Finance director – then and now

Fifty years ago, Shell’s deputy controller Stanley Harding gave a lecture on the finance professional’s role in business. But how far has it changed since then? The Faculty’s Rick Payne looks back, and the experts respond
THE FINANCE FUNCTION: ALWAYS THE SAME AND ALWAYS DIFFERENT

If the CFOs quoted by industry commentators are to be believed, the role of the CFO has changed significantly in the last few years. But what if we found that the challenges and the advice being offered to cope with them were not that dissimilar 50 years ago? Could it be that it does not matter whether things are changing rapidly, it’s just that we never learn? Would it mean that change is less pervasive and having less of an impact?

When researching our report The finance function: a framework for analysis, we discovered a little gem – a lecture given by Stanley Harding, an ICAEW chartered accountant, in 1963. So relevant is the lecture to today’s issues that we decided to republish it together with some expert commentary. We highlight some of the key ideas in the report and consider the importance of learning from history.

The full report, Finance in the broadest sense, is available at icaew.com/financedirection and as well as the lecture includes an interview with the current Group CFO of Shell, Simon Henry, and commentaries from leading academics looking at the 1960s context and the development of the role of the finance professional in the 1980s and 1990s.

THE THREE HATS OF THE FINANCE MANAGER

“We expect a finance manager in an operating company, where most of the money is made or lost, to wear three hats. The first as the financial expert, the second as an active (not a non-playing) member of the management team and the third as the manager of the financial and accounting staff...” (Harding 1963)

Clearly there has been a lot of inflation since 1963 so I think we are up to seven hats at the moment. The key points remain though - senior finance professionals in business have to contend with multiple and sometimes conflicting roles and they are expected to participate fully in the management team. Somehow these have come to be seen as relatively new issues when in reality what we see is simply the use of new terminology like ‘business partnering’. The implication is that if working closely with the business is something new for accountants then we cannot learn from history and we have to do something radically different.

Of course it would be ridiculous to deny that much has changed in 50 years, but we believe there is significant benefit in finance professionals stepping back and thinking ‘what has stayed the same during my career; what are the constants?’ By taking this perspective we might think differently and gain some new insights. It may also reduce our stress levels if we realise that it is natural that some of these challenges are never solved, but instead must be constantly addressed and adapted to.

The need to get out into the business to understand it has also been a long-standing recommendation

Ongoing challenges might include the need to juggle multiple priorities, work with a wide range of stakeholders who have different interests and make difficult judgement calls with limited information. Advice that seems to have stood the test of time in addressing these challenges includes the need to develop our influencing skills, including our listening skills – as Harding puts it “…the ability to get along with people without always giving way to people.” The need to get out into the business in order to understand it has also been a long-standing recommendation.

THE IMPORTANCE OF UNDERSTANDING THE BUSINESS

“The criticisms one reads are either that we are back-room men, too remote from and disinterested in action, or that we are flooding the boardrooms, through our ability to play around with balance sheets, yet with insufficient knowledge of the operations of the business to justify this position.” (Harding, 1963)

Sound familiar? Harding emphasised how in Shell at the time finance managers worked closely with the business on decision-making and forward planning. Without the advantages of email and the internet this necessitated a decentralised approach with operational finance units located close to the businesses they served.

Indeed, it is still unclear to what extent finance managers can genuinely understand most businesses from a remote location – walking the floor and observing operations and customers all contribute to the depth of business understanding required for finance professionals to contribute effectively to the business.

THE IMPORTANCE OF IT KNOWLEDGE

“In Shell we are putting all our promising young finance men, and some others, through our computer division as soon as possible since we are convinced that a sound appreciation of what the machines can do, and some knowledge of how they work, will be essential for any top finance executive in the future. The lack of this will mean that accountants will be pushed into...” (Harding, 1963)
Tristan Price, group finance director, MP Evans Group

This topic is a hardy perennial. I think the finance function has always had essentially three core roles – assuming that treasury is a category by itself:

- Preparing and presenting the backward-looking numbers in various formats, such as management accounts and statutory accounts;
- Preparing and presenting future numbers based on assumptions/expectations about the organisation and its environment. This will typically involve considering risk and is also what I think of as the main “value-added” part of finance, namely supporting the organisation’s decision-making;
- Maintaining and improving the system that records and processes the organisation’s numerical data.

I don’t suppose the essence of this has changed much in the last century, although of course the way in which it is carried out has changed out of all recognition. But there has been change: there is considerably more complexity in public reporting than there used to be, and in this I think there is a genuine difference between now and the 1960s, although of course this is balanced by the reduction in effort taken to utilise the vast amounts of data if they do not master skills in “modelling, multivariate statistics and econometrics”.

THE IMPORTANCE OF CHARACTER

“In management, character and personality are as important as technical skill, and these can only be developed by exposure to problems to which there is no exact measurement of the answer, to the challenge of taking risks and decisions however small, and to responsibility.” (Harding, 1963)

Again the importance of so-called soft skills and integrity to finance professionals is by no means a new idea. Harding did believe that professional accountancy training and formal courses had an important part to play in enhancing the role of the profession in business settings and he had strong views on how the profession should develop. However, clearly there is no substitute for on-the-job experience. The reflective nature of Harding’s lecture also teaches us that the value of this experience is enhanced if we take the time to step back, consider what we have learnt and how we can apply this learning in the future.

THE SONG REMAINS THE SAME

The lecture discusses many other topics which still resonate today, such as the importance of cash, key performance indicators and the need to continuously improve efficiency.

Are today’s CFOs overemphasising what has changed at the expense of paying attention to important continuities? Does it matter? Email rick.payne@icaew.com for more information.
No such thing as an FD’s role

Stephen Pugh, finance director, Adnams

I have considerable sympathy with the idea that less has changed than people tend to think. Inevitably FDs and others like to feel that they are making an important strategic contribution and will be sympathetic to any suggestion that their role is increasingly focused on strategy.

Mr Harding obviously foresaw some of the impact of technology, and financial information being available to all, even if that wasn’t true in 1963. I suspect that he, and probably Shell, were more forward thinking than most at that time – I expect that references to back-room “men” might raise a few hackles nowadays.

One point I tend to make about an FD’s role is that there is no such thing. Many people in a business, including FDs, have a role dictated by circumstances. What does the CEO expect? What is the FD most interested in and good at? What roles are adopted by others in the organisation – financial controller, company secretary, IT director, business managers etc? What does the company in question need, in particular is it a top company (rather than a subsidiary) and is it listed? All these questions will impact on what role the FD plays.

Fundamentals haven’t changed

Grace Horton, finance director, Capita Health Division

In my experience, the role of finance and where it sits within the organisation depends very much on the culture of the organisation. Fifty years ago at Shell it might have been commercial and entrepreneurial, but whether that was the case across the board I don’t know.

In my own career I’ve seen situations where some businesses are more accepting of that type of role for the FD than others. They are all different, but it’s certainly true that some organisations want to see you as a business partner and as a full strategic player outside the finance function. Others, frankly, don’t have that approach.

And, looking at the comments from the Shell FD then from my perspective at Capita, it’s hard to argue that things have changed at all. Obviously there have been changes to the tools with which we do our job – there is more and better management information, for instance. But the fundamentals of the role he describes remain the same.

I think my role is reasonably static in terms of what changes I’ve seen in the last 10 years. We’ve reached a mature level now for the FD – they are seen as strategic leaders and more operational and commercial. Maybe we’ve got Shell to thank for that.

Obviously there have been changes to the tools with which we do our job, but the fundamentals of the role [Harding] describes remain the same.