

## MPF Finance Panel, March 2008

# Role of the Finance Director

Research analysis and presentation by Aretai

Summary prepared by Panel directors



### Survey highlights

- Majority of FDs in position over 10 years compared with two years for a FTSE 100
- MPs are twice as likely as FDs to say that FD's understanding of the FD role is poor
- FD is only really actively involved with clients in the area of actual or potential bad debts
- The fact that a large proportion of FD's time is spent managing the finance team is seen as a good thing
- MPs do not look to FDs to be 'change agents', despite the fact that FDs spend lots of time on change management.
- Big discrepancy between the way that MPs view FDs and how FDs view themselves in the relationship with partners - FDs are twice as likely to be seen as subordinates by partners according to MPs
- 50% of MPs think that FD communication skills are neutral or weak
- FDs see a lack of a corporate approach to management as being the main barrier that prevents them from doing their job better
- The best FDs are seen to have integrity, fairness and commerciality, can cope with political delays, have presence, listen to partners and still maintain a sense of humour.

**Panel:** Paul Edwards - DLA Piper, CFO (Chair), Richard Dunkley - NB Real Estate, Finance Director, David McLaughlin - Simmons & Simmons, Finance Director, Chris Connor - Grant Thornton, Senior Partner

### Where do FDs come from?

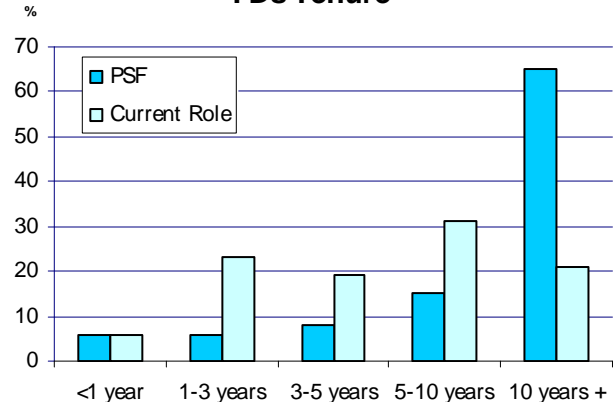
The typical Financial Director of a Professional Services Firm is

- Big 4 trained
- 10 years + in a professional services environment
- Been in role for 7 years

Surprising for the Panel was the length of tenure of an FD (majority over 10 years) in comparison to public companies.

The opinion was that the business changes much faster than people and an FD who was hired 10 years ago is now probably doing a completely different job than what he or she was hired for. A point was also made about lengthy tenure being a glass ceiling for the junior staff. Voice of opposition suggested, however, that the average tenure in public companies - 2 years for FTSE 250 companies - is too short and may produce short term decisions.

FDs Tenure



### The FD role

#### FD is actively involved in

- Mergers & Acquisitions
- Major IT investments
- Corporate strategy (although more in verification rather than influential role)
- Premises

#### and far less in

- Hiring of laterals
- Product lines
- Targeting profitable business

which is broadly in line with MPs' expectations.

Generally there is a good understanding of the role of the FD amongst key stakeholders although MPs are twice as likely as FD's to say that the understanding of the role is poor

#### The MP sees that the FD adds most value in the areas of

- Cost Control
- Procurement and
- Risk management

#### and far less in

- Business Development
- Image promotion
- Stewardship

The FD typically sees the value of the role in similar terms as the MP with the notable exception of 'Stewardship'

The view from the panel was very similar. The difference in seeing or not seeing FDs as "stewards" was mentioned as one of the most striking survey results.

Operations, risk and IT are the other disciplines most likely to report to the FD.

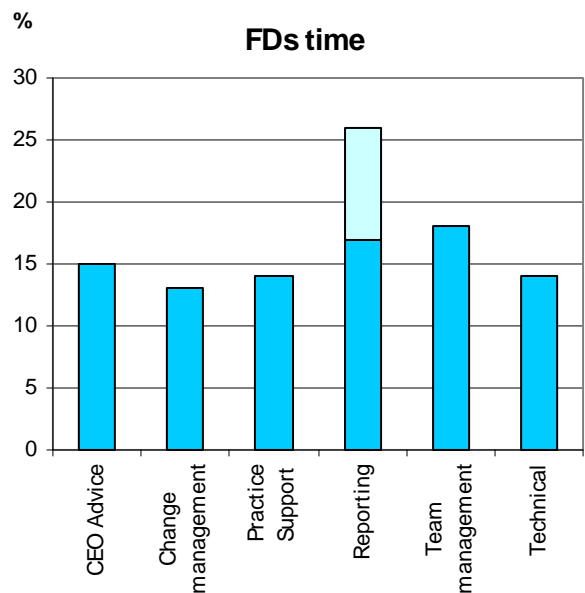
The MP and the FD agree that there is little scope for the FD to be involved in measuring client satisfaction, marketing or generating new ideas for product development and the FD is only really actively involved with clients in the area of actual or potential bad debts - "where there is something sticky".

The Panel's opinion regarding on Marketing, HR and COO roles was that these functions are still largely seen as "people who process stuff" rather than functions essential for the business. The double-acting of the FD as a COO depends on the size of the firms - in the small firms, the CFO gets "all sorts of things dumped on him because there is no one else to do it".

