What Does the Future Hold, for Finance and CFOs?

By Jeffrey Marshall and Ellen M. Heffes

The editors reached out to a wide range of experts — CFOs and former CFOs, consultants, academics, accountants and technology vendors — to get their thoughts about what the coming years could bring for financial executives.

If you're old enough to remember the 1960s' cartoon, The Jetsons, you'll recall a very different vision of the "future" than the one we're living in now. The Jetsons had a robot to do housework, and traveled in a kind of mini-pod vehicle that was attached to something like a monorail. Appliances made their everyday lives largely work-free.

The point here is that speculation about the future, however well-informed, can't accurately predict how quickly we'll get there. As much as the world of business and finance has changed in the past 75 years, it probably hasn't altered as much as some might have forecast. And some of the eternal truths about finance keep getting repeated, implying that change is more gradual than it might appear.

Consider some of the thoughts from people in the field years ago. In "The Future and the Financial Executive," in the February 1973 issue of Financial Executive, management consultant Alfredo Amescua R. wrote: "As a top-level professional, the financial executive must have an overall view of the corporation. He has to be more and more sensitive to humanistic values and he must not restrict himself to acting only on the basis of a purely technical analysis of problems."

In the October 1981 issue — celebrating FEI's 50th Anniversary — Edward W. Golden, chairman of Skott/Edwards Consultants Inc., wrote on "The Changing Role of the Financial Executive:" "The continuing challenge in our field is developing people who are by nature somewhat reserved and introverted into positions that call for dynamic human relations skills."

On the growing role of technology, another financial officer said, "The world is swimming a little faster; if the financial executive ever had a green eyeshade, he doesn't have time to put it on anymore."

Indeed, 25 years ago, the top finance job was summed up: "The dynamically changing function of the financial executive has created a demand for a new type of individual to fill what has become the exciting focal point of the American business community. And, men and women (included, finally) will find a job filled with: more pressure, increased visibility, more mobility, better compensation and more opportunity." The article ends: "In short, it's a bull market today for the qualified financial executive. Those who can accommodate the changing demands and meet the challenges of today are assured a bright tomorrow."

What about today's take on tomorrow? Without asking them to get too cosmic, the editors reached out to a host of different people in different realms of finance to get their views on what the future will bring to CFOs and finance departments. Those responses can be broken down into a number of subject areas. Here are their replies:

CFO ROLE

"I think the CFO will continue to evolve, with more emphasis on the strategic issues facing the company and a requirement that the CFO be the business partner to the CEO and key operating and functional executives. Compliance and internal controls will likely always be a part of the job, but the expectation for value-added contributions by the CFO to the growth, competitiveness and performance of the company will gain momentum, and I think the pendulum will swing back a bit to balance the role with the CFO's role as a key contributor to the growth, competitiveness and performance of the company. Management and insightful analysis and interpretation of information will be fundamental to the finance function of the future."

— Charles H. Noski, Former CFO and Vice Chairman, AT&T;
Audit Committee chair at Microsoft Corp.and Morgan Stanley;
inductee in FEI's Hall of Fame, 2006

"The way I see it, the public-company CFO job of the future will change in several ways. This is inevitable and already in process, due, in great part, to the Sarbanes-Oxley Act. First, the CFO will need to serve on the board of directors of his/her company, in order to be knowledgeable about every detail of the company. As one who, along with the CEO, signs financial statements and has the liability, the CFO will need to have this broad knowledge, and that can only come by having a board position. I, for certain, would not accept another CFO job of a public company if it doesn't include a seat on the board.

Second, companies will have to pay public-company CFOs significantly higher salaries; thus, CFO salaries will edge closer to CEO salaries that currently may be as much as two times that of the CFO salary. And third, it is likely that more future CFOs will need to be CPAs because of increased regulation. These are some of the changes I see coming for CFOs of the future."

— Bradley E. Sparks, CFO, WatchGuard Technologies Inc.

