The role of the CFO in China
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Introduction

As part of a goal to define the role and value of chief financial officers (CFOs) in enterprises in China and identify the challenges they face, ACCA recently held a series of discussions in 2012 with well-recognised and accomplished financial professionals, chief executive officers (CEOs) and company directors. The aim of the exercise was to get an appreciation of the China-specific story, and go beyond the views of CFOs themselves and get the perspective of other stakeholders, the very people that rely on CFOs to drive business value. The discussions on the role of the CFO were held in Beijing on 18 September, Shanghai on 21 September and Shenzhen on 16 October.

The discussions in China were partly shaped by a prior exercise in Singapore, undertaken by ACCA in partnership with the Singapore CFO Institute that resulted in the report: The value of the modern CFO – board directors’ perspective. The discussion in Singapore focused on the expectations that company directors had of CFOs. The discussions in China similarly sought to understand these issues from within this very dynamic and changing country. CFOs in China have all the duties and responsibilities of their counterparts elsewhere, but also have to contend with a regime that is very much in development and a culture that demands excellence but which is also subservient.

“JUST A DECADE AGO, ONLY FEW PEOPLE IN CHINA KNEW WHAT A CFO WAS. TODAY THERE IS A WIDESPREAD AWARENESS OF CFOS AND THE IMPORTANT ROLE THEY PLAY IN AN ORGANISATION.”

GAO YUNFENG, PRESIDENT, HAN’S GROUP

What’s more, many CFOs in China have attained high levels of skill and have the ability to learn quickly. The ‘typical’ Chinese enterprise is no longer – there are still state-owned enterprises, but many of these have transitioned into powerful multinationals. There are private Chinese companies, but they have to contend with high levels of growth. Foreign multinationals that have their own systems also have to contend with the unique nature of the Chinese market and regulatory challenges. The discussions were undertaken in the context of this volatile environment.

Panellists sought to address a number of themes including the expectations that various stakeholders have of the CFO, the most valued qualities and skills in CFOs today, the difference between local and expatriate CFOs and, interestingly, whether CFOs are naturally aligned towards roles of even greater responsibility in their enterprises.

The results and conclusions are incorporated in this report, which aims to build on the knowledge that we hope will help finance professionals in China and elsewhere continue to grow and reach ever-higher levels of success.
Executive summary

CFOs play a key role in the development of companies and economies. Stakeholders who participated in a series of discussions in Beijing, Shanghai and Shenzhen through September and October continued to highlight the CFO role as overseers of financial health, champions of sustainability and drivers of accountability.

The value of CFOs to enterprises in China is not only growing but is also increasingly recognised. As enterprises grow, become listed or expand internationally, the need for well-trained and well-rounded finance professionals that understand finance, accounting, compliance and risk is increasingly important. CFOs should be able to delegate routine operations while leading teams with integrity and playing a key role in the strategic development of their enterprises.

In general, there are broad expectations of effective CFOs. Boards of directors, CEOs and stakeholders expect CFOs to have a thorough knowledge of the accounting and financial positions of their companies, regulatory requirements and the relationships between local and global operations. CFOs may also be expected to educate other C-suite executives in financial understanding whilst continuing to drive value for their companies. Other skills are important too – strong communication and leadership skills are increasingly important for the modern CFO.

Whilst there is significant finance talent in China, depth of experience may be in short supply as a result of the relative youth of the market. Ambitious finance professionals, particularly in multinational enterprises, should seek a variety of skills and experiences, and look to gain an understanding of different parts of the business to develop the requisite skills.

KEY CONCLUSIONS
While views vary among the participants, a few key conclusions emerged:

1. CFOs are valuable business partners to the board of directors, the chief executive, business heads and all other stakeholders.
2. CFOs in China need to build a greater awareness of their roles and the value they can bring to an organisation.
3. Finance skills alone does not guarantee that one makes a good CFO, but all CFOs should have basic accounting knowledge and a passion for numbers.
4. Effective communication between the CFO and their stakeholders is very important, especially in creating trust.
5. Understanding regulation is important especially in China’s context where the regulatory structure is still developing.
6. In deciding whether to select an expatriate or local person for the CFO role for a multinational in China, the balance of local knowledge and the ability to develop effective working relationships with head office is a critical consideration.
7. CFOs should be effective corporate leaders; establishing and displaying appropriate ethical behaviours is important.
8. The CFO may have an advantage over other C-suite executives in aspiring to the CEO role, chiefly because their role provides the breadth and depth of experience across business operations due to the centrality and importance of the finance function in the business.
CFOs have to finely balance micro issues with the bigger picture. It can be a difficult balancing act, but one that is necessary for CFOs to take on critical leadership roles within large companies, work in partnership with the chief executive officer to guide an enterprise forward and act as useful advisors to the board of directors, whilst continuing to work with regulators and customers.

