May 2015

# Across the Board

A newsletter for Australian Directors

## Features



KPMG

cutting through complexity

## **Across the Board** May 2015

In this edition, we look at the key findings from the *2015 Global Audit Committee Survey*, as well as the evolving relationship between big businesses and start-ups in the world of innovation.

We also explore managing tax reputational risk and the challenges for company directors and take a fresh look at company turnaround. Finally, we share insights into what the CFO of the future looks like.

We hope you find this edition of *Across the Board* of interest. If you would like to discuss any featured articles in more detail, please contact me or your local KPMG partner.

**Peter Nash**
**National Chairman,**
**KPMG Australia**

For feedback on *Across the Board* please contact us.

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## KPMG's 2015 Global Audit Committee Survey – key findings

**Duncan McLennan**
National Managing Partner, Audit, KPMG

Against a backdrop of concern over political and economic volatility, government regulation and the impact of public policy, technology emerged as a key challenge.

Short of a crisis, the issues on the audit committee's radar don't change dramatically from year to year, and they probably shouldn't. But sometimes small shifts can tell a big story.

KPMG recently released its *2015 Global Audit Committee Survey* on the key challenges impacting audit committees.

Against a backdrop of concern over political and economic volatility, government regulation and the impact of public policy, technology emerged as a key challenge – both globally and within Australian audit committees. Interestingly, cyber security and technology change seemed to be more of an issue for audit committees in Australia than globally.

### Managing the challenge of technology

In the survey of more than 1,500 audit committee members, which included 78 Australian respondents, audit committees expressed strong concern over the quality of information they receive from their companies – and the lack of time available to address key issues.

Asked in which areas the information they receive needs improvement, 51 percent of Australian and 41 percent of global respondents cited cyber security and 43 percent and 35 percent respectively said the pace of technology change.

These results reflect the extent to which the digital revolution is impacting businesses and potentially the role and scope of the audit committee.

Australian and global audit committee members are keen to respond to the new challenges posed by technology. Fifty-eight percent of Australian and 55 percent of global respondents said they wanted to spend more time on cyber while 60 percent and 50 percent respectively wanted more time spent on understanding the pace of technology change.

**Apart from more time, what else would help?**

Nearly half of Australian respondents said more IT expertise on the audit committee would help its effectiveness, compared with 33 percent of global respondents. Forty-five percent of Australian respondents said more 'white space' time for open dialogue would be of benefit, while more than a third said greater diversity of thinking, background and experience.

### Overcoming time poverty

One of the key revelations of this year's survey was the trend most impacting the audit committee's effectiveness: 'agenda overload'.

The twin pressures of more to do and less to do it with represent a major concern to audit committees, with almost half indicating that they were not satisfied that their committees had sufficient time and expertise to oversee major risks in addition to their traditional financial reporting oversight role, or at least that it was becoming 'increasingly difficult' to do so. The issue seems to be less problematic in Australia, with just 30 percent expressing these concerns.

Three quarters of all respondents said the time required to carry out their responsibilities has increased significantly (24 percent) or moderately (51 percent), compared with 14 percent and 55 percent respectively within Australia. Role creep is part of the issue, with many committee members saying they now have some responsibility for other significant areas of risk oversight such as cyber security and technology, global compliance and operational risks, and risk processes generally.

### Relational paradigms

There were also some key findings in terms of relationships between the committee and other key functionaries. Sixteen percent of Australian respondents and around the same globally felt they weren't effective in assessing CFO performance, while 26 percent and 42 percent respectively said they were ineffective in overseeing CFO succession planning. Connecting with the CIO and with the company tax director were other areas of relational deficit identified by some participants.

# Cyber security and technology: leading concerns for Audit Committees *(cont.)*

## KPMG's 2015 Global Audit Committee Survey – key findings

### Key survey findings

| Top challenges and concerns (aside from financial reporting risks) | Global | Australia |
|---|---|---|
| Uncertainty and volatility (economic, regulatory, political) | 52% | 37% |
| Government regulation/impact of public policy initiatives | 47% | 50% |
| Legal/regulatory compliance | 33% | 22% |
| Operational risk/control environment | 30% | 40% |
| Talent management and development | 27% | 27% |
| Growth and innovation (or lack of innovation) | 26% | 21% |
| Pace of technology change | 21% | 32% |
| Possible disruption to the business model | 20% | 27% |
| Cyber security | 16% | 21% |

