Financial leadership is usually defined as the last in a series of steps, leading from junior accountant to Chief Financial Officer (CFO). Financial leadership means that the CFO performs in a way that leads to a competitive advantage for the organization, not only, but particularly in a financial crisis. In a qualitative study, Austrian CFOs were interviewed between the beginning of the financial crisis in 2007 and 2010. The task was to find out whether there is a change in the challenges for the position of the CFO and which competencies and traits prove to be important and necessary for developing financial leadership competencies. The analysis of the interviews provides some surprising insights into a changing professional profile.

Keywords: Financial leadership, CFO, CFO competencies, CFO skills.

What is Financial Leadership, and how can it be achieved?

There is no generally accepted definition of ‘Financial Leadership’, but what many authors have in common is that they define several development stages of financial management, where the highest level is what we call ‘financial leadership’.

While Bragg (2007) emphasizes the technical tasks of the CFO (and therefore implicitly suggests to foster analytical skills), Stenzel & Stenzel (2004) focus on the personal development of the CFO, who is growing into his or her leadership position. The IMA (Institute of Management Accountants), with 60,000 members the largest organization of the profession, favors a model of four stages of maturity of management accountants, where both ‘hard’ and ‘soft’ skills must be promoted. In the area of soft skills, beginners acquire effective communication and time management, with increasing maturity they learn the business model of the company, how to influence other departments, and leadership with respect to their department. At the highest level of this model (referred to as ‘Financial Leadership Continuum Framework’) they are responsible for change management and for investor and customer relations. In the area of hard skills, beginners start with accounting, budgeting, cost accounting and tax accounting. Over time, they work their way through forecasting, evaluation of ERP systems, risk analysis and project management toward process management and enterprise risk management. At the highest level, they ultimately take care of mergers and acquisitions as well as of product and market development (Thomson 2008).

Summarizing several studies, most of them done by consulting companies, Thomson (2008) concludes that there is a gap between the current reality (i.e., the supply of skills) and the need of
the organizations (i.e., the demand for skills). The current reality is characterized by a high workload in the area of transactions, the CFO's team ‘measures wealth’ and exerts influence as a ‘compliance cop’. The vision, however, is characterized by high workload in the area of decision support, the CFO's team should ‘create wealth’ and exert influence as a ‘business partner’.

PricewaterhouseCoopers (2009) emphasize the financial crisis in their definition. They define financial leadership as ‘breaking out of the survival mode’. New challenges in the area of finance, conflicting requirements demanded by various stakeholders, and the sharp rise in economic and personal risk have led to an erosion of CFOs’ job satisfaction, which is visible in high turnover. CFOs must therefore demonstrate competence in three tasks: As compliance steward, as pragmatic strategist and as business partner (PricewaterhouseCoopers 2009).

Can Financial Leadership be developed in business schools?

Since a couple of years ago, management researchers are contemplating whether or not business schools are teaching the right things (e.g., Mintzberg 2004, Porter & McKibbin 1988; Mintzberg & Gosling 2002, Stacey 2010) or if they rather propagate ideologically inspired theories (Ghoshal 2005). As a consequence of the financial crisis these reflections have become more intense and have gained increasing public interest.

In studying the profession of the CFO and designing an academic training program for CFOs in particular, some questions arise: How to ensure that the problems described above can be avoided? To make sure that research-based knowledge is taught, rather than ideology? That graduates are reflective and responsible yet best qualified so that they can navigate their companies through rough seas and ensure sustainable financial success at the same time? In other words, that they shape their organizations as ‘financial leaders’ (Zehetner et al 2012)?

Research design

One way to answer the questions at hand is to ask experienced CFOs. In four consecutive years, starting from 2007 (the beginning of the financial crisis) to 2010, semi-structured interviews had been conducted with CFOs of Austrian companies. The interviews were published in the subsequent years (Deloitte und Institut für Financial Management 2008, 2009, 2010, 2011) to make the data available to other researchers as well as to the interested public. They were the basis for three studies. The first examined the motives and behaviors of CFOs (Pichler et al 2012), the second explored the future role of CFOs in the context of systemic management (Herbek 2013), and the third study – the one that is the subject matter in this article – had two tasks: First to investigate key issues of today's CFOs, and second to find out which personal competencies and traits are needed for a successful career in the area of finance. Consequently, the research questions for this study are as follows:

- What are the professional challenges that CFOs face in the near future?
- How will company financing change in the future?
- What are the current key issues of CFOs?
- What skills and personal competencies make financial leaders successful?
The investigation focused on financial leadership and used the pool of interviews with 130 CFOs of Austrian companies. The most current interviews (the 31 of 2010) were incorporated into the study. In particular, the telecommunications, banking, technology, insurance, food, tourism, consumer goods, logistics, construction and oil industries were represented. This heterogeneous approach allowed us to gain insight into the financial challenges of different and quite diverse sectors.

The interviews were conducted in a semi-standardized format, the questions were open. This approach ensured that the perception funnel was kept open as much as possible to get unexpected information for research (Lamnek 2010). The interviews were analyzed and interpreted by using content analysis methods. For this purpose they were recorded and transcribed. The key passages of the verbatim transcripts were highlighted, paraphrased and clustered by assigning them to content categories that had been derived from the interview analysis. Based on this preparation, the statements and interrelationships of the various content categories were interpreted to reflect the results and subsequent implications (Mayring 2000).