This value is not unique to China. CFOs play a critical role in the broader fabric of the financial environment in all the major financial centres of the world – including New York, London, Hong Kong and increasingly Shanghai.

Opening the Shanghai event, Alderman David Wooton, Lord Mayor of the City of London stated:

“ACCOUNTANCY PROFESSIONALS ARE KEY ELEMENT OF (LONDON’S) COMPETITIVE OFFER... (THE) CFO WILL PLAY A KEY ROLE IN THE DEVELOPMENT OF SHANGHAI AS A FINANCIAL CENTRE AND HELP SUPPORT CHINA’S CONTINUING GROWTH BY PROVIDING THE SKILLS AND THE KNOWHOW ON WHICH BUSINESS CAN MAKE DECISIONS AND TAKE PROPER AND RESPONSIBLE RISKS.”

Stakeholders noted that finance professionals and CFOs are key to sustainable business growth. London provides a sound example – a full third of board members of FTSE 100 companies on the London Stock Exchange are accountants, and 51% of the CEOs of of FTSE 100 companies have a financial background.

It may be useful, when considering the value of the CFO, to examine a CEO perspective.

“I THINK THE CFO IS ONE OF MY KEY PEOPLE. NORMALLY I LOOK UPON TWO PEOPLE. ONE IS WHOEVER GENERATES INCOME FOR THE COMPANY. HE OR SHE IS VERY IMPORTANT. I HAVE TO MAKE SURE THEY ARE HAPPY AND MOTIVATED AND MAKING MONEY MY CFO IS MORE IMPORTANT IN HELPING ME MAKE SURE EVERYTHING IS RIGHT. THE CFO IS THE ONE WHO KNOWS EVERYTHING ABOUT THE COMPANY. THE ONE WHO GENERATES BUSINESS MAY NOT BE AWARE OF COSTS. THE CFO, KNOWS ABOUT REVENUE OR COST OR INTERNAL CONTROL. IF I HAVE A QUESTION, I ASK THE CFO.”

HEI-MING CHENG, DIRECTOR AND CHIEF EXECUTIVE, KAILONGREI INVESTMENT

While the CFO is an increasingly valued member of corporate teams across China, there are still areas where the CFO may be seen as a block to corporate growth.

“WHILE THE CFO AND CEO SHOULD HAVE A CLOSE RELATIONSHIP, EVEN A PARTNERSHIP IT IS NOT UNCOMMON IN CHINA FOR CEO TO PLACE LITTLE VALUE ON THE CFO ROLE, EVEN BYPASSING THE CFO TO GET DATA OR UNDERTAKE ACquisitions.”

GAO YUNFENG, PRESIDENT, HAN’S GROUP

In enterprises with complex capital structure and diversified shareholding the CFO has a lot of influence and power, but in enterprises controlled by a family or SOEs with a single boss, the CFO may face a challenge to move beyond the simplest accounting tasks. Whilst this reality is slowly changing, presently it creates one more challenge for a CFO: training the CEO.

“You must find chances to increase his or her financial knowledge. Once he or she understands you, they will include you in their team and you become their most important person.”

GAO YUNFENG, PRESIDENT, HAN’S GROUP

WHAT IS EXPECTED OF THE CFO?
The CFO is expected to deeply understand the business, from regulatory knowledge, understanding and being the gate keeper of financial data as well as advisors to business heads. The role is increasingly recognised in China as enterprises grow and processes become more complex.

A CFO’s job is to transmit the numbers to the board and key executives but they are supposed to be more than that.

“(THEY HAVE TO) FOCUS ON THE PROFITABILITY, FOCUS ON THE FINANCIAL HEALTH OF THE ENTIRE COMPANY. ‘WHY’ AND ‘HOW MUCH’ ARE ALWAYS THE TWO MISSING QUESTIONS... WE ARE IN BUSINESS TO MAKE MONEY, AND HOW DO YOU MEASURE MONEY? NUMBERS. THE MOST IMPORTANT JOB FOR THE CFO IS TO COMMUNICATE THE NUMBERS TO EVERYBODY THAT IS VERY IMPORTANT.”

