

The Value of the Modern CFO – Board Directors' Perspective

A SINGAPORE CFO INSTITUTE-ACCA ROUNDTABLE DISCUSSION COMMISSIONED
BY THE PRO-TEM SINGAPORE ACCOUNTANCY COUNCIL

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ABOUT SINGAPORE CFO INSTITUTE

The Singapore CFO Institute aims to be a premier association of CFOs and aspiring CFOs, for the business communities in Singapore and Asia-Pacific. The Singapore CFO Institute's working philosophy of '**For practitioners, by practitioners**' underlies the approach of being relevant by staying close to industry practitioners and their stakeholders in a rapidly transforming environment.

The Singapore CFO Institute is supported by the Pro-Tem Singapore Accountancy Council.

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 consistent 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 work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 147,000 members and 424,000 students in 170 countries, helping them to develop successful careers in accounting and business, and equipping them with the skills required by employers.

We work through a network of 83 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

Through our public interest remit, we promote the appropriate regulation of accounting. We also conduct relevant research to ensure that the reputation and influence of the accountancy profession continues to grow, proving its public value in society.

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PURPOSE OF DISCUSSION

On 14 March, the Business Times observed that 'Chief financial officers (CFOs) are now required to go beyond their traditional role of balancing the books to a broader role of managing risks, preserving liquidity and maintaining shareholders' confidence'.

In a 2009 survey, *CFO in the New Environment*, 83% of respondents said that the finance chief's role is more important today than a year ago, while three quarters agreed that the CFO's contribution to the business is now perceived internally to be more valuable than in the past¹. In the same year, in a survey which examined value creation models for businesses in 2010 and beyond, almost half the respondents (46%) suggested that the role of the finance leader in strategy was 'critically' important². More recently, in a 2012 White Paper, it was noted that the modern CFO is required to possess the ability to execute financial management strategies and work with the Chief Executive Officer (CEO) to develop business strategies³.

These findings highlight the importance of the CFO in driving corporate strategy, a paradigmatic shift from the traditionally accepted 'nuts and bolts' role of the CFO before the 2008-10 global banking crisis.

Increasingly ACCA sees an evolving and broader role for CFOs and the finance function, as transformations take place to drive efficiencies in finance operations, ensure greater governance and control, and provide the organisation with financial insights to support superior business decision making⁴.

With the government's focus on building Singapore into a global accounting hub for the Asia-Pacific by 2020, there is clearly a strong push for CFOs to operate as strategic partners in their organisations. The Pro-Tem Singapore Accountancy Council (PSAC) is appointed by the Ministry of Finance to develop the framework for implementing the recommendations of the Committee to Develop the Accountancy Sector (CDAS)⁵.

One immediate focus of the PSAC is to develop the skills sets and professional standards of existing and potential CFOs through the Singapore CFO Institute. The Singapore CFO Institute aims to be a premier association of CFOs and aspiring CFOs, for the business communities in Singapore and Asia-Pacific.

To enable the Singapore CFO Institute to roll out relevant professional development programmes for CFOs, a key question needs to be addressed: What are the attributes, competencies, specific actions and deliverables expected from the CFO in the near future?

This roundtable was organised on 11 April 2012 to address this question by seeking views and insights from directors. Through direct interactions with CFOs, directors are in a unique position to review and offer a balanced stakeholders' assessment to address the above question. Furthermore, this roundtable provides CFOs an opportunity to 'listen' to a panel of nine directors on how they can do their jobs better and improve their game.

No doubt directors are likely to have different expectations of the ideal CFO, some of which may be mutually divergent. However, after some insightful discussions, a broad consensus was reached among participants of this roundtable discussion on the attributes, competencies, actions and deliverables of an ideal CFO.

¹ The CFO's new environment, ACCA and CFO Research Services, 2009.

² The Value Creation Model for Business: 2010 and beyond, ACCA and CFO Research Services, 2009.

³ Financial Leadership Forum White Paper: Looking Ahead: New Challenges and Priorities for CFOs, Robert Half, 2012.

