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Tuesday

The Business T

THIS WEEK'S TOPIC

Turnover among chief financial officers of small and medium-sized enterprises has been on the rise in recent months. What are the for that and its impact on a company's financial reporting?

Stemming CFO departure

Tulika Tripathi
Director
Michael Page International

WE have observed some movements within the CFO functions in various organisations in Singapore. This has stemmed from a number of factors related to the macroeconomic environment as well as to the person's career development.

A number of companies have recently moved their regional headquarters to Singapore. When their key staff are not geographically mobile, they target senior people in the local market to take up this function. Setting up a regional HQ requires a hands-on seasoned professional who can address different aspects of the business. This skill set is frequently found in CFOs of smaller firms who are used to handling a variety of roles and see this as a "step up" in their career as there is at times more regional exposure as well as stronger long-term career opportunities.

The above trends have been observed within our industry teams. Within financial services, there is some movement from larger banks, which may be experiencing some hiring freezes/downsizing due to the impact of the global markets, to smaller/niche organisations which are relatively less exposed to the US sub-prime crisis and see this as an opportunity to attract top-tier talent.

Christopher Leong
Partner
Chris-Allen Search

THE work-related reasons are higher expectations, more responsibilities, stricter regulatory requirements and more demanding accounting reporting now, e.g. Basel 2, Sarbanes-Oxley, etc. Plus, there is a shortage of CFO talent here. In small firms, the CFOs are often required to fulfil various functions and be familiar with diversified roles such as audit and human resource, while others double as the chief operating officer in a small firm. This could present difficulties in retaining staff.

Annie Yap
CEO
GMP Group

FIRST and foremost, it should be noted that there is currently a general shortage of finance and accounting professionals in Singapore. Many companies are in fact looking overseas for professionals in the field to compensate for the shortage. This is consistent for positions in all capacities.

In this context, CFOs are in particularly high demand now due to several reasons. Firstly, Singapore has been attracting more overseas businesses as a result of the burgeoning interest in Asia as well as our higher international profile stemming from the integrated resorts, F1 and the Youth Olympics. As headquarters are set up here, there is an increase in CFO openings, therefore straining the already tight pool of finance professionals.

Another factor is the increase in the number of companies opting to be public-listed as a result of last year's upbeat performance. As a listed status imposes more financial reporting obligations, companies without a dedicated financial oversight capacity are creating CFO roles. Coupled with this is the past few years' emphasis on corporate governance, especially with the recent adjustments in regulations for financial reporting and governance requiring a greater degree of transparency on the part of companies.

The higher CFO turnover rate among smaller companies compared with that of their larger counterparts can be attributed to the nature of the profession in both contexts. Financial capacities in smaller firms generally focus more on operational and costing functions. Larger companies have a greater strategic financial function that often involves a higher level of obligations to address, such as the consolidation of all regional office data, taxation matters, financial reporting and shareholder relations.

This larger scope of responsibilities unique to the financial and accounting function is creating a clear distinction of career progression from a small company to a big company. Besides the broader and richer portfolio that a larger public-listed company would present to CFOs, such companies are able to offer more options and shares as part of the remuneration package.

In the coming months, there is a possibility that this trend will not be as intensive as the current job market continues to remain tight.

SME Voices

The topic for next week's SME Voices column is: **"Do you think that the extended maternity leave under new manpower laws will significantly affect operations in your company, and what should the government do to alleviate these concerns?"** If you are an SME owner or leader, we would like you to share your views on the topic. Please e-mail your response, together with your name, designation and the name of your company, to btclub@sph.com.sg. Please mention SME Voices as the subject of your e-mail.

Tan Wah Yeow
Head of Risk Advisory Services
KPMG in Singapore

GENERALLY, movements of talented professionals affect companies both large and small. A large company with complex operations has a deeper pool of its own finance executives to draw upon when it needs to appoint a new CFO.

A smaller company does not have this advantage. It may have a further disadvantage in managing its human resources if its CFO appointment sometimes (but not always) sees his position as a career stepping stone on the way to a larger organisation.