JOHNNY LAU, CFO, SPRING GROUP

This requires a specific set of skills, one that goes beyond accounting to broader finance and law. Not all accountants are equipped to be CFOs. In practice, not all CFOs are accountants too though accounting credentials help. Ultimately having strong accounting skills and core finance understanding is integral to the CFO role.

CFO is the link between the business and an often complicated regulatory environment. This is particularly true in the evolving China market where laws are almost always in constant evolution, regulations not always clear and companies may have to successfully navigate grey areas. An effective CFO would, in this case, be the navigator.

One panellist in Beijing, described himself as a bridge.

“My key role is as a bridge. My bosses in America or Thailand will not have the same level of understanding of the China environment as they are not local.”

JAMES PAN, FINANCE DIRECTOR FOR GREATER CHINA, MINOR FOOD GROUP

Cheng Hei-Ming, director and chief executive at KaiLongRei Investment in Hong Kong, says CFOs should look after the figures but that is only the first part of their job. A truly effective CFO should also be a partner to the CEO and other business heads. They should be open minded and be willing to find ways to solve problems.
The value of the modern CFO

“CFOS OFTEN SAY, ‘YOU CANNOT DO THIS, YOU CANNOT DO THAT’. BUT A CEO’S JOB IS TO MAKE DECISIONS.”

CHENG HEI-MING, DIRECTOR AND CHIEF EXECUTIVE AT KAILONGREI INVESTMENT

At the most fundamental level, the CFO needs to be familiar with the basics of credits and debits. Indisputably, an accounting qualification provides a CFO the strongest foundation to ensure effective execution of their primary role. An accounting degree or qualification is not however, by itself, a prerequisite to reaching the CFO position, but a passion for numbers and appreciation of accounting is.

A survey conducted a few years ago by the magazine CFO World found most CFOs in China do not take the time to update their capacity to take on a more strategic role.

“YOU CANNOT LEARN FROM THE ACCOUNTING SUBJECT ON HOW TO DO STRATEGIC MANAGEMENT AND INVESTOR COMMUNICATION. IF YOUR KNOWLEDGE IS OUTDATED, IT IS VERY DIFFICULT TO BECOME A VALUE-ADDING CFO.”

TIAN MAOYONG, PUBLISHER AND EDITOR-IN-CHIEF, CFO WORLD.

“IF YOU JUST TRY TO PASS AN EXAMINATION AND REMEMBER SOME KNOWLEDGE, SOME FORMULAS, THAT IS NOT ENOUGH. QUALIFICATIONS ARE IMPORTANT BUT HOW YOU GET THE QUALIFICATION IS MORE IMPORTANT. IMPLEMENT WHAT YOU LEARNT IN PRACTICE, THAT IS THE RULE.”

JAMES PAN, FINANCE DIRECTOR FOR GREATER CHINA, MINOR FOOD GROUP

During the Shenzhen discussion, a general consensus was reached among the panelists and delegates that a strong accounting qualification, and the continuous professional updates that it demands, help finance professionals expand their breadth of knowledge and prepare them for more senior roles.

Until recently CFOs were perceived more as chief accountants than as professionals who would guide the financial strategy of the organisation—even today there are many enterprises that do not see the CFO in this broader role—Gao Junfeng, group chairman of the Han’s Group, a manufacturer and distributor of laser cutters and welders told that the first CFO of the group had been with the company for 10 years and was mostly responsible for ensuring the accuracy of the financials, but his role changed after the company went public in 2004.

“We needed someone with good communication skills to report our internal data and operating costs to outside stakeholders.”

GAO YUNFENG, PRESIDENT, HAN’S GROUP

Gao, an alumnus of the China Europe International Business School, went on to explain that he has high expectations of the CFO, whom he expects can ‘review the past, manage the present and plan for the future.’

CFO should add value to a company.

“A CFO’S ULTIMATE GOAL IS TO MAXIMISE BENEFITS FOR SHAREHOLDERS AND INCREASE THE MARKET VALUE OF A COMPANY.”

