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CII
Confederation of Indian Industry

Millennial CFO: Driving performance and Business value

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Contents

Foreword

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The outlook for the global economy in the short to medium term can be best described in one word- uncertainty. Fluctuating energy prices, volatile demand and supply, currency fluctuations, constantly moving commodity prices, government deficits, inflationary pressures and on-going environmental challenges being the few reasons. All these macro-economic changes have a significant impact on the way in which businesses operate, the priorities they face, and the strategies they develop to consistently succeed on a global platform.

The portmanteau “Glocalization” is a reality (Coined by Harvard Sociologist –Roland Robertson in 1980s) in which today’s Chief Financial Officers (CFOs) operate. It presents challenges that they must face, and opportunities they must embrace.

As the business information becomes more accessible as well as globally interconnected, new markets appear as quickly as others fade. CFOs are expected to play a more strategic role in business where technology and globalization are adding layers of complexity and overwhelming opportunity. Reducing costs, improving efficiency, and partnering with business functions is increasingly becoming a priority for CFOs.

CFOs have historically helped firms run well by keeping their operations on budget, on time, and on target. However, businesses need to be more agile than ever before. The CFOs today are eliminating rigid silos, standardizing and integrating processes, and creating systems for businesses to respond faster to changing market, customers, and regulatory changes.

Advances in technology allow automation of routine finance functions and have given rise to group-wide shared-services centers and third-party outsourcing centers. Freed from some of the regular work, CFOs are guiding and influencing not just the finance function but also the business at large. Large and complex data powered by analytics allows CFOs insights into business as well as the ability to interpret trends for the future. CFOs and their finance functions will need to be adept in leveraging these technological changes. There is a greater need for the effectiveness of risk management processes, and higher expectations on the accuracy of financial plans from the management.

Increasing technological changes have also triggered a strong need for the robust internal controls, policies, and risk management practices to guard the company against the threats. CFOs today help develop the culture of strong governance practices and act as a shield to safeguard the company.

Lately, we are seeing a lot of entrepreneurial businesses in the form of startups and India is fast emerging as one of the largest hubs for startups which are growing into successful businesses. The CFO of a startup entity has an expanded role and needs to wear different hats at different stages of the lifecycle of the business. Startup CFOs need to challenge business decisions, be an architect to help shape strategies, and a transformer with the CEO in executing operations.

Through this report, we endeavor to bring out the roles and responsibilities of the quintessential “Millennial CFO”. We will also delve into relevant pieces of: role of a startup CFO; voices of women leaders; role of innovation and technology in driving business growth; and corporate governance in an effort to cover all aspects of being a well-rounded finance leader.

Trust this will make into an insightful read.

Deloitte India

Foreword

The world presents a mixed picture, in a sense that is the "new normal", nothing can be said with certainty, even for a short period of time. Just as the world's second-largest economy, China's growth showed sign of stabilization, with the GDP posting a 7 per cent in Q2 2015, the hopes suffered a setback with the wild financial market gyrations sending tremors across the world. Across the continent, the crisis in Greece seems to have resolved as of now, with a bailout package being promised by the 'trioka' in exchange of austerity measures which will be implemented by Greece. Over the years, Greece will survive on various bailout packages, but its economic problems won't go away easily. Otherwise Europe, including Spain and Portugal, and USA continue to provide some ballast to global growth. Though one must add that the cloud hanging over Europe in the form of migrant crisis could develop into an economic issue of importance. If that is what can be said of West, the East suffers from the shock emanated from China, debilitated by the twin loss of markets and export competitiveness. Sigh the collapse of commodity prices, disinflationary trends continue to envelope the globe, whether west or east, with various world organizations trimming growth forecasts.

On the domestic front, unseasonal rains earlier in the year continue to weigh in on consumer sentiments impeding rural demand, with the current status of deficit monsoon adding to the list of concerns with an additional one about crop yields. Though with strong buffer food grain stock and globally soft prices for Agri products making for cheap imports, widespread distress and inflation can be hopefully avoided, the wait for a smart recovery may be elongated. In the governance area, the government is pressing on with policy and reform initiatives. We are hopeful that the initiatives taken by the government, in terms of expeditious project clearances, simplification of procedures and new investment announcements as well as the 'Make in India' initiative, would improve the order book position, revive demand and help effect a turnaround in the investment cycle, creating in its wake, inclusive urban and rural wealth effects.

In these present times of volatility and uncertain growth, the title of Chief Financial Officer (CFO) in the ordered enterprise may be a bit of a misnomer. CFOs are expected to move beyond numbers & play a strategic role in scenario planning, vulnerability analysis and be in preparation sensitivities to main budgets and financials, even while honing their expertise of being a Business Partner and Controller. Further, with technology and globalization are adding layers of complexity; in fact technology is changing and challenging the way of traditional businesses and offer huge scope of opportunities and risks. In this constantly mutating world of business models, CFOs are also expected to identify business opportunities and become a Value Creator. Nowhere the complexity and the imperative of the new paradigm is more evident than in in the role of a start-up CFOs as they navigate without compass in the brave new world of Internet of Things. Today's CFOs may do well to look up to start up CFOs rather than to their compatriots in old age businesses to know what they should do right in their own traditional businesses.

VS Parthasarathy

Chief Financial Officer and Group CIO Mahindra & Mahindra Ltd.

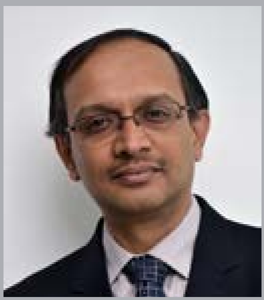
The 9th edition of CII CFO Summit is focused on the New Age – next generation CFOs, a tech savvy visionary who is 'adept to adapt' to any evolving situation and thus bringing in the 'CFO being the key protagonist in the dynamics of a VUCA world'. Recent events have reinforced the CFO's elevated status. Even while carrying out the critical task of measuring and monitoring their company's performance, providing strategic input has become an imperative. Developing people with the right skills has become another top-of-the mind issue. Ensuring gender diversity to have balance and flexibility in the workplace remains a key plank for fairness. Climate change is not the only change, business scenarios are also changing very fast and the CFO may have to act like a CFO of a start-up, where they have to create everything from scratch, partner in strategy, and at the same time uphold governance, manage risks, and protect the interests of stakeholders.

To explore these dimensions, this year's theme of CII CFO Summit 2015 is 'Millennial CFO – Driving Performance & Business Value,' and this report focuses on CFOs role in the present world to meet the expectation of the stakeholders. The report also summarizes the views from start-up CFOs role in defining growing & making business successful; on how diversity at work is not unheard of in the current corporate environment; and how latest technologies are paving the way for enhanced business models for the millennial CFOs.

We hope this CII-Deloitte report is insightful and thought provoking. I would be keen to know your views and comments to make the event and its theme meaningful. Please feel free to write to me.

CFO Speaks

CFO Speaks



P.B. Balaji
CFO, Hindustan Unilever Limited

The operational environment presents significant challenges with volatile commodity prices, slowing global growth, high competitive intensity, and rapid changes in technology. In this context, driving consistent, competitive, profitable, and responsible growth is the key area of focus for businesses and requires a clear strategy that is bolstered by robust organizational structure of processes, systems, and capabilities. Chief Financial Officers (CFOs) of today are required to help navigate the business through these challenges.

Finance functions have to adapt to their new role of a business partner while excelling in their stewardship role. To deliver brilliant basics, CFOs should foster pride in accuracy and controls; this is table-stakes but it is not sufficient. Additionally, finance professionals need to work closely with the business to create and execute the strategy, drive performance, hold people to account, and be the co-pilot to the business.

CFOs drive the brilliant basics agenda through the following ways:

- Routine jobs have been simplified, standardized, automated, and outsourced thereby enhancing their effectiveness and efficiency.
- Controls ecosystem in the company are being enhanced through robust process design, automation, simplification, and tone from the top.
- Ensuring top notch talent is infused into controllership roles to protect and liberate value.
- Staying abreast of developments to ensure timely and comprehensive compliance to the evolving regulatory landscape, which is changing rapidly, is complex where multiple changes are happening simultaneously.

CFOs drive the business partnering agenda through the following ways:

- Inculcate a deep appreciation of the business drivers within the function.
- Own and drive the cost agenda within the business and ensure operational leverage is secured.
- Help the business take calculated risks.
- Help steer the portfolio conversations within the business which forms the basis of the inorganic growth strategy.
- Own the technology agenda within the business while ensuring that business fully leverages the benefits offered by it.

While the above two roles have been traditionally done in various forms by CFOs, the tempo in both these roles has been stepped up with the advent of technology. Technology has helped bring down the walls between various business verticals and is helping the organization to work as a cohesive unit. Democratization of information is helping people to work together against the backdrop of a complex environment. While technology has offered great benefits to the organizations, it has also necessitated stronger than ever risk management practices to safeguard against potential threats.

To sum up, roles and responsibilities of a CFO are much more than simply being the head of the finance team. CFO acts as a performance leader with great focus on cost management, develop metrics and scorecards to help business functions to achieve the desired results and move beyond it. He is the connect between business teams, need to collaborate with other functions, identify the opportunities, challenge the steady state, drive changes, and help build the organizational strategy. The CFO also acts as the bridge between internal and external stakeholders and needs to build strong relationship with investors. The CFO acts as a guardian of good business practices and controls and manages risks inherent in corporate strategies. Achieving the right balance of independence and collaboration is crucial for a CFO to be effective in the current environment.

CFO Speaks

Ms. Narsimhan Kimsukha
CFO, PepsiCo. India

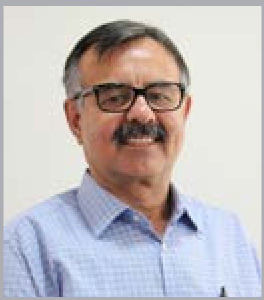
Today's CFOs: The CFOs of today and future need to create a balance between the business and functions. The business growth is as much as dependent on strong strategy as on the robust functional base. "A strong business can't be built on weak functions". To be effective, a CFO requires balancing the different aspects of his or her role to generate maximum growth and profitability in a sustainable way.

The key capabilities CFOs need to demonstrate: an understanding of the context in which business is operating and the business itself. The CFOs should take the 360-degree view of the external factors affecting the business, understand the operations of the company, identify the right opportunities, adapt and capitalize on the changes for business growth. This blend of macro and micro factors is essential for CFOs to derive the trends of the future and set the direction for the business.

Why so few Women CFOs: The challenge of women in finance starts from the size of the pool available to recruit from. The number of women in business schools is less than a third, and even in that group, more women gravitate towards Marketing and HR than Finance. So the odds are not great to start with. As women in finance move up the ladder, they have the same challenges as other women professionals do – rearing a family, trading-off between locational preferences and career opportunities and so on. So the number of women who make it to the top of the function as CFO isn't as high as we would like it to be. However, evolving technology, greater emphasis on gender diversity in corporates and greater visibility of successful women in finance especially in banking which has seen a fantastic wave of women CEOs – all augur well for women in Finance leadership positions.

There are 3 main ingredients for women to be successful and become future leaders: Invest in learning, build competencies through varied experiences and develop & display leadership skills. CFOs should constantly invest in learning, step out of their comfort level, take up riskier roles and build on experiential learning. Developing and displaying leadership skills through influencing the colleagues and creating an impact on the business is also an important factor to reach up the corporate ladder.

CFO Speaks



Sanjay Baweja
CFO, Flipkart

The role of a Chief Financial Officer (CFO) has evolved and expanded as the finance function has become the center of the organization. CFOs are poised to play a bigger role- be a combined force with the management to create strategy and drive business growth.

The speed and complexity of change in the business environment is making it imperative for companies to assess their business decisions regularly. Thus, the responsibilities of a CFO are weighed differently versus the traditional role of accounting and budgeting. New technologies are helping CFOs to automate and outsource the non-core activities and free up resources to support increasing need for analytics for better decision making.

When does a startup need a CFO? Although it is imperative for a business to have a CFO but the capabilities required would depend on the stage of the business. At the early stage, finance function is required to do planning, forecasting, budgeting and analysis on market data but the guidance for strategy generally comes from the promoters and the investors, therefore, seasoned mid-level finance professionals adaptive to new technology could be a great fit. As the company continues on its growth trajectory, it would require experienced professionals to direct or redirect business, develop strategies with promoters, identify markets, and help create a growth path for the business.

How the role of CFO differs from a Start-up entity to a mature organization? The role of a CFO in a startup includes all the aspects of a traditional CFO but also requires him to be agile in adapting to the cultural shift in organizations' demographic dynamics, rapidity of change, evolving plans & forecasts, high growth rates, and high risk levels. Start-up entities at early stage grow at a much higher pace and makes it important for the finance function to continuously challenge, monitor, and revise the outlook to reflect the true picture.