| Quality of information needing improvement | | |
|---|---|---|
| Cyber security | 41% | 51% |
| Pace of technology change | 35% | 43% |

| Key areas needing more (or significantly more) audit committee time in 2015 | | |
|---|---|---|
| Oversight of risk process | 62% | 59% |
| Adequacy of internal controls around operational risks | 61% | 58% |
| Cyber security | 55% | 58% |
| Pace of technology change | 50% | 60% |

| Audit Committee Agenda and workload | Global | Australia |
|---|---|---|
| Time required to carry out audit committee responsibilities has increased moderately or significantly over the last 2 years | 75% | 69% |

| Time and expertise | | |
|---|---|---|
| Satisfied your audit committee has the time and expertise to oversee the major risks on its agenda in addition to carrying out its core oversight responsibilities | 52% | 70% |

| Changing role | | |
|---|---|---|
| Reallocated/rebalanced risk oversight responsibilities among full board and board committees over the past several years | 35% | 34% |

| Audit committee effectiveness – opportunities for improvement | | |
|---|---|---|
| Better understanding of the business (strategy and risks) | 43% | 32% |
| Greater diversity of thinking, background, perspectives and experiences | 38% | 35% |
| More 'white space' time on the agenda for open dialogue | 34% | 45% |
| Additional expertise – technology | 33% | 47% |

### Lessons learned

As the National Managing Partner of Audit at KPMG, the survey contains real lessons for me to reflect on. By far the areas with greatest room for improvement by external auditors both in Australia and globally are ones that we hear regularly through our own *Client Insights* program of interviews with company directors. The survey confirmed that they really want auditors to offer industry-specific insights/benchmarking; keep the audit committee apprised of accounting developments and share with board members our views of the financial management team. That is something we're working hard on.

There was also a strong view expressed by the Australian respondents that the EU audit reforms, due to come in next year, will not help audit quality. This too is consistent with the view we generally hear in the Australian marketplace.

The survey provides powerful insights into the audit committee's key concerns – and can very helpfully steer conversations about change and how the audit committee can be more effective into the future.

You can read a copy of the full survey here.

# Why are big businesses looking to start-ups for innovation?

**Martin Sheppard**
National Managing Partner, Brand & Innovation, KPMG

**James Mabbott**
Head of Innovation Services, KPMG

Innovation is no longer a buzz word. More than ever, it is a critical element in fuelling business growth and maintaining market share.

Businesses today face a market of constant instability and disruption due to significant changes in customer behaviour, technology, regulation and demographics. This demands an innovative response from business. Otherwise they risk losing revenue and market share to more forward thinking, innovative and agile competitors.

Innovation is not new to the world of business – Thomas Edison and Henry Ford, among many others, are consistently referred to as pioneers of innovation in modern business – but businesses' approach to innovation has changed significantly in recent years. The key differences today are speed to market and a greater diversity of emerging business models, largely due to the emergence of a deeply interconnected global economy, lower barriers of entry and the hyper-connectivity of businesses and people enabled by the internet.[1]

Successful innovation lies not only in generating ideas, but in understanding the disruptions of today and tomorrow, in building an innovative culture and, most importantly, in efficient and effective implementation. This, in turn, needs to be supported by a well-designed process to ensure the right ideas are uncovered and successfully brought to market.

For many organisations innovation can be difficult to understand and execute. By its very nature, innovation is risky and involves failure which does not always sit comfortably with many big businesses. As businesses get bigger, the ability to innovate is often limited by their size and the processes and procedures developed to help them achieve their objectives and, importantly, to manage risk and compliance.

So how do established businesses step outside their traditional processes and procedures to foster innovation?

One trend has been to set up internal corporate innovation teams, nimble and small in size, which often look to draw on sources external to the organisation for the purposes of innovation. These internal corporate innovation teams can still be hindered by internal business issues and the inherent culture in an organisation.

So an emerging alternative to this sees many corporate innovation programs turning to start-ups and entrepreneurs for ideas and solutions, to bring new thinking into their organisations and to challenge the status quo. It also offers an opportunity to outsource high risk, high return research and development to an ecosystem that is much better geared to accept the risk profile.

This is the real genius of most successful start-ups, it is less about their underlying technology, and more about their bold mindset, risk-taking attitudes, customer-centric marketing and unique pricing models. In many cases, the 'start-up way' hits at the heart of existing successful business and operating models. By accepting the risk of failure, start-ups are truly free to innovate.

