

GEFIU

Gesellschaft für Finanzwirtschaft
in der Unternehmensführung e.V.

GERMAN FINANCIAL EXECUTIVES INSTITUTE



INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

The German CFO Study

The Rise, Evolution and Future Path of the German CFO



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Overview:

A Word about the CFO's Transitioning Role

The global, dynamic, hyper-competitive business marketplace, escalating shareholder expectations and transitioning landscape of corporate finance has metamorphosed the profile and function of the Chief Financial Officer (CFO).

IAFEI research shows that there are three key areas where stakeholder expectations on the role of the CFO appear to have changed dramatically:

- **The CFO's role within the organization:** External and organizational forces have altered the scope of the finance function within an organization, expanding its borders to areas such as operational decision support and corporate governance, in addition to the traditional functions such as financial statement presentation and cash flow management. The CFO's role has changed with these changes.
- **Expectations of external stakeholders from the CFO:** Financial and accounting improprieties by some of the world's largest corporations in recent years have thrust the CFO into intense public scrutiny. External stakeholders are increasingly demanding that the CFO relentlessly commit to corporate governance compliance and assume responsibility for corporate financial results to ensure public trust; and
- **The CFO Career path:** With an expanded corporate role and heightened visibility, we see that the CFO's position is often a springboard to the CEO position. More and more Corporate Boards are considering the CFO as a natural successor to the CEO.

This evolution and expansion of the CFO's role, the corporate CFO's visibility as a key arbiter of public trust and his potential career progression to the CEO level has elevated the CFO to a position of increasing importance, influence and public scrutiny. Significantly, it is expected that the CFO role evolution is more apparent in developed economies and within multinational corporations.

Given this significant transition in the CFO's role, IAFEI launched a large scale global research project called the 'IAFEI Global CFO Study' to examine the rise, evolution and future path of the CFO in nations across the world. The German CFO report, released by IAFEI and GEFIU, is the first country specific report being issued.

This report offers stakeholders the opportunity to understand the transitioning role of the German CFO, and assess the impact of this transition. As the title implies, the survey report serves as both a view of the transition in the past, as well as food for thought on the direction this will take in the future.

A Message

from the IAFEI Chairperson



DR CONCHITA
MANABAT

On behalf of IAFEI, I am delighted to present the German CFO Study Report, 2006, a report on the Rise, Evolution and Future Path of the German CFO.

The German CFO Study report is the natural culmination of the German CFO Study, the first country specific study undertaken by IAFEI as a part of its Global CFO Study Initiative, 2006.

The increasing complexity, chaos and competitiveness of the global marketplace coupled with relentless changes in the corporate organizational structures have resulted in the emergence of the CFO as one of the emerging leaders of a business, and a strategic partner of the CEO. Going forward, we expect that the CFO role will continue to expand, evolve and increase in significance.

The Global CFO Study has been launched by IAFEI to understand this important phenomenon and undertake comprehensive and coherent analysis of the transitioning role of the Global CFO.

The study plans to measure CFO perceptions across the world to obtain a deeper and broader understanding of transitions in:

- The CFO profile – who is the CFO, what is the CFO background and skill set and what are the CFO's changing skill needs;
- The CFO position and priorities – what are the trends in the CFO function, priorities, challenges and focus; and
- The CFO path – what is the CFO career path, sources of CFO recruitment and future path of the CFO.

The German CFO Study report presents these findings based on the perceptions of CFOs and Finance Leaders from the German marketplace.

We are grateful to GEFIU for volunteering to partner with IAFEI in the pilot study undertaking. We especially thank the GEFIU Chairperson, Helmut Schnabel and the GEFIU Executive Director, Prof. Dr. Felix Liermann for their committed collaboration and unyielding support without which, this study would not have been possible. Finally, our deep appreciation and gratitude go to the German CFOs and Finance leaders who, despite busy schedules, made the time to participate in the survey and share their perceptions, insights and experiences – Thank you!