More startups fail than grow in a highly competitive startup arena. Risk mitigation holds center stage and the company needs to be guarded against risks through constant iterations in strategy. CFOs at a startup entity need to work at the design level to create the right KPIs catering to the requirements of all stakeholders, including investors. The key to profitable business growth is to a keep a sight on cost optimization through the growth journey, prudence in adding growth to the operations and "caring for cash" attitude.

The role of a startup CFO, thus, can be defined as an architect of the business model, an operator of business activities, a steward to guard against unprecedented risks, and a catalyst for growth.

CFO Speaks

Ms. Vibha Padalkar
ED and CFO,
HDFC Life

In the ever changing business environment, I strongly believe that a CFO can no longer be just an accountant or a custodian of financials but has to be more of a partner to the CEO and business at large. One needs to be solution oriented and walk the tight rope between being compliant, while balancing the company's risk appetite with maximizing returns.

In the financial services sector, which is relatively more regulated, it is more important to be ahead of the curve in preempting the regulatory changes to diversify and reduce dependence on any factor, be it for products, processes, or systems. The life insurance sector has witnessed multiple waves of regulatory changes that have substantially impacted the industry across product regimes, the way we sell, what is charged to the customer and benefits paid, etc. It is imperative as a CFO to be vigilant and agile ad infinitum. One needs to preempt the regulator and foresee the changes and be prepared to stay ahead of the industry.

However, amidst all this one cannot forget the usual responsibilities of a CFO (finance, accounting, budgeting and planning, treasury), which is the core responsibility.

CFO should endeavor to be a business contributor and not a spectator waiting on the outskirts providing only financial inputs. Being solution oriented is ultimately the key. A CFO has to be a part of the solution and not a messenger to inform a problem - adding thought to everything and anything you do, beyond just a number on the page.

Another essential duty of a CFO is to retain a good talent pool. One needs people with all sorts of skill sets. For e.g., you need an accounting geek as well as a good articulator. It has to be much more need-based approach and not a passive approach alone. A good team has to have the right balance of technical and practical knowledge. One needs to overlay everything with a commercial lens to fit all aspects of the jigsaw puzzle. The new age talent pool is very ambitious and endowed. They are far upbeat about the industry trends and developments. The key to retain them is to provide a platform which offers an opportunity to prove themselves, while challenging enough to learn. Incessant knowledge enhancement through a blend of on-job and off-job coaching is vital. Encouraging an employee to keep contributing to the organization and feeling valued and important is a critical aspect.

As you progress in your career, technology is increasingly playing a crucial role. It is practically changing the way we live, be it how we are in touch with our people, how we keep ourselves updated about developments around the globe or even how we look at the business. But the aim of technology is to aid the performance and not be purely dependent on it. It is just one of the many ways to have control. Thinking ahead of time is imperative for successful use of technology spend. If used aptly, it offers huge potential to enhance performance of an individual and hence the organization.

Good execution is often more important than the mere original investment. Technology is a strategy and not a onetime spend. Having a blue print and clear vision about the end agenda is critical, to save pain and waste of time and resources. Disproportionate amount of time needs to be spent on thinking clearly about the objective.

However, the increasing awareness of technology also poses a big threat in form of cyber crimes. Domestically, companies are still at a very nascent stage in terms of handling cyber threats they are exposed to. Insurance sector specifically is behind MNCs and international banks and there is fair bit of work that needs to go into it.

Finally, one of the common concerns we hear today is around gender diversity at work places. I believe things are clearly changing in current times, and women in CXO positions are not unheard of. However, I don't think we have reached an optimum level and there is clearly a long way to go. A lot of women who are CFO material fall out of the race in their late 20s early 30s as working hours become challenging and overall it gets demanding.

Thinking yourself as different, being a woman is the root of the problem. Feeling confident and being convinced about your work priorities will surely change things. With evolving thought process and increasing support from family, things are changing very quickly and we can see more equality in the boardrooms. A lot also depends on the work environment one has and the outlook of one's colleagues. Introducing flexible working hours, providing support system to encourage return to employment after hitting personal milestones of motherhood, and having an overall cohesive environment would really aid employers in truly achieving diversity.

The key to maintaining a balance between work and family is to go slow during critical personal milestones. You need to and should prioritize your family when needed, but at the same time don't let your work get neglected. It requires a lot of efforts, strong conviction and determination to be committed to your career and support from one's family plays a crucial role.

If indeed one is serious about the career, it should not be treated as an option, but as a given. Then you will surely find ways to make it work.

S Durgashankar
President- Group M&A, Mahindra & Mahindra Ltd.

1. In the current changing environment, the role of the CFO is constantly evolving. What do you think are the key steps a CFO should take to deal with the changing role requirements in this environment?

The role and expectations from a CFO, over time, have changed substantially. From the early days of mere bookkeeping, the role has metamorphosed to include fundraising, fund management, interacting with and managing investor expectations, providing business partnership, being an integral part of the strategic team and in recent years to being conscience keeper of the company. In all this, there is the need to keep professional knowledge up to date, as well. In order to deal with these increasing expectations from a CFO, it is essential for a CFO to work on the three basic aspects – that of Awareness, Attitude, and Aptitude.

a. Awareness is to:

a) Be up-to-date on professional knowledge
b) Have in-depth knowledge of the industry that the company operates in
c) Have knowledge of the dynamics of the global economic environment

b. Attitude is to:

a) Make execution excellence, a way of life
b) Develop an attitude of service
c) Be a team player, first and foremost

c. Aptitude is to:

a) Practice, preach, and preserve the highest level of governance
b) Think broad, think deep, and think out of the box
c) Be adaptable & be ready to embrace change

2. With the impact of globalization, CFOs will seek to develop and retain the talent and capabilities required to make strategies work beyond borders and cultures. What should a CFO do manage these changes?

Till a decade ago it was the developed world that was acquiring companies across the globe. In that scenario, the acquiring companies very clearly had better brand, technology, product, and process than the acquired company and hence there were a lot of reasons for the acquired company from the developing world to look up to the acquiring company. However, in the last decade, it is the developing economies of India and China that are making acquisitions in the developed market. In this situation, the acquiring company need not have better brand, product, technology, process than the acquired company. The situation poses the challenge to the CFO of the acquiring company and also begs the question on how he/she can gain the respect of and retain the F&A talent at the acquired company.

In these situations, CFO should neither adopt the superior mindset of an acquirer nor should lack the courage to change where it is warranted. I think the proverbial prayer to God for granting the courage to change things that need to be changed, serenity to accept those that cannot be and the wisdom to know the difference, aptly sums this up. If I were to add to it, it would only be to additionally seek the ability to identify a superior process when one sees it and the openness to accept and adopt it.

3. What are the key regulatory changes which are affecting your organization in the current environment and how do you think CFOs should tackle these?

In India we are seeing a sea of changes in the regulatory environment. The Companies Act, 2013 completely revamped the earlier Companies Act, which was in existence for 57 years. Changes in the Internal Control for Financial Reporting (ICFR) have introduced SoX like provisions to be complied with and went further ahead by extending ICFR to business controls also. Indian GAAP is getting revamped with ICFR like IND-AS. Income Tax regulations are following suit with ICDS regulations and with far reaching changes being made to issues like Place of Effective Management. Dramatic changes to Sales Tax with introduction of GST are on the anvil. Far reaching changes have been made to Insider Trading regulations and Related Party transactions. In short there has been a total revamp of the regulatory ecosystem that a CFO has worked hard to familiarize with. The CFO is now required to acquire the new knowledge, ensure that his/her team also has acquired the requisite knowledge, ensure that the implications of change have been analysed, understood and communicated to all stakeholders and assimilated by them and successfully "project manage" the entire process of change. This fairly humungous ask is casted on the shoulders of the CFO.

In this situation the two most important skills that CFOs need to deploy are Re-skill and acquire deep knowledge of the changes for themselves and have the ability to "project manage" and see the organization through these changes. On "project management", I am reminded of the great Tamil Poet, Thiruvalluar (thought to have lived during 3 BC / 1 BC), who wrote the treatise called "Thirukkural" consisting of 1330 couplets on various topics. In one of the couplets he says that an able Minister (read Manager /CFO under the current context) is one who fully understands the job to be done, identifies the best person through whom the job could be done, provides such a person with the right tools to do the job and having done so, stays away from it (read delegation or noninterference). The essential characteristics of a manager so succinctly captured by Thiruvallur, stands true even today, as the very essence of project management.

4. Do you think that organizations have adapted to the changing role of CFO? What are the key challenges and resistances that CFOs are facing from the organization structure?

I think one of the important aspects of a CFO is the attitude of service (Seva Bhava), since this is a function that is primarily a service function. As such service to the organization being his/her raison d'être, instead of asking whether the organizations have adopted to the changing role of a CFO, I would ask whether the CFO has adequately and successfully adopted himself/herself to the changed needs of the organization. In response, I would say that by and large, barring some exceptions, the profession has risen quite successfully to the challenge. The key to success is developing the ability to– (i) have deep functional knowledge, while having wider business knowledge and (ii) wear multiple and often conflicting hats (Controller, Business Partner and Conscience Keeper). Organizations across the world have recognized the importance of the role of the CFO, which is why we see the new age CFO is being asked to be a business partner, is co-opted as a strategic manager, is deferred to as the controller and is looked up to as the conscience keeper of the company.

Lessons from a CFO to CFO

Lessons from a CFO to CFO

In a fast changing and evolving environment that is often tempered by disruptive technologies, the role of the quintessential Millennial CFO needs to evolve from focusing only on finance and accounts to becoming adept at technology, driving business insights, and helping grow the organization. Global economic uncertainty, fluctuating energy prices, turbulent currency markets, along with the local regulatory changes are among the many challenges that chief financial officers (CFOs) around the world face today.

These emerging changes require CFOs to act as a business partner and a strategist. They will need to partner with multiple functions across the organization and develop and retain the talent and capabilities to make strategies work beyond borders and cultures. Transforming the finance function to a business partnering role is the one of the topmost priorities of a CFO.

CFOs can accelerate their shift to the role by more deliberately seeking opportunities to apply their competencies, increasing their exposure to the organization's global operations, and developing the leadership skills to exert influence and inspire confidence. *In doing so, they might keep in mind the five "C's" of influential leadership.*

Curiosity: Constantly ask "why" questions, be eager to understand how things really work, and generate and welcome fresh ideas.

Capacity for surprise: Be willing to set aside preconceived notions and challenge things that you "know" that may no longer be valid.

Courage: Learn to deliver hard news and be willing to take unpopular stands. See risk as something not to be avoided, but to be managed for reward.

Character: High ethical standards and unwavering integrity have always been essential in a leader; in an era of heightened scrutiny and transparency, they are only more so.

Collaboration: Be accessible and eager to listen to colleagues. Better solutions emerge when different perspectives are brought to bear on a problem.

A. What is required to be a strategist CFO? [i]

For CFOs, to be an effective strategist demands earning a seat at the strategy table, having an effective finance team, and selecting the strategy orientation that is appropriate to the context of the company and level of permission granted by the CEO. Some CFOs will be more suited in some roles than others, in the same way that some businesses or CEOs need different types of support in different stages in the business cycle.

There are four distinct ways CFOs can orient themselves (responder, challenger, architect, or transformer) to engage in the strategy process.

Responder: Support the company's strategy development by helping key business leaders quantitatively analyze the financial implications of different strategy choices. This orientation is especially evident in highly decentralized businesses where the CEO chooses to drive accountability for strategy and performance to business-unit leaders

In a situation where business has decided to enter new geographic markets as they have achieved a saturation in their own market – the financial analysis will be part of the decision process as to how much market entry will cost in different geographies, and a risk adjusted assessment of the payback period

Challenger: As a challenger, the CFO and the finance organization act as stewards of future value in the strategy process by critically examining the risks to, and expected returns on, different strategy alternatives. The CFO requires the permission of the CEO to challenge business-unit leaders and their strategies. When given that permission, the CFO as a challenger is especially critical to the review of major strategic investment decisions.

A CFO will be required to provide a framework and analytical tools to allow the forecasting and subsequent measurement of the success or failure of strategic choices – perhaps a new product development – is often critical to support or defuse the emotional aspects of decisions that are made

Architect: In the architect orientation, the CFO, finance department, and business leaders jointly work through shaping strategy choices and apply finance strategies to complement and maximize the value of particular strategies. Architects go beyond the challenger orientation to enable the financing of innovative initiatives through varied finance strategies and finance arrangements with suppliers, customers, or delivery channels.

Seen most in the current environment where regulatory, economic, and global changes are making it imperative for companies to adopt technological changes. CFOs more often than not need to be a critical part of the transformation, work with multiple teams to design and develop the frameworks, build the right team, and help executing the organizational changes.

Transformer: As a transformer, the CFO becomes a lead partner to the CEO in shaping and executing future strategy. The CFO is key to execution of "real operational and financial options" for shifting the product market mix, delivering value, and creating distinctive capabilities.

Prevalent in start-up businesses and those operating in fast moving and evolving environments, such as ecommerce, the need for businesses to re-engineer themselves and identify and respond quickly to the outcomes of good and bad strategic calls can be the difference between long run success and falling away from a strong market position.