**Seven practical start-up tips you can learn to become more innovative**

1. Think big and follow your vision
2. Put the customer first
3. Fail fast and fail cheaply
4. Collaborate – internally and externally
5. Form smaller teams
6. Do more with less
7. Put technology at the heart of the business

The question is, what insights, if any, can start-ups offer big business, which often works very hard to reduce risk to core operations?

We have seen examples of Australian companies successfully working with start-ups and their methodologies to improve their access to innovation through a number of means, including:

- **Accelerator and incubator programs** – providing business direct access to the start-up ecosystem, at the same time supporting the start-ups who may potentially become customers, suppliers or potential acquisitions.
- **Corporate venture capital** – where businesses are strategically investing in start-ups whose goals align with their objectives, with the intention of acquiring talent and innovative products and services at a lower cost than through internal research and development.[2]
- **Start-up acquisitions and alliances** – where businesses are acquiring start-ups for their intellectual property, the product or service, the team or the entire business to build innovation capability quickly, while allowing the business to focus on its core competencies without disrupting the existing business model.

KPMG Australia is among those organisations pioneering a range of innovation initiatives to help our clients – and our own organisation – harness the power of disruption and excel at innovation. We are doing so by investing in the innovation ecosystem through leading industry partnerships and investments.

Likewise, we see that KPMG Australia has an important role to play in supporting our clients through collaborative innovation, where we help them progress from 'what if' through to 'how to'.

As business leaders, we must all decide whether to ignore emerging risk-taking start-ups and their business models today because it's too hard and consequently risk being disrupted tomorrow.

Whichever way you look at it, there are definite opportunities in greater levels of engagement between the big end of town and start-ups: we both have a lot to learn from each other.

Start-ups are at the forefront of innovation. They disrupt the market and represent everything big business isn't. Start-ups embrace failure as they take on risks as a matter of course.

1. Joined up Innovation, Microsoft.

2. http://www.inc.com/jeremy-quittner/corporate-venture-capital-drives-innovation-for-big-companies.html

# Why are big businesses looking to start-ups for innovation? *(cont.)*

### KPMG's investment in the start-up ecosystem

KPMG has invested in three key initiatives to enhance Australia's innovation ecosystem. They will connect start-ups with potential investors and clients through the KPMG network – delivering commercial success for all businesses involved.

## Artesian: fast-tracking start up success

KPMG has forged a new strategic alliance with Artesian Venture Partners to provide up to 1,000 Australian high-growth start-ups with a new structure of support and capital, to propel their business' success over the next 5 years.

Artesian's unique co-investment model allows it to quickly scale up its investment portfolio by outsourcing the selection, mentoring and due diligence of start-ups to specialist partners – accelerators, incubators, investors, university programs, angel groups, research institutes and even digital agencies.

Our intention is for the alliance to connect Australian corporations, super funds and industry bodies with the start-up ecosystem to increase investment in, and engagement with, Australian entrepreneurs.

## Elevating Australian entrepreneurs

Entering new global markets can be tough for start-ups. That's why we're working with global not-for-profit, Advance on the ***elevate***[61] program.

The 12-week accelerator program provides Australia's entrepreneurs with mentorship, education and access to an established premium network of Australian and US corporations, KPMG Australia partners, investors and entrepreneurs, enabling participants to take part in comprehensive workshops, roundtables with seasoned entrepreneurs and interact with potential clients and investors.

When ***elevate***[61] participants complete the program, they fly to the US to accelerate new market validation and for the opportunity to meet with Fortune 500 companies and investors.

## Energising the energy & natural resources (ENR) sector

Against a volatile economic climate with falling commodity prices, global oversupply of crude oil, sustained operating cost inflation and decreasing productivity – KPMG Australia is supporting start-ups in the ENR sector to help drive the kind of innovation required to help revitalise the sector.

Based in Perth, Energise is a 12-week accelerator program that matches established ENR business with Australia's best and brightest entrepreneurs.

For more information visit 'Driving Innovation' at KPMG.

The commercial benefits of innovation are well known. Today, however, there is an added urgency for businesses' efforts to devise and execute on new ideas. Increasingly they are faced with the threat of disruption from many known and unknown sources. How businesses respond is critical to their continued success and, ultimately, their existence.