I hope that the findings this study will not only provide you meaningful insights on CFO trends in Germany, but will also reaffirm the CFO's increasing significance and influence in the German landscape and indeed, the global marketplace.

A Message

from the GEFIU Chairperson



HELMUT SCHNABEL

Everything is in a state of flux – and so is the array of tasks that is entrusted to the Chief Financial Officer of corporations. Given this phenomenon, it does make sense, from time to time, to look at where we come from, where we stand, and what the future might look like.

This is exactly the intention with which IAFEI, the International Association of Financial Executives Institutes, is embarking on the project 2006 of “The Global CFO Study, the rise, evolution and future path of the global CFO”. The study is an “attempt to assess the evolution, rise and future path of the global CFO by examining the profile, position, priorities, persona and career path of CFOs in countries across the world.”.

To support and enhance this project, the German member institute of IAFEI has volunteered to have this study done as a pilot study in Germany, before IAFEI is embarking on the world wide study. We are very pleased that the German IAFEI member institute has initiated and completed this pilot study during the short period between December 1 2005 to January 15, 2006, and with satisfaction we enclose the attached “German CFO Study, the rise, evolution, and future path of the German CFO” for the reader’s kind attention and perusal.

The German CFO Study clearly describes the not negligible changes that have occurred over time and that will continue to develop over the future in the composition of tasks and duties of the Chief Financial Officer. The study shows, that these developments are not singular events, but medium to long term trends developing gradually but also distinctly over time. The study strongly confirms what the sensors of us in business are signalling since some time.

We are happy to present to the reader this articulate study. Our thanks go to IAFEI Chairperson, Conchita Manabat, and to her team led by Shefali Raina, who have both, with additional help of Deloitte Philippines, analyzed the filled out questionnaires and composed the attached final study. The German Financial Executives Institute extends its warmest thanks for this great voluntary contribution.

Helmut Schnabel
Chairman of the Board of Directors, German Financial Executives Institute

Highlights of Key Findings

CFOs see significant transitions in their function, focus, priorities and challenges and are consequently reassessing their skill set and education needs. Changes in the 'CFO experience' are making CFOs better prepared for the CEO role, and many CFOs expect to assume CEO positions during their careers.

TOPIC	HIGHLIGHTS
Career Progression	CFOs increasingly expect to move to the CEO role in their career progression and feel confident that their CFO role has adequately prepared them for the CEO position.
Evolving Function and Focus	The CFO function has rapidly expanded in the areas of business corporate strategy and M&A transactions and CFOs participate more in business operations. CFOs spend more time in these areas and CFOs expect this trend to continue.
New Priorities	CFOs prioritize two key objectives, contributing to strategic decisions in the company and providing better information to business units.
Evolving Challenges	CFOs say that stakeholders are increasingly expecting them to play leadership roles within the company. They consider meeting these expectations their biggest challenge.
Expanding skill set Needs	CFOs perceive a need to have wider non finance skill sets for CFO success, especially in areas of general management, communication with the BOD and marketing and sales.
Transitioning Educational needs	CFOs are increasingly considering general management education, in addition to finance specialization as important for CFO success.
CFO Accreditation	Almost half of the CFOs say that a Global CFO Accreditation Program is becoming necessary given the unique combination of skills and knowledge that a CFO must possess.

It is abundantly clear that the CFO experience has not only expanded in scope, but also in leadership expectations, and CFOs are increasingly assuming functions that belong to the CEOs traditional role.

CFOs clearly expect this expansive trend to continue in the near term. Not surprisingly, most CFOs feel confident that their CFO experience is adequately preparing them for the CEO role.

These trends are interesting, as they point to blurring zones of responsibility in the CEO and CFO function. It would be interesting to see how CFOs progress on this path: does this trend stop with co-responsibility for corporate strategy and M&A transactions, or is co-leadership the end point of this evolving trend?

