

# Accounting for Good

## When it comes to corporate governance, the challenges for the CFO keep on growing

The job of the CFO is a complicated, many-faceted, ever-mutating one, and it can be hard to stay on top of all the governance challenges it presents – but in the end, doing the right thing is what really matters. Those were the thoughts of Rick Payne, ICAEW’s expert on building effective finance functions and the role of CFO, in his speech at the recent HKICPA/ICAEW joint seminar The CFO, Conflicts of Interest and Corporate Governance.

A former divisional CFO for a leading financial services firm, who worked in Hong Kong during the 1990s, Payne said that part of the challenge stems from uncertainty about what the role of the chief financial officer and the finance department actually is – because what people say they do is often not the same as what they actually do.

The role of CFO, he added, varies a lot – by country, by organisation and even by individual. Most CFOs, though, have board-level responsibilities these days. “You’re not just the finance guy in the corner; you’re part of a collegiate board. To listen to some advisors, you’d think that the CFO having a strategic role was a new thing, but it’s always been the case.”

### Optional Roles

The CFOs responsibilities are manifold, says Payne. There’s the important business of basic accounting. There’s compliance, investment appraisal, and strategy - not just implementing strategy but also coming up with strategic ideas. Usually there’s also cost control, but not always; Japan, for example, has the concept of the cost engineer, taking the role outside the finance department.

And then there’s funding. “Funding comes up over and over again as an important role of the CFO,” said Payne. “CEOs expect their CFOs to be able to negotiate with banks.”

All of the above, he adds, “are activities that all organisations need to do, but they don’t have to be done by the finance department. There’s a huge range of contextual and organisational factors that will influence who does all this.”

### Communication Critical

The lifeblood of any organisations, and of any finance department, is information – and it’s important for finance departments to make sure it’s available, and that’s it communicated appropriately. “We have to process and deliver good-quality, timely, rigorous information with which the board can make decisions. We’ve all come across situations where experienced managers think that intuition is more important, but it’s incumbent on finance managers to promote the importance of information. We should be experts in presenting information in the best way possible. Understand your audience. You are an expert in numbers: not everyone else is.”

That means using a variety of way of presenting information, such as charts, pictures and diagrams. It also means thinking not just about the information, but about how it is communicated. “We’re not

known for being the best communicators in the world, but your communication skills are important. We sometimes don't regard it as real work, but it is.”

Be proactive, said Payne: ask the board and rest of the organisation what their information requirements are and look to meet their needs.

The CFO may also have to make the case for and put in place good internal controls. “It can be a thankless task. You don't know what benefits you create because you're saving value, which is as important as making value, but you can't see the savings – good internal controls are invisible. You're a bit of an unsung hero as the CFO.”

The most difficult challenge of all, though, he said, is making sure that the company behaves ethically and transparently. “Often the CFO is seen as the conscience of the company, the person who's expected to stand up to an overly aggressive CEO. With any problem, it's better that you find it out internally than that it's discovered by the auditors or, worse, the press. With the internet, it's very difficult to control the story now; transparency is coming, whether you like it or not.”

## Conflict Resolution

CFOs face conflicts of both interest and role, added Payne: the former when what's good for the individual differs from what's good for the organisation, and the latter when there's pressure from stakeholders with different ideas about how the company should be run.

Resisting those pressures is partly a matter of remaining objective. “Be careful about biases creeping into your decision-making. Put yourself in the position of someone looking in from the outside: an auditor or reporter or family member. One thing you often come across, which is a pet hate of mine, is this idea that there's one version of the truth. Clearly information is subject to assumptions, and is used for different purposes; it supports different interests, and you need to know whose interest what you're doing is in.

“You're being asked to be strategic, but on the other side of the coin you're being asked to question strategic decisions. It's actually very difficult. If you've, say, identified an acquisition target, it's hard to then question whether it's right or not.”

A lot of this, he concluded, comes down to integrity. “What does that mean? Clearly it has a strong moral and ethical element; some principles are absolute and some are relative. But the accounting profession works in the public interest – and we shouldn't forget that.”