has broadened more in these markets than in fast-growing ones
  ▶ But in three years’ time, respondents even in emerging markets expect the CFO to be much more a strategic and organizational leader than now
Topic 2 – Current attributes of a CFO

Percentage of respondents who either strongly agree or agree with these statements
The CFO role is primarily about being a leader of the entire organization rather than just being the head of the finance function.

CFOs need experience of managing diverse teams.

Prospective CFOs who have spent their entire career in the finance function are at a disadvantage to those with direct commercial experience.

The rise of shared services means that Group CFOs will become less responsible for managing routine financial issues.
The MBA is becoming an increasingly important qualification for prospective CFOs. Transfer of the more technical and transactional aspects of the role to shared service centers is making the CFO role more suitable to candidates with non-traditional backgrounds.
The breadth of skills that are necessary to be a successful CFO means that the pool of good candidates is becoming smaller.

Very few people in our current finance organisation have the broad skills required to succeed as CFO.

Strategic responsibilities and higher profile of the CFO role has made it a more attractive career aspiration.

The title CFO doesn't convey the full range of a CFO's role and responsibilities today.
Areas of development to advance career as CFO
Areas of development to advance career as CFO

- Executing business strategy: 73% (63% from EY survey, 26% from EI attendees)
- Skills to manage upwards (e.g., relationship with board/CEO): 27% (38% from EY survey, 23% from EI attendees)
- Communication and presentational skills: 23% (36% from EY survey)
- Deeper insight into your organization's industry/markets: 23% (26% from EY survey)
### Areas of development to advance career as CFO (cont.)

<table>
<thead>
<tr>
<th>Area</th>
<th>EY survey</th>
<th>EI attendees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designing overall business strategy</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Analysis and advisory skills</td>
<td>19%</td>
<td>25%</td>
</tr>
<tr>
<td>Skills to lead people in and beyond the finance function</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>Project or change management skills</td>
<td>23%</td>
<td>22%</td>
</tr>
</tbody>
</table>

According to an EY survey, the area of skills to lead people in and beyond the finance function is the most critical, with 35% of respondents identifying it as an area for development.
Areas of development to advance career as CFO (cont.)

- Better understanding of how technology can support the finance function: 29% (EY survey) 9% (EI attendees)
- Familiarity with new trends and techniques in financial management: 19% (EY survey) 7% (EI attendees)
- Greater knowledge of operational functions (e.g., IT, property, legal): 19% (EY survey) 4% (EI attendees)
- Network and profile building: 21% (EY survey) 3% (EI attendees)
Thank you
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