B. How can CFOs effectively drive organizational transformation? [ii]

CFOs are increasingly required to partner with CEOs to drive transformations in their organization. But with change often comes natural resistance. There are steps that CFOs can take to diagnose the culture of the organization, reframe and replace the culture and narratives in a company, and reinforce a new belief system to help their CEO establish a new company culture.

Diagnose the culture: The first step is to diagnose and articulate the beliefs underlying the existing culture. To do this, it is useful to have CFOs think through the organizational outcomes they do not like, the behaviors that led to them, and the underlying beliefs driving the behavior. Often the introduction of a new CFO, or the use of external advisors who approach with a new set of eyes to really understand and describe a culture, can be extremely powerful in getting to the real heart of an organization. As is often quoted "culture beats strategy every time", so it is critical to really understand what drives a culture, and work out how to work with the culture to effect change, before organizational change can be successful.

Reframe existing narratives: The second step to culture change is to frame the narratives that will be used to change beliefs. This begins with the recognition that existing beliefs did not arise in a vacuum and often served a good purpose even, if they are not useful now. To begin reframing existing beliefs, it is important to create a narrative that shows the value of the widely held beliefs and also shows the pitfalls and inappropriateness of the beliefs in other contexts. This is again a particular factor as businesses move from early stage to a mature stage, where the nature of decision-making processes and the objectives of change, naturally evolve.

Replace existing belief patterns: While specific narratives may disaffirm beliefs, replacing them requires articulating and demonstrating the behaviors and supporting beliefs required to support desired outcomes. Establishing new beliefs requires role modeling – demonstrating by doing things consistent with new beliefs, and rewarding those who behave in ways that support desired outcomes and beliefs. The CFO can help design and introduce reporting and reward systems that support the new beliefs – only what is measured can be changed, and establishing systems that can clearly demonstrate and measure change is often critical in changing the underlying belief systems.

Reinforce desired behaviors and outcomes: To establish a new set of behaviors and beliefs in a sustained way, it is important to revisit incentives and performance management policies. This may include changes in compensation and goal setting to better align with desired outcomes. Such levers can serve to lock in changes. To institutionalize new behaviors, it is important for CFOs to break down silos — characteristics of many finance organizations that CFOs inherit. Creating an open-door policy or establishing regular in-person team meetings with new expectations for behavior can go a long way to reinforcing change by demonstrating new behaviors from the top.

CFOs may have to change the culture of the finance organization they inherit or partner with CEOs on broader organizational transformation. To do either successfully, they need to diagnose sources of resistance to change and develop appropriate strategies to mitigate that resistance.

C. Why does globalization demand Chief Frontier Officers? [iii]

As organizations move into a new era of globalization, they face ever more complex dynamics and decisions. One result is that the role of the chief financial officer is shifting in many companies, to a focus on making global initiatives succeed. Part of the reality of modern business is the imperative to operate beyond domestic markets. Traditionally, managers looked to foreign lands to supply inputs to production that were either unavailable or more expensive to procure at home—or they saw them as new markets for their offerings. Now, as the world puts up fewer restrictions on trade, multinationals are transforming into truly "anywhere" enterprises. This new era demands new capabilities in senior management teams. Innumerable opportunities present themselves, each involving distinct consumer tastes, supply considerations, regulations, and ground rules for investment. Complexities abound in managing legal frameworks for corporate expansion, complying with local regulations and contractual obligations, adhering to local content provisions, and adjusting pricing and product strategies. Achieving growth goals is also a much more analytical exercise than it was in the past.

The CFO's training and toolkit are highly relevant to the new era of globalization. In particular, the CFO's strong background in deal-structuring and deep understanding of regulatory, environmental, and operational impacts on financial performance can put finance in an ideal spot to drive market-entry strategies, target specific customer segments, and pick high-quality product mixes. The importance of well-managed compliance also brings the CFO's capabilities to the fore.

CFOs fit the emerging need for a chief frontier officer in other ways. Finance, for example, tends to be the only operating function that looks at all data both singularly and on a consolidated basis. As part of their responsibilities, finance leaders also objectively weigh the pros and cons of investment decisions across business units and provide an unmatched level of rigor in the analytical process. These capabilities, as well as the trust CEOs typically have in them, may position CFOs as the organization's go-to leaders for comparing performance across markets and ensuring that global initiatives are successful.

Many organizations now include the requirement for CFOs to have worked in multi jurisdictions, in order to bring a global view to the Board. As finance is one of the most portable skill sets globally, the opportunity to work abroad will be beneficial both to the organization, who needs the chief frontier officer, as well as to the individual who is being looked at to undertake that role.

D. How can CFOs work through Finance Transformation?

Finance transformation: Two words that draw out the skeptics, particularly from finance organizations that consider themselves mature and efficient.

Finance transformations can take many forms, varying from company to company. But all successful programs have one common principle: alignment with, and support of, the organization's strategic direction over the next five to 10 years. That requires a thorough understanding of what finance talent, processes, and technologies a company will need to accomplish the strategic vision.

With CFOs becoming more engaged in corporate strategy, finance transformations are a critical task for them to prepare their organizations for the changes that strategy execution requires. How can organizations enter new markets, offer new products, acquire companies, assess customer behavior, find gaps in supply chains, and take advantage of big data and today's analytic tools without some form of finance transformation? And what about cyber-security? Are today's finance systems as prepared as they should be to manage cyber-security risks?

Win over the Skeptics: The CFO's new role would require him or her to clearly and concisely lay out the business case for why a finance transformation is essential and the value finance will be capable of delivering as a result in order to support the corporate strategy. CFOs must recognize that the needs of an organization have changed due to its own maturity profile, the actions of competitors or regulators, technology changes in the market in which it operates, and the economic cycle.

Solid relationships with business-unit leaders and gaining their buy-in are critical, especially for a finance transformation that may be more far-reaching or ambitious than others. Business-unit leaders need to understand how the finance transformation will directly help advance their business plans and goals. They also must know how it will provide them the data and analysis needed to execute their individual responsibilities in achieving the corporate strategy. Be prepared to answer the question, "What's in it for me?" and do the homework to make a compelling case. Anything short of that may not gain the business unit leaders' confidence and could undermine the transformation's success.

Build the Right Team: Finance transformations can take months or years, depending on the organization and objectives. Each type of effort requires the right talent to make it happen successfully. For large organizations, it's imperative to engage a senior leadership team representing the major business operations to help drive the transformation. From there, communications can roll down to the operating groups and their constituents.

Having the right talent for executing the finance transformation also is essential. With finance being expected to provide more support for data analysis and modeling, any finance transformation today should encompass these sought-after skills. Involve business-unit leadership in planning the new finance organization's staffing and partner with the talent organization or human resources to identify and recruit the needed talent.

IT also must be part of the effort. Any finance transformation, even if it doesn't appear to have a system or technology component at the outset, should consider changing technology needs. For example, systems may need to be scalable to incorporate new operations from acquisitions, as well as the budgeting and planning around those expansions. New technology also may be needed to bolster finance's ability to meet increased demands for data, analysis, risk sensing and scenario planning.

Be sure to include members from corporate development and treasury, as capital planning and allocation are key to strategy execution. And, of course, involve those dealing with regulatory changes, as finance is the lynchpin for compliance.

Keep Your Eyes on the End Goal: Making finance transformation happen in mature organizations, with legacy systems, long-established processes, and built-in biases, can be as arduous as starting from your own team's end zone; the goal line can seem unreachable.

But it is the CFOs' job to create a finance organization, backed by processes and technology, that can help drive towards companies' strategic vision. Again the use of external advisors can be an extremely important tool to get buy in for then process from the wider organization and help maintain momentum over what can in some cases be an extended process.

Summing up

As companies are expanding within India and globally, CFOs need to position themselves centrally with multiple functions. Being a business partner, CFOs will need to help the business redesign processes, strengthen controls for emerging risks, and build an ever evolving business platform to help decide and implement strategies, and drive performance and growth in the organization.

Start up CFOs: Resilience, Volatility and Growth

Startup to market leader: Role of CFOs

"Scalability is the name of the game." -

N.R. Narayana Murthy, Founder and Chief Mentor of Infosys

India has redefined its image from the IT hub of the world to the fastest emerging startup ecosystem in the recent past. The startup ecosystem is expanding at a rapid pace and the software service market which was basically more of a service market for outsourced projects has transformed itself as a software product industry with innovative solutions. This rapid growth is driven by young and diverse entrepreneurial landscape. Starting from mobile phone penetration, internet access, evolving communication technology to the emerging online transaction services, the digital economy has opened gates for many sectors, amongst them being digital commerce, data analytics, and cloud-based services. It has also created an environment for new age entrepreneurs.

In the context of such diversification within the startup framework, together with the nuances attached to a nascent and growing area, a CFO's role assumes significant importance. The role encompasses the entire spectrum of activities with the objective of successfully delivering the business venture. Further considering the risk associated with a similar green field project, and amidst technological disruptions, changing market scenarios and consumer preferences, CFOs have to be mindful of a number of factors and distortions which may come up during various operational scenarios. Additionally, CFOs may be required to play a balancing role in the startup for it to be successful.

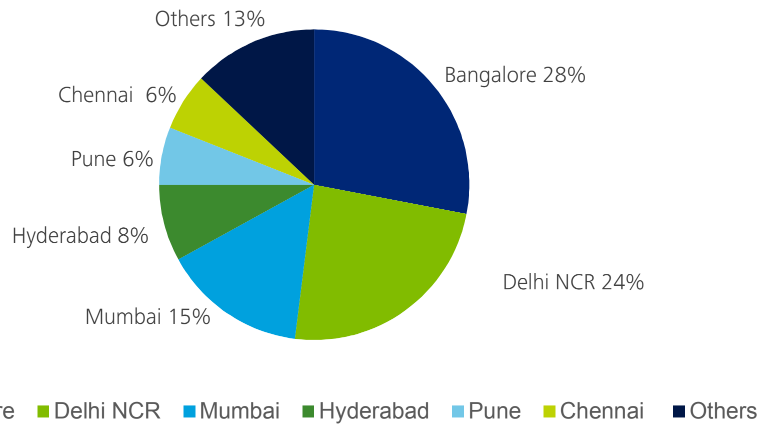
India: Fastest growing startup ecosystem

By the end of 2014, India had 3,100 startups in the technology product and digital space. There are almost 800 new startups added to the ecosystem every year, which makes India the third fastest growing country in terms of startup activity. As per a NASSCOM report, there will be more than 11,500 startups in India by 2020, which will employ around 250,000 people. [iv]

India is now competing with the startup leading countries like the US and China. India, China, and the US account for 62% of global deals and 71% of total funding going to e-commerce startups.

The funding in the Indian startup ecosystem has grown exponentially in the last few years. The startups generated $760 million in 2012 and $1.6 billion in 2013. Last year the funding rose to $5 billion in almost 300 deals while the funding in first half of 2015 has already touched the $3.5 billion mark. [v] Bangalore, Delhi NCR, and Mumbai are the most favored cities amongst the start-up founders. Bangalore has attracted 15th position in the Global Startup Ecosystem Ranking with growth index of 4.9 which is even higher than Silicon Valley in the US. The startup ecosystem produced 65,000 jobs till 2014. There were more than 70 active VCs and PEs, 550 angel investors, and almost 80 incubators in the country in 2014 helping to add an average of 800 companies every year. [vi]

Figure 1: Startup activity by city in 2014



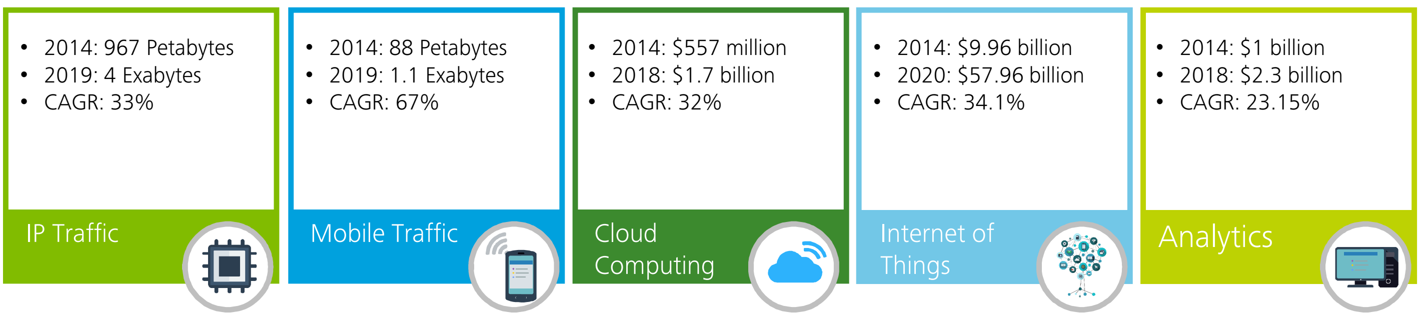
Success factors for businesses apply equally and more so to startups

1. Market

There are several factors that directly contribute to make India a healthy market for startup growth. Multiple steps by the government and businesses towards Digital India have favored the development of the startup ecosystem. High penetration of mobile phones, growth of data users, and availability of improved & secure payment systems are the key drivers of the new age technology-based startups.