⁴ Accountants for Business: Building a Better Business through Finance Diversity, ACCA, 2012.

⁵ Transforming Singapore into a leading global accountancy hub for Asia-Pacific, CDAS, 2010.

KEY CONCLUSIONS

The key conclusions from directors at the roundtable were as follows:

1. Participants generally agreed that the CFO provided immense value to them and the organisations that they serve.
2. Participants believe that CFOs will need to deepen their understanding of the business model to operate more effectively.
3. CFOs should try to spend time in different business units to give them multiple perspectives on issues to develop systems thinking.
4. CFOs may do well with more exposure to regional countries. They should not avoid hardship postings overseas.
5. CFOs should have a good understanding of the risks that their organisations are exposed to. In particular, taking into account Singapore's growth as a global financial center, CFOs should be conversant with financial risks, particularly in dealing with derivatives. CFOs should also be conversant with risks associated with venturing overseas.
6. It was noted that there were many instances of CFOs becoming CEOs. Often CFOs may be appointed as interim CEOs. This suggests that the skill sets for CFOs deeply resonates with the skill sets of CEOs.
7. Leadership and soft skills were relatively more important than technical knowledge for the CFO of a large organisation which is supported by adequate technical resources.
8. Independence, trust worthiness, reliability and honesty were considered important attributes to enable CFOs to act as a credible second line of defence.
9. In respect of larger companies that are adequately supported by technical resources, CFOs need not be restricted to qualified accountants.
10. CFOs should engineer their career pathways carefully to ensure that they receive a diversity of experience in various industries and national environments.

A tentative framework setting out the attributes and competencies of the ideal CFO has been set out on page 11.

MATTERS OF INTEREST

There were several matters which did not reach any clear consensus or were tentative, but may be worthy of further exploration and research. These include:

1. It was observed by some participants that many Asian CFOs do not challenge their Boards/CEOs as much as CFOs from the West. This raises some interesting questions: Should an Asian cultural approach be maintained in the Boardroom, or should there be calls for a transformation to develop CFOs who are comfortable providing constructive challenge to the Board and the CEO? Does a subdued Asian cultural approach reduce transparency in the Boardroom and engender uncritical group-think?
2. It was observed that in many organisations CFOs operate as de facto CROs (Chief Risk Officers). However, some participants objected to assuming that CFOs would automatically be CROs. They explained that there are different types of risks that are managed by different Heads in an organisation. Each Head will be more familiar with the risks in his/her immediate environment. The following questions then arise: To what extent are CFOs today equipped to perform effectively as CROs? Are expectations of CFOs to also double up as CROs unrealistic?

The roundtable began by identifying how each participant perceived the value and role of the CFO across different industries and company sizes.

It then proceeded to discuss the role of the CFO vis a vis the CEO and CRO (Chief Risk Officer) and the trends in the environment to identify the skills and knowledge required of CFOs going forward. Cultural factors were also touched upon.

The nature of the educational curriculum for aspiring CFOs and the need for CFOs with accounting backgrounds was also debated.

The discussion concluded by obtaining a consensus on what attributes and competencies the ideal CFO should possess.

VALUE

The participants generally agreed that CFOs bring immense value to their organisations. Various participants cited different areas in which CFOs provide value. For example, the input that the CFO provided in respect of M&A activity was well appreciated by one participant. Others focussed on broader areas.

'there are CFOs who offered tremendous value not only to the CEO but also to the Board by basically acting as a sounding board for the CEO...'

Mr John Lim

One participant, though, felt that some CFOs were at times too narrow in the vision of their responsibilities. He felt that CFOs will need to broaden the perception of their responsibilities to include a variety of other matters, some of which are discussed below.

SIZE OF COMPANY AND ROLE OF CFO

There was a strong consensus among participants that the role of the CFO and even the application of the title 'CFO' will depend very much on the size of the company. It was realised that a 'full scope' CFO may not exist or be appropriate for a small organisation.

The application of the title of CFO really depends on the size, complexity and diversity of the company and/or group of companies. The CFO's role may also be very different depending on the industry and the positioning of the company within the industry.