Detailed Results

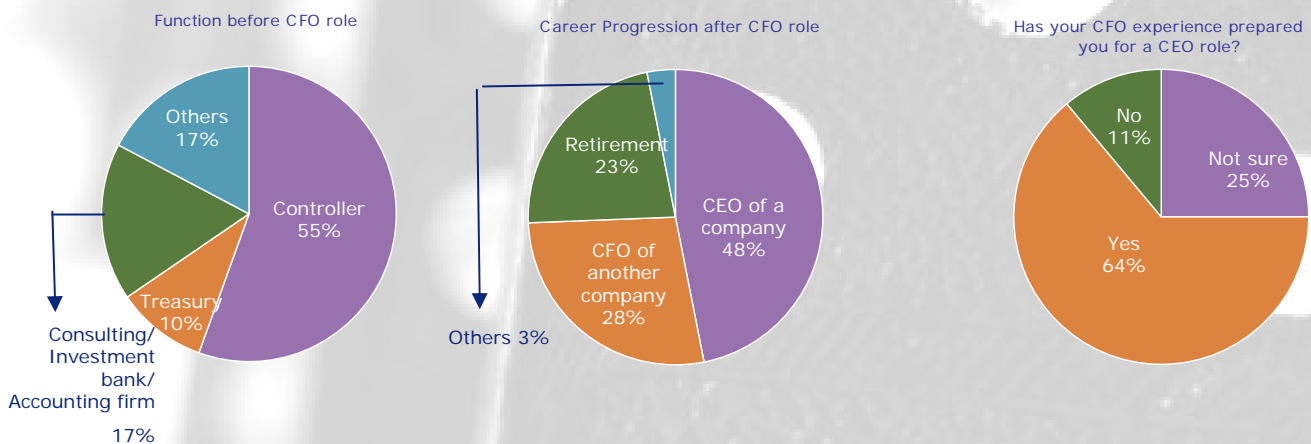
PROGRESSION TOWARDS THE CEO ROLE

More than half of the CFOs are confident that their CFO experience has prepared them to take on the CEO mantle. Almost half expect to go on to assume CEO positions.

To obtain insights on CFO career progression, CFOs were asked about their functional positions prior to their assumption of the CFO role, as well as what position they expect to move to, after their CFO term. They were also asked if their CFO experience adequately prepared them for a CEO role.

More than half of the CFOs said they came from controllership positions, while c*.17% of those polled came from service firms such as accounting practices, consulting firms or investment banks. This shows that the Controllershship function and Professional Service Firms constituted the most common source for recruiting CFOs with more than 70% of CFOs emerging from these sources.

When asked whether they felt adequately prepared to assume the CEO role, more than 60% of CFOs said that they are confident that their CFO experience adequately prepares them for the CEO role. This is in stark contrast to c.11% of CFOs, who said they were not adequately prepared. This trend alludes to the increasing leadership exposure and the expanding scope of the CFO function, which seems to give CFOs the sense of preparedness to be CEOs.



The results indicate that the CEO position is increasingly a natural footprint in the career progression path of CFOs in Germany, with almost half of the CFOs surveyed saying that they expect to become CEOs of corporations. The remaining half of CFOs expected to transition as CFOs of other companies or retire as CFOs in almost equal proportions.

*The term c. in this document means 'approximately'.

AN EVOLVING FUNCTION

CFOs say that their zone of responsibility has rapidly expanded to include Corporate Strategy Formulation and M&A transactions, and they expect this trend to continue.