The rural market is yet to be tapped by the digital ecosystem which will provide a larger customer base for the digital startups. The increasing internet and mobile data traffic along with the greater adoption of cloud services, Internet of Things (IoT) market and data analytics services are driving the e-commerce and technology-based startups. The increasing subscriber numbers on these digital platforms help in attracting investors for funding. The vast experience of the large IT and ITeS sector of India also plays a major role in the growth of the startup ecosystem.

Figure 2: Drivers of startups in India



The government's initiative of "Make in India" is also providing a better market place for technology startups. The recent "Start-up India Stand-up India" initiative by the Indian government allocated INR 120 billion to assist startups and SMEs. [vii] Government has also formed a panel in Department of Industrial Policy and Promotion (DIPP) to simplify the regulations and ease of doing business in India.

2. Talent

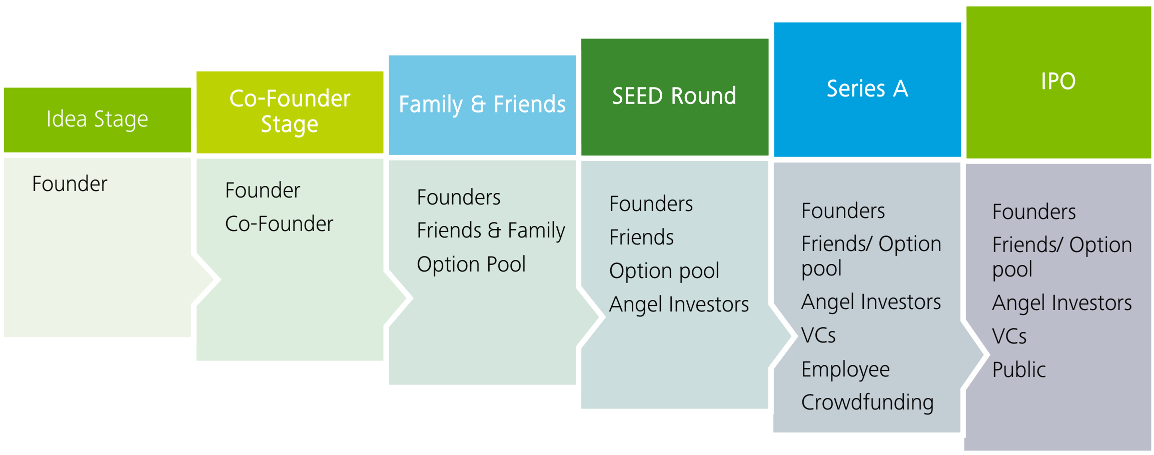
Talent pool and manpower supports the backbone of a country's growth. The mindset of young Indian students is undergoing change as increasingly more students are inclined towards entrepreneurship than working in multinational firms. The average age of founder in Bangalore is about 28.5 years compared to that in Silicon Valley where the average age is about 36.2 years. Most of the successful startups have founders from premium institutes in India and abroad. Interestingly, 35% of the startup founders have past experience in MNCs. [viii]

Even the hiring process in startups attracts young talent from tier-I and tier-II colleges at a lucrative compensation package. The hiring has also changed from sourcing and interviewing to finding the right match for the capability of the candidate. The hiring industry is now spending $1- $1.5 billion on technology required for recruitment. [ix]

3. Capital

Funding is an important ingredient of growth for a startup. Funding provides the financial base to initiate and grow all kind of activities such as product development, service, marketing, promotion, business expansion, hiring, etc. The startups managed to raise $3.5 billion and there were 380 deals in the first half of 2015. [x] Indian startup ecosystem has seen around 300 VC/ PE and 225 angel investment deals worth over $2 billion in the last few years. There were over 20 M&As worth over $1 billion that happened in the last 3 years. [xi] The startups are scaling up rapidly pointing to the huge demand and momentum in the market. The high mobile penetration along with the willingness of consumers to spend online are enabling the demand and helping in raising funds.

Figure 3: Funding grows at each stage of the startup



In addition to the likely investors at each stage, startups can also consider SEBI's recently notified rules for listing on the Institution Trading Platform and could explore the opportunity provided therein.

Survival of the fittest

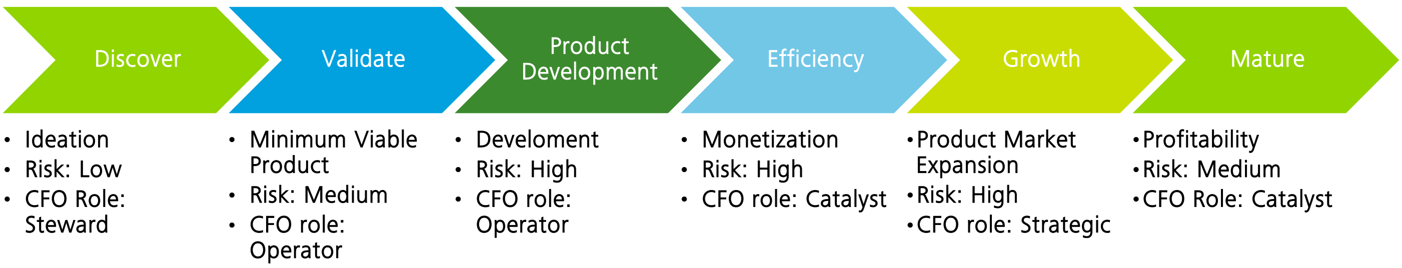
A combination of factors ranging from funding, appropriate marketing, talent, technology could account for the survival of a startup, and hence it may be advisable to address it appropriately.

- **Idea**: The business idea of a startup should be creative, fresh and technology-oriented. Most of the startups do not have a unique idea or are incremental change to existing idea. It gradually becomes difficult as competitors with existing solution do not easily give up. Sometimes unique concepts do not convert to complete products.
- **Market demand**: Startups could fail despite the idea being unique as the market does not have any demand of the product. Demand analysis plays a critical role in predicting the product's acceptance in the market.
- **Team composition**: The team of a startup needs to be agile and have complementary skillsets as it is difficult to hire functional heads in the early stage.
- **Cash shortage**: Startups need to spend significant capital for a long time before becoming profitable. Even top startups after years of operation find it difficult to become profitable. Businesses run out of cash if there is improper budget, high cost of operation and failure to raise timely funds. Startups often underestimate the capital requirement to sustain the initial pressure.
- **Premature scaling**: Premature scaling is one of the primary causes of startup failures contributing to 70% of the shutdowns. Scaling is the point of existence where startups experience positive feedback. The growth can be different. It may involve seeking more capital, expanding the human resource or spending more in the marketing division. But when these things go out of order, the startups find it difficult to adjust. Signs of premature scaling are as follows:
  - **Too much cash**: More funding than the business requirement can produce undesirable effect.
  - **Too many employees**: Too many employees can drain the resources without output.
  - **Too many early adopters**: Early customers are a good sign but too many customers in the early part of business is difficult to handle as the production and demand have wide gap.

An estimated 70-80% of the startups fail in India. To overcome this hurdle and understand and navigate through these challenges, the role of CFO is very important in the startups journey.

Role of CFOs in the growth journey of startups

Figure 4: Stages of Startup Lifecycle



It is seen that CFOs are increasingly being required to play different roles on a startup's journey from the evolution to its market maturity, acceptance, and growth. Each stepping stone in the journey has its challenges and understanding of these could help avoid likely pitfalls.

1. Strategic role

At the initial stage wherein funding would be required, a startup could consider the nature of investors it may require on board, whether such investors should be accelerators (i.e., those who provide seed capital, help in defining and building the startup's initial products, identify favorable customer segments, secure resources including capital and employees, identifying the technologies, providing the connects, networking with peer groups, etc.) under a fixed time program would be advisable or have venture/angel investors funding the setup. This approach may provide direction and maturity to the startup in its future course of development and also better valuations in the future round of funding as well as know-how support from the investors.

Further, in the funding process technological entrepreneurs may face a conflict between the promoters viz-a-viz that of the investors relating to the marketing goals of the business. Balancing the same may demand outlining the objectives up front for the proper application of the resources and preventing any slippages.

Proceeding with the quest for funding and development in the lifecycle of a startup, which operates under uncertain business prospects, CFOs in seeking funds from investors may be required to match the same with the objective for seeking funds and know-how such that the two components act as catalysts being substitutes or complementary to the business needs. This may provide for any contingencies where the entrepreneur may be unable to secure further funding due to the innovation not meeting the requirements of the matured investors or the markets. It needs to be kept in mind that the entity may have to give exit to investors through refinancing or fresh equity infusion – private placement or through the IPO route.

Another factor, which CFOs may consider is that startup is able to address technological disruptions and innovation, which could be paramount for the different kind of investors in the sector. Where innovation is the core ingredient of the startup, it may be relevant to get the same IPRs registered locally or internationally to provide value. In the Indian context, the government has recently issued guidelines for the examination of computer-related inventions which may be considered by startups. The guidelines discuss various provisions relating to the patentability of computer-related inventions and the procedure to be adopted by the patent office while examining such applications.

Considering that startups operate under uncertain scenarios and with revenue streams not being available in the initial stages, funding may come with a number of contingencies and conditions. However, for the startup to be successful, CFOs may be required to participate in matching entrepreneurial skill sets with the objectives clearly, laying out the critical path with the timelines defined, choosing the investors carefully. This would tend to bring about a harmony amongst the various stakeholders for the eventual success of the venture.

2. Expanded operational role

As start-ups have limited resources at their disposal, CFOs need to be on top from the initial stage to manage legal issues relating to general corporate information; formation (set up), equity formation and division, stock purchase agreement for the entrepreneurial talent, future needs for equity and advisor agreements. Additionally, they may need to look at and put in place employee contracts, vendor contracts, customer contracts, licensing agreements, non-disclosure agreements, intellectual property including patents, copyrights, policies relating to privacy, regulatory and tax issues. This may provide some semblance in the way the project moves forward towards maturity and take-off.

Additionally, it may be recognized that in the absence of any specific tax incentives, the cost of operations and funds may be higher. In such circumstances, to prevent the neutralization of the effect of innovation, CFOs may lay down a tax policy outlining the key benefits which would arise over time and addressing issues relating to the availability of R&D benefits, the availability of set off expenses for tax purposes, the implications under indirect taxes. Tax awareness and the likely reliefs available may add to the financial discipline within the start-up.

3. Governance role

Considering the spectrum of matters which may need to be addressed at the firm level along with meeting aspirations of various stakeholders and the business needs, start-ups may consider forming a formal/informal body/ association to address their issues/ interest at various levels, provide guidance to players, formulate standard practice and procedures on various issues and concerns. The role of CFO has evolved from ‘Guardian of Accounts Books and Records’ to ‘Guardian of Wealth and Value’ and deals with issues across the company. This role is increasingly becoming the face of the company as it is pivotal to restoring public trust. The CFO needs to be a bridge between the CEO and the Board on strategic and compliance matters and hence should be part of all Board and Shareholder meetings. Undoubtedly, financial stewardship, compliance, risk management, strategy, leadership, executive partnership, communication and education will be the key performance metrics for the CFOs of startups.

In conclusion, where a start-up operates in uncertain scenario and with limited resources before reaching the maturity/growth stage, the CFOs role would be that of hand holding the start-up in each step of development by acting either as a strategic advisor, a steward, an operator or a catalyst in terms of providing guidance, awareness, choice of investors with beneficial funding/resource arrangements, laying out various safeguards for the business and in not the least seeking the protection of interests of the technological entrepreneurs and other stakeholders.

CFOs poised to lead the path for raising capital: From Seed funding to going public

Much has been made of the evolution of the CFO’s role in the past couple of decades. No longer just a role for those solely concerned with balance sheets and cost analysis, it's now a multidisciplinary position that demands a diverse set of skills. The role of CFO is of great significance especially today as companies begin their journey from being a startup to a fast growing company culminating in going public.

A CFO who is starting his stint has to be mindful that every company that gets incorporated today has already chartered out milestones for rounds of funding and business plans, which would need to be adhered to.

As they take key positions in the company, CFOs, alongside their CEOs, become the principal architects of the company’s future.

Startups – Early stage funding

A typical company starts with founders incorporating the company with the help of their own resources and soon following it up with angel funding or Series A Preferred Stock of funding. Series A Preferred Stock is often, the first round of stock offered during the seed or early stage round by a portfolio company to the venture capital investor. Typically convertible into common stock in certain cases such as an IPO or the sale of the company, investors prefer convertible preferred stock to common stock for the various financing rounds because of the special features of preferred stock, such as dividend accrual and anti-dilution.

Series A rounds are traditionally a critical stage in the funding of new companies. It is usually the first series of stock before the equity stock and equity stock options are issued to company founders, employees, friends and family, and angel investors.

