Requirements for CFO Within the Business Model

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Abstract

The concept “Business modeling” has become commonplace in everyday business due to the rapidly changing market situation, fierce competition and digital transformation trend that affects every business. Other player can appear unexpectedly and bring a new business model to the market, typically fueled by innovative technologies and ideas, and render everyone else obsolete. To remain successful shifting of business environment is required as well as an updated management capability not only to modernize processes, but also to select, empower and appreciate workforce. One of the key roles in any business organization plays the Chief Financial Officer (CFO) that contributes and determines the wellbeing of the business. The role has become more important because of the new technological influence and therefore is more needed by business organizations. This paper aims to formulate requirements for CFO for companies that are going to establish a new business model or to reinvent the existing one. The result of this paper forms the basis for conclusions about the role of the CFO while modelling business, contribution to the modelling success and about requirements that the CFO has to meet.

KEYWORDS: business model, CFO, new role, digital age, transformation.

Introduction

Technology has caused seismic changes in business models (BM) (Muller, 2017). To remain successful shifting of business environment is required and an updated management capability in order to modernize processes, select, empower and appreciate workforce. The digitalization trend involves also risks and one of them is the team, that works on the current model and creates changes within the enterprise. There is a shortage of people who have both technical expertise and additional skills that will enable them to work well inside an organization (Forbes, 2017). On the one hand, business model is an excellent tool which entrepreneurs can use in order to adapt their activities to new market challenges. On the other hand, business modelling as a process contributes to the education of a digitally advanced and successful team workers.

By modelling new business, the goal can be achieved by using business modelling by processes allowing for costing deliverables, controlling operations and designing information systems aligned with business procedures and organization (Briffaut et al 2002). The finance function plays an increasing role in key decisions related to the business model and configuration of the business portfolio. Risk assessment, compliance, audit, and corporate governance have become extremely important. These new demands have significantly impacted the profile of the CFO. Subsequently, soft skills have become just as important as hard skills. And soft skills cannot be outsourced. This means a complete transition which also affects business modelling.

The aim of this research is to define the role of the CFO for companies that are going to establish a
new business model or to reinvent/widen the existing one as well as to determine requirements for competences that need to be present to be competitive in the information and knowledge economy.

Various methods were used in the research: the theoretical part consists of the scientific literature analysis. The research data were processed by continuous comparative analysis, using open coding, level 2 coding, axial coding and content analysis method with inductive and deductive approach (Martinsone et al., 2016). Semi-structured interviews with 3 business experts (Rainer Schubert (RS)) and Dr. Alfred Orlowski (OC)), representing entrepreneurship in Germany (Tax adviser company “Admedio GmbH, represented by AO, the CIT GmbH, represented by RS) and in Malta (Papaya Ltd, represented by O. Cernisevs, (OC)), were conducted during the course of the research. The choice of the experts was based on the diversity of their expertise in several business areas: reinvented its business and adopted to new market demands (AO); helps young entrepreneurs to establish new business (RS); created a new business in FinTech Industry in Malta (OC). The companies represented by experts are completely different and unrelated to each other. In interviews, experts were asked to assess the significance of the new role of the CFO by using the Likert scale with points 1–5, where 1(irrelevant); 2(unimportant); 3(moderate); 4(important); 5(very important). The data are presented in the form of Figures.

To achieve the goal of this research the authors studied theoretical aspects of business models and the role of the CFO in particular. Following important findings could be noticed:

The concept of “business model” in literature is becoming an increasingly widespread topic. Business modelling perspective has been changed over time in to the technology dependence or digital transformation’s direction (Mueller, 2017: 276) and made customer a well-informed market player. Digital transformation affects everything, making it faster, wider and more systematic (Matzler, 2016: 966). According to BDI only 55% of European business executives have been contemplating the impact of technology on their companies; only 30% believe to be ready for the technological transformation (BDI, 2015). The technological development forces each company to rethink its further actions, identify areas and processes that require customization and improvement; this rethinking process needs to take place, if the company aims to ensure its sustainability in the long term and strives to improve its competitiveness.

