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FEATURE

THE CHANGING ROLE OF THE MALTESE CFO

INTRODUCTION

The recent past has been characterised by advances in technology, continuous changes in the environment and also added regulatory requirements, mostly as a consequence of both corporate governance scandals and a challenging recession. This has induced changes in the role of most business professionals, among whom the Chief Financial Officer (CFO) of Maltese Listed companies. The objective of this article, which builds on a recent MBA dissertation by Ms Buttigieg, is to analyse such changes in the role of these CFO's since 2003 and their implications. For this purpose, a review of international literature is made, complemented by empirical data collected by means of semi-structured interviews held with ten CFOs of such listed companies. The rest of the paper consists of five sections. The next section will review the literature, followed by an exposition of the methodology used, the findings, the discussion thereon, and conclusion, including the limitations of the study.

LITERATURE REVIEW

Clements (2005) refers to the changes in the CFO role that have occurred around the new millennium as "drastic". According to Johnson (2009), while many earlier CFOs were considered 'no fun' and others got 'the opportunity to use crystal balls and share their visions and dreams', the CFO role was recently made to deal much more with 'solid business cases and business models that are sustainable'. McCann (2008) emphasises that the effective CFO is now able to proactively steer a board discussion, acting as 'a conscience or coach to the boardroom' and ensuring that everything is 'tied down', with 'accountability' for every decision taken.

CFOs are now faced with increased complexity and requests for more detailed and frequent internal reports as top management is more forward-looking. In this context, rolling forecasts have been taking over annual budgets as the board wants to know more where the organisation stands at present (Hope, 2006). CFOs have had to be able to balance managing the current performance of the organisation while building its future (O'Sullivan, 2009). Another aspect critical to the success of the CFO role is the ability to prioritise and to respond to the needs of the organisation (Travis in O'Sullivan, 2012). CFOs may truly understand the business and add more value by getting involved in the operational side of the organisation as they will gain insights on what needs to be done to improve the business. (McCann, 2013).

Moreover, a 'macho element' that has arisen from Silicon Valley has fired the demand for information; there was the perception that if one handled a lot of information this made that person smarter or more hard working, when in reality one could make wiser decisions when one makes just a few (McGovern in Adams, 2003). A proof of this is Guardian Industries' success which is based on their highly decentralised management structure. For over forty-five years this management style has helped the firm maintain on-going growth and profits (Guardian, n.d.). Guardian Industries also avoids bureaucracy and has a strong corporate culture that encourages employees to take on responsibility and rewards them on their worth rather than on their designation.

There is also an increased need for CFOs to become strategists by analysing the external factors that influence the business and by planning areas of growth (Lupi, 2013): rather than being half accountants and half strategists they have to be, to a greater extent, efficient communicators in both roles (Couto, 2005).

McCann (2012) pointed out that, as the CFO role evolves into a more strategic one, the finance department requires more staff with an analytical mind-set. He referred to the Duke University/CFO Global Business Outlook Survey, a quarterly international survey of CFOs, and stated that in comparison to what happened earlier, there was a tendency for new hires to fill in the duties of financial planning and analysis rather than of accountants focused on financial reporting. According to Provost (2012), having a team that can work on its own initiative gives CFOs the possibility to dedicate their efforts on bigger organisational challenges. Apart from having the basic skills of accounting and finance, soft skills are extremely important. 'At the end of the day, you're managing people' and it finally boils down on how one manages a group of people to deliver effectively (Provost, 2011). Emotional intelligence has therefore become a 'vital part' of managing the significant challenges which leaders have been facing and a key strength to effectively lead an 'empowered workforce' (Childs, 2004).

As efforts are increasingly being placed on intellectual rather than financial capital and importance is being given to human as opposed to physical assets (Hope, 2006), paying attention to staff motivation has become fundamental. Argyris, (1998) affirmed that there had been slow growth in this area over the previous thirty years. Previously, managers seemed to trust more the command-and-control model and employees too tended to prefer it as they were not held responsible – most believing their commitment to be derived more from an external, rather than an internal, locus of control. (Argyris, 1998). Yet, changes have since been occurring in this area, and CFOs now better meet the expectations of the various responsibilities they are expected to serve, shedding such an 'old stereotype' . (Lupi, 2013).

