



The importance of the CFO in an enterprise

The difference between large and small-to-medium sized enterprises

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<p>Sammanfattning:</p> <p>Detta slutarbete utreder hur viktig en ekonomichef är i ett företag och studien kommer att ta fasta på skillnader mellan små- och mediumstora bolag och stora bolag. Målet är att definiera ekonomichefens roll och funktion, de ändringar som har skett, samt jämföra ekonomichefens roll med controllerns roll i företaget genom att använda akademisk litteratur, tidningen CFO World och kombinera det med företaget Management Events' (ME) situation.</p> <p>Resultatet av studien presenteras i två delar. Först presenteras en allmän slutsats som svarar på studiens frågeställningar och studien avslutas med en rekommendation för Management Events.</p> <p>Studien visade att en CFOs roll och dess betydelse varierar beroende på företagets storlek. ME klassificeras baserat på deras omsättning som ett mindre bolag. Företaget växer konstant och de har en komplex och internationell affärsstruktur, vilket leder till ett behov av en person som ska leda deras ekonomiavdelning.</p> <p>Den största begränsningen med denna studie är att slutsatsen är svår att anpassa till allmänna situationer därför att den är specifik för endast ett företag.</p>	
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<p>Abstract:</p> <p>The main research question of this study is how important a CFO is for a company and how their role differs in large and small-to-medium sized companies. Other research questions are “<i>When does the CFO expertise become necessary?</i>” and “<i>Is ME in in need of a CFO or can the controllers continue to manage the financial responsibilities?</i>” The goal is to define the main aspects of the CFO function and the changes that have occurred, using academic literature and the academic magazine CFO World and combine it with the case of Management Events (ME).</p> <p>The result of the research was discussed in two parts. The first overall conclusion discusses the main points of the importance of the CFO and differs between large and small-to-medium sized enterprises. The second part is a recommendation for ME.</p> <p>The research showed that the importance of a CFO differs depending on the size of the company. ME is seen as a small-to-medium-sized enterprise, and is growing rapidly. Because of rapid growth, a complex business model and constant international expansion, the conclusion is that ME is in need of a financial leader to manage the growth.</p> <p>The biggest limitation of this research is that the recommendations are company specific, and is difficult to generally apply these to any case.</p>	
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1 RESEARCH TOPIC

1.1 Introduction

The Chief Financial Officer (CFO) has one of the most important and demanding positions not only within their company but also in the business world (Consero 2013 p2). The CFO is the executive manager whose responsibility is to manage the financial operations of a business (Horngren et al. 2006. p. 13). During the financial crisis, the CFOs had to take on tasks that were not included in their responsibility field (Dill 2013). Any problems concerning profitability and trends affects the financial department, which makes it a very important issue for a CFO (Lodin, 2013).

This study consists of a case study of Management Events (ME). The CFO of ME decided in 2013 to leave the company after only one year. The person was also the only CFO the company has ever had. Controllers took over, but the CFO position is still not filled. Why? This is a topic that the study will discuss. How can a multi-national company manage without a CFO and is it necessary for them to find one?

This research focuses on the role of the CFO, the changes in a CFO's responsibility field, the importance of the CFO in an enterprise and in which development phase a company is in need of the expertise of a CFO. The goal is to give recommendations to the company Management Events based on the analysis presented in the study.

1.2 Research question and objectives

There are three main research questions in this study:

1. How important is the CFO function in an enterprise and what is the difference between the role of a CFO in large enterprises and small-to-medium sized enterprises?
2. When does the CFO expertise become necessary?

3. Is ME in need of a CFO or can the controllers continue to manage the financial responsibilities?

The goal is to define the main aspects of the function of the CFO, using academic literature and the academic magazine CFO World and combine it with the case Management Events. The study will be concluded with recommendations for Management Events by analyzing the theoretical framework and applying it to the company's situation.

This research will define how the CFO function has changed and how the importance of having a CFO has increased. The study will also find the difference in the importance of a CFO in large companies versus in small-to-medium sized companies.