JOANSON JIANG, CFO, YULONG COMPUTER TELECOMMUNICATION SCIENTIFIC (SHENZHEN) CO., LTD

A successful CFO should possess immense knowledge of the job and lateral thinking. Knowing how to develop a work structure and lead a team are other essential skills. The primary role of CFO is to effectively implement a company’s strategy and the decisions of the board as well as to protect shareholders’ value. A CFO also has to ensure sound cash flow and plan ahead for the development of the enterprise. As a CFO himself, Jiang has adopted a strategic role that focuses on raising funds and building investor relations. He spends almost half of his time in meetings with market makers, investors and regulators. This requires travel to the US, UK and Singapore. About a third of his time is spent on managing capital, meeting with banks, credit rating agencies and overseas funds. Only about 20% of his time is spent on financial management.

Jiang says CFOs should have a different approach to working with different kinds of CEOs. Chinese CEOs who built up their firms through own strength expect their CFOs to be aligned to their vision. In public firms, where the CEO has comparatively ‘reined in’ power, the CEO and CFO tend to have more of a partnership relationship.

“They enjoy a closer relationship and sometimes feel a stronger affinity to each other than to their family!”

JOANSON JIANG, CFO, YULONG COMPUTER TELECOMMUNICATION SCIENTIFIC (SHENZHEN) CO., LTD

COMMUNICATION IS KEY

One important attribute of the modern finance professional is an ability to communicate effectively, to convey thoughts and opinions in a clear, concise and at the same time, tactful manner, to the CEO, the board and other internal and external stakeholders. It was the general observation by participants to various discussions that, while there are exceptions, finance professionals in China tend to be comparatively reserved, particularly in public or in meetings with superiors. However, noted participants, it is important for CFOs and other finance professionals to find ways to get their message and opinion across.

“COMMUNICATION IS VERY IMPORTANT: YOU HAVE TO COMMUNICATE WITH INTERNAL PEOPLE, IN PARTICULAR YOUR CEO, YOUR CHAIRMAN OR YOUR GENERAL MANAGER, AND LET THEM UNDERSTAND WHY OR HOW AND WHERE THE WEAKNESSES ARE AND AREAS THAT THEY MAY HAVE IGNORED. YOU HAVE TO REMIND THEM THAT THERE ARE SOME RISKS ASSOCIATED WITH THAT AND THEN FOR STRATEGY YOU NEED TO UNDERSTAND THE MARKET, YOU NEED TO UNDERSTAND THE REGULATORY ENVIRONMENT, TALK TO YOUR FRIENDS, TALK TO YOUR COUNTERPARTS, TALK TO GOVERNMENT PEOPLE, TRY TO SEE WHETHER IT IS TOO MUCH OR WHETHER YOU HAVE ANY LEEWAY PARTICULARLY IN CHINA, THIS IS AN AREA YOU HAVE TO FOCUS ON.”

JOHNNY LAU, CFO, SPRING GROUP
Minor Food Group’s James Pan highlighted the differences in the approach between Asian professionals and their foreign counterparts.

“BEFORE JOINING MINOR, I WORKED WITH A U.S. MULTINATIONAL WHERE I PARTICIPATED IN REGULAR MEETINGS CHAIRMED BY AN AMERICAN. AT THE END OF EVERY MEETING, THIS VISITING EXECUTIVE WOULD ASK IF THERE WERE ANY QUESTIONS OR CONCERNS, ONLY TO BE ANSWERED BY SILENCE. THE SILENCE WOULD NOT BE BROKEN UNTIL AFTER THE MEETING, WHEN EVERYONE WOULD START BRINGING UP ISSUES THEY FELT NEEDED DISCUSSING. THE AMERICAN ALWAYS WONDERED WHY THE ISSUES NEVER CAME UP DURING THE MEETING.”

JAMES PAN, FINANCE DIRECTOR FOR GREATER CHINA, MINOR FOOD GROUP

Mastering communication skills can be difficult, despite their seemingly simple nature. Effective communication comes into play not only when imparting information and advice to bosses who need to have a strong grasp of the business but also when eliciting information from those very bosses. Two issues come into play here. One is the nature of each individual. A second issue is corporate culture.

Individual approaches vary wildly, even if there are some general perceptions that have large kernels of truth to them. US executives tend to be very forthright. Europeans also speak up but are generally more likely to take cultural nuance into consideration. Asian are more circumspect. For all, however, speaking up is more valuable than staying quiet on important issues.