A business model is at the core of any successful entrepreneurship, because no matter how good or unique an idea may seem, it must have “a viable way of making money that is worthy enough for future investment and to sustain itself” (Tomaro, 2017). The content of the business model and its robustness are the success and failure of business in the company. And people are those, who contribute to notable changes by offering different and diversified approaches based on client needs and interests and by improving processes and assigning them a different kind of speed and quality. The human factor is a driving force for business model and has a great impact on its competitive position. Especially for a new business venture, the entrepreneur establishes the vision and rules, charts the course of direction, but it is still the employee who must translate and make the founder’s vision and policies a reality for sustainable growth and success. (Jensen et al, 2006) It involves ongoing learning and instilling the whole business model across the company including the executive team and board, and then living the new business model every single day. There is really only one function that has financial and operational visibility into all other functions – the office of the CFO (IFAC, 2013)

Today, the CFO is the CEO’s right-hand person. The classical role of “record-keeper” of the CFO has been also transformed. The role “has been leveraged by the new technological breakthroughs of the information age” (Daraban, 2018) and allows to use much more data, information and knowledge for the decision process. The range of responsibilities of the CFO has expanded, driven by complexity as a result of globalized capital and markets, regulatory and business drivers, growth
in information and communications, and changing expectations of the role of the CFO (IFAC, 2013). “CFOs must own the business model” (Sloat, 2019).

According to IFAC a professional chief financial officer (CFO) should be an effective organizational leader; be able to balance the responsibilities of stewardship with business partnership and to act as the integrator and navigator for the organization; should effective lead the finance and accounting function and bring professional qualities to the role and the organization. (IFAC, 2013). The training, expertise, and experience professional accountants bring to the CFO role should be seen as an advantage specifically in terms of uniting an ethical and technical mindset together with business acumen (Daraban, 2018).

Companies shape the CFO role to meet current needs and expectations, particularly in terms of the expectations and in relation to the existing composition and skills of senior management. The type of organization, whether it is in the public or private sector, and its history and culture also influence the type of CFO required. Company’s size is also a crucial determining factor in the type of CFO employed. Small businesses generally need to consider the appropriate time to hire a CFO.

Research results

To determine the set of capabilities and competences that are needed by modelling new business or reinventing/widening the existing one the authors of this paper used interviews and asked experts to analyze and evaluate approach, skills and abilities of the CFO as well as to assess the characteristics of their existing CFO’s in the company.

According to experts, the CFO should “take notice” (interview with RS, 12.12.2019., further RS). Not only because of “potentially new source of income, but also because of far-reaching consequences” (RS). This includes “revenue recognition, shortening the time frame for adapting and responding to customer requirements” (RS) and means that the CFO also should participate in the processes and their optimization, in the forecasts and scenario development of the company for its sustainability in the future and effects on the current situation. The impact on financial and non-financial KPIs as well as the expanded digital ecosystem require “a different kind of planning with dynamic real-time data and functions for predictive analysis” (interview with AO, 12.12.2019., further AO). “Part of this intelligence will come from humans and part from systems” (RS). Since the CFO operates a lot of information, he/she should be “the scientist who generates data, manages the IT architecture” (OC). This means that IT skills are also very desirable in order participate in the company’s technological progress.

Analysing the answers obtained during the interviews, the authors have created thematic categories that allowed to define the scope of CFO’s characteristics (see Table 1).

Table 1

<table>
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<th>Characteristics of CFO</th>
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<td>generates data, plans with dynamic real-time data</td>
<td>is able to focus employees on their goals, focuses on finding talent</td>
</tr>
<tr>
<td>manages IT architecture, recognizes and takes advantage of the opportunities for innovation</td>
<td>CFO</td>
</tr>
<tr>
<td>measures, and creates performance and value, develops evaluation criteria</td>
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The authors have compiled a summary of the requirements that the modern CFO has to have from expert point of view and those which the CFO actually have in the existing business models. The basis for this summary was the importance assessment of characteristics presented by the interviewed experts (see Figure 1).

It becomes clear that all of the mentioned skill sets could not always be achieved and are in some areas desired. The experts explained this with the lack of new talents, few committed applicants,
scarcity of the labor market etc. However, the AO emphasized that this problem can be solved in the company by performance-based rewarding the CFO. This option could lead to the “ability to focus employees on their goals ....” (AO). Other experts believed that performance-related pay could not be appropriate in all cases and models. And it can “reduce pay equity and can make a company liable to costly equal pay challenges” (interview with OC, 20.12.2019., further OC). The stated lack of knowledge by the employees is the consequence of the high technological development speed that is overcoming the development speed of educational programs.