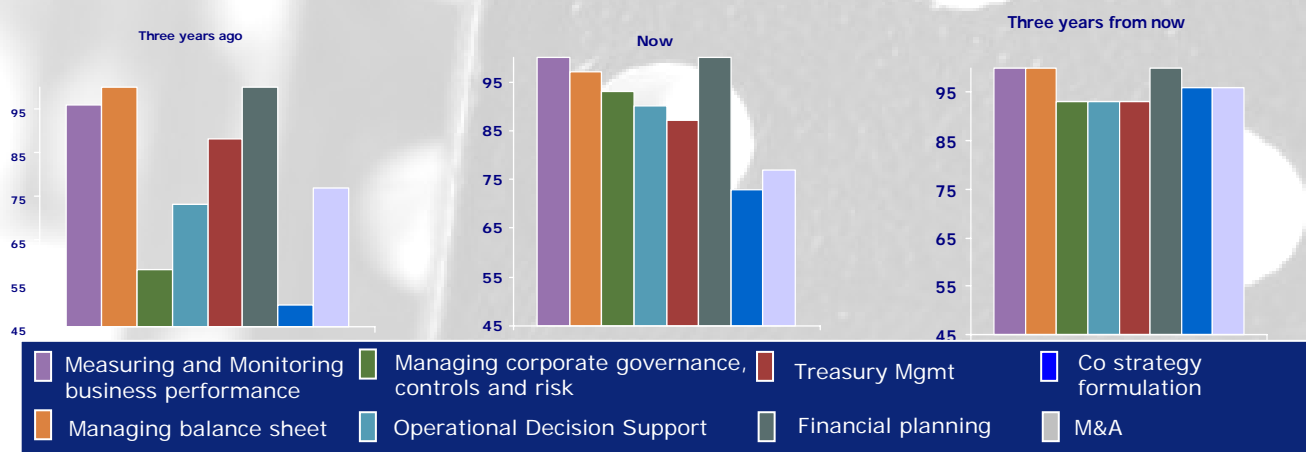
In seeking to gain insights on the changes in CFO's functional responsibilities over time, CFOs were asked to identify their key responsibilities currently, 3 years ago, and their expectations of key responsibilities 3 years from now.

The biggest transition over this time was seen in the areas of corporate strategy formulation and M&A transactions:

- Almost twice the number of CFOs expect to participate in corporate strategy 3 years from now, than they did 3 years ago, with c.50% of CFOs involved in corporate strategy formulation 3 years ago, compared to c.96% 3 years from now;
- More than 95% of CFOs expect to spend time on corporate M&A transactions 3 years from now, as compared to c.77% who were so involved 3 years ago.

Almost all CFOs identified four core areas of CFO responsibility 3 years ago, ie measuring and monitoring business performance, managing balance sheet, treasury management and financial planning. CFOs see these areas as continuing responsibilities in the future.

Interestingly, the most significant change over the past 3 years was in the area of corporate governance and risk with less than 60% of CFOs considering this as core CFO responsibility 3 years ago, and c.95% of CFOs identifying this role as a core responsibility in the near term.



When asked about the biggest change in the CFO function in the past 3 years, most CFOs said that it was their increasing involvement in corporate strategy (c.33%) or participation in business operations (c.23%). Other areas of change identified were increased role in regulatory compliance (c.13%), increased interaction with Board of Directors (c.13%) and increased communication with investors and shareholders (c.13%).

A TRANSITIONING FOCUS

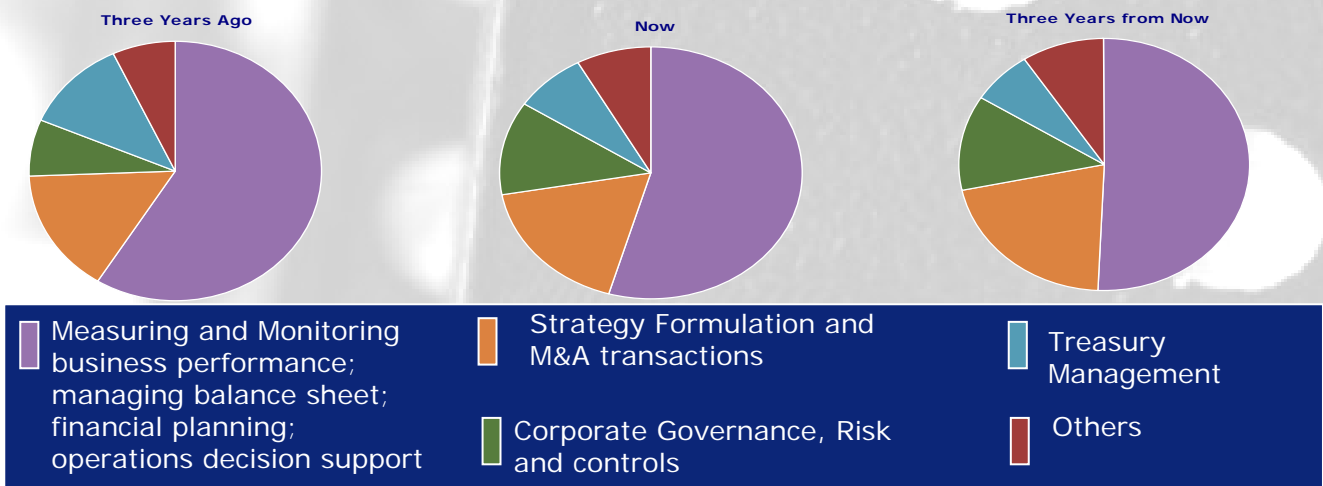
CFOs expect to spend an increasing amount of time on corporate strategy formulation and M&A transactions and plan to spend decreasing time on other core functions