Valuation of the startup in this round is generally done on the basis of the following:

- Proof of concept
- Quality of the executive team
- Market size being addressed
- Risk involved

CFOs are generally inducted at the time of first round of funding. Once the first round of funding is completed, risk mitigation has to take center stage for the start-up CFO - continual assessment has to be carried out with a vigilant approach that sees every financial regulation being complied with. In the early stages of development, a company's future can be tarnished by a simple mistake and its imperative that the CFO guards against this. Accordingly, this is the right time when the CFO should think about putting in place standard operating procedures and strengthening the internal team by recruiting experienced professionals.

As the company starts thinking about subsequent rounds of funding, the financial performance of the company in comparison to the industry and revenue forecasts becomes very critical.

Forecasting, planning, and analysis is key at every stage of a company's progression, and it is critically important whilst in the start-up phase. This is where the CFO has to put on his/her strategy hat on as KPIs aligned to measure progress against strategic goals have to be analysed on a regular basis to see if the company is performing at the desired level. And in particular, rate of cash burn is something which would need to be very closely monitored. As the company ramps up operations, profitability may not follow suit at this early stage. Hence estimating accurately the period till which the current round of funding would last is critical.

With this in mind, the start-up CFO has to address a wide range of issues that CFOs in more established companies would have a full team to cater to. This makes the role that much more challenging from a number of perspectives and although the role in comparison to their peers in larger companies would be less intensive, the start-up CFO will have his/her fingers in more pies that are ad hoc. Prospective planning, a solid business plan and financials, review of what compensation plans/criteria/consequences best fit the particular business objectives are some of the things a start-up CFO would need to be involved with. Strategic planning up front is well worth the effort and minimizes avoidable costs/reworks down the line.

Growth capital stage

The second round of financing for a business usually comes from private equity investors or late stage venture capitalists. Successive rounds of financing or funding a business takes place when the company has accomplished certain milestones in developing its business.

Since the company will have advanced its business by the time Series B-round financing happens, it will typically have a higher valuation by this time. This means that the Series B investor will usually pay a higher price for investing in the company than the Series A investor.

As it becomes more expensive for the subsequent investors to invest they also have higher expectations from the company. Focus of growth stage investors are typically on:

- Revenue growth
- Scalability of operations
- Professional strong management
- Clearly defined articulation of strategy
- Ability to generate cash profits; and
- Robust controls on cost leakages.

As a CFO makes the company ready for subsequent rounds of funding, the areas of focus change. At this stage, the CFO would need to start thinking about implementation of scalable information technology platforms, transparent corporate governance practices, controls framework and putting together a detailed management information reporting package.

The most basic requirement of a private equity firm is the ability to draw up accurate financial statements on a regular and timely basis. Hence it is very critical for the CFO to put a strong financial reporting process in place. This would involve having an experienced financial controller and his team and appointing firms that would carry out credible auditing (both internal and external) processes. External auditors significantly add to the control environment by bringing in expert knowledge of what can and should be done.

Private equities generally like companies who track profitability and are able to exactly articulate their strategy. Investors are typically looking for companies that have proven business models and that are historically profitable. One of the questions they like to ask is whether the company knows where they are making their money. CFOs would need to ensure that management information is designed in a manner that it captures the key levers which drive the business. The success of the go- forward strategy of the company would be dependent on the company's ability to maximize these key levers.

In addition to implementing internal processes for tracking business performance, the CFO would also need to work very closely with the investors. As long as businesses are held and owned by private owners who have a day to day involvement, CFOs are used to discussing all matters with them. However, with professional investors, one of the primary responsibilities of the CFO is to act as the primary communicator between the investors and the company. This would mean deliberating with them in detail prior to any strategic key decisions being taken. Initially it might be very challenging to meet their information requirements but once the framework is in place, CFOs can expect to get very good inputs from the investors. Investors are used to seeing multiple businesses and hence can assist in bringing in best practices.

Going Public

Post the growth capital stage, companies may start planning to go public through an Initial Public Offer (IPO). Preparing for an IPO is an arduous task and the groundwork may start anywhere between 18 and 24 months prior to the planned timing of hitting the markets. The CFO plays a very critical role in the entire process and the office of the CFO normally becomes the Program Management Office ("PMO") for the countdown to going public.

IPO for a company is a very critical milestone in its lifecycle, and there are many reasons for listing. It provides access to capital to fund growth, R&D, exit to current shareholders, and to repay debt or to acquire businesses. It enhances the company's public profile giving greater credibility with customers and suppliers which can in turn, improve sales and terms of business. It also provides liquidity in company's stock, valuation of the business, and the ability to be benchmarked against competitors.

The key elements of planning for a CFO to be ready for an IPO include the following:

- Internalizing the objective of going public so that all key stakeholders are on the same page and they are convinced that this is a necessary step in taking the company to the next level
- Establishing the team that will manage the IPO process ensuring that there are adequate resources to drive the business forward
- Appointing external financial and legal advisors
- Along with the advisors and internal stakeholders reviewing the existing situation to identify all matters that would need to be addressed by the projected timeline
- Reviewing policies and fleshing out key issues like potential litigations, review of material contracts, third-party consents and conformity to regulatory requirements
- Engaging with auditors for provision of required comfort letter on the financial statements or deciding if any restatements are to be done. This may require revising the accounting policies being followed by the company to ensure there are the best corporate practices.
- Tax planning and putting the group structure in place prior to going public to ensure that funds raised are deployed strategically without any tax leakages.
- Relooking at the current board structure to ensure that post the company going public it meets regulatory requirements of having independent directors and has also set up the various committees such as audit committee, compensation committee, and shareholders grievances committee are place.

On an overall basis IPO can be a huge distraction if not managed properly. Planning for IPO has to be very detailed and timelines need to be attached to every step that is being contemplated. The CFO's role pre and post IPO is of utmost importance. He would be expected to support the CEO in all the endeavors of making the IPO successful. Apart from supporting the CEO in engaging with potential investors and analysts, CFO would also need to keep the internal house in order.

As organizations grow larger and operations become complex, the CFO's role is not just limited to the financial domain but expands beyond that. The CFO's role in the company's journey from start up to going public is not just of a custodian of internal processes, but it's also that of being a strategist. The CFO's inputs on timing, mode and quantum of fund raises, valuation expectations, managing investors information needs and creating robust internal processes makes him/her the backbone in any organization.

Voices of women – diversity and challenges

Voices of women – Diversity and Challenges

Women symbolize justice, learning, and wealth and have certain inherent qualities like efficient multitasking, high level of pain tolerance, and dedication. Such qualities are required at the senior management for good governance, analytical challenges, and growth of the organisation.

Gender diversity in senior management is key to balanced approach adopted by organisations for growth and value creation to all stakeholders.

The movement for more diversity on our boards of directors continues to accelerate, as per the 4th edition in 2015 of the Research on 'Women in Board Room – A global Perspective' carried out by the Deloitte Global Centre for Corporate Governance, USA. Norway leads the table with 36.7% of Board seats held by women while India is at 29th position with 7.7%, UK with 15.6%, USA with 12.2%, and China with 8.5% of the Board seats held by women.

Recent legislative efforts and other initiatives have helped bring women's representation in the boardroom to an all-time high.

Deloitte US conducted a survey of 1700 respondents in 2015 for the International Womens' Day webcast to gain insights into the progress being made to improve gender equality in the workplace. The survey revealed that the majority of respondents believe self-confidence (78 percent) is more important than technical ability (22 percent) for professional success. Sixty-five percent of professionals believe their organization is improving the representation of senior women within their company, citing flexible working programs and gender diversity targets. However, while 80 percent of respondents believe ideas were welcomed in their organizations regardless of gender, 40 percent said they sometimes hold back their opinion for fear of being labelled 'bossy' or 'too assertive.' Additionally, the survey found when it comes to sustaining personal and professional excellence, 68 percent of respondents believe it is possible to 'have it all.'

"In order to attract and retain the best talent, businesses must provide an environment that is conducive to professional as well as personal growth," said Punit Renjen, Deloitte Global CEO, during Deloitte Global's International Women's Day webcast on gender diversity. "Global organisations will only fully thrive once they take action to address the issue of gender diversity. It is not only the right thing to do, but it is the right business thing to do."

"It is important that women have the opportunity to balance different priorities at different stages in their career," Cathy Engelbert, Deloitte U.S. CEO, commented during the webcast. A large part of my career achievements are due to having the courage to ask for what I needed whether in a professional or personal context. Mentors and sponsors, particularly in the early stages of my career were invaluable to me because they encouraged me to raise my hand and take opportunities to build my capabilities."

"How being a woman contributes to your leadership?

I am not a big fan of stereotyping, and so I don't think there are as many differences between men and women leadership styles. I am very focused on creating an environment where everyone can contribute to the best of their ability. You just have to trust your judgement based on authentic data, get on and move fast. I believe leadership is a path that men - women take because they have to. Knowing how to pivot when something is not working, making adjustments and moving forward is key. Make sure that you are available and people can rely on you for solutions. Then you'll draw people to you who are interested in what you have to say, learning from you and working with you. Value- engaging to bring out the best in people and the best out of the environment, is a constant for me." **Lady CEO of a leading Indian Company**.

In India in all walks of life women have progressed and are at the forefront of leading organisations but the number of women leaders could have been a lot more. The younger generation of women employees are focused and are clear in their goals and mission and we can only see more and more women leaders in the years to come.

Challenges

Some of the challenges that women face (different at different levels and in varied proportions in different organisations).

- Women do not talk – Inherent quality of women not to seek help and high level of pain tolerance.
- Women work and expect work to speak for itself.
- Balancing work life - family support is most essential for women. Behind every man there is a woman but behind every woman there is her family – her mother, her husband, and her children.
- Difficult breaking the ice.
- Not sufficient women leaders in the pipeline for the positions.

Should we have reservations on company boards/senior management?

The word reservation always has a stigma attached to it. Women generally shy away from contesting elections. As of July 2013, there were only 19 female-elected presidents and prime ministers in power around the globe. In the business world, women currently hold only 4.6% of Fortune 500 CEO positions and the same percentage of Fortune 1000 CEO positions.

Women don't need reservations because they lack capabilities but because women do not come forward to nominate themselves. Reservations / quota system is required till such time that there is sufficient women presence in the boardrooms/ senior leadership.

Is 10% a good representation for women in senior leadership/boards?

There seems to be this magic number carved out or designed in many organisations who potray diversity and inclusive growth of having 10% of its total strength being women in leadership but still a smaller number in key decision-making seats at senior management. Some of the organisations plan inclusion / gender diversity considering these benchmarks. To start with these are good signs of recognizing women leadership but going forward there should be an increase of women leaders and percentage of the group should not be a criterion.

How do organisations address such challenges?

As per the Deloitte survey of 2015:

- Gender diversity must be treated as a business issue - Less than half of respondents (48 percent) believe gender diversity is treated as a C-suite priority by their executives. This indicates progress is being made, but there is still work to be done.
- Diversity initiatives are proving effective – Sixty-five percent of respondents reported their organisation has taken steps to improve the representation of women in senior positions. Flexible working (45 percent), gender diversity, and inclusion targets (28 percent), maternity support (26 percent), paternity leave (26 percent), and executive commitment (23 percent) were cited as the most common initiatives put in place.
- Top initiatives to support gender diversity - Respondents ranked flexible working, executive commitment, targets, and an agreed upon and articulated business case for gender diversity as the top priorities for the advancement of women.

The organization should take concrete steps for gender diversity as there are more women who obtain degrees but very few reach the top management. The work environment and family should support women leaders in their years when they are raising their family and this is easily achievable now with advanced technology and innovation.

“The challenges are not so much related to being a woman”. Tobey A. Hill, Asia Head of Tax, Citigroup advice to women (really anyone) to succeed are:

- Don’t stay in your comfort zone. If you don’t like public-speaking, do more of it. If you don’t like networking events, make yourself go and bring a friend who does.
- Learn to communicate effectively to the audience you are targeting. Be confident, succinct, and clear.
- Use your professional network in many ways.
- If you are presenting to someone new, find someone in your network to ask about the person, how they like to receive information and what is important to them. Depending on the situation, don’t be afraid to ask your boss, or the person directly.
- If you are looking for an opportunity or a new project, connect with those you are comfortable with to help create the opportunities.
- Reach out to other women (and there are so many organisations and established ways to do that now)

“Most challenges faced are common to most working women, Rashmi Joshi, Director – Finance, Castrol India. Two significant challenges are:

- Fewer opportunities for women when I started off. For example, many companies specifically asked for male candidates, factories were reluctant to recruit women, professions where late hours was a norm preferred male candidates.
- Higher bar of expectations from all stakeholders. This includes expectations from family post marriage.

Rashmi’s mantra for overcoming challenges: “None of these are new but worked nevertheless. The most important of all was the unconditional support of family without which I wouldn’t have been where I am:

- Being positive, not quitting when I felt hopeless
- Perseverance and hard work
- Seeking better opportunities, higher responsibility
- Support from my seniors and colleagues in Castrol & earlier employers
- Support of my family.