The departure of the CFO is disruptive to the quality of the financial reporting process but this can be mitigated if the company involved is prepared for such situations. This includes a best-in-class finance function with a well thought-out succession process, involving executives who are well qualified to carry out their functions in other finance positions, complemented by systems, policies and procedures which are well documented to prevent the failure of controls.

Steven Lau
Country Manager
DDI Singapore

CFOs today operate in an increasingly complex environment and it is difficult to pinpoint any one reason for their leaving. Based on our experience working with leaders around the world, people leave because of a lack of development opportunities, an unsupportive boss and team, and a poor match between what the company needs and what the person can or wants to do. Some also leave because they don't have the necessary skills and experience needed to navigate the complexities and manage the increasing pressures of the job.

Given the critical role a CFO plays, organisations cannot afford to keep losing them at a very rapid pace. Retention starts with good selection. Companies have to pay special attention when selecting the next CFO, or any other senior leader for that matter. Many companies hire based on a person's past experience and technical expertise, but they neglect to look at the match between the organisation's culture and the CFO's personal leadership style.

When companies decide to promote the next CFO from within, organisations should give them adequate preparation to ensure that their transition is well managed. Based on our research, we have seen many leaders struggle or fail in their new role because they were not given any support during the critical transition phase. It's not surprising that they eventually leave their jobs.

Cheung Pui Yuen
Head of Audit
Deloitte Singapore

THE CFO is a key member of an organisation's executive team and plays a critical role in both internal and external financial reporting. In many cases, the CFO also acts as the public face representing the organisation. For organisations that have strong corporate governance, the possibility of the resignation or retirement of the CFO is taken very seriously by both the management and audit committee. In such cases, processes are usually in place to ensure that the vacant office of the CFO is filled quickly, and that the firm will be able to continue to report reliable numbers.

Larger firms tend to have the resources to support a much stronger finance function. In addition, established

procedures and policies are well documented. On the other hand, smaller listed companies may not have such established processes and the CFO may face resource constraints. The increasing complexities in reporting requirements arising from new accounting standards also add to the burden of CFOs.

Quarterly reporting can be a challenge in the best of times. This becomes even more difficult if the finance function is under-resourced when the organisation has been expanding rapidly. Hence it is important not to underestimate the challenges faced by the finance function and to ensure that it is adequately resourced.

The audit committee (AC) has a key role to play as well, and the AC should have open dialogue with the management, including the CFO, to understand his concerns.

Finally, organisations should ensure that processes are in place to deal with the rare situation where the CFO has to retire at short notice.

Ernest Kan
Vice-president
ICPAS

GENERALLY, the resignation of a CFO results in a certain degree of disruption to the announcements of the financial results. This is because among various roles, the CFO assumes the role as the "Head" of the finance and accounting department, and naturally would be among the few key management personnel who understand the numbers behind the business and is able to articulate that to investors, the media and other stakeholders.

Firms can mitigate this by harnessing the tools of technology and more efficient reporting processes. Also, personnel policies in terms of multi-tasking and outsourcing certain non-core functions can introduce efficiencies in the reporting process. There are some other possible ways for a firm to address this problem:

- Establish a set of Standard Operating Procedures (SOPs) or a financial reporting manual such that the finance and accounting team is able to function in times of crisis.
- Employ a financial controller or finance manager to take care of the operational and general financial reporting functions such that this person can at least stand in for the upcoming financial reporting cycle.
- Embrace the use of automation and IT whenever possible in the financial reporting process such that at least the raw data can be churned out for customisation by other management or finance staff.

The increasingly complex accounting standards, plus the changes made to reconcile US Generally Accepted Accounting Principles (GAAP) and International Accounting Standards (IAS), could be an issue.

Nevertheless, this should not be the main issue generally. This is because all companies in Singapore are already required to comply with the Singapore Financial Reporting Standards, which are largely harmonised with the IAS and International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). As such, finance and accounting personnel of all companies are required to undergo continuing professional education so as to keep pace with changes and developments. Briefly, the impact is by way of a resource crunch as there is now one resource less to prepare, review, interpret, explain, analyse and present the results.