Results

In this chapter we are summarizing the results of the content analysis and illustrate them with characteristic and quintessential statements of the interviewees (highlighted in italics).

Future requirements for Financial Leadership.

The first part of the interviews covered the future requirements for CFOs with regard to their position and function in their organizations’ management.

The experts agree that a CFO should have an overall understanding of all business areas in the company. Expertise in the core business of finance is considered an indispensable prerequisite. One of the interviewees depicted the CFO as the company’s Secretary of the Interior. The CFO is increasingly taking on more responsibility in the strategic policy and decision making of a company. He or she quantifies strategic projects and provides essential assistance in decision making as a result. The CFO takes over responsibility for strategic planning; consequently, the next step is to advance to a CEO position. This includes that the CFO acts as a representative of the CEO. The core competencies include, apart from financial aspects, managing, consulting and supporting of all business processes. Although CFOs are increasingly involved in strategic issues, they always have to keep in mind all operative functions, yet without being overloaded with daily business.

The classical tasks such as accounting, finance, and running the organizational systems will continue to play a major role for CFOs, while risk management issues are becoming increasingly important. Moreover, CFOs will have to learn to cope with high volatility due to market uncertainty. Future business models must be designed in a way that they work – despite high volatility and low growth rates – and still generate sustainable returns. CFOs must therefore be prepared for constant change. Observing current trends and sharing experience with colleagues will be necessary to maintain the ability of adjusting to the impact of changes. Financial leaders must perceive colleagues as constructive yet critical companions.

While CFOs were mainly involved in processing numbers and reports in the past, they are now increasingly regarded as partners of the CEO – as those who have deeper insight and understanding into all business areas of the organization. They have to make sure that
innovations are introduced and implemented. This makes social competencies and the ability to effectively communicate with focus on the target group more and more essential for a CFO position. They must have the ability to convince, motivate and inspire people; to build networks, and to be a trusted partner.

Changes in Corporate Finance

The interviews clearly revealed that under the new Basel III rules (the treaty to take effect in 2013, with transitional periods) traditional bank-oriented financing is becoming more and more difficult. Banks must hold a higher proportion of equity, whereby credit requirements for borrowers are lifted and, subsequently, bank loans are becoming more expensive. Generally spoken, corporations try to hold more equity. The importance of cash flow financing will increase, according to the interviewees. There is a shift from classical bank-oriented financing toward capital-market-oriented financing.

Current and future topics for Financial Leaders

Apart from the future requirements for the profession and the changes in corporate finance, we wanted to identify the main topics that CFOs consider essential in the future. The top priorities are risk management, cash management, and management of growth into new strategic business units.

The majority of experts agree that risk management has always been an issue but, as a consequence of the financial crisis, has increased in importance. Risk awareness was sharpened by the crisis, which is why risk management continues to play an even more important role in the current turbulent economic conditions. Furthermore, issues pertaining to corporate governance appeared on the CFOs’ radar screen, and paperwork for documentation purposes has increased significantly. Risk management is becoming part of daily operations. CFOs consider risk management an important tool for management and control, which is supposed to be executed not only passively but actively. The experts point out that sound risk management is a composition of assessment by methodological approaches and intuition (gut feeling).

Another issue that has gained more attention due to the financial crisis is cash management. During the crisis, cash was the critical factor. Productivity improvement and increasing competitiveness took center stage, especially in the financial sector. Financial processes are becoming increasingly centralized. This includes corporate-wide finance bundling, centralizing transactions in shared service centers, and more efficient (and faster) budgeting routines. Forecasts tend to be extended in time horizon (e.g., from three to six months).

Although this part of the interviews focused on financial issues, the majority of the interviewed CFOs mentioned innovation and growth into new business areas as import and future issues. This indicates that financial leaders are becoming increasingly involved in strategic planning. In particular, the analysis of critical or new business units is gaining importance. Projects that were delayed as a result of the financial crisis, are now followed up due to an improving financing environment. Issues like due diligence measures in the process of acquisition or merger projects are demanding more capacity of the CFOs now. Similarly, retreats from unsuccessful business segments are subject to close examination.
Skills, competencies and traits of CFOs

The last focus of the study was on the abilities, skills, industry experience and educational backgrounds of the respondents. The objective was to identify patterns. Most CFOs had completed a business or economics degree, while some have studied law or combined a professional (non-academic) education with university courses in management.

The experts recommend for junior employees a wide line-up: Study more than just the core area! Graduates with a double or combined degree, like business and technology, are most in demand and, later on, most successful in their careers. However, fundamental training in the core areas of finance, particularly in accounting, managerial accounting, and corporate finance must be safeguarded. Management and finance education should provide the opportunity to develop social behavior skills such as leadership. Universities need to have a sophisticated admission process in place that should focus on the competence to get out (i.e., the ability to finish the study) rather than the competence to get in (i.e., the admission requirements). CFOs need to show versatility and control with interdisciplinary topics, thereby bridging interfaces. It is very important that you learn the ‘handicraft’ of finance well and constantly update your knowledge. It is also essential that you are interested in the industry. It is no longer sufficient to think only in complex models, but you have to have the ability to work with principles, and to ask the right questions. This means that anyone who works with numbers must know in advance what kind of numbers to expect rather than slavishly typing everything into a computer system. You need the technical equipment, but you also need a general understanding and business acumen of all organizational contexts.