**Where do FDs spend their time**

Majority of the FDs time is spent on reporting, whether to the Partners or to the Board. Large proportion of time is spent managing team - the Panel was "surprised but glad to see it".

Only 15% time is spent advising the CEO. This was attributed not to confidence or competence but to lack of clear boundaries and general focus on the wrong things (technical stuff, change management etc.). The Panel stressed the importance of hiring the right people for the job - there is a need to hire skilled people which obviously is not cheap.



**FDs in the eyes of the MPs**

When asking about the ideal profile of an FD for a MP, professional qualification was very high on the agenda. The MP sees the FD as prudent and independent problem identifier and a strong business partner

Typically an MP will not look to an FD to be a change agent, despite the fact that FDs spend lots of time on change management

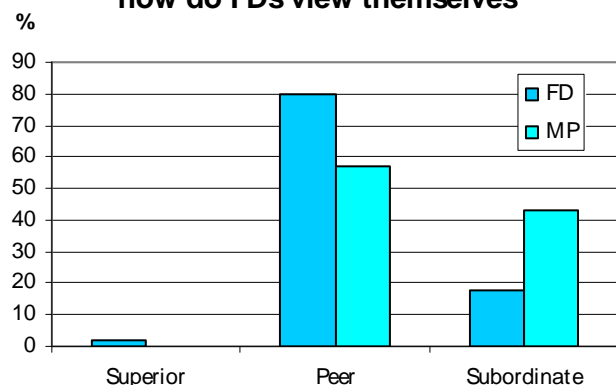
Although MP's as a group see the Finance function as the most influential and value adding central services function in the Firm, they don't recognize the FDs as visionary or strategists and there is a big discrepancy between how the MPs view the FDs and how the FDs view themselves in the relationship to the partners.

This fact came as a surprise to the Panel; the view was that the MPs simply "have to change their minds" if they want their businesses to be successful.

Number of FDs who are members of the Board was estimated as 1 in 5, which was heavily opposed by the panel. The FDs are represented on the Executive Committee, which was not easily obtainable from the data collected.

- Richard Dunkley is on the committee but reckons its more like this in the real estate sector
- David McLaughlin sits on a number of boards, including the executive committee, and believes that his job would be much harder if he was not included.
- Chris Connor believes that if you don't have a finance representative where the decisions are made then your business is not operating as well as it could or should be.

**How do Partners view FDs - and how do FDs view themselves**



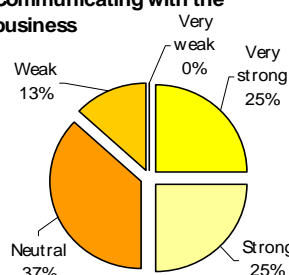
Panel was asked about their views on making FDs partners. The general consensus was that for most people, the title is not that important. Key is being seen and treated as an equal, sense of ownership - being a part of the inner circle, not just an adviser - and gaining access to what the partners have an access to which enables FDs to win trust and build relationships.

The survey suggests that the FDs are often seen as people who understand the business very well but are not necessarily very good communicators - 50% of MPs thought FDs' communication skills were neutral or weak.

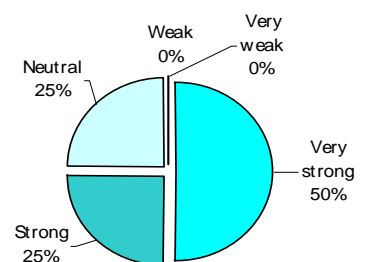
**Challenges - what prevents the FDs to do their job better**

- Need for a more corporate approach to management: quicker, clear lines of demarcation, more like FTSE 250 company. A

**Communicating with the business**



**Understanding business**



- comment from an FD in a survey says that "partners not acting as owners". "We need more executive authority delegated by the partners".
- Culture, culture, culture! Comments from the survey included - "Overcoming cultural barriers", "Red tape and politics - old school tradition", "View that if you are not a lawyer you are not important", "Culture of Finance being a support function", "Heavy reliance on consensus"

Time often featured among obstacles that prevent FDs from doing their jobs better. Steve Lee expressed an opinion that the "lack of time" may be used as a defensive statement - whilst the real reason lies somewhere else. From the FDs comments: "Lack of appropriate staff", "Skill mix in team", "Fire fighting day to day operational issues and time spent on the monthly board reporting cycles", "Apparent lack of better systems in the marketplace and a young support team currently lacking experience to take more work from me". One honest comment blamed "Crap personal time management".

### ***Most valuable experience that prepared the FDs for their role***

- By far the most frequent response to this question was "Having been a fee earner myself" in professional services firm and "Understanding of what makes lawyers tick"

Other responses included

- Understanding my Myers Briggs profile
- My last job going into administration (improved my awareness of cash!)
- Understanding that profitability is not necessarily the main driver in a Firm
- Having a sense of humour
- Being patient!

### ***What qualities make the best FD***

- Integrity, Fairness and Commerciality
- Calmness - "be able to cope with the delays caused by consensus building without losing heart"
- Presence - ability to stand up for yourself
- Treat partners as individuals and listen to their concerns whilst being able to keep the bigger issues firmly in focus
- Sense of humour
- Understanding the numbers - and going beyond them! "Ability to translate financial information so that non financial people can understand it"