# Are you prepared to manage tax reputational risk?

**Angela Wood**
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**Alex Patrick**
Senior Lawyer,
KPMG Legal and Tax Services

In the November 2014 edition of *Across the Board*, Rosheen Garnon, KPMG's National Managing Partner – Tax, and David Drummond, National Leader, Tax Management Consulting, addressed 'Beyond BEPS and Tax Reform', focusing on board accountability and responsibility for tax.

In the context of corporate accountability, a heightened call for transparency and ongoing media interest in tax in Australia and overseas, they explained that the reputational risk of being unprepared for the debate on corporate social responsibility for tax and tax reform is too great and companies need to act now. Rosheen and David posed a number of questions for non-executive directors (NEDs) to address.

Addressing these questions now is critical as part of being prepared to manage reputational risk. It is also fundamental in the context of managing any tax disputes that might arise with revenue authorities (i.e. the Australian Taxation Office, ATO, or State/Territory Revenue Offices). In the current environment, these disputes in themselves can make front page news, subjecting your organisation to further media and public scrutiny. They can also give rise to questions from your shareholders and key stakeholders, both from a commercial and tax perspective.

The ATO is clearly now focused on early resolution of tax disputes. Significantly less cases are proceeding to litigation - according to the Commissioner of Taxation's Annual report for 2013 – 2014, 77 percent of cases were settled prior to litigation (compared to 72 percent in 2012 – 2013).[3] This is a positive development given the additional reputation risk that litigation can pose for organisations in its own right – not to mention the significant time, cost and uncertainty, and distraction from growing your business.

Tax disputes themselves, however, have not necessarily declined. Many are simply being resolved earlier in the tax dispute lifecycle. In 2013 – 2014, 42 percent of disputes were settled at the Audit stage.[4] This is significantly higher than the 29 percent settled at the Objection stage, 18 percent at the Administrative Appeals Tribunal stage and 5 percent at the Federal Court stage.

In addition, the number of settlements registered by the ATO is up by 16 percent from last year,[5] and the amount collected by the ATO from settlements of tax disputes is said to be at a record high of $2.6 billion.[6]

The ATO's ability to deliver on early dispute resolution has been facilitated by "[b]oosting tax technical support and legal discipline for front line compliance officers (auditors)… people from [the ATO's] previous Centres of Expertise have been posted out with Compliance teams and [the ATO's] senior dispute resolution people provide Continuing Professional Development sessions and clinics on legal processes like 'facts and evidence gathering' – as an example."[7] This, in turn, is allowing the ATO to identify key areas of risk more quickly, and articulate these more succinctly – including explaining what documentary or other evidence they need from the taxpayer in order to mitigate the identified risks.

For your organisation, this means that proactive preparation is now fundamental if you want the market to have an accurate analysis of your organisation's position. It is also important because the significant majority of tax disputes are factual – which means an early and diligent focus on robust facts and evidence is critical.

> ... the reputational risk of being unprepared for the debate on corporate social responsibility for tax and tax reform is too great and companies need to act now.

In the current tax dispute landscape, the key additional questions that NEDs should have front of mind in the current environment are:

1. Have we proactively and thoroughly documented our transactions, projects and uncertain tax positions (e.g. in relation to high value/complex transactions, merger and acquisition activity, funding structures and/or significant cross-border activity)?
2. Have we objectively considered our options for dealing with a number of open enquiries (including across multiple jurisdictions) strategically rather than on a piecemeal basis?
3. Should we be proactively engaging with revenue authorities to discuss an upcoming transaction, merger and acquisition activity or current year tax position, and what might the consequences of this be?
4. How will revenue authorities approach a risk review or audit of our tax positions?
5. Do we have a clear picture of possible resolution scenarios for disputed tax positions, including objectively assessing how best we can impact and influence revenue authorities?
6. What perceptions could the media and our key stakeholders (both from a commercial and tax perspective) have, and how do we continually ensure that we positively and proactively influence and impact these?

With the current media attention on corporate taxpayers, the BEPS debate and the recent *Senate Economics Reference Committee Inquiry* into corporate tax avoidance and minimisation, you should be preparing now to ensure that your organisation can, on an ongoing basis, positively and proactively:

- display transparency and correct information to the market; and
- engage with revenue authorities on any areas of focus.

These key strategic issues cannot be ignored, and your organisation should be investing the time now to ensure that these issues are addressed.