METHOD

The analysis of recent changes in the role of CFOs in Maltese Listed companies and their implications was achieved by semi-structured interviews with ten CFOs of Maltese listed entities. Nine areas of change were discussed and each area was measured on a seven-point Likert-scale (1 being the lowest and 7 the highest).

Figure 1.1 Areas of Change

Descriptive statistics, being the mean rating scores and the standard deviation were calculated to analyse responses. The minimum and maximum rating score for every area was also measured. Given that the dependent variable was of an ordinal nature, a Friedman test was carried out to compare mean rating scores.

FINDINGS

The nine areas of role change referred to in the literature review have been found to have their impact also in Malta, yet to a varying extent. Table 1.1 shows the mean rating score of each area of change in Malta. The test comparing such a rating score resulted in a significant p value of 0.004, indicating that such rating scores differed significantly among the areas, as illustrated in Fig 1.2.

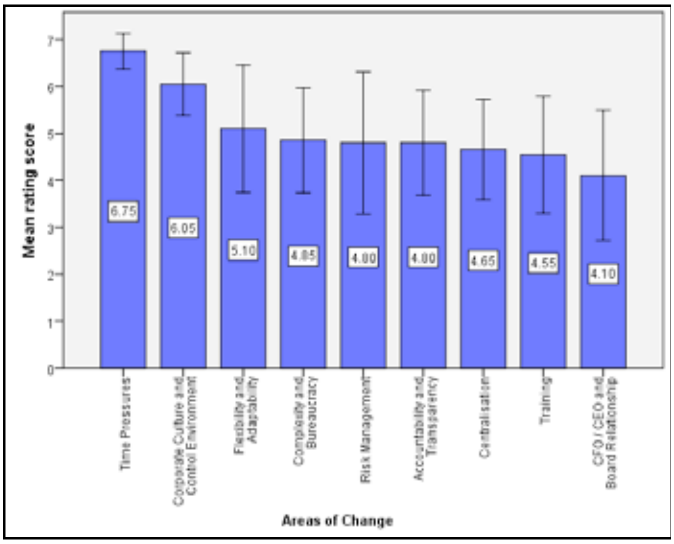
Table 1.2 Areas of Change

Areas of Change	Mean	Std. Deviation	Min	Max
Time Pressures	6.75	0.540	5.5	7.0
Corporate Culture and Control Environment	6.05	0.926	5.0	7.0
Flexibility and Adaptability	5.10	1.897	1.0	7.0
Complexity and Bureaucracy	4.85	1.564	2.0	7.0
Accountability and Transparency	4.80	1.549	1.0	6.0
Risk Management	4.80	2.111	1.0	7.0
Centralisation	4.65	1.492	2.0	7.0
Training	4.55	1.739	1.0	7.0
CFO / CEO and Board Relationship	4.10	1.941	1.0	6.5

1= No Impact 7= Very high impact

In their struggle towards time management, CFOs were facing both supportive and opposing factors. As demands were increasing and were becoming more immediate, technology was helping them cope. However, increased problems emanated from technology - especially the increased difficulty of switching off once out of the workplace.

Figure 1.2 Mean Rating Score for Areas of Change



p=0.004 (Friedman Test)

The last decade was characterised not only by advances in technology but also by increased complexities in the business environment, greater regulatory requirements - particularly those emanating from the increased onus of stock exchange listing- and more pressures from different stakeholders. Such factors have changed the way in which companies operated and in their corporate culture which in turn have placed additional an '*onus*' on CFOs.

The need to build a more flexible and adaptable corporate culture became more pronounced given particularly the demand for immediate reporting that had been heightened in earlier years owing to the lingering recession. The banks had '*reduced their willingness to lend*', the company's business model had '*to shift*' and an '*internal source*' of funding had to be found. As a result, corporate hierarchy had been flattening out, thus encouraging wider participation.