1.3 The scope and limitations

The scope of this study is to cover the main aspects of the function of the CFO. This study will find the main tasks of the CFO, their responsibility areas and how the CFO has come to the position it has got today.

The limitation of this study is that the recommendations are company specific and they are difficult to apply generally.

1.4 Structure of the study

This study begins with an overall analysis of the CFO and the main responsibilities of the position. The author will also define differences in companies of different sizes and at which point a CFO's expertise becomes crucial. Further, these statements will be strengthened by information from articles from issues of the magazine CFO World. A study that gives an overview of CFOs around Europe will be presented as well.

The second part of the study will be the case of Management Events (ME), looking in to the fact that the company does not have an employer with the official title CFO. Two questionnaires have been presented to and answered by the controllers of Management Events. The questions on questionnaire 1.0 have been selected according to the research that was presented in CFO

Rapporten 2013, while the questionnaire 2.0 is an extension of questionnaire 1.0, with questions that the author felt were still unanswered. Lastly, a conclusion will be made with recommendations and ideas for ME to consider in the matter.

1.5 Methodology

This research is a case study based on the company Management Events. Management Events does not have an employer with the official title Chief Financial Officer. The Financial Controller and the Group Controller of the company Management Events have answered a few questions that reflects on the function of the CFO, the role of the business controller as well as the functionality the position has in an organization. The questionnaire is a qualitative method of gathering data, where the main points are the tasks of ME's business controller versus the tasks of a hypothetical CFO and if a controller really can replace a CFO.

When analyzing the function of the CFO, secondary information is used. The literature used for conducting this study is academic. The magazine CFO World is a magazine published by IDG Media. It is a magazine from CFOs to CFOs and covers everything necessary concerning the CFO function and their main tasks and challenges and is one of the main sources of information in this study.

The main part of the data is found from issues of CFO World as well as their home page and newsletters. Literature and articles used to further define the CFO position were found on the internet as well as in academic literature.

2 THEORETICAL FRAMEWORK

2.1 CFO World

The slogan of CFO World is "Nätverket för Sveriges ekonomiproffs", freely translated to "The network for Sweden's financial professionals". CFO World is the biggest magazine in Sweden for CFOs and is read by 11 200 people. The magazine is published nine times a year and has a

turnover on 100 million Swedish crowns (CFO World 2014) which is equivalent to 10,815,721 €, according to the conversion rate presented per 31.10.2014.

The first issue of CFO World was published in 2010. Their web site cfoworld.idg.se is updated daily and the reader is also able to subscribe to their weekly newsletter containing important up-to-date information. The number one goal of CFO World is to inspire and educate the elite of finance to make better decisions and give them tools to make their daily work more efficient. The magazine CFO World features and focuses solely on CFOs, business controllers and CFOs, which are the positions that are most relevant to the CFO.

2.2 The importance of a CFO

The Chief Financial Officer, CFO, usually reports to the CEO (Chief Executive Officer), which is the managing director of a company. The CFO has responsibility for a company's financial concerns. They are also in charge of managing, controlling and leveraging the budget of the financial department. It is also one of the most important and demanding positions within a company as well as in the business world (Consero 2013 p3). A CFO's mission includes operating and managing the business change- and improvement management, together with the rest of the corporate management (Grahm 2013).

The CFO is responsible for treasury, cash flow and cash management, financial management and external reporting (Walther et al 2010). Controllershship, treasury, risk management, taxation, investor relations and internal audit are also important tasks of a CFO (Horngren et al. 2006. p.14).

Today's CFOs should have an overall view of the market development and keep an eye on the future. Earlier, the CFO's role was to look back, to close books and handle legal reports. The change is becoming a trend (Nordh 2013a). The CFOs of today are expected to be a business partner, the CEO's right hand, and a support to the other business managers (Nordh 2013a). An example brought forward by Mats Lindgren, who is a certified negotiation consultant (Nordh 2013b), states that the CFO is responsible for the financial state of a company, and often does not give freedom and responsibility to the business partners due to uncertainties in the market

and too much focus on numbers. The sales manager has a different perspective on the same matter compared to the CFO, and focuses on e.g. market and customers instead of facts and numbers. This issue can mainly be solved by openness and communication between the managers and co-workers (Nordh 2013b).