3. Commissioner of Taxation, Annual report 2013-14, page 73.
4. Commissioner of Taxation, Annual report 2013-14, page 74.
5. Commissioner of Taxation, Annual report 2013-14 page 74 and Commissioner of Taxation, Annual report 2012-13, Table 2.20.
6. Commissioner of Taxation, Annual report 2013-14, page 74.
7. Commissioner of Taxation's address to the Tax Bar Association, 6 November 2014.

# A fresh look at company turnaround

## Principles for success

**Carl Gunther**
Partner,
Restructuring Services, KPMG

No matter what stage in the economic cycle, there will always be organisations suffering distress that manifests itself in the form of a company financial crisis.

But there is usually little training for a board in how it should respond, and often board members do not have active experience in spotting the warning signs and dealing with such events.

Most companies do not respond soon enough and as a result find themselves poorly prepared, with less flexibility and time to drive the changes required. The impact can be significant on companies and their subsidiaries, and often a company doesn't start formulating a recovery plan until it is already underperforming and losing the confidence of stakeholders.

There is no standard off-the-shelf approach in a turnaround. No prescriptive 10-point plan that can be deployed across all circumstances – in fact, each company's circumstances will be unique. Some common principles prevail however which can be usefully deployed in a turnaround no matter how mature or complex the issue.

In our experience, the top three principles are:

### 1. Managing stakeholder expectations remains the key challenge for companies in turnaround.

Realigning expectations among stakeholders is the biggest challenge for corporate restructuring. Companies in distress are under pressure. As circumstances deteriorate, the quality and timeliness of the communication to stakeholders can often deteriorate as the news varies or gets worse. That goes for both internal and external stakeholders. The agendas of stakeholders have to be reconciled and confidence re-built.

Management can often feel under pressure to present stretch or optimistic forecasts. This can have a significant, and at times terminal impact on stakeholders' trust in the company and its management. Transparent, realistic and consistent communication is vital.

In the context of a public company, the inherent problems during a turnaround are often under the public spotlight and boards rightly direct their attention to meeting their ASX obligations to keep the markets informed. The investors 'price-in' the bad news and make decisions based on the information provided by the company in keeping with its continuous disclosure obligations.

However, the level and extent of disclosure required in managing a company's interaction with its lenders, customers and staff is often underestimated and yet these stakeholders often have the biggest role to play in assisting with the turnaround of the company.

**A key to achieving a successful turnaround is to decide what to communicate:**

1. Adopt a rigorous governance process around messaging.
2. Communicate early and often to build commitment and support. (Taking care with what, to whom and when).
3. Acknowledge the circumstances and to the extent possible seek the involvement of stakeholders in the preparation of a plan.
4. Plan for the downside, target the upside with risk based initiatives. Don't rely on hope as a plan.
5. The CEO in most instances should be seen to articulate the imperative but all management should be seen accountable for delivering outcomes.

### 2. No one is the owner of all the good ideas.

The burden to identify a turnaround plan should not just rest with the C-suite.

Usually in a turnaround companies focus on a capital solution (e.g. distressed M&A; increased debt/equity), despite the possibility that finding one additional dollar of earnings could mean a company is able to service an additional 3 dollars of debt (assuming a 3x leverage ratio). It follows, therefore, that improving a company's earnings is likely to have a high impact in any turnaround strategy. The ideas to improve earnings are often in hindsight relatively simple in application, but in practice are not always obvious to identify. Such solutions are beyond a basic 'sell more with less' strategy.

Typically the board looks to the CEO/CFO for ways to improve earnings. However, the challenge is that they may not have all the ideas to identify and then implement the solution(s). Indeed they may have exhausted all ideas!

While some circumstances require the appointment of an externally sourced CEO/CFO or Chief Restructuring Officer (CRO), in our experience, the people employed in the company across management layers will often be the ones best able to originate ideas to improve earnings and determine the path a company should take. The premise that only the CEO/CFO or externally appointed CRO can own the ideas in a turnaround is flawed, given the best ideas will often flow from the intellectual capability residing in management.

Furthermore, often a fresh set of eyes from either within the organisation or from external advisors can help identify options. We often see the best ideas with the lowest risk originate from second and third tier management. Investing time in harnessing the intellectual capital of a company's people can be one of the best ways to originate ideas to find a way through a turnaround.

### 3. Cost reduction continues to be a prime focus to improve earnings, but few corporates achieve their savings targets.