The CFO brings his own business and strategy skills into the mix “by measuring, managing and creating performance” (RS). This shows the role of the CFO in creating added value. The CFO also contributes to this by coordinating data, ensuring automatism in the billing and also being responsible for the correct selection of reliable employees.

“By changing the metrics and finding new business models to transform the company” (OC) and making it profitable “he must also be an engineer” (RS): He is someone who “…organizes and coordinates rules and regulations” and “builds lasting legacies that will guide the company for years” (AO). From RS point of view, the focus is more on the market, since decisions are based on data and reasons rather than experience: “the CFO must also be a bit of an architect who brings together the legal, financial and market-specific data and also interprets it correctly” (RS).

As a coach, he is someone, who “focuses on finding talent and leading it outside of the finance department” (RS). CFO brings people and technology together by driving performance through skill development across the enterprise. This feature contains the communicative skills of the CFO, who also creates this connection between the employees within the company. CFO has to be able to present systematically and to evaluate new business ideas: “poses problems, questions decisions and makes companies profitable” (AO).

The CFO is “confronted with new tasks and questions” (OC): transparency with regard to structures, processes and dependencies, even for completely new business models with previously unusual performance and earnings models. “Development of evaluation criteria for new companies and development of suitable measuring points for processes, resource use in the transformation of individual business models” (AO) And “development and evaluation of concrete future scenarios instead of budget-driven extrapolation of the status quo” (OC). To foster innovation, the CFO has the opportunity to act as a role model for innovation. “He has to be able recognize and take advantage of the opportunities for innovation” (RS) that are available.

There was also a lot of discussion about how the company can achieve and develop all of the above-mentioned characteristics and skills among its employees, especially the CFO. In this con-
text, the experts were asked to name the options used in their companies that lead to the meeting the most of the requirements (see Figure 2): "Employees learn all the tasks which are required for each job they take on" (RS). If the CFO knows the expectations and functions of all occupations surrounding him, it will be easier for him to grasp the importance and the challenges of the tasks. "Cooperation is essential" (OC). "Job rotation breaks up monotony" (AO). This provides job stability and equips him for better opportunities to earn promotions. Learning experiences "engage employees" (AO). This method makes building a strong experience upon "practice and a comprehension" (RS) possible and "reinforces understanding of subject matter" (OC). Additionally, it helps for the CFO to cope with the latest trends in the company’s business and helps to understand "what your new tasks are and also adapt to the new project more effectively" (OC). Another way how to keep the CFO up to date and contribute to his qualification, is the option to send him to relevant conferences that help him meet the same professionals, share opinions. This also extends the CFO’s knowledge horizon and "leads to new contacts for the company itself" (RS). And another important method, which was shared by the experts, was about how the company can train and shape the CFO. The experts spoke about the possibility of further training courses and seminars. In a globalized job market, continuous qualification is actually essential even after initial training. On the one hand, "it is a part of the employee’s loyalty to the company" (OC); on the other hand, “the employee can bring new knowledge and insights into the company" (RS). Employees who take part in further training "are generally more satisfied with their work" (AO).

To summarize, it must be mentioned, that the role of the CFO is currently under review internally and externally. Economic uncertainty, increased regulatory requirements, balance sheet adjustments and increased control by investors pose major challenges and cause an increasing change on the executive levels.

Conclusions

- The business model is a role-playing game involving all company’s employees. This means that the CFO also should participate in the processes and their optimization, as well as in the forecasts and scenario development of the company for its sustainability in the future and their effects on the current situation.

- The CFO holds many of the more powerful operational roles, and the decisions he or she affects the forward-moving vectors of the organization. It means, that the CFO is more involved than ever in shaping company culture, having a far wider impact on the business than before. The CFO is someone who organizes and coordinates rules and regulations in the company and builds lasting legacies that will guide the company for years.
The CFO has become increasingly playing a strategic, shaping role instead of classic administrative tasks. Faced with advances in technology and growing responsibilities, the CFO must adapt to be effective. As a result, soft skills are as important as hard skills. As a coach, he is someone, who focuses on finding talent and leading it outside of the finance department and brings people and technology together by driving performance through skill development across the enterprise.

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