“AMERICANS ARE GENERALLY VERY STRAIGHTFORWARD. THEY WILL ARGUE WITH YOU AT THE MEETING AND AFTER THE MEETING THEY CAN STILL JOKE WITH YOU. EUROPEANS WILL CHALLENGE YOU BUT THEY TALK IN A MORE INDIRECT WAY. THE BETTER MODEL FOR CHINA WILL BE THE EUROPEAN MODEL. MY BIGGEST FRUSTRATION WHEN I’M MEETING WITH MY DEPARTMENT HEAD IS IF THEY HAVE NO QUESTIONS. I LIKE THEM TO RAISE QUESTIONS.”

HEI-MING CHENG, DIRECTOR AND CHIEF EXECUTIVE, KAILONGREI INVESTMENT

The ability to communicate openly may depend on corporate culture as much as it depends on the individuals. An open corporate culture may encourage more staff to speak up, including younger professionals who would normally like to take cultural nuance into consideration. Asian are more circumspect. For all, however, speaking up is more valuable than staying quiet on important issues.

“THE POINT OF COMMUNICATION IS TO CREATE AN ATMOSPHERE OF TRUST, WHETHER INTERNALLY OR EXTERNALLY. SO WHEN WE COMMUNICATE WITH OTHERS, I ALWAYS SAY TO MY TEAM THAT WE HAVE OUR POSITION BUT WE CAN EXPRESS THAT IN A POLITE WAY. THE PURPOSE IS NOT THE COMMUNICATION ITSELF. IT IS TO CREATE TRUST. ONCE YOU HAVE TRUST, EVERYTHING BECOMES EASY.”

ANNIE SUN, CFO, EMC COMPUTERS (CHINA)

EXPATRIATE VERSUS LOCAL: DOWN TO THE INDIVIDUAL

There is a wealth of local talent in China. Unfortunately, the level of experience is questionable. The sheer youth of the market means there are few people with more than a few years of multinational experience or with a range of exposure to multiple settings. And that means that there are a limited number of local professionals that have reached the most senior levels at multinational corporations. But this is changing rapidly.

When looking for a CFO, international companies need someone who can understand the local market but also move comfortably through the often-multicultural settings of their head offices. Sometimes, a profound appreciation of corporate culture built over years in a single company is of more value than local knowledge that can be outsourced or delegated. While it is true that CFOs should be able to communicate the local environment, they should also be able to communicate on-the-ground financial realities to regional or global head offices – which are less concerned with hurdles than with solutions.

“SOMEBODY WHO CAN RELATE TO THE LOCAL CULTURE IS VERY VALUABLE BUT SOMEBODY WHO KNOWS HEAD OFFICE AND HAS SPENT SOME TIME IN CHINA IS ALSO VALUABLE.”

MARTIJN VANKAN, FINANCE DIRECTOR, SHELL CHINA

Frequently, the availability of such talent is in short supply in China.

“TO FIND SOMEONE WITH 20 YEARS OF MULTINATIONAL EXPERIENCE AND HAS SEEN AND DONE A LOT OF THINGS, THAT IS HARD TO FIND. WE CURRENTLY HAVE AN EXPAT CFO AND HIS ABILITY TO COMPREHEND THE SUBLTIES OF THE CHINESE TAX SYSTEM IS INTERESTING. OUR comptroller IS CHINESE AND HE USUALLY FINDS A WAY TO EXPLAIN IT BUT IT IS NOT INTELLIGENTLY OUIOUS, ALWAYS, HOW THE CHINESE TAX REGIME WORKS.

THERE IS ANOTHER HURDLE THAT LOCAL CFOS OFTEN FACE, ONE THAT HAS MORE TO DO WITH CULTURE THAN WITH CAPACITY. THERE IS A TENDENCY TO REFRAIN FROM SPEAKING THE TRUTH TO MORE SENIOR PEOPLE AND POWER IS EMBODYED IN THE CEO OR THE BOARD OF DIRECTORS.”

BOB LOCKWOOD, FOUNDER AND CEO, TIANDI ENERGY

“A CFO SHOULD HAVE THE CAPACITY OR THE CAPABILITY TO LEAD CHANGES AND ALSO TO LEAD PEOPLE. WE ARE IN A VERY, VERY DYNAMIC ENVIRONMENT IN CHINA RIGHT NOW. WE HAVE SO MANY CHALLENGES FROM THE DOMESTIC MARKET AND ALSO FROM THE GLOBAL MARKET. IF WE DON’T KEEP AN OPEN MINDEDSET, IF WE ARE VERY RESISTANT TO CHANGES, WE MAY NOT SURVIVE TOMORROW. IF WE WANT TO LEAD THE CHANGES WE NEED PEOPLE TO BUY INTO THAT, THAT IS WHY WE NEED PEOPLE TO MAKE THAT HAPPEN.”