Companies also fail to implement turnaround plans – it is one thing to develop a plan, another to successfully action it.

KPMG commissioned the Economic Intelligence Unit to undertake a survey of 427 companies across the globe, regarding cost reduction program execution, effectiveness and sustainability[8], the results of which were remarkably consistent across the organisations reviewed.

Our research indicated that only 8 percent of organisations always achieved their savings targets. Further, on average these companies only achieved 60 percent of targeted levels, which suggests that 40 percent of potential savings are being unrealised.

8. Rethinking Cost Structures Survey, KPMG International, 2007.

# A fresh look at company turnaround *(cont.)*

Experience tells us that one way of gaining comfort around cost targets is to ensure ownership is clearly assigned and each target is assessed on a low, medium or high basis in respect of its execution and business risk. Any target, risk rated medium or above, is likely to be a stretch target and therefore should not form the basis of a turnaround budget but form part of a stretch budget.

Make no mistake – implementing cost reduction is hard. Doing so in a way that does not destroy the earning capacity of the organisation is even harder. Doing so in a way that is sustainable is harder still.

**Three principles to deploy in a turnaround**

1. **Managing stakeholder expectations remains the key challenge for companies in turnaround**. Realigning expectations among stakeholders is the biggest challenge for corporate restructuring.
2. **No one is the owner of all the good ideas**. The burden to identify a turnaround plan should not just rest with the C-suite.
3. **Cost reduction continues to be a prime focus to improve earnings, but few corporates achieve their savings targets**. Companies also fail to implement turnaround plans – it is one thing to develop a plan, it is another to successfully action it.

No matter what stage in the economic cycle, there will always be organisations suffering distress that manifests itself in the form of a company financial crisis.

# The CFO of the future

## A View From the Top

**Mark Tucker**
Australian Financial Management Leader, KPMG Australia

CEOs in Asia Pacific see a powerful future ahead for the CFO, but almost one-third of those CEOs feel their CFO is not ready for the challenge.

There is little doubting the critical role the CFO plays in the eyes of the board. It's therefore encouraging to know that, according to the findings of the *2015 Global Audit Committee Survey*, two-thirds of respondents (75 percent of Australian respondents) rate the quality of the audit committee's communications and interactions with the CFO as excellent.

The audit committee's oversight of CFO succession planning is another matter, with 26 percent of Australian survey respondents indicating their committee's oversight is not effective.[9]

So, what should boards be looking for in the CFO of the future?

*A View From the Top*, a joint initiative by KPMG and Forbes Insights, discusses the expectations that CEOs and thought leaders have of the finance function and how it is likely to gain in significance over the next 3 years.

The report contains good and bad news for CFOs. The good news is that CEOs believe the CFO's role will increase in importance over the next 3 years, compared to other C-suite roles. The bad news is that almost a third of the surveyed CEOs don't believe their CFOs understand or assist enough with the business challenges they are facing.

### The expectation gap

A key focus of the report, based on a survey of 178 executives at Asia Pacific companies in September and October 2014, was the gap between CEOs' expectations of their CFO and the reality on the ground.

Thirty-two percent of CEOs say their CFOs don't understand or assist them with the challenges they face. When KPMG asked CFOs in late 2013 about their roles, 60 percent were happy with the overall performance of their finance function, and on average less than 10 percent of CFOs rated any of their finance processes/services as a weakness[10].

So there is a clear disconnect between the CFOs view of their performance and the expectations of their CEOs. How can the gap be filled?

### The strategist

According to the survey, CFOs need to focus more on understanding their stakeholders and not remain within their finance bubble. CFOs need to broaden their game, add big-picture thinking and take a more strategic approach. In short, be more of a business leader and less of a finance executive.

### Up-skilling CFOs and the finance team

Talent management is key to bridging the gap. CEOs place huge value on people skills and don't believe their CFOs are managing their finance teams well enough. Wider business partnering and leadership skills are now seen as core competencies on top of finance skills. As a result, the shape and career of finance professionals is rapidly changing, and CFOs need to ensure they, and their teams, up-skill sufficiently to meet those expectations.

We are seeing organisations move in this direction. Philip Chronican, former Chief Executive Officer of ANZ Australia, saw his own CFO's agenda moving towards performance and growth, and he believes other companies will see a similar shift. "At a group level, we have strengthened the role of the CFO; it's a more activist role," he said. As part of that evolution, ANZ Bank brought in a CFO who is more of a business strategist and expanded the role to include strategy and M&A.