To understand how CFOs apportioned their time among their core responsibilities, and how this practice has evolved, CFOs were asked to indicate the average percentage of time spent on each core responsibility per week, 3 years ago, now and their expectations 3 years from now.

Not surprisingly, the time investment pattern of CFOs has evolved in line with their expanding functional scope. CFOs expect to spend increasing amount of time on Corporate Strategy Formulation and M&A transactions. CFOs spent c.12% of their time on these functions, 3 years ago, and expect to almost double this time 3 years from now, expecting to spend c.21% on these functions.

CFOs spent almost 60% of their time traditionally, on four core functions, ie Measuring and monitoring business performance, Managing the balance sheet, Financial planning and Operational decisions support. However, they expected to reduce time spent on these functions to c.50%, 3 years from now, to make room for strategy formulation and M&A transactions.

Overall, more CFOs are spending more time on the job today, compared to 3 years ago, with c.90% of CFOs working between 40 to 80 hours per week, compared to c.80% who did so, 3 years ago. CFOs saw no significant increase in working hours 3 years from now.

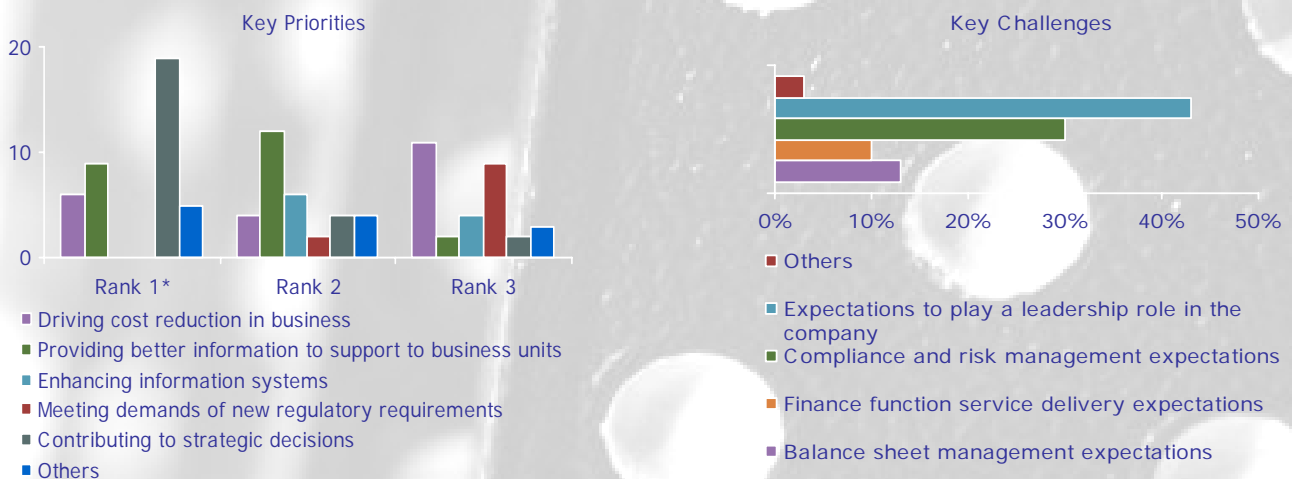


NEW PRIORITIES, NEW CHALLENGES

CFOs say their top priority is contributing to strategic decisions; Their biggest challenge is meeting leadership expectations in the company.