It may be more appropriate to use the terms CFO and Financial Controller for larger companies and use terms such as Finance Manager and Accountant for smaller companies.

It was observed that leadership and soft skills become more important for the CFO in larger companies which typically employ adequate staff to deal with technical matters.

CFOs of private limited companies were encouraged to benchmark themselves to CFOs of listed companies.

'The listing requirements that a CFO of a listed company conforms to provide a benchmark on what CFOs should be doing, even if you are in a private limited company.'

Mr Wong Heng Tew

CFO TO CEO

'If the CEO disappears, who is the best person to actually hold the company together for the short term? Usually, it would be the CFO because he's the only person who understands the total business.'

Mr John Lim

'The CFO in a large company; who is moving, going places and making acquisitions; is a natural candidate to take on the role of the CEO.'

Mr Wong Heng Tew

Participants observed that there were many instances of CFOs becoming CEOs. Often CFOs may be appointed interim CEOs.

However, some participants cautioned that the evolution of the CFO into the CEO should not be taken as a given nor would it always be desired. It was pointed out that most companies have succession plans.

The successor could be from marketing, human resource or any other departments. It would depend more on the attributes and competencies of the relevant person rather than a particular department or function.

In this connection, one participant added that we are really talking about the 'Chiefs' i.e. members of the 'C-suite' within the organisation. He believed that all senior officers play similar roles. Hence, we should not be biased to single out the CFO as the primary successor to the CEO.

'A CFO may have a potential to be a CEO but it does not mean that all the successful CFOs will make good CEOs.'

Mrs Oon Kum Loon

For CFOs who aspire to be CEOs it is well worth noting that succession may be dependent on how well the CFO understands the company's business model. This understanding, participants believe, will enable the CFO to operate the company successfully if he/she is appointed the CEO, an interim CEO or a sounding board for the CEO.

It was also noted that while CFOs need to support CEOs, the reverse is also important. CEOs will also need to actively support their CFOs. This will be essential to develop a congruence of views within the organisation and work as a management team.

CRITICAL SKILLS AND KNOWLEDGE

The following were identified as critical skills and knowledge that successful CFOs will require:

- CFOs will need to develop a good understanding of the organisation's business model to operate more effectively. This will also ease the transition of a CFO to a CEO.

'...accountants', in a very broad sense, need to move out of their comfort zones to learn and really understand the business models of the organisations they work in. I think once they develop the skills of doing this, they can function and add value in any organisation.'

Dr Wee Beng Geok

- CFOs need to be system thinkers. They should try to immerse themselves in different business units to give them multiple perspectives on an issue to develop systems thinking.
- CFOs will need to hone their leadership and soft skills. Leadership and soft skills were identified as being relatively more important than technical knowledge for the CFO of a large organisation.
- CFOs will need a good understanding of the regional environment. It was noted that CFOs may do well with more exposure to regional countries.

ACCOUNTANT VS NON-ACCOUNTANT

Participants felt that it is not necessary to restrict CFOs to qualified accountants, particularly for larger companies.

A larger organisation may be able to support a large technical team that can support the CFO. Furthermore, it may also be able to use external expertise or outsource certain technical functions. Hence, it is not absolutely necessary to have an accounting background but CFOs will need to have financial literacy to communicate and operate effectively.

It may very well be that CFOs who are bogged down by accounting issues may actually have difficulty in attending to strategic matters. Arguably, the mind-set when dealing with purely technical matters is different from negotiating a deal or persuading Board members to invest in a project. This conundrum was highlighted by one participant:

'The CFO is inherently in a Jekyll and Hyde situation - on the one hand he or she needs to be quite out-going to communicate effectively with major stakeholders while on the other hand, there is the need to focus on the details.'

Dr Wee Beng Geok

The CFO will therefore need to balance and reconcile this amphibious nature of his/her work.

For those already having an accounting qualification, a post-graduate professional development programme was considered to be an advantage to further develop and hone a CFO's strategic skills and competencies.