Advice to women to succeed:

- Define what success means to you.
- Believe in yourself
- Seek higher responsibility
- Invest in your support system – seniors, colleagues, family, and support staff at home.
- Develop strong competencies – functional, behavioral
- DON’T QUIT – Stay to Succeed

How to succeed:

Have a style of leadership, which reflects your personality. Identify the gaps, build the technical competencies and create the niche. There is this theory of hunters and farmers in sales / marketing leadership – hunters who hunt new clients / new customers also from competition while farmers who mine existing clients. The farmers’ style of leadership could also be looked at as cultivating or expanding new markets or marketplace without hunting at competition. There is always new products, new grounds on which to play, new opportunities to create a niche in the marketplace where you are recognised as a leader.

Innovation and Technology - the road ahead

The exponential CFO - fostering innovation in a digital age

In a knowledge-based economy, skilled talent may be what most differentiates great companies from the rest of the pack. Skilled talent can help drive innovation and customer value, create growth opportunities, and mitigate increasing risks. Indeed, in a poll of 100 large-company CFOs conducted at a Deloitte CFO Vision Conference, 87% confirmed they are either being asked by their CEOs to play a key role in driving innovation in their companies, or their CEO expects them to support and enable the execution of innovation decisions.

When it comes to innovation, the opportunity for CFOs is not so much to play the role of a skeptic but rather to be the voice of reason, as keeper of the data-rooted business model. A CFO can engage with the innovation teams as the person who says "yes" because he or she can logically relate innovation to the key drivers of the business, and recognize how some ideas outside of the core business may be worth pursuing. Of course, CFOs are also needed to make sure that there are guard rails in place to protect the core business and that people don't cross them. CFOs are the ones who can make sure that the core business does not get fundamentally hurt as innovation teams start to play with different business models.

The "Digital world" is demanding that the CFOs play a lead role in driving innovation using the digital ecosystem. It is almost a foregone conclusion that 10 years from now, finance will be running on an ecosystem of mobile apps. As mobility solutions continue to change the human behavior patterns such as in the way we order food, hail taxis, or request a plumber, enterprises will adopt mobility to run their businesses. The convenience of an apps-led architecture and the dominance of the millennials in the workforce will hasten this makeover. The CFOs should plan for this future and work closely with their CIOs and IT partners for the right solutions that are enterprise ready, cyber secure, and fully integrated at the back end.

Here is an opportunity of the lifetime for the CFO to move beyond his/her well-known avatar of Steward and Operator to that of a Catalyst and a Strategist. We at Deloitte believe that the Indian CFOs should hear this clarion call and rewire their finance technology strategy to meet asks of the not so distant future. The need of the hour is to dream digital, think digital and act digital - and start putting together the building blocks of a future of finance that will become increasingly "apparent" and run by teams that are "digital natives".

Innovations in finance talent strategy

CFOs can help advance their organization's innovation efforts in other ways, including adding new skills and capabilities for themselves and their finance team, and supporting a culture of innovation across the enterprise with a talent agenda that encourages employees to innovate. For organizations to be innovative, employees have to be encouraged to explore ideas, experiment with them and see how viral they become in the organization. Moreover, it's critical to have a performance management model that recognizes that innovation requires failure. Ideally, the performance model not only protects employees involved in an innovation project from being blamed for failure, but even rewards it under certain circumstances, such as when an innovation journey that doesn't work out provides a valuable learning experience.

In the same way, the CFO and finance function need to be just as innovative as the rest of the organization and be just as willing to fail in the pursuit of innovation. Innovation, by its very nature, means that some projects will succeed and some will fail, because you are trying things that have not been done before. That means being opportunistic at times. CFOs need to ask themselves, "Does an opportunity allow the business to go down avenues that over the long run are going to be good for the company, while not compromising its risk exposure?"

Realistically, no matter how sound the evaluation process, not everything is going to work. Some initiatives and internal investments will go nowhere. CFOs have to live with the possibility of striking out. That doesn't mean taking on extra or unnecessary risk is acceptable. It does mean CFOs can't be so cautious that they're unwilling to fail. In the pursuit of innovation, the key is to have a good batting average, to "fail fast" if an initiative is not working and to learn from the failures.

Innovation through design thinking

CFOs who want to develop an innovative finance organization need to provide their people training in innovative methods and techniques such as design thinking. These tools encourage looking at things differently, questioning what's in place, and seeking new solutions to challenges that perhaps were not even recognized as constraints previously.

On-the-job models of learning can enable people to continually acquire relevant skills and tacit knowledge in their domains. Letting employees work on projects that stretch their abilities can be risky, but it's critical for growth. This is particularly true for top talent. Those who are most skilled in their fields generally eschew conventional approaches and seek to break new ground. By definition, this kind of top talent cannot be trained in the traditional sense. However, organizations can attract and foster top talent by providing access to resources and infrastructure (whether tools, information, or other professionals) and by providing ample room for experimentation and growth.

The expansion of the CFO role and the speed of change occurring in business demand that CFOs shape strategy, drive innovation, and harness technologies to support the business—while staying focused on the financials. To do this, CFOs will need to work hard to be able to delegate some of their traditional responsibilities. That means thinking differently about talent needs and innovating a new talent model for the finance organization, as well as fostering new approaches to talent attraction, development, and retention across their organization. CFOs still need to have in the trenches the people who are great at digging into the general ledger. But increasingly, CFOs also need to bring people whom finance has not typically sought out data scientists, MBAs, innovators, people with a financial vision often because they can be more expensive. The skillsets these people bring need to be part of the finance organization's toolkit in order to tackle the business issues we see today, let alone tomorrow. And CFOs will need to give them as strong a voice as they do those on the traditional general ledger side.

Innovations in finance technology strategy

The 2015 Deloitte India CFO survey reflects the recent wave of optimism about the Indian economy. In this survey, CFOs are highly optimistic about the different facets of the economy, but remain sceptical about the framework and infrastructure within which they work. Although positive about the prospects of the economy, in terms of actually realising it, CFOs are aware of the structural and policy bottlenecks. The survey also throws light on how emerging technologies are affecting businesses. Leverage of technology has become an integral part of any business setup as firms try to increase efficiency and successfully integrate different functions. The CFOs are aware of the role of new technology, and they are trying to leverage different networks to improve the reach of their businesses. In such an environment, 37% of CFOs concur that social media had high penetration through networking sites such as Twitter, Facebook, YouTube, etc., and was a cost-effective branding tool.

Among the other possible technology disruptions, 51% of the CFOs state that Cloud-based infrastructure and solutions along with Enterprise Mobility solutions will greatly impact their business. Cloud computing has made great advancements in recent years and more and more companies are opting for cloud computing services. In terms of technology disruptions, with vast and critical data involved, cloud computing has become an integral part of business functions, greatly impacting companies. Surprisingly, only 12% of the CFOs believe that solutions through analytics for different facets of the business, will greatly affect their business. Instead, they focus on branding their companies and harnessing social media.

Separately, in the realm of analytics, companies want to know about the future growth prospects through predictive analytics and prescriptive analysis; these determine what will happen and how can we make it happen, respectively.

Crunchy Questions to CFO

As CFOs look to expand their partnering capabilities with peers throughout the business, it helps to know exactly which questions they should be answering. Just as important, CFOs who bring a set of highly focused questions to the table when meeting with business leaders are better able to make their case—and secure the support they need to be successful.

Customer

- Which customer segments bring the greatest margins for our business?
- Which segments are likely to drive our margins in the future? How are the choices we're making today likely to affect those margins?
- What is our financial and risk exposure to a specific customer?

Product

- Which products should we be selling based on profitability and growth potential?
- Which products and suppliers contribute to gross margin return on inventory?
- What are the financial implications of our different sourcing options? How can we extend that visibility to decision-makers throughout our organization?

Risk

- Is our investment portfolio diversified?
- How prepared are we to manage and survive external shocks?

Strategy

- Is our cost of capital market competitive?
- Are our strategic projects yielding the required returns, progress, and success?

Depending on the business priority and data availability, CFOs can explore the analytical opportunities in any of the business domains. Some sample analytical opportunities in each of the business domains are as below:

Customer

- Customer life cycle analytics
- Customer profiling and segmentation
- Marketing mix optimization

Workforce

- Recuriment and retention analytics
- Payroll analytics
- Workforce Planning & Optimization

Finance

- Revenue Recognition/ Assurance Analytics
- Working capital optimization
- Fraud analytics

Supply chain

- Network optimization
- Sourcinga and procurement analytics
- Inventory optimization

Data Analytics: Who's in Charge?

Finance has long been data-driven, but the availability of big data and the growth of data analytics capabilities have further heightened its importance. But to truly own analytics, CFOs should bridge the gap between strategic and operational decision-making with analytics. That's a fundamental change in roles: it's the difference between "managing the business"—the big, upper-level strategic decisions, such as planning, budgeting, and forecasting, that are the CFO's traditional responsibilities—and "running the business," the day-to-day, or even minute-to-minute, operational decision-making that typically resides outside the finance chief's purview (for instance, in the business units, or sales and marketing).

Armed with analytics, however, CFOs can exercise more-centralized control of operational business decision-making, answering questions such as, what price point should be used for this customer on this day. Or what inventory products should be pulled forward or out of the supply chain?

Moreover, advanced analytics can allow companies to hedge against volatility and to respond faster, and with greater insight, to changes in the marketplace, to such a degree that the predictive power that analytics offers—in pricing, the supply chain, and other areas—can have an increased impact on how business is done.

While some CFOs may hesitate to lead analytics in operational areas because it's not necessarily about "big picture" issues, the insights into the customer that analytics can provide go right to the bottom line. A lot of profit can fall between the operational cracks, and analytics can be a game changer in the way it leads to improved operational discipline.

How should analytics be structured within an organization? Should it be centralized or diffused? Who, ultimately, should "own" it? Findings from The Analytics Advantage, Deloitte's first annual survey on the state of analytics readiness at leading corporations, reveal wide variations in analytics oversight, with the most common analytics champion being a business unit or division head (23%).

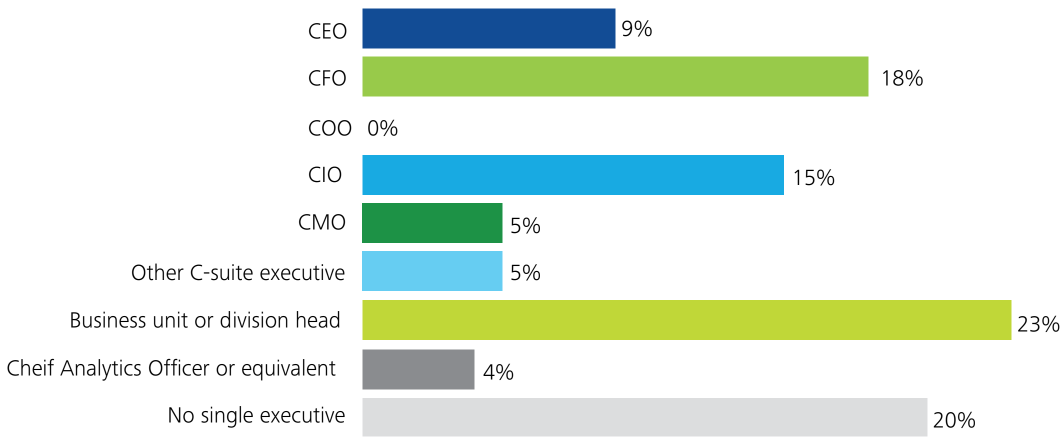
Five C-suite categories (CEO, CFO, CIO, CMO, Chief Analytics Officer plus "other") combine to account for 56% of those responsible for analytics. Notably, no respondents cited the COO as having ultimate analytics responsibility.

Financial operations have long been data-driven, but the availability of big data and the growth of data analytics capabilities have further heightened its importance. These are no doubt the reasons that the area most often found to invest in analytics, at 79%, is finance. Also, about 18% of corporations surveyed report that the CFO is the individual within the organization primarily responsible for analytics, making the CFO the third most common analytics overseer. The most frequent leader of analytics—named by 23% of respondents—is the "business unit or division head," who also typically has significant budgetary responsibility.

Additionally, another 20% of respondents surveyed were unable to identify one single executive with that responsibility in their organizations. This suggests some businesses may be experiencing an ongoing analytics ownership power struggle as executives become more cognizant of the potential benefits and complexities of a robust analytics capability within their enterprises.

More than half of the 100 survey respondents were C-suite executives (33%) or heads of business units or divisions (22%), which may point to the growing importance of analytics at the highest levels of the enterprise.

Who oversees Analytics Initiatives?