The hardest tasks of today's CFOs is to continuously focus on being involved in and changing the business (Nordh 2013d). The CFO is a strategic player in a company in a sense that if the company has an inefficient management team who cannot provide maximum efficiency, it is especially the CFO's job to make sure that change will happen. The CFO is the person who has full insight in the operation and is the person, together with the management team, who should take a stand and push for change in effectiveness (Nordh 2013c).

The role of the CFO has changed. Many business processes have been automatized, which has reduced the risk of human error as well as strengthened the ability to control and do check-ups. This has led to the CFO having more time to focus on other assignments (IDG Content & Marketing Services 2014).

The CFO has started to take over more and more of the internal strategic operational part of the business and is almost equivalent to an internal CEO, whereas the actual CEO has become more of the face of the company and has taken an external role towards clients and sales (IDG Content & Marketing Services 2014).

The biggest challenges of today's CFOs are to improve and to make the processes and technology more efficient, to run an effective global operation, to stay updated and to efficiently handle financial consolidation (CFO World vol 20, p11).

CFO Rapporten 2013 presented a chart in which they explained how the responding CFOs divided their time and what they mostly focus on in their time management. 50,3 % of the respondents claimed that their time mostly goes to communicating with other chief officers and the executive management. 45,8 % said that their time goes to budgets and follow-up, while 45,2 % said that they put their time on operating within accounting and reporting. When comparing smaller and larger sized companies, the difference lies in increased focus on

budgeting, forecasting and financial statements for the CFOs in the smaller companies, while CFOs in larger sized companies focus more on the communication with the executive management (CFO Rapporten 2013, p. 61).

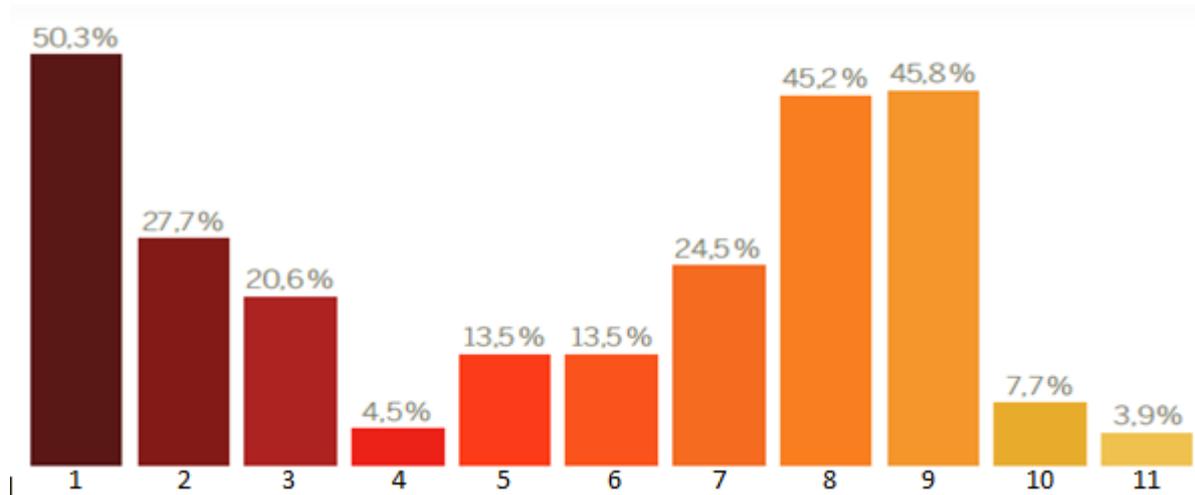


Figure 1: Areas in which CFOs invest most of their time (CFO Rapporten 2013, p61)

The columns in the figure above refer to following subjects:

- 1) Communication with other managers and top management
- 2) Communication with internal clients and users
- 3) Strategic planning
- 4) Negotiation/communication with suppliers and outsourcing partners
- 5) Hiring and staff development
- 6) Project management
- 7) Leading business processes
- 8) Accounting and reporting
- 9) Budgeting/Follow-ups
- 10) Strategic IT matters
- 11) Others

62% of CFOs that participated in Consero’s CFO data survey (2013 p9) claim that cost reduction was their focus for the year of 2013. The economy is recovering but to be able to remain competitive it is important to cut down the costs. This cost reduction strategy must nevertheless go together with a long-term growth plan.