LI XIA, VP OF FINANCIAL SERVICES, VOLVO CARS CHINA

To some, the key to effective communication is trust building.

“The ability to communicate effectively is not just about being able to put across your message. It is also about being able to listen to others and understand their perspective. Communication is about building trust and creating a culture where people feel comfortable expressing their opinions and ideas. It is about creating an environment where everyone feels valued and respected.”

JAMES PAN, FINANCE DIRECTOR FOR GREATER CHINA, MINOR FOOD GROUP

The value of the modern CFO

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The value of the modern CFO

“ASIAN CULTURE IS TO BE HUMBLE, NOT TO HAVE CONFRONTATION OR CONFLICTS WITH OTHERS. WHEN YOU GROW UP AND TAKE A VERY SENIOR POSITION IN AN ORGANISATION YOU MIGHT HAVE THE SAME PSYCHOLOGICAL PROBLEM SAYING ‘NO’ TO YOUR BOSS,”
LI XIA, VP OF FINANCIAL SERVICES, VOLVO CARS CHINA

The latter is less of a problem among a younger generation of professionals now moving up the ranks of middle management but it remains a concern for directors – particularly foreign directors – and a barrier for local professionals.

In broad terms, local executives tend to demand a lower compensation package compared to expatriates. Locals can better navigate cultural nuances and often the greyness of the local market, while expatriates are typically better at dealing with head office politics and speaking up when needed. China is in an interesting period, where challenges are significant, but the clash of cultures means locals are quickly absorbing the essence of other cultures.

NURTURING TALENT

Talent management is another critical element of a CFO’s role.

“CFOS SHOULD BUILD A FINANCIAL TEAM TO RUN THE COMPANY TO FREE THEMSELVES TO DO VALUE-ADDED WORK.”
JOANSON JIANG, CFO, YULONG COMPUTER TELECOMMUNICATION SCIENTIFIC (SHENZHEN) CO., LTD.

This may require the CFO to hire highly experienced financial professionals from both China and overseas. At the end of the day, Jiang said, the CFO should not spend time on routine work but delegate authority to be able to focus on strategic planning.

However, finding and nurturing finance talents can be as challenging in China as anywhere else, even if the challenges are different. Although there are plenty of talented people, only a small portion have a significant amount of experience working for large or multinational corporations and fewer still have the type of built-in, wide-angle lens that companies need their finance professionals to have.

At the same time, there is still a penchant for constant job hopping that makes retaining top talent difficult. The idea of building a career with a single multinational takes a back seat when a 40% salary jump is on offer. As a result, companies like GE Healthcare in China put a lot of emphasis on nurturing their talent and keeping it, explained Roberto Mello, the company's chief financial officer. While a young Chinese professional may have several jobs in the resume, it is not uncommon to find foreign professionals that spend their entire careers working for a single company.

“THE UNIQUENESS OF TALENT DEVELOPMENT IS A CHALLENGE BUT IS ALSO, FROM MY STANDPOINT, THE MOST INTERESTING PART OF MY JOB, THROUGH COACHING AND ATTRACTING AND RETAINING IN SO MANY DIFFERENT WAYS TO BUILD THE BEST TEAM YOU CAN BUILD.”
ROBERTO MELLO, CFO, GE HEALTHCARE CHINA

Much of the CFO role relies on individual integrity, noted participants at the various discussions and the approach to transparency and compliance that a specific CFO might take towards risk.

The challenges of nurturing talent are different for foreign companies in China, for Chinese companies in China and for Chinese companies abroad. For that last group, the challenges are only now emerging. Chinese companies have different obstacles to moving people or finding staff abroad, even as hugely successful Chinese companies like Huawei, Haier, Geely, Lenovo, Li Ning and Johnny Lau’s Spring Airlines expand internationally.