**Key findings**

- One-third of CEOs feel their CFOs are not up to the challenge
- CEOs have set a high bar for CFOs
- CEOs value growth-oriented initiatives the most, and traditional areas of the finance function the least
- Technology will be a 'make-or-break' test for CFOs
- CFOs need to transform the regulatory burden into an opportunity – or at least avoid getting mired in it to the detriment of big-picture thinking
- CEOs put a huge value on people skills and many see their CFOs as lacking in them

### Mining the data

The second crucial area where CEOs expect more value-adding support from their finance function concerns leveraging data and technology assets to be able to take advantage of new market opportunities.

"The CFO has to start playing a major role in the whole technology agenda", according to Egidio Zarrella, Client and Innovation Partner and China Data Analytics Head at KPMG in China. "They're going to be asked more and more to find insight from the financials rather than just pumping historical data."

The CIO may own the data, but it is the CFO who must transform that into value and intelligence. The CFO must assess the ever-expanding amount of data (including non-financial information) for relevance to create insights and foresights that facilitate better and faster business decisions.

### Managing the regulatory imperative

A third issue concerns the higher regulatory burden. The value of the CFO decreases when they are perceived to be bogged down in compliance and risk issues. CFOs need to look at ways to automate and streamline financial reporting and control tasks to free up time to focus on performance and growth.

9. *2015 Global Audit Survey*, KPMG's Audit Committee Institute, 2015
10. Being the best: Insight the intelligent finance function, KPMG International, October 2013.

# The CFO of the future *(cont.)*

## Finding the right chemistry

The survey also highlighted the importance of chemistry and complementary skills between the CEO and CFO. The perfect match is hard to find (or keep) and depends as much on external market-driven circumstances as internal factors. Indeed, if there is one factor that will to a large extent predetermine the effectiveness of the CEO-CFO partnership, it will probably be emotional and political rather than rational.

CEOs are looking for the CFO to understand nearly every aspect of the business – and the markets in which those businesses operate. The role of the CFO is clearly changing and none of this is easy. But the opportunity is there for CFOs to flourish and be that trusted right-hand person that CEOs want them to be.

CFOs need to focus more on understanding their stakeholders and not remain within their finance bubble. CFOs need to broaden their game, add big-picture thinking and take a more strategic approach. In short, be more of a business leader and less of a finance executive.

# Further Information

## Boardroom Questions

The challenges facing non-executive directors are wide ranging.

KPMG's newly released Boardroom Questions series captures some of the key issues for boards today, the questions board members should ask and the actions they can take to address them.

Our initial series includes:

**Cyber security – what does it mean for the board?**
In this paper we look at the implications of cyber-attack and what boards can do to be more proactive, focused and preventative.

**Are you the disrupter or being disrupted in your industry?**
This factsheet discusses how data is changing your business landscape.

**Strategy – where to play and how to win**
A summary of how boards can assist in driving successful strategic plans.

**Talent Management… or talent risk**
We outline how can boards become more proactive with talent management issues.

**Transform or wither: change is the new normal**
We look at the triggers and potential benefits of business transformation.

## The Directors' Toolkit


To support directors in their challenging role, KPMG has created *The Directors' Toolkit*. This guide, in a user-friendly electronic format, empowers directors to more effectively discharge their duties and responsibilities while improving board performance and decision-making.

**The Directors' Toolkit covers a range of topics including:**

- Duties and responsibilities of a director.
- Oversight of strategy and governance.
- Managing shareholder and stakeholder expectations.
- Structuring an effective board and sub-committees.
- Enabling key executive appointments.
- Managing productive meetings.
- Better practice terms of reference, charters and agendas.
- Establishing new boards.

**To find out more about the toolkit please register to download it today.**

## KPMG's Audit Committee Institute

KPMG has established an Audit Committee Institute (ACI) to help committee members keep up with relevant business issues and generally enhance audit committee practices and processes.

The Institute:

- Conducts regular ACI Roundtables that function as a forum and ideas exchange for audit committee members.
- Publishes the findings of local and overseas surveys of audit committee practices.
- Produces the *Across the Board* newsletter for audit committee members and other directors.
- Hosts special interest workshops (e.g. financial reporting requirements).

Contact KPMG's Audit Committee Institute for more information.