"The CFO job wasn't easy in the past, and it's getting harder and more important. It's also getting a lot more attention, from boards of directors and CEOs, and this increased attention is likely to continue, due to some key trends: the relentless march of technology and globalization. Technology makes globalization possible and globalization makes technology more valuable, so the two are mutually reinforcing. Over the foreseeable future, these two trends will be major influences on all business functions, including the CFO job.

Specifically, as an example of the result of the relentless march of technology and globalization, CFOs are likely to see a rising proportion of intangible assets on balance sheets. This proportion has been rising in recent decades, and the trend will continue as wealth is increasingly created through intangible and intellectual assets, more so than with tangible assets. So, CFOs will have to develop the capabilities to manage intangible assets efficiently and report them accurately.

Another specific example of globalization-driven forthcoming changes important for the CFO is the trend towards the increasing influence of global accounting and governance standards. So far, the U.S. has set its own course in these two areas, but U.S. regulations and practice in these areas will be increasingly influenced by global standards and global capital markets."

— Raj Aggarwal, the Frank C. Sullivan Professor of
International Business and Finance
and Dean, University of Akron

"The evolution in corporate governance will continue. The CFO will be a part of senior management's governance work, and will also be working closely with the board as they raise the level of their involvement, both from a planning perspective and an oversight and control perspective. The CFO will find himself/herself at the center of any effort to create "checks and balances," wherever they may be needed.

Litigation will not go away, and will not even diminish. Individual shareholders experience losses personally as a result of defined-benefit plans being replaced by defined-contribution plans, and these individuals are joining the institutional investors and the plaintiffs' bar in seeking the recovery of their losses".

— H. Stephen Grace, President, H.S. Grace & Co. Inc. and a past FEI Chairman

"The role of finance is evolving quickly. Finance has been taking on greater responsibilities that exist far outside of their traditional roles of stewardship. And in the context of where finance is headed, and the role finance is playing, their expansion will rapidly continue in the future."

Deloitte has found the role of the CFO and finance function can best be understood by looking at them in the context of the 'Four Faces of the CFO.' The Four Faces are the roles that CFOs play and can be defined as: Steward: Protect and preserve the assets of the organization; Operator: Balance capabilities, costs and service levels to fulfill the Finance organization's responsibilities; Strategist: Provide financial leadership in determining strategic business direction and align financial strategies; and Catalyst: Stimulate behaviors across the organization to achieve strategic and financial objectives.

CFO roles have become more complex and varied. In the future, many CFOs will continue to grapple with an expanded scope of responsibility while they drive — or adapt to — strategic shifts and changes in their company's business model, while ensuring that the finance organization is aligned. Regulatory scrutiny will still weigh heavily, and CFOs will continue to express feeling a greater degree of personal risk."

— Sam Silvers, Principal, of Deloitte Consulting's Financial Management/CFO Services Group

"The CFO has always had the primary responsibility for financial reporting and the responsibility for establishing and maintaining internal control systems. These responsibilities will always be there. But, because the CFO is a member of the executive leadership team, the CFO's role will be expanded to be the trusted financial advisor who will be the risk manager for the organization.

The CFO will manage risks, interacting with a variety of risk monitoring units of the organization. In many organizations, financial integrity units (fraud detection) have been established along side the internal audit units. These units will be essential in managing the risks associated with financial reporting and internal control documentation and compliance.

The expanded role of CFOs will require skills beyond technical accounting. They will be expected to have a skill set that will allow them to identify, assess and monitor the risks. They will need problem resolution skills, communication skills and personnel management skills. In short, the role of the CFO will be expanded beyond the traditional reporting and internal control areas, and into being the trusted financial advisor and risk manager."

— Ronald O. Reed, Professor of Accounting & Wall Street Journal Fellow, Monfort College of Business, University of Northern Colorado

TECHNOLOGY

"In the future, technology will continue to evolve and change the nature of how and where we work. Significant investments made in connectivity will create more opportunities for work to become globally distributed and managed. Lines between work performed within a company and work performed by specialists outside a company will be less clear, which will emphasize the need to have clear, standard control processes and systems.