The combination of practical experience and in-depth training is considered to be particularly important. Internships and international studies are cited as major assets. The more you have seen of the world, the more global you can operate in the future. It is not only the formal quality of the study program or training abroad that counts, but the intercultural experience to work in a different environment. Analytical skills are a prerequisite, but the ability to think in terms of contexts is the crucial skill. So called 'bean counters' are not required, but people who are cooperative and communicative. Social competence is particularly important in terms of teamwork and leadership behavior. For working in the financial area you also need perseverance, tenacity, decisiveness, and patience.

In addition, affinity to numbers and passion for the job are needed. You're only good at something when you're having fun doing it, and with the fun comes the success. It should give you pleasure to translate processes into numbers and to see how the whole picture changes by pulling the right financial levers. Finally, CFOs need the ability to communicate information in a way that they are understood by people who are not financial experts.

Discussion and Conclusions

Economic stability is an attribute of the past, the markets have become more volatile. This situation creates new challenges and is associated with rigorous professional requirements for CFOs. The study has shown that CFOs need a sound grasp of all business functions in the company. They have to understand the relationships and processes across departments to ensure good decision making. CFOs increasingly take greater responsibility for the strategic alignment of the organization. They quantify strategic plans, estimate their feasibility and advise their implementation. Due to their influence on strategic decision making, they are considered as ‘business partners’ of the CEO. Traditional operational issues such as accounting, cost
accounting and finance are still a focus, but strategic activities are increasingly occupying them. Analytical skills are necessary, but social competencies will make the critical difference between poor and successful CFOs; between ‘accounting and finance managers’ and ‘financial leaders’. Unanimously the experts point out the importance of the ability to persuade, motivate, and inspire people.

Regarding corporate financing, it turned out that traditional bank financing is becoming more difficult as banks have become rather restrictive in lending. The organizations substitute it by cash flow financing or through corporate bonds, IPOs or strategic partnerships. The experts agree that obtaining financing will become even more difficult in the future, especially for smaller companies.

The current top priorities for CFOs include risk management, cash management, and management of growth into new strategic business units. Risk management had always been a task of CFOs, but it appeared forcefully on their radar screen with the beginning of the financial crisis. The ‘management of growth’ task supports the finding that CFOs are increasingly influential in strategic decision making. Projects that were postponed due to the crisis are now reactivated.

The CFOs suggest juniors to opt for combined degree studies. For a prospective financial leader, it is considered important to bring a sound education in the core area, but also to be able to understand the overall business context. All interviewed experts advise to go abroad by means of internships or study abroad semesters.

The study provides valuable information for CFO training, both in terms of professional and analytical requirements, as well as for personal and social skills. Another finding is that there is a change in the importance of these skills in comparison to the importance of analytical knowledge. We have inquired about developments in the financial sector and about perceived deficiencies in academic financial management education. As a result we have come to the conclusion that the importance of this function is increasing; that the CFO gradually takes the role of the partner of the CEO, which makes a deeper understanding of strategic and business issues desirable. The issues of risk management and compliance are gaining importance, and there is an interesting trend to move from bank-oriented to capital-market-oriented financing. In addition to technical and analytical skills, personal skills prove to be essential. We call this ‘social and systemic competence’; it consists of social and professional skills, negotiation and public relations skills, international experience, multidisciplinary training, ethical orientation, and strategic alignment. This second set of competencies was considered as not sufficiently emphasized in contemporary financial management education by the CFOs interviewed. We are surprised by the importance of intuition and emotion for financial decisions that the experts pointed out. From the study’s results and the drawn conclusions, a model for the development of financial leadership was created. This model was incorporated into a master degree program that is geared toward the development of CFOs.

We want to close with a critical reflection on the limitations of this research. The study is limited to Austrian CFOs. The method that we applied was qualitative content analysis, a method that, besides its merits, also has its drawbacks, including concerns about objectivity in the interview situation or lack of representativeness due to the small sample size. On the other hand, supporters of qualitative methods argue that without the use of qualitative, hermeneutic methods, major social phenomena could not be analyzed because they could not be captured by standardized methods such as questionnaires (Cicourel 1974). In turn, qualitative methods can reveal surprising facts that could not be discovered by quantitative surveys since there is no reason to ask for them – in fact we obtained surprising findings like the importance of intuition
and emotion for financial decision making (Steinkellner et al 2013). Undoubtedly, further quantitative studies to support the findings are desirable. Until now, we have carried out one quantitative study, which only captures one aspect, the impact of financial leadership on the ability to cope with crises (Trappl 2013). Therefore further studies are suggested to reliably support the findings and to stimulate more research in the field of Financial Leadership.

References