“FROM MY EXPERIENCE IN THE LAST YEAR, IT WILL ALSO BE DIFFICULT TO CONVINCE LOCAL PEOPLE IN THAT COUNTRY TO BE RECRUITED BY A CHINESE COMPANY, A CHINESE COMPANY IS STARTING A BUSINESS IN A DIFFERENT COUNTRY AND THE HOST COUNTRY MAY FEEL UNEASY”
JOHNNY LAU, CFO, SPRING GROUP

THE PATH TO CEO

Increasingly, the position of CFO is not viewed as the pinnacle to a career for a finance professional. There have been examples of CFOs making successful transitions to CEOs, but the general agreement is that such transitions are still infrequent in China. Certainly, the CFO is typically the immediate choice for an interim appointment, for the long term, however, the story is sometimes different.

Participants thought that, with a few exceptions, CFOs are not naturally prepared to take over the CEO role. The CFO is typically focused on the details of finance and complying with laws and regulations. At the same time, while CFOs often have a more holistic understanding about a particular business than other C-suite executives apart from the CEO, they may not have an innate understanding of how a business is done.

Bob Lockwood, CEO of Tiandi Energy says:


IN MY EXPERIENCE A LOT OF FINANCE PEOPLE ARE PROBLEM SOLVERS THEY IDENTIFY PROBLEMS AND THEY SOLVE THEM BUT THEY ARE NOT GOAL DIRECTED. THEY DON’T KNOW HOW TO TAKE PEOPLE AND POINT THEM AT A GOAL AND MARSHAL EVERYONE TO POINT IN THE SAME DIRECTION.

ULTIMATELY, THIS GENTLEMAN LASTED A COUPLE OF YEARS IN THAT ROLE AND THEN WAS REPLACED.

I THINK THE CFO HAS A VERY CREDIBLE SHOT IN MANY BUSINESSES TO BECOME CEO. IT IS JUST A QUESTION OF WHETHER THEY HAVE ALL THE COMPETENCIES THAT ARE NOT ALWAYS NECESSARY IN THE FINANCE FUNCTION.”
Some of the participants to the discussions thought that this is more difficult in some sectors than others. Generally, and with all other things being equal, it would be more difficult for the CFO of a business that produces and distributes complex electronics to direct that business than it would be for a CFO in a consumer retail business, for example.

“IT REALLY DEPENDS ON THE COMPETENCY LEVEL OF THE CFO AND FOR CERTAIN INDUSTRIES IT REQUIRES YOU TO KNOW A LOT ABOUT A CERTAIN PRODUCT. IF THE PRODUCT IS VERY COMPLEX, IT IS PROBABLY VERY HARD FOR THE CFO TO CONVERT TO CEO.”

ANNIE SUN, CFO, EMC COMPUTERS (CHINA)

The picture of the ideal CFO that emerged from the discussions sets the bar high, particularly for finance professionals looking to shift into business leadership roles, to change the ‘F’ to an ‘E’. For these ambitious CFOs, the role is much more than just numbers.

Although often dependent on the individual, most stakeholders seemed to agree that CFOs are often more comfortable with ‘backseat driving’. They are great advisors but lack the required comfort with risk to make the difficult decisions that lead to business growth.

Even the most encyclopaedic knowledge of finance may not be enough. What CFOs need to succeed in the wider arena of business is experience in other areas.

“IT IS DEFINITELY GOOD FOR THE INDIVIDUAL, FOR ANYBODY TO MOVE OUT OF FINANCE FOR A WHILE. WHETHER THEY BECOME THE CEO OR NOT OR JUST GO BACK INTO FINANCE IT IS GOOD EXPERIENCE TO HAVE.”

MARTIJN VANKAN, FINANCE DIRECTOR, SHELL CHINA

One thing is certain, the CFO has an advantage in aspiring towards the CEO role because he or she may be the only person in a company or division with a thorough knowledge of all areas of the business. If a finance executive also has, or can develop, a wide-angle lens combined with visions for the business are a powerful combination.

“A CEO HAS TO HAVE GOOD FINANCE EDUCATION. YOU MAY NOT NEED TO DO THE NUMBERS BUT YOU NEED TO READ NUMBERS. THE PERSON IN THE BACKSEAT ASKS YOU TO DRIVE THERE, YOU KNOW IF YOU CAN DRIVE THERE.

FOR A CFO TO BE A GOOD CEO, THE PERSON HAS TO BE GOOD AT MAKING DECISIONS AND BE WILLING TO TAKE THE RESPONSIBILITY OF THAT DECISION. FOR A VERY MATURE BUSINESS, IT IS VERY NATURAL THAT THE CFO CAN BE CEO BECAUSE A MATURE BUSINESS IS ALL ABOUT SAFETY.”