Source: The Analytics Advantage, Deloitte Touche Tohmatsu Limited

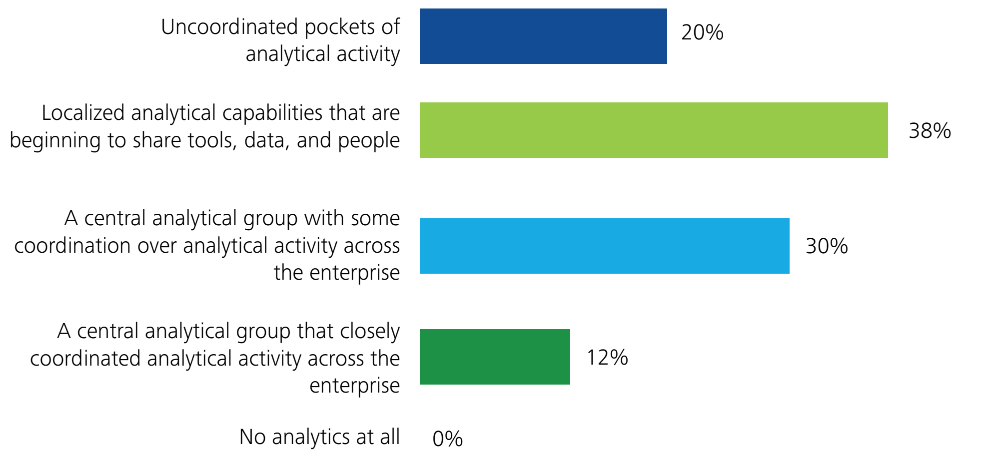
Given that modern-era analytics and big data are still relatively new on the corporate agenda, it is somewhat surprising that 42% of survey respondents report some level of centralization of analytics within their organization. The remaining 58% of organizations either have uncoordinated pockets of analytical activity (20%) or geography or business unit-based analytical capabilities that are in early phases of collaboration as they begin to share tools, data, talent, and leading practices with colleagues.

Moreover, there is an ongoing debate among some respondents about whether analytics should be a more centralized function or one that is embedded within various corporate work streams and geographies. The opinions are as varied as the companies and industries involved. As one leader described it, moving from a decentralized to a more centralized approach to analytics—which is in the early stages at her organization—is desirable. "I would prefer to go to a centralized team, because it decreases the likelihood of confusion within the organization," she explained. "Otherwise, you have two or more departments investing and building their own support models. That can create rifts and grey areas that none of the analytics groups can support or overcome."

Conversely, some interviewees were adamant that decentralization of analytics capabilities is more effective, with one indicating that "by serving individual leaders, we are more embedded in the business and better able to serve their needs."

The "centralize versus decentralize" debate will likely continue as organizations grapple with the volume, velocity, and variety of data at their disposal, the resources required to make sense of this data, and the effects data-driven projects have on revenue, expenses, market share, and reputation.

Analytics ownership power struggle



Taking the lead

The following steps can help CFOs and finance organizations take a lead in driving analytics throughout the business.

1 Clearly defined business questions

- Organizations need to define business questions and outcomes that will be answered by predictive analytics
- The accuracy of the model in answering the business questions is crucial for driving the faith in predictive science

2 Access to relevant data

- It's essential to understand the availability of right data, right format, and spread across time period
- It is also essential to understand what data will be the right data for accurate results

3 Focus on outcomes

- Vendor-driven hype might lead to organizations focusing too much on tools and technologies
- Focus on the business outcomes rather than the model

4 Wide adoption

- Choose a tool which is usable by business users
- To drive wider adoption, organizations could train employees on predictive analytics, and choose a tool that runs statistics and tests in the background on the basis of business rules, and present results in visual and understandable format

5 Plan to counter business distrust

- Have a plan to counter business skepticism about the results – Example: sales forecast excluding the amount of sales already known
- Having the support from business is crucial for successful implementation of actions driven by predictive science

6 Plan to counter business distrust

- The results should be spoken in business language, including demonstration on business impacts such as revenues and bottom line
- The analysis should be accompanied with a solid action plan, and implementation stakeholders

7 Test, revise, repeat

- Conduct A/B testing to demonstrate value
- Present the results, gain support, then scale out

Companies must proactively adopt new business models and the technology that supports them to keep pace with the increasing speed of market change. To maintain a competitive edge, businesses must transform to implement more flexible processes and more dynamic supply chains. Profound shifts in society, business, and technology suggest that a new industrial revolution is under way - one that is just as far reaching as the invention of the steam engine that fueled the first industrial revolution.

Companies are now competing in volatile markets shaped by demanding customers and mobile employees. And they face evolving sustainability mandates that increase the importance of built in compliance mechanisms. Successful companies adapt to continuous change with great agility and find innovative ways to develop and maintain a presence in complex global markets. As companies rethink how they conduct business in a 21st century environment, they must explore advanced business models and technologies that can minimize challenges, maximize opportunities, and foster sustainable growth. And the agile CFO of the digital age will be at the forefront of such discussions and help drive enterprise performance excellence through the twin levers of Innovation and Technology.

CFO- The steward and the operator

Internal Financial Controls

Why Internal Financial Controls matter to your organization?

Indian regulations on financial reporting are being aligned to international practices and the introduction of Internal Financial Controls (IFC) in the Companies Act 2013 is reflective of this trend. The trend underscores two important evolutions in globalized business: Governance and Technology. As technology adoption in businesses is growing rapidly, businesses have to rely on controls more and more while boards have to ensure that a robust control environment is designed and deployed to achieve business objectives. To this effect, the Companies Act, 2013 has imposed specific responsibilities on the Board of Directors towards the company's internal financial controls and requires the board to state that they have laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively. While similar reporting requirements have existed elsewhere in the world (in USA it's the Section 404 under Sarbanes Oxley Act, the Turnbull Guidance on Internal Control with the London Stock Exchange for listed companies and Japan's Financial Instruments and Exchange Law (J-SOX) are similar rules for public companies), in India there were no such requirements until the new act came into force.

As part of Internal Financial Controls, Indian public and private companies are expected to establish frameworks that provide assurances about the soundness of governance and internal controls, elaborated as follows:

- For listed companies, the management would have to identify and document financial and non-financial controls (referred to in the act as policies and procedures for orderly and efficient conduct of business), assure the boards of the adequacy of such controls and also demonstrate testing results of operating effectiveness of such controls.
- For unlisted companies, the Directors' Report for FY 14-15 would have to disclose adequacy of controls related to financial statements.

Annual reports for FY 14-15 will be required to have Directors Responsibility Statement carrying disclosure on what steps companies have taken to implement Internal Financial Controls.

Additionally, for both listed and private companies, it is mandated that from FY 15-16, statutory auditors would express an opinion on operating effectiveness of controls related to financial reporting.

As with many other important provisions of the new Act, Internal Financial Control has been made a board and individual director's responsibility. This means enhanced level of engagement and scrutiny by the board and directors into IFC framework of a company and whether such frameworks are "adequate" and "effective". Currently, many companies are assessing the impact these new requirements will have on the operations and processes of the company, including the financial reporting process.

Role of Board of Directors

One of the significant implications of the new Companies Act, 2013, is the reporting responsibilities of the directors and auditors with regard to internal financial controls. Consequent to the formal responsibility introduced under the 2013 Act, the role of the Board and the Audit Committee in the oversight of internal control has become increasingly critical. In case of listed companies, the directors are expected to play an important role in establishing the control environment, including clarity of expectations regarding integrity and ethics and adherence to codes of conduct and creating clear accountability for performance of internal control responsibilities. The board's assessment of the risk of management overrides internal control and to that effect, some of the other responsibilities for the board of directors include establishing open lines of communication between management and the board, as well as providing separate lines of communication such as whistle blower hotlines. The need for boards to perform this self-evaluation and that of the committees and individual directors and ensure maintenance of appropriate skills and expertise is a critical success factor in meeting the new requirement of the 2013 Act.

Role of Audit Committees

Audit committees are expected to place a stronger emphasis than before on internal financial controls and risk management. In context of the act, the expectations of the audit committee's role have expanded due to enhanced company and external auditor reporting requirements, along with an increased focus on compliance by regulators. It may also be advisable to seek results on the effectiveness of IFC on a real time basis while also understanding how management addresses the risks highlighted by test of internal controls. The act also necessitates for statutory auditors to assert whether the company has adequate internal financial controls in place and the operating effectiveness of such controls. To this effect, the audit committee will need to view their controls framework from an auditability standpoint with requisite documentation to the satisfaction of external auditors.

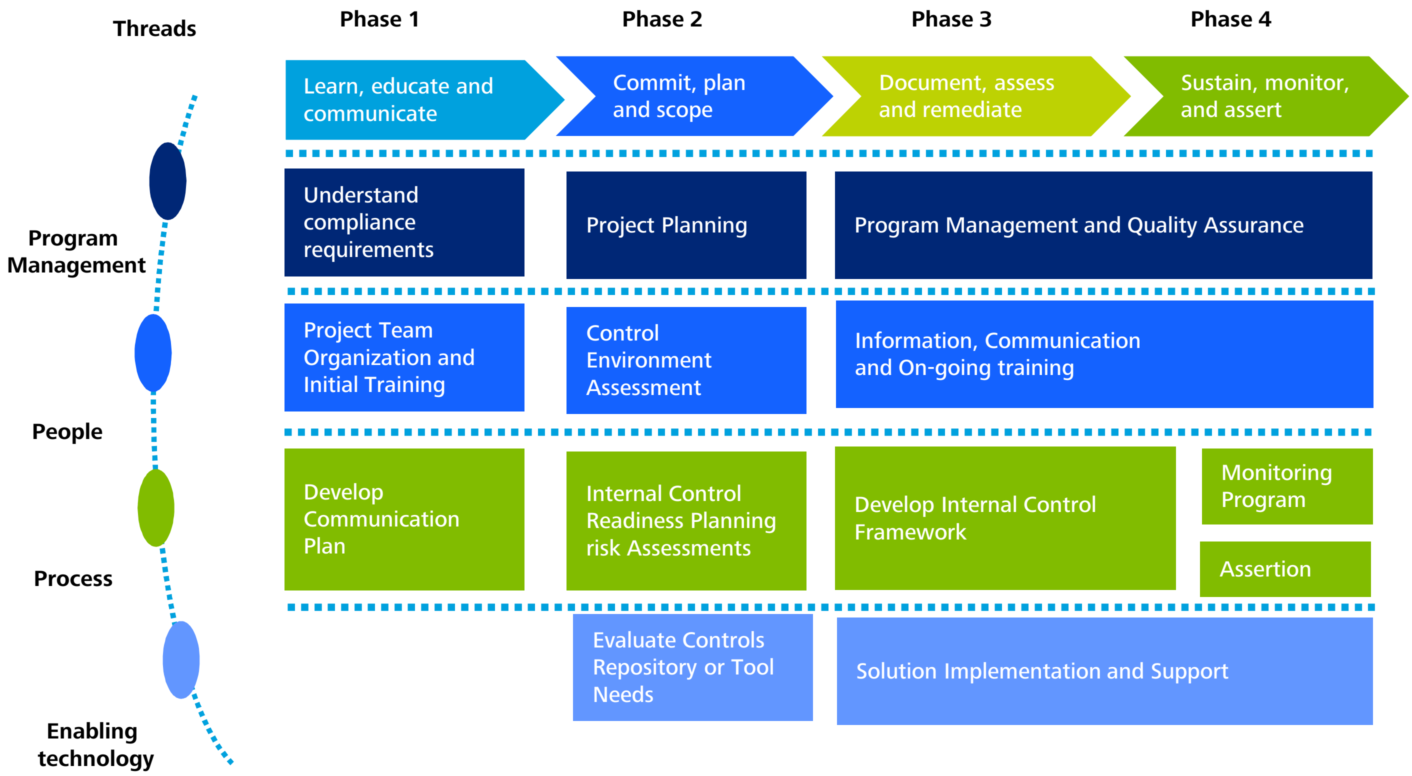
Treating IFC as a bridge to excellence in governance

Many enterprises today have siloed approaches to compliance and controls with sporadic documentation. Towards this end, by placing more accountability and responsibility on the Board and Audit Committee with respect to internal financial controls, the 2013 Act is attempting to align the corporate governance and financial reporting standards with global gold standards. Establishing the right internal controls provides greater assurance that a corporation will achieve its operating, financial reporting and compliance objectives and making governance more robust and wholesome.

Therefore, it is critical that businesses approach Internal financial controls as an opportunity to improve overall business performance through bringing excellence models, structured policies & procedures, technology enablement and not consider it as mere compliance served to 'tick in the box'. Apart from the obvious solutions of improving control environment, Internal Financial Controls can enhance shareholder and investor confidence in the long term. Companies can use this opportunity to internally promote a culture of compliance and integrity among employees. Compliance for the sake of compliance, has less appeal than if residual or other long term benefits can't be derived from compliance efforts. Enterprises need to recalibrate on how to take advantage of the effort that will undoubtedly be expended towards enhancing their Internal Financial Controls; to achieve more deep rooted benefits of improving their operating effectiveness, adopting leading technologies to enable better efficiencies and thereby creating a future ready business.