To understand what the top priorities of the CFO are, and what CFOs consider their biggest challenge in the current landscape, CFOs were asked to rank key priorities and identify their biggest challenge.

Consistent with their expanding function and evolution in time prioritization, c.45% of CFOs said that contributing to strategic decisions was their top priority. Another key priority identified was to provide better information to support business units (c.23% CFOs said this was top priority and c.38% ranked it as their 2nd Priority).



When asked about the biggest challenge they face in the company today, almost half of the CFOs surveyed said expectations for CFOs to play a leadership role in the company was their biggest challenge. We find this significant, as it speaks to the increasing trend of corporate CFOs playing leadership roles in corporations. Another key challenge identified by CFOs was meeting compliance requirements and managing risk, with c.30% of CFOs considering this as their key challenge.

*'Enhancing Information systems' and 'meeting demands of new regulatory requirements' received a Rank 1 rating from 0% of respondents.

AN EXPANSION OF SKILLS

CFOs say that general management skills are critical to CFO success and that CFOs increasingly need communication, marketing and sales skills.

To understand the changing composition of skills perceived as necessary for CFO success, we asked CFOs to identify finance and non finance skills they consider critical for CFO Success. CFOs were asked to assess necessary skill sets, 3 years ago, now, and 3 years from now.

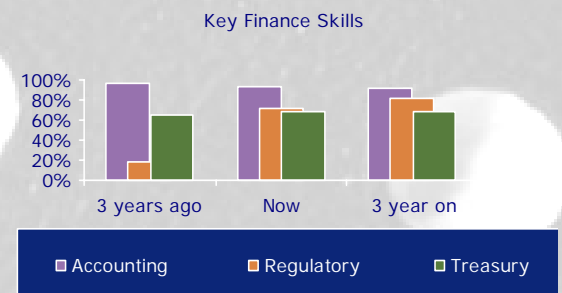
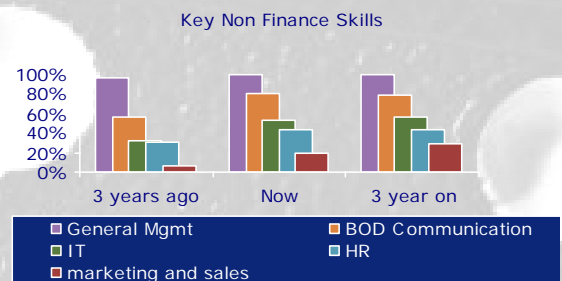
CFOs unanimously identified general management skills as critical to CFO success today, and expect this need to continue in the near term.

CFOs were also seen to increasingly need a broader skill set in areas such as communication with the Board of Directors (BOD), Human Resource, Information Technology and marketing and sales.

The most evolution was seen in the need for BOD communication skills (c.56% of CFOs said it was needed 3 years ago to c.80% 3 years from now) and marketing and sales skills (c.7% considered these necessary 3 years ago to c.30% 3 years from now).

Clearly, CFOs perceive that a broader set of non finance skills are increasingly important for CFO success.

When asked about critical finance skills, most CFOs considered accounting, treasury and regulatory compliance skills as important today and 3 years from now. Not surprisingly, a significant evolution was seen in the need for regulatory compliance skills in the past 3 years, with c.80% of CFOs considering these as critical skills today, compared to c.20% who considered them necessary 3 years ago.