TRENDS TO 2020

Three major trends were identified that will impact the CFO:

- Singapore's expansion as a global financial center

Singapore continues to expand as a global financial center. Financial markets will play an increasingly larger role in the life of businesses. The impact on the finance department and the CFO will also continue to grow. CFOs will need to have a better understanding of financial risks, particularly in the area of derivatives.

- More M&A activity

More M&A activity is expected. As CFOs play a critical role in M&A activity, CFOs would be well advised to familiarise themselves with various aspects relating to M&A activity.

'If a company is making an acquisition abroad, the Board would expect the CFO to lead the team in terms of assessing the potential investment.'

Mr Wong Heng Tew

- More overseas ventures and establishments

As the market for any product or service is too small if confined to Singapore, many companies will be driven to invest and operate overseas. CFOs will therefore need to familiarise themselves with risks relating to venturing overseas. It was also noted that CFOs may sometimes be asked to become CEOs in a foreign entity. Hence, CFOs must be adequately prepared for this possibility.

UNDERSTANDING RISKS

Many participants felt that CFOs should be conversant with typical risks that exist in a global financial center. These may include risks in dealing with derivatives. CFOs should have a good knowledge of these. CFOs also should be cognisant of the various risks that come with venturing overseas.

One participant observed that risks are more quantifiable in a banking environment. However, outside banking, many of the relevant risks are difficult to quantify and qualitative factors will need to be considered.

It was observed that in many organisations CFOs operate as de facto CROs (Chief Risk Officers).

'Many companies see the CFO as the default CRO.'

Mr John Lim

However, some participants objected to assuming that CFOs would automatically be CROs. They explained that there are different types of risks that are managed by different Heads in an organisation. Each Head will be more familiar with the risks in his/her immediate environment.

'When you talk about risks in a company, the risks could be in different areas. Hence, it is not logical to say that the CFO should be the CRO.'

Mrs Oon Kum Loon

If this is the case, one participant asked: Do we need a central CRO then? In practice, it was observed that CROs sometimes report to the CFO. Hence, there could be, in a number of instances, a case for CFOs to take on the role of a CRO who consolidates risks, as perceived by different business units, and interpret it.

On a more philosophical level, it was noted that risk is never objective and always a moving target. Hence, any interpretation would be fraught with subjectivity. Different heads of departments may have different perceptions of what the key risks are, no doubt influenced by their own portfolios.

ASIAN PERSPECTIVE

It was observed by some participants that Asian CFOs do not challenge their Boards/CEOs as much as CFOs from the West.

Other participants however pointed out that perhaps CFOs need not be as confrontational as their Western counterparts. For example, some Asian CFOs may not be that vocal during meetings but they do work out issues behind the scenes. This has the advantage of engendering a less adversarial and confrontational atmosphere in the Board room. This is important as CFOs will need the support of their colleagues in implementing strategies.

Nevertheless, it is important for CFOs to think independently and ask tough questions or they may lose credibility in the Boardroom.

EDUCATION

'...we are moving into a new curriculum for accountancy, which is more project-based, more analytical...'

Dr Wee Beng Geok

One participant felt that realistic project-based curriculums will be more conducive to cultivating skills that can be applied in the working environment.

It was noted that valuation procedures are increasingly becoming more important, particularly in external financial reporting. Valuation work will require CFOs to apply more judgement and analysis; in contrast to just applying (mechanically) an algorithmic set of accounting and reporting procedures.

The continued growth of Singapore as a global financial center, and the attendant skills and knowledge required to thrive in such an environment, should be taken into account when designing professional development programmes for CFOs.

WOW FACTOR

Participants were asked about the typical types of deliverables of a CFO that particularly impressed them. The following were highlighted:

- CFOs who can articulate and sharpen the corporate strategy.
Mr Soon Tit Koon
- CFOs who clearly understand the company's vision and provide effective business insights.
Mr Tan Boon Huat
- CFOs who can not only recognise issues but provide tentative solutions.
Mr Andy Tse
- CFOs that provide more in-depth financial statement analysis that go beyond the numbers and throw light on the dynamics of the business.
Mr John Lim

It is quite evident that CFOs will need to have a good understanding of the organisation's business model to deliver all of the above.