Implementation Methodology

Internal financial controls implementation methodology would typically include four phases and approach threads which are relevant for companies planning to implement an internal control framework addressing annual assertions of the design and effectiveness of internal financial controls.



CFO: Navigator for the GST challenge

The role of a CFO has been continually evolving from being a gate-keeper of financial health of an organisation to increased focus on strategic value-adds. Nevertheless, sound financial management remains the most important KRA for every CFO. Naturally, the function of effective tax management continues to be the responsibility of a CFO. Hence, any change in tax regime forms part of core agenda of CFOs; wherein they are expected to understand the change in legal framework and shoulder the responsibility of transitioning from one regime to other. If we look back, it can be seen that for every major change in tax regime, it is the CFO who takes up the role of the frontrunner. Be it a paradigm shift of service tax from selective taxation to comprehensive taxation or introduction of new Foreign Trade Policy or change in duty structure of major components; typically implementing these changes falls in periphery of a CFO's role.

Naturally, the impending Goods and Services Tax (GST) is also being closely monitored by CFOs across the country, and they have started their preparations for facing the GST challenge. However, unlike other tax legislation changes, GST will require a more inclusive effort, and it wouldn't be wrong to say that the responsibility of other stakeholders is at par with that of the CFO. Therefore, CFOs will be required to wear a hat of an integrator and a navigator for successful implementation of GST.

GST which is slated to be introduced in the coming financial year is more than just a change in tax regime. It promises to be an economic reform that would change the way in which business is done in India. Analysis of some inherent features of GST would make it apparent that all major stakeholders in an organisation and all major business functions will be impacted by advent of GST. While the impact will be all-pervasive, it would not be uniform across industries. Therefore, no straight-jacket formula or "the right mix" is available for deciding GST implementation strategy. Consequently, CFOs will be required to pre-empt areas of organisation that will get impacted and create a task force of function heads to collectively face the GST challenge.

Every feature of GST will have an impact on one or more functions in the organisation. The foremost feature of GST is that it would be a consumption-based tax, which would allow a seamless flow of input credit/set-offs. Therefore, unlike the current scenario, inter-State sales or purchases will not be burdened with tax costs under GST regime. This feature would make India a neutral tax market, wherein procurement from within the state and outside the state will be at par from a tax perspective. This attribute alone will have significant impact on number of decisions of an organisation. For instance, sourcing teams will have to re-look at procurement strategies which may have been influenced by tax considerations. Similarly, with vendor proximity to mitigate CST cost becoming irrelevant, some organisations will have to analyze current distribution network, manufacturing locations, stocking points etc., to reflect whether these structure were adopted for achieving operational efficiencies or for achieving tax efficiencies.

GST would also open up a lot of input-credits or set-offs, which are currently being a cost in the supply chain. This may have a positive impact on the overall supply chain. Therefore, sales and marketing teams need to identify the impact of GST so as to redesign the pricing strategy of the firm and realign its marketing strategy around it, so as to take the first mover's advantage.

Another distinctive feature of GST would be that each transaction in the economic supply chain will come under the purview of GST net. Therefore, transactions like 'warehousing', 'stock-transfers', 'supply to job-work' etc., which currently enjoy a tax free status will cease to be the untaxed havens. Consequently, tax rationale of such transactions needs to be scrutinized. Distribution chain which has been designed on the premise that stock-transfers/ depot transfer are exempt will need to be re-looked at to understand future costs associated with continuation of such transactions.

Reading these features it can be easily inferred that GST regime would imply re-assessment of the current supply chain of company. Moreover, GST would provide an opportunity to re-design the supply chain so as to gain synergies. Therefore, supply chain management team within the organisation will have to actively deliberate on the impact of GST on the current supply chain and chalk out a detailed plan for adapting to an optimum supply/ distribution network.

Further, GST is more than likely to bring along a higher rate of tax. So, even if there is a seamless flow of credit or input set-off under GST, companies will be required to pay tax at higher rate in first go and eventually take credit or set-off of taxes paid. This totals up to a combination of higher tax rate yet lower tax cost, leading to a significant impact on working capital. Further, new entrants in taxable zone like 'stock transfers' and 'depot transfers' will add to the woes of organisations battling with cash-flow issues. Therefore, GST would require a thorough analysis of working capital requirements. This calls for a collaborated effort of finance team in association with other stakeholders, to identify probable impact on working capital requirements.

Another important feature of GST is that smooth functioning of GST regime requires very detailed disclosures from all dealers. Therefore, the reporting mechanism required under GST will be incomparable to the existing reporting mechanism. This means the ERP/ IT systems which are well equipped to cater to current reporting/ information requirement will be deficient in the GST regime. Therefore, significant changes will have to be made in these systems. Hence, teams responsible for ERP and IT systems will have to be geared up for GST, in terms of starting deliberations on changes that may be made in current system and come out with an action plan for GST implementation.

One function or department of every organisation which is usually un-impacted due to indirect tax changes is 'the human resource function'. However, GST will not leave this function untouched. A lot of facets of GST will require involvement of HR team. For instance GST will call for re-organisation of roles and responsibilities of personnel taking care of taxes, logistics, warehousing etc. Also, GST would imply un-learning of lot of concepts and learning of whole new regime. Therefore, effective change management and up-gradation of skill set of employees will require a careful attention and active support of HR team.

Thus, it can be seen that GST will impact all major functions of an organisation including finance, sales and marketing, supply chain management, human resources, etc. Active participation of all these stakeholders is imperative for successful implementation of GST. Therefore, CFOs who are used to managing tax legislative changes single headedly will now be compelled to sensitize and enthuse all the stakeholders to come together and jointly shoulder the task of GST implementation. It is said that there is nothing more difficult to take in hand or more uncertain in its success, than to take the lead in the introduction of a new order of things. Hence, in times to come, CFOs have a daunting task of managing change, inspiring stake-holders and navigating the organisations in its GST mission.

ICDS and Role of the CFO

Background

On 31 March 2015, the Central Board of Direct Taxes ("CBDT") notified the Income Computation and Disclosure Standards ("ICDS") which have come into effect from 1 April 2015 and accordingly apply for assessment year 2016-17 onwards.

ICDS apply to all taxpayers following accrual system of accounting for the purpose of computation of income under the heads of 'profits and gains of business / profession' and 'income from other sources'. They are only for income computation and not for maintenance of books of accounts.

ICDS have been notified by the Government as per powers granted under section 145(2) of the Income-tax Act, 1961 ("Act"). The notified ICDS shall supersede the existing tax accounting standards notified by the CBDT on 25 January 1996 ('existing tax AS') relating to 'disclosure of accounting policies' and 'disclosure of prior period and extraordinary items and changes in accounting policies'.

A question arises whether companies are mandatorily required to adopt the ICDS. The answer is yes, since failure to comply with the same could lead to the tax officer re-computing the taxable income as per ICDS at the time of assessment.

The 10 notified ICDS along with the areas with which they deal are broadly as follows:

- **ICDS I on accounting policies** – Basis on which accounting policies should be adopted
- **ICDS II on valuation of inventories** – Valuation of assets held as stock-in-trade
- **ICDS III on construction contracts** – Recognition of income from contracts for construction of assets and incidental services
- **ICDS IV on revenue recognition** – Recognition of income from sale of goods, provision of services, interest, dividend, royalty
- **ICDS V on tangible fixed assets** – Value at which fixed assets must be capitalised
- **ICDS VI on effects of changes in foreign exchange rates** – Treatment of foreign exchange differences arising from various transactions such as monetary, non-monetary, integral / non-integral foreign operations, etc.
- **ICDS VII on government grants** – Timing and criteria for recognition of government grants as income
- **ICDS VIII on securities** – Valuation of securities held as stock-in-trade
- **ICDS IX on borrowing costs** – Amount of borrowing costs to be capitalised to fixed assets and inventory
- **ICDS X on provisions, contingent liabilities and contingent assets** – Criteria for recognition of provisions, contingent liabilities, and contingent assets

Impact

Traditionally, the book profits which were calculated as per the Indian GAAP were considered the basis for calculating the taxable income. Specific adjustments required as per the Act were then made to arrive at the final taxable income. Now, the ICDS appear to take the place of Indian GAAP as far as tax calculations are concerned. Although, ICDS have been broadly worded on the same lines as the Indian GAAP, there are certain carve-outs that require companies to track the same separately. This calls for the CFO's immediate attention to understand the impact of ICDS on the company's taxable income and the same will be relevant for paying appropriate advance tax installments during financial year 2015-16. For example, approach prescribed by ICDS-IX on Borrowing Costs differs from Indian GAAP on following accounts:

- Capitalisation of borrowing costs to assets is required irrespective of the minimum time threshold for assets to get ready for use / sale.
- Distinct formula for capitalising general borrowing costs – formula may not permit exclusion of assets funded by equity.

The impact of the above will be disallowance of borrowing costs as revenue deduction if the same are required to be capitalised as per ICDS. Other examples of differences in ICDS as compared to Indian GAAP or existing tax practice are – recognition of income from service transactions on basis of percentage completion method only; recognition of interest on-time basis, etc. One of the major responsibilities of the CFO will be to put in place or modify existing systems to track and document various adjustments required by ICDS to each line item of the company's accounts.

Interestingly, the Preamble to the ICDS states that in case of conflict between the provisions of the Act and ICDS, the Act shall prevail. For example, certain marked-to-market losses which are currently claimed as a tax deduction based on judicial precedents may not be permitted to be so claimed by ICDS-I on Accounting Policies (this ICDS does not permit claim of such losses unless specifically allowed by another ICDS). This complicates matters further since existing tax positions laid down by various judicial authorities must be taken into account for identifying conflicts before applying ICDS. The CFO will need to ponder on various aspects – force of ICDS as a notification, existence of a conflict with the Act, applicability of existing judicial precedents, impact on existing tax positions adopted by the company, etc.

The compliance with ICDS may be required to be included in the tax audit report or may have to be certified by the company's management. In either case, the CFO's responsibility regarding implementation of ICDS will continue.

Multiple considerations arise for the CFO - evaluating current tax positions, adopting tax positions to comply with ICDS, change in tax cost to the company on account of such implementation, mapping IT systems to ICDS and subsequently mapping INDAS to ICDS. On the whole, CFOs will need to re-look at the company's taxation system in light of ICDS as well as the impending, new INDAS.

Rethink Tax & Legal management – a transformational need

Success and cutting edge for business enterprises of the present millennium and the future will depend on multifaceted transformations – a truth for India and the world at large. Imperatively, CFOs of such business houses will have niche roles and least said, predominantly strategic focus. The tricks of financial management of an organisation encompassing financial reporting, tax management, treasury and allied operations undergo constant transformation due to the continuously evolving economic landscapes. In India and globally, the socio-political and economic changes lead to new regulations frilled with challenges as well as opportunities. Deliberations into the macro and micro aspects of this constant evolution in the finance function would be an unending phenomenon – thus the following paragraphs seek to touch upon one key aspect of a finance function for today's Millennial CFO – tax and legal management.

Books of accounts, tax numbers, and litigations have become a part of the inevitable routine of a CFO's office. Amongst all, tax, as is said, is a constant for economic survival of a nation. An arduous run for wealth and profit maximum have regularly led to clashes between legislative principles and marquee attempts of effective tax and legal management. Moreover, legislative procedures for maintaining vigilance against infraction of law have undergone both sea and "e" changes in modern times and will continue to evolve. Although interconnected, a CFO with his entire finance team may at times be challenged to track such procedural changes and its implications besides parallely dedicating quality time on strategy not limited to tax and legal aspects but pure play finance moves as well. While the CFO has managed a long way thus far innovatively, the growing technology consciousness for tax and regulatory authorities does necessitate further thinking and need for effective solutions in his part. He has to meticulously delegate management of some of his vital functions to stay contemporary to the transformation. To illustrate, the tax and legal compliance is one sub function which although important, ideally should not encroach upon the CFO and his core team's maximum time and attention. A judicious decision about time and efforts involvement requirement in these processes could help the CFO rethink such compliances in a smart way and thus enable strategic decision-making in this regard.

The challenges posed by amendments in legislations could be absorbed effectively by intelligent systems which could leave more bandwidth for the CFO's strategic decisions only. To elaborate, global tax and legal compliance and management gaps and effectiveness statistics can be loaded on the CFO's operational dashboard for his attention on critical aberrations. The distinction between cost and profit center functions in large organisations often drive the decision of outsourcing some of these functions and therefore it is incumbent on the CFO to evaluate the available resources to best use such intelligent management systems. Besides the tax and legal compliances management systems, intelligent litigation management systems could also empower the finance function in managing litigations cost effectively in specific situations. Renowned management exponent Peter F. Drucker's message "Innovation is the specific instrument of entrepreneurship...the act that endows resources with a new capacity to create wealth" is perhaps apt for a CFO entrusted with the coveted entrepreneurial responsibility. Transformation in the manner of dealing with the CFO's task list for tax and legal management is one aspect worthy of the CFO's focus.

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Startup to market leader: Role of CFOs

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