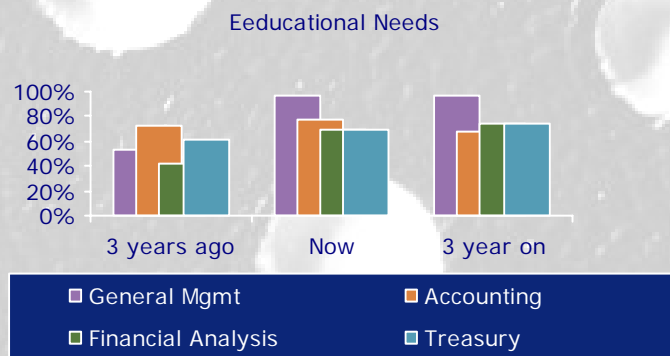


AN INCREASING NEED FOR MANAGEMENT EDUCATION

More CFOs are perceiving the need for management education in addition to specialized knowledge in areas of accounting, treasury and financial analysis, for CFO success

To understand the educational and specialization background that is perceived as ideal for CFO success, CFOs were asked to identify their ideal educational/accreditation background in the current landscape. To examine the transitioning education needs of the CFO market, CFOs were also asked to assess ideal educational background 3 years ago and 3 years from now.

- CFOs increasingly perceived a need for management education. 96% of CFOs said general management education is important now and will continue to be important 3 years from now, as compared to only 54% who considered management education important 3 years ago;
- CFOs perceived a marginally declining need for accounting education: 77% of CFOs said accounting education was important 3 years ago, with only 67% saying it would be important 3 years from now.



These results suggest that CFOs perceive that the expanding functional scope and increasing expectations from the CFO function are making it necessary for CFOs to have a more broad based management background in addition to accounting, treasury and finance specialization.

Finally, CFOs were asked whether they thought that a 'Global CFO Accreditation Program' was necessary, given the unique combination of skills and knowledge that CFOs were required to possess. Significantly, CFOs seemed to be in favor of such a CFO Accreditation Program, with almost half of the CFOs surveyed saying this was required, in contrast to c.17% who disagreed. The remaining 33% neither agreed nor disagreed.

Conclusion

The German CFO experience is clearly not only expanding in scope, but also in expectations, with CFOs being increasingly involved in operational areas, corporate strategy and M&A transactions, and being expected to play leadership roles in the company.

The breadth and depth of the CFO function has inevitably led to a need for a more broad based management education and a deeper pool of non finance skills in areas such as communication, marketing and sales.

CFOs expect this expansive trend to continue in the near term. Not surprisingly, most CFOs feel confident that their CFO experience is adequately preparing them for the CEO role, and many expect to go on to become CEOs as they progress on their career path.

These trends are interesting, as they point to CFOs taking on greater segments of the CEOs job and blurring zones of responsibility in the CEO and CFO function. It would be interesting to see where this path leads CFOs, does this trend stop with co-responsibility for corporate strategy and M&A, or is co-leadership the end point of this evolving trend?

Methodology



The German CFO Survey was undertaken by IAFEI in partnership with GEFIU, with the objective of measuring the perceptions of CFOs in Germany on the rise, evolution and the future path of CFOs.

Professionals from the Deloitte Manila practice provided survey implementation assistance. The survey was conducted via email using a survey questionnaire between December 1, 2005 and January 15, 2006.

It was sent to GEFIU members, ie CFOs and senior finance executives and had a response rate of c.17%. The responses were also compiled by Deloitte Manila practice Professionals.

About GEFIU

GEFIU is the German Financial Executive Institute. Founded in 1969, GEFIU has some 200 members who are Chief Financial Officers or Finance Directors of German industrial and trading companies as well as insurance companies, banks and other financial services. For detailed information, please visit www.gefiu.org.

About IAFEI

IAFEI is a federation of Financial Executive Institutes of countries across the world, and is a private, non-profit, non-political organization, domiciled in Switzerland. With 15 member institutes comprising more than 130,000 financial executives, IAFEI is the only global organization of its kind. IAFEI provides networking, visibility, advocacy and information access opportunities to member institutes and their individual members through quarterly publications, regional summits, global research projects and the annual world congress. Please visit the IAFEI website, www.iafei.org for more information.