The information used in decision-making will become richer and more complex; services and business will customize consumer offers and interactions specifically to an individual based upon their specific preferences and habits. Financial information will be readily available and easily accessed and the ability to integrate a wide range of supplemental data with financial information will drive business analysis and detail understanding of business opportunities and challenges. Technology and finance as professions will be perpetually linked."

— Taylor Hawes Sr., Controller Finance Operations, Microsoft Corp.

"For mid-size companies (non-Fortune 1000 companies), the accounting and finance function will be more structured and better documented. In this new world order of high government regulations, there will be greater scrutiny to document and prove that all the decisions and accounting accumulation processes were performed in a consistent and complete manner. Attempting to document these decisions and processes in a non-automated method is a potentially corporate-life-threatening activity, given the aggressive regulatory environment… I think spreadsheets will be around a while. The CFO will benefit by having more time available for operational and strategic issues."

— Cory Walker, CFO, Brown & Brown Inc. insurance

"Improvements in planning and budgeting will occur as more real-time updates and information on the financial status of the organization are embedded into the CFO's daily work routines. Today, CFOs are often required to run a report themselves, or wait for the information to be delivered by another manager to find the information they're looking for in order to make a decision — a forecast call; a change in gross margin adjustments; an increase to bad debt reserves. But by embedding financial intelligence into their existing workflow and business process engines, financial executives will have the ability to make better decisions as part of their work routine.

Today, every CFO has a scorecard or dashboard that shows them the key metrics of their organization. And tomorrow's CFO will employ these tools as well. However, the technology of the future will move the dashboard to mobile devices, will put it on demand so that audit committees, auditors and suppliers will all be able to log-on and see their own slice of the financial picture in real time.

You'll access this information not only through your desktop and laptop, but also your PDA, mobile phone and Internet kiosks around the world. And the visualization component of the information will be more sophisticated and customized to the way that the CFO best uses information — whether that be in a drillable chart or in a graph in four colors, while being embedded in their daily email alerts, workflow, tasks and company portal."

— Guy Weismantel, Senior Director,
Worldwide Corporate Marketing, Business Objects

"The future of financial controls in terms of technology will be the establishment of fully automated systems that bring repeatability and oversight to the financial reporting process. While the goal will be to fully automate systems and reporting features, the human element of the process will still be very much involved in the mix, as it is people who possess the knowledge and context of information and will never be fully removed from the process, nor should they be.

Though the three areas of failure remain — people, process and technology — they are not mutually exclusive, and all three are counted upon to deliver results. However, a fully automated reporting process will reduce failures caused by deviations in process and procedures. The changes organizations can expect from a system of automated controls are: a system of financial control regulations that are repeatable and as easy to do as closing the financial books; an increased level of accuracy and integrity to financial reporting controls; a reduction in complexity associated with compliance; and a decrease in costs associated with financial reporting."

— Brian Cleary, Vice President/Marketing, OpenPages

"There is no doubt that technology will enhance a CFO's ability to act in a capacity commensurate with (or above) the expectations of his/her title in the future (e.g, expectations such as capital raising, merger and acquisitions and strategic thinking). This is evidenced by history and the evolution of technology over the last couple of decades.

Although future technology will reduce CFO busywork, professional judgment is a requirement of high quality, transparent and meaningful financial reporting. Any attempts to replace professional judgment with technology will diminish the usefulness of financial reporting. Further, the creation of SOX [Sarbanes-Oxley] has mandated that CFOs certify as to the accuracy of periodic reporting and the effectiveness of internal controls over financial reporting, among other things. This certification cannot be the product of CFOs simply relying on technology."

— Kenneth L. Stephens, Principal with Rothstein Kass' Corporate Governance Group

FINANCIAL REPORTING

"Financial controls will become more of a science than an art (as it seems to be now). Is this good or bad? I'm not sure. For financial reporting, despite the SEC's efforts to shorten and simplify disclosures, they will only become longer and more complex.