However, the company's flexibility increasingly depended on the size of the finance team - when teams were smaller in size, staff members were seen more as a 'jack of all trades' and changes had to be carried out at a slower pace; however, flexibility was still often restricted in larger companies because of their specific regulations. In the case of companies that interacted with foreign clients, flexibility also meant assisting clients after office hours in view of different time zones.

Additionally, building a more adaptable corporate culture called for the recruitment of personnel with a different mind-set, more '*prompt*', '*resilient*' and '*adaptable to change*'. Younger generations also seemed more ready to challenge unnecessary bureaucratic procedures often a symptom of a lack of delegation. In fact, bureaucracy generally decreased, although this varied with the in type of business. Even though CFOs believed in the principle of subsidiarity, the level of delegation and tendency to centralise decision making varied among the different CFOs.

More emphasis was also placed on the quality of the employees whom the company was recruiting in line with the increased demand for accountability and transparency. In addition to their traditional technical and professional qualities, members of staff had to prove themselves as persons with an appropriate ethical attitude and practising a sound level of integrity.

Transparency and accountability became even more important for outside stakeholders, particularly the banks. This included being frank about future prospects of the company and passing on the message when 'quite substantial variations' were noted. Furthermore, a number of CFOs also faced a dilemma as to how much to share information internally. While they acknowledged that the more information shared with staff members, the better staff output and attitude, they still considered much information as too sensitive and risky to be shared and consequently too often only the CFOs had the '*full picture*'.

Risk management was now being considered as an '*extended finance function*' and the CFO's involvement in it had increased; however the '*risk culture*' and '*risk appetite*' of their organisation hardly changed. What changed substantially was the way CFOs were dealing with risk – their approach became more holistic, with a readiness to transmit any bad news to stakeholders as early as possible and being less intimidated by financial figures that seemed far from '*appealing*'. A risk based-approach to the CFO role had over the last decade become a '*sine qua non*'.

More emphasis was also being placed on good corporate governance. Demands by the Board of Directors were adding pressures on CFOs, particularly around the time of annual general meetings and extraordinary meetings. Rapid changes in the regulatory framework increased the need for training and CFOs were finding it difficult to keep themselves up to date and had to consult more professionals in specialist areas. Moreover, since CFOs became more involved with Board matters, they had to dedicate more time towards the preparation of such meetings. This increased their need to attend more seminars relating to strategic techniques and to the enhancement of their presentation and communication skills.

A common corporate governance issue faced by CFOs was the expectation to have their approach and reporting requirements changed with every change in top management. This became more pronounced in recent years with the three-year appointment for top management becoming commonplace. It is also interesting to note that CFO's more prudent approach towards change was commonly a balance against the CEO's entrepreneurial mind-set.

With the increased use of IT systems and their interface capabilities, CFOs have also tried harder to simplify processes insofar as this was practicable. The tendency to reduce the number of subsidiaries in different group was also noted, this resulting in a reduction of administrative overheads and timelier financial reporting. Nonetheless, CFOs expected to face more complexities: for most, they have not yet seen 'the light at the end of the tunnel'.

With its shift from an 'accounting' focus to a 'business' one, the CFO role in general has become much more challenging and, despite the various difficulties and challenges, even more rewarding. The role of CFOs now extended well beyond strict financial matters towards the "fulfilment" of their company's or group's 'long-term objectives'.

DISCUSSION: FROM COUNTING TO VENTURING – WHAT COMPETENCIES?

The various changes in the macro-environment, corporate culture and risk management are creating the need for the CFO to become more dynamic and to adopt a more entrepreneurial role. Yet are CFOs ready to face such a challenge? A number of competencies are necessary for them to achieve this. These include self-management, planning, team building and communication.