FRAMEWORK

Participants were asked to review and comment on a framework which was earlier prepared, based on inputs from CFOs. This framework included attributes and competencies relevant to an 'ideal CFO'.

Participants generally agreed with the framework although a few modifications were suggested. Based on these suggested modifications, discussed below, the initial framework has been modified.

One participant suggested that leadership be reflected as an attribute in the framework. Another participant suggested that an important attribute that should be included is that CFOs should think and act independently. It was explained that CFOs may lose credibility if they are seen to be too closely aligned to the CEO's point of view. This may render them ineffective as a second line of defence. These attributes were added to the framework.

Another attribute suggested was that CFOs should manifest reliability and consistency in presenting information. (In other words, not only should CFOs be reliable and consistent but they need to be seen as being reliable and consistent.) Participants also thought it was important to include an attribute that CFOs should be trustworthy and honest. These attributes were added to the framework.

It was also suggested that the framework be structured in a more progressive way i.e. in a way that will identify the relevant emphasis that should be placed by CFOs on the various competencies identified in the framework as they move up in their careers. This has been done by breaking up the competencies into operational, tactical and strategic phases.

The modified framework is presented on the right.

ATTRIBUTES & COMPETENCIES OF THE IDEAL CFO

ATTRIBUTES

- a. He or she is a Leader and Influencer in shaping outcomes close to the heart of the Business.
- b. He or she makes commercially sensible Decisions.
- c. He or she demonstrates strong commitment to Ethics and ability to manage ethical dilemmas.
- d. He or she demonstrates a strong Analytical ability.
- e. He or she is an effective Leader with excellent talent management skills.
- f. He or she has superior Communications skills and is attuned to cultural difference across the geographical segments of the business.
- g. He or she is highly effective in leading the Finance function to support the strategic direction and operations of the organisation.
- h. He or she demonstrates a firm grasp of the Operations of the organization.
- i. He or she should think and act Independently.
- j. He or she should manifest Reliability and Consistency in presenting information.
- k. He or she should be Trustworthy and Honest.

COMPETENCIES

I. Operational Management

1. Accounting and Finance
2. Budgeting, Forecasting and Cost Management
3. Corporate Governance and Compliance
4. Management Information Systems
5. Mergers & Acquisitions and Corporate Finance
6. Organisational and Administrative Skills
7. Right Sourcing
8. Performance Management
9. Risk Management
10. Taxation
11. Treasury and Asset Management

II. Tactical Management

12. Change Management and Insights
13. Communication and Presentation Skills and Executive Presence
14. Internal Stakeholders Relations
15. Financial Strategy (Shareholder Value)
16. Negotiation
17. Possessing good knowledge and understanding of the business

III. Strategic Management

18. Advocate/Ambassador for the Organisation
19. Vision and Goal Setting
20. External Stakeholders Relations (Investors, Regulators, Suppliers and Clients)
21. Relationship Building and Collaboration

...BASED ON ETHICS & INTEGRITY

PROFESSIONAL DEVELOPMENT PROGRAMME

Participants believe that, among other learning modules, these should be included in a professional development programme for CFOs:

- Module to develop systems thinking (including soft systems)
- Module on stakeholder management
- Module on career portfolio management.

Career planning, including job-hopping in a sensible manner would be an advantage to CFOs, at least one participant believed. Career portfolio management, done correctly, can help in increasing a CFO's exposure to various industries.

ADVICE TO CFOs FROM DIRECTORS

To conclude the discussion, participants were asked on what advice they would give to CFOs and those who are aspiring to become CFOs. Their advice is discussed below.

CFOs were advised to take a more holistic view of their organisation. In order to do this, CFOs must welcome situations which provide exposure to components that a CFO may not be familiar with. This will help CFOs develop multiple perspectives to a problem and develop systems thinking.

Cross-functional and cross-cultural knowledge is important. CFOs who avoid hardship postings overseas may lose out in the end.