Perhaps when IFRS [International Financial Reporting Standards] come to the U.S., and after they have been in use for a while by reporting companies, this will lead to shorter, more simplified disclosures (IFRS being considered a "principles-based" set of standards, in that they establish broad rules rather than dictating specific treatments). However, until that development happens, I think for the foreseeable future, we will see today's trends of financial reporting continue."

— Marc Folladori, Corporate & Securities partner in the Houston office of international law firm Mayer, Brown, Rowe & Maw

INTELLECTUAL CAPITAL

"The greatest change that has to occur in the finance role involves the intangible assets of the corporation. As we have shifted to a knowledge-based economy, the drivers of competitive advantage are resources like people, processes, knowledge, external networks and brands. Today, only 20 percent of corporate value can be explained through the book value of tangible assets. The rest is in intangible, intellectual capital. The implications of this are widespread.

Financial reporting doesn't give an accurate picture of a corporation's productive "assets" (as was the original intention of the balance sheet). New approaches to performance measurement need to be adopted to help management, and new approaches to assessing the strength, outlook and risk of the corporate portfolio of productive resources also need to adopted.

Failure to adopt new approaches will relegate financial executives to be truly bean counters, in charge of the income statement but having little input into the future capacity of the organization."

— Mary Adams, founder of the IC Knowledge Center, an Internet resource on intellectual capital (www.icknowledge center.com).

PROCUREMENT

"There are a lot of reasons why the supply chain needs more attention from the CFO — there are issues of business performance, new technology and reducing cycle time. Companies need to do better with their suppliers and their cost structure.

At the same time, there are increasing demands on financial reporting. Demands on corporate management and on compliance-to-auditability are higher than they have ever been. In that context, we finally have supply management tools that address those demands.

We're probably at point where the next iteration [of technology] is already here. Three years ago, the state of the art was perhaps about 80 percent of potential; now, that gap is gone. The future is here. Some companies are using these tools and getting fantastic results. There's no excuse for any senior executive to say he's not sure what we're spending on supplies, or if we're not in compliance [with contracts]. We're not going to be as reactive as we had been in the past. There's more of an opportunity to be on top of matters and in real-time compliance."

— Robert Rudzki, President of Greybeard Advisors LLC, a supply chain expert and author of Straight to the Bottom Line: An Executive's Roadmap to World Class Supply Management (J. Ross Publishing, 2006)

VALUE CREATION

"CFOs seek to strengthen their roles as trusted advisers and become true business partners with their CEOs and business unit leaders. They aspire to deliver business insight that will lead to growth and improved performance. This requires a shift in focus from transaction processing and compliance toward the creation of value for the business. Process and technology improvements make it possible for them to do more.

By designing adaptability in financial processes, they can leverage that adaptability to unlock value, since adaptable processes become the basis for competitive responses to a changing environment. As a result, efficiency becomes more than a cost measure. It provides a competitive weapon to improve customer satisfaction and gain market share.

By building adaptability into the process, an organization can quickly respond to new regulations or customer requirements without lowering quality or losing efficiency gains. Because it can quickly respond to shifts in the market, the organization can gain extra margin and incrementally better customer relations that its competitors cannot match."

— Rebecca Albarelli, Finance Operations, Solution Director, Jefferson Wells

FRAUD

Tracy L. Coenen, a principal in Sequence-Inc. in Milwaukee, has spent the 10 past years in forensic accounting. A CPA and certified fraud examiner, she has a somewhat jaundiced view of companies' current and prospective anti-fraud efforts. "Until companies admit that fraud may have an impact on them, that won't change," she says. "A common estimate is that fraud represents 5 percent of revenues each year — and a lot of companies don't think that's material to them."

Coenen agrees that "some of the better companies" have used Sarbanes-Oxley compliance to fix some of their internal controls. But, in an ominous thought for the future, she adds, "Some simply did the documentation they were required to do; they didn't use to effort to improve the [financial reporting] process."

But Coenen doesn't think the answer is future regulation, and doesn't favor "a lot of legislation; I'd rather see companies be proactive about it." She believes that companies "could do a lot more to act on risk; they are not taking preventive measures. They don't make it a top priority. Companies think their controls are better than they really are."