The Self-Management Competency: the Blind cannot lead the Blind

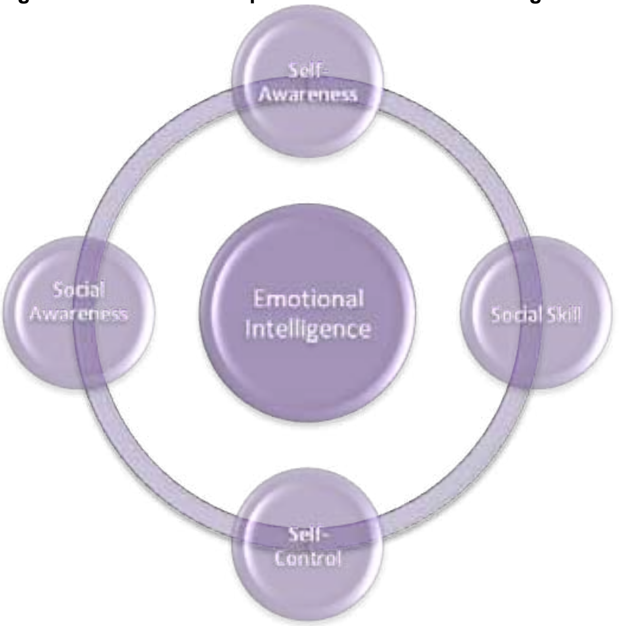
The Self-Management Competency is the key to the others: one cannot expect to be able to develop planning, team building and communication competencies without first enhancing one's ability to self-manage. CFOs may enrich their self-management skills by choosing the appropriate leadership style and developing their emotional intelligence.

With respect to their leadership style, CFOs need to create a supportive environment by building a culture of trust and cooperation. Better long-term results are achieved by exerting positive influence on their staff rather than by controlling them. Such influence will aim at encouraging more proactive behaviour, rewarding initiative, reducing bureaucracy, and enabling more information sharing. The latter may involve some risk, but, as Gates (1999) believed, "the value of having everybody get the complete picture and trusting each person with it far outweighs the risk involved". Another aspect of leadership is one's ability to set an example by acting with integrity and ensuring transparency and accountability at all times. In any case, there is no point in 'fudging, manipulating and spinning the numbers' (Hope, 2006) as such camouflage will boomerang, possibly in the following reporting period.

With respect to developing emotional intelligence, Fig. 1.3 illustrates four components of such development. By enhancing self-awareness CFOs will not only improve particular behaviours but will be more aware of how their behaviours affect their subordinates. Asking for feedback may seem a bit awkward but this can be very fruitful as CFOs can focus on their strengths while improving their weaknesses. Their ability to self-control will enable them to respond rather than react to overwhelming situations particularly to time pressures.

Managing better their feelings is however not enough - CFOs also have to enrich their social awareness as to build closer relationships. Once they enhance their self-awareness, their self-control and their social awareness, they can ultimately master their social skill and truly become effective leaders.

Figure 1.3 The Four Components of Emotional Intelligence



The Planning Competency – Do Best-Laid Plans Often Go Astray?

Managing time seems to be a 'million dollar question' but focusing on planning skills might form a big part of the answer. The first aspect of developing the planning competency is identifying which tasks are taking up most of one's time. CFOs need to keep in mind that they will be making 'wiser decisions when they make just a few'. McGovern in Adams, (2003) stated that by delegating more, time pressures are minimised and more time can be dedicated to strategic decision making. Furthermore, CFOs need to ascertain whether particular work processes can be simplified as to increase efficiency. ERP systems and BI tools can be extremely beneficial in the simplification and timeliness of processes. CFOs also need to strengthen their competence in devising strategic plans, usually through careful SWOT analysis. Combined with the CFO's financial expertise, such analysis is instrumental in guiding the company in the appropriate direction, particularly in investment / disinvestment decisions and drawing up contingency plans.

The Team Building Competency –Is it the More, the Merrier?