For aspiring CFOs, one participant advised that it was not necessary to start off one's career as an accountant. This will be encouraging to non-accountants from other disciplines. However, financial literacy was considered a must and has to be developed on the job, along the way.

Another participant strongly recommended that aspiring CFOs consider being employed in a credit department in a bank as this will provide valuable exposure to CFOs and other finance professionals from various organisations and industries.

'If you're in credit marketing, you have to deal with accountants, finance managers, financial controllers and CFOs, and finance directors and you have to deal a lot with CEOs. Banking is a good area to start from and really learn a lot of things.'

Mr Tay Kah Chye

Integrity, energy and awareness of how you impact others were considered important for all CFOs. CFOs should always be thinking about how to help the company to grow and how to maximise the company's value. 'Do core functions well; always ask why' one participant quipped.

On a more sobering note to all aspiring CFOs, one participant cautioned:

'Not everybody can be a chief. We need soldiers, you know. Be honest, do a good job, do your best.'

Mr Cecil Wong

To be realistic, therefore, aspirants should ask themselves whether they really want to be a CFO, before they attempt to take the bull by its horns.

Companies around the world are facing an uncertain and increasingly complex economic environment. The CFO today is therefore operating in a much more challenging environment. There is much more information that businesses need to digest and more regulations on company activities. Despite this, the feedback from this roundtable suggests that most CFOs have delivered.

Business Model

Participants generally agreed that CFOs provided immense value to directors and the organisation as a whole. In fact, as uncertainty and complexity predominate, the CFO's role becomes even more critical and valuable to the organisation.

Today's CFO needs to balance the traditional custodial and operational responsibilities with their need to support the business as a strategic voice and partner. In order to do develop this strategic voice, participants believe that it is critical that CFOs cultivate a thorough understanding of the organisation's business model.

The observation that many CFOs are appointed CEOs or interim CEOs shows that many CFOs are already quite knowledgeable about the organisation's business model. An in-depth understanding of the business model is therefore a pre-requisite to assuming the role of a CEO.

Diversity

Today's CFO needs to bring a greater diversity of skills to the table to be effective. The range of internal and external stakeholders that CFOs must work with and build effective relationships has never been greater and is becoming increasingly diverse. CFOs must welcome the diversity that comes from operating in different business units across different countries and cultures.

Not surprisingly, therefore, roundtable participants have called on CFOs not to shun hard postings overseas and embrace a more holistic view of the organisation by immersing themselves in different business units. This will transform a pinhole view of the organisation into a panoramic view.

Risks

By exposing themselves to diverse environments, CFOs can also develop their understanding of the risks that their organisations are exposed to. This exposure will provide CFOs with different insights into the challenges, issues and opportunities at national, regional and global levels as well as providing a better understanding and empathy for the embedded risks in different markets.

As observed by roundtable participants, Singapore's growth as a global financial center will have an impact on the work of the CFO. CFOs need to be acquainted with financial risks, particularly in dealing with derivatives and foreign currencies. CFOs should also be conversant with risks associated with venturing overseas.

The Global Lattice

The evolving finance function means that career paths of CFOs are less straight-forward today. The corporate lattice has taken the place of the corporate ladder. Today's corporate lattice, furthermore, is not restricted to a particular organisation. Career pathways traverse different organisations, industries and countries.

Given this scenario, roundtable participants rightly pointed out the need for 'career portfolio management' across industries. The underlying message is that the CFO's career path is unlikely to be linear and that CFOs will benefit from a diverse portfolio.

Perception Alignment

The participants, who are directors, generally agreed with the attributes and competencies of an ideal CFO, as outlined by CFOs themselves in an earlier discussion. This shows that directors and CFOs have significant alignment in their perception of the attributes and competencies of the ideal CFO. Based on this roundtable, therefore, we conclude that there is no significant gap between directors and CFOs on their perception of the ideal CFO.

The Framework

We believe therefore that the framework, as set out on page 11, while not intended to be exhaustive or conclusive, can act as a useful guide to develop professional development programmes for CFOs.

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