CFO Rapporten 2013 asked 409 CFOs in which area they experience that they have the most responsibility. The figure below is divided in to two parts; the answers were divided in to ”answers from CFOs” on the left and ”answers from other roles” on the right. Other roles include controller, chief business controller, accountant and CEOs.

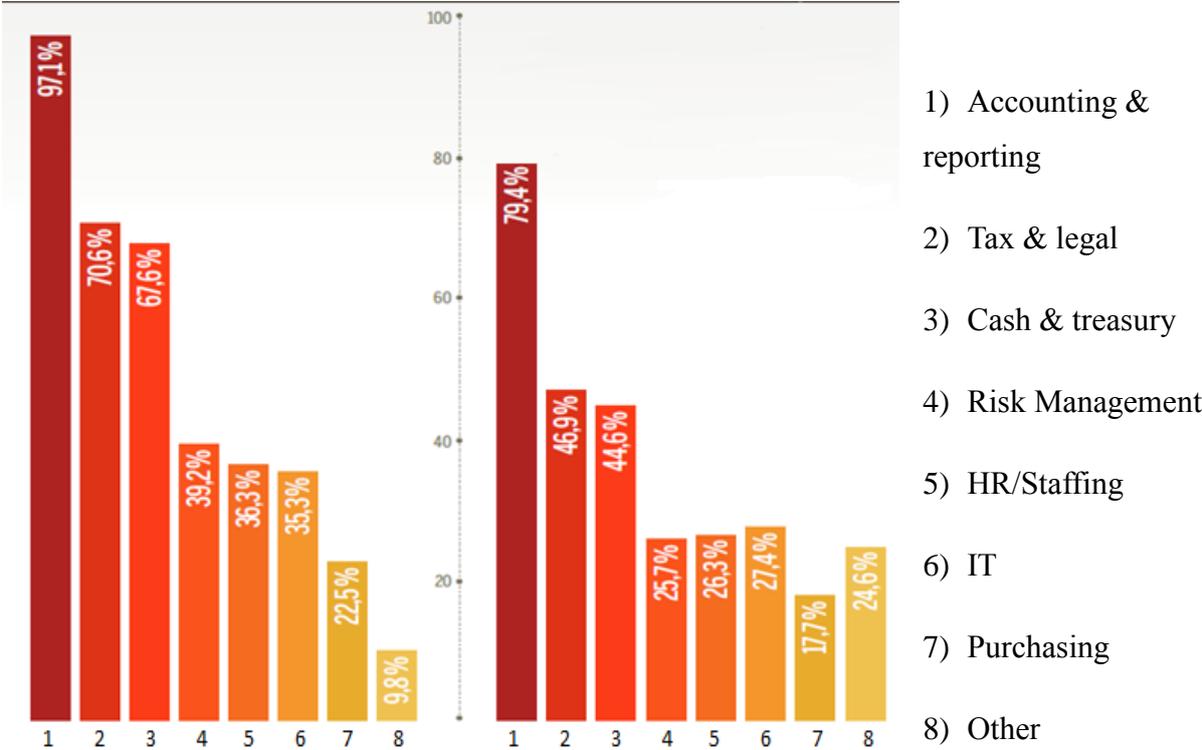


Figure 2: Areas which CFOs are responsible for (CFO Rapporten 2013, p55)

97,1% of the CFOs answered that accounting and reporting was one of their biggest areas of responsibility, quickly followed by ”tax & legal” with 70,6% and ”cash & treasury” with a percentage of 67,6. Many, 35,3% said that IT has become a bigger responsibility matter for the CFO (CFO Rapporten 2013, p55).