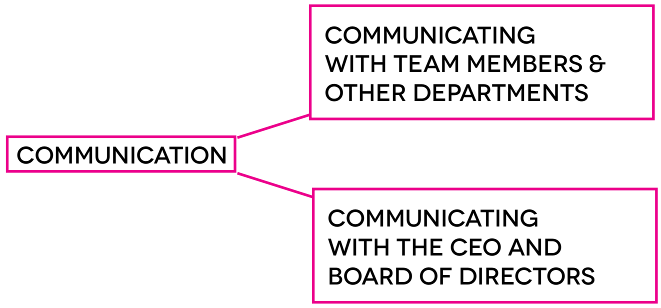
Developing the self-management and planning competencies impacts the level of corporate centralisation, and there is also an increased need for CFOs to develop also their team-building competency. In order to build a strong team, CFOs need to dedicate more of their time to coaching and mentoring team members. They have to create a learning environment, not only encouraging technical training but also exposing staff to softer skills to identify the 'right' approach to be adopted. CFOs thus act as role models, encouraging team members to look at change as a challenge rather than a threat.

Mutual trust relationships have to be built as these will enable CFOs to best identify both the extrinsic rewards, such as performance bonuses, and the intrinsic ones, such as job satisfaction, that motivate staff. The latter rewards are more important as they are the main driver towards staff commitment to take on more responsibility (Argryis, 1998). Although intrinsic motivation is not as straightforward as extrinsic motivation, it is not as difficult as it might seem. A common example of such a type of motivation is known as goal setting. However, if goals set are unattainable this will have an opposite effect. CFOs have also to motivate staff by increased delegation or devolution, as this in turn encourages initiative (Hope, 2006).

The Communication Competency: Are Wires Getting Crossed?

The team building competency will be strengthened further as CFOs enrich their ability to communicate. This improved communication is to be effected with departmental staff including team members, top management and other departments.

With respect to departmental staff, CFOs need, amongst other things, to be adept at praising their high performance and providing constructive criticism as necessary, ensuring that the latter action is done privately. CFOs have also to find ways to ensure clear communication with the CEO, the Board and other departments, thus preventing the 'us versus them situation' (Hope, 2006). This is particularly relevant given that the finance team is no longer perceived as a 'secluded department' but as exerting more of 'a supportive role' (Culberston in Hope, 2004). As for the relationship with the Board, CEOs have to 'pick the board's brains' and lead them in a 'more strategic direction' (Doolittle in McCann, 2008).



Venturing into Entrepreneurship – Nothing Ventured, Nothing Gained

Once CFOs have mastered the self-management, planning, team-building and communication competencies, they will be ready to develop their entrepreneurial skills. Such skills can be achieved by networking with people from various backgrounds. This will help CFOs adopt a broader perspective; CFOs can also become more business-minded by getting involved in the operational side of the business. Such involvement will help them decipher whether costs are value-creating or not. Furthermore, CFOs have to adopt a long-term approach to be able to position their company in the right strategic direction. Their focus should therefore be on future projections rather than on past results. As for most competencies, training seminars, particularly ones relating to strategy, are also beneficial.

As CFOs develop the required competencies, their financial knowledge can truly be coupled with business; as a result, CFOs will in effect be able to fulfil more and better the expectations of today's stakeholders.

Conclusion – From Actors to Producers

It is evident that in recent years CFOs have been finding it increasingly difficult to cope with the demands of their role owing in particular to time pressures. Nevertheless, their evolution into a more influential position has also instilled in them a higher level of satisfaction. It could well be concluded that CFOs may be portrayed as former actors who are nurturing the right competencies that are enabling them to compose their own scripts as producers.

The results of our study are subject to the limitations encountered in its scope and conduct. One limitation was the constraint in carrying out interviews to the whole listed company CFO population, this resulting in a limited sample. Other limitations were the possibility of bias on the part of the interviewer and the fact that out of the respondents, only one was female, this rendering it difficult to draw out the correlation between the gender characteristics and the answers provided.

For detailed references, please refer to authors or, for most quoted sources, to the University of Malta MBA dissertation "The Changing Role of the CFO in Maltese Listed Companies" September 2013, available at the University of Malta library.