HEI-MING CHENG, DIRECTOR AND CHIEF EXECUTIVE, KAILONGREI INVESTMENT.
The idea that China is a unique place with its own set of rules and norms comes up so frequently and in so many different contexts as to be cliché. Nevertheless, it may be truer for finance professionals than for others. The one constant in China’s recent history is change. Over the last three decades, the change has been towards a more market-driven economy with greater rules. This development is very much underway.

China: A place like no other

“The growth is really what sets China apart from many other markets. In that sense the constraint factor for Shell at the moment in this growing environment is not resources, is not money, it is not business opportunity, it is people.”

Martijn Vankan, Finance Director, Shell China

The right people are necessary ‘to unlock value, unlock growth’. These factors make attrition and retention.

The basics of the market make it unique. There is no such thing as a China market: a business that operates successfully in Shanghai may find it does not have the capacity to operate in Urumqi. An exporter of services out of Beijing – a city now experimenting with a new value added tax – may find its margins and systems fail to respond to the regulatory requirements in Kunming. As one CFO pointed out in Shanghai, a business process may be a simple matter of an application in one city but virtually impossible in another. In larger multinational enterprises, it is often the CFO that has to navigate the often-unclear regulatory landscape and explain its undefined constraints to a head office that is typically looking for clear answers.

A case in point is that of the official invoices, known locally as ‘fapiao’. These are printed on special paper and have specific denominations. Enterprises cannot produce or print their own but have to buy each one from the regulators and account for each one. One CFO explained that the fapiao put a significant strain on his company’s global SAP integration project because the China operations were the only ones that could not print out invoices through the global system.

Compliance can be challenging – although the requirements for compliance change from country to country. Ensuring the right level of compliance requires the right processes, processes that are built by people from the ground up – complicated processes that rely on strong foundations.

“It is about the basics. If you can get the basics right, you can do a lot. If you miss the basics, it sets you back greatly and you lose your credibility and your license to grow. You can’t go back to the head office and say you got something completely wrong and at the same time say ‘can I have another couple of million dollars to do some more exploration’. It is not going to go down well.”

Martijn Vankan, Finance Director, Shell China

There are still a lot of grey areas in China. Practices that were part of the normal course of business fall sometime contravene new rules, yet the new rules are not quite yet part of the mainstream. The shift towards greater transparency is obvious but not always easy, explains Johnny Lau, of Spring:

“When I told my friends that I was going to be the CFO of a private company in China, they asked me ‘are you crazy? The challenge in China in particular is that we do not have very clear cut rules. Sometimes, in order to maximize your business opportunity you need to be get to the grey areas. On the other hand, there are different applications in different parts of China in different industries and in different situations. So you can’t use the same rules or the same guidelines to do anything. You have to be very aggressive. Sometimes you talk to one city and they say ‘oh, yeah, that is very easy, you just come in and file something’ and then you go get a drink. And in another city they say ‘no, you have to talk to this guy, that guy, write a thirty page report and that kind of thing. So you have to be very flexible and you have to understand how these things can be avoided.’
China will continue to evolve and grow. Even today, as economic growth slows, it remains one of the fastest growing economies in the world. At the same time, Chinese enterprises will expand further and deeper into other markets while a growing number of multinationals will play an even greater role in the domestic economy. Finance professionals will play a key role in this evolution.

Participants in the discussions in Shanghai, Beijing and Shenzhen spoke with a sense of optimism about the future. Nobody suggested that opportunities for growth would die out or that the role of finance professionals is, in any way, becoming obsolete – in fact, quite the opposite. Not only is the future bright, it will also require professionals with the skills and motivation to drive, facilitate and power growth.

As speakers pointed out, finance professionals can aspire to be CFOs and CEOs. They have the potential and capacity to lead the largest corporations in the world, as long as they are willing to take steps beyond the confines of finance. To get there, they need to be more rounded, better trained and more cosmopolitan than ever before. Their horizons will have to stretch globally. Their leadership skills will have to transcend culture.

For the best and the brightest finance professionals in China today, ambition is not limited by borders. Increasingly, these professionals can aspire to lead and to create change on an international scale. How far they reach, as participants pointed out, is entirely up to their willingness to learn, to adapt, to speak up, to understand, and to lead with integrity.

The challenges ahead for finance professionals in China have never been more complex but never have the opportunities been greater.
ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and more than 8,400 Approved Employers worldwide, who provide high standards of employee learning and development.