In figure 2, on the left side, we can see that the CFO’s in Sweden are mainly responsible for accounting and reporting, tax and legal and cash and treasury. On the other hand, compared to

figure 1, the most time consuming tasks are the communication with other managers and top management, accounting and reporting as well as budgeting and follow-ups. Even though IT is emerging as a responsibility of the CFO and 35,3 percent of the respondents said that it is becoming more and more important, it is still not one of the top responsibilities of the CFO and is also not the most time consuming. In conclusion, the main responsibility areas are not always the most time consuming for the CFO.

When asked about the role and responsibilities of the financial department, 32,7 % of the respondents answered that the department of finance should analyze already existing operations and processes and form the best grounds for possible changes. 26,1% of the respondents said that the department should be a function of support and make it possible to take initiatives in their business. 25,5 % said that the financial department should work proactively to see and find new possibilities within their business.

Finally, 15,7% consider the role of the financial department to be to report the results and balances of the business to the executive management group, the board of directors and the owners (CFO Rapporten 2013, p57). For a CFO and his finance department to be able to be good advisers and strategic players, it is crucial to have a trusting relationship with the board (Nordh 2013d).

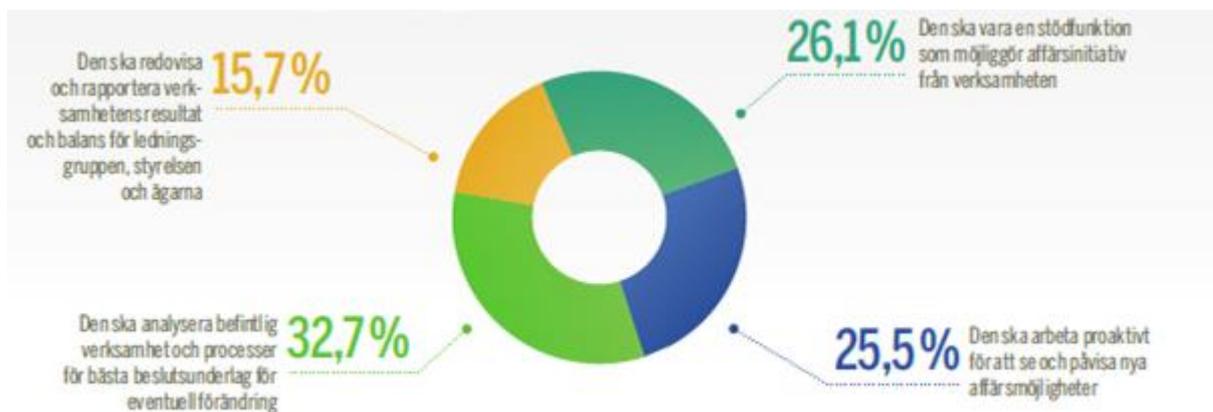


Figure 3: Which role should the finance department have in the company? (CFO Rapporten 2013, p57)

CFOs have a crucial role in their company's success. Being in contact with the CEO and the Board of Directors is one of the most important tasks for the CFO. The majority see their financial department as "a strategic business partner" within the corporation. This indicates strong connection to other departments in the corporation as well as shows the importance of the financial department to the whole company's functionality. The CFO's role has evolved from analyses and numbers to being an active partner in the company's overall strategy (Consero 2013 p5).

2.3 CFO vs. Controller

Controllers are the ones that work closest with financial management right alongside the CFO. A controller can also have the title Chief Accounting Officer (CAO) (Horngren et al. 2006. P.14).

The primary responsibility of the controller is to make sure that the business operation runs effectively. This is divided in to two parts; optimizing the correlation between the business support systems and demands and needs of the company and administrating the running processes in the business operation (Olve & Samuelson 2008 p57).

The controller has a very complex job description, since there are so many divisions for which he or she can be responsible. There are six main functions that the controller focuses on. The first four are such functions which can correlate to any type of manager in any department, while the last two are more job specific for the controller (Roehl-Anderson & Bragg, third edition, p2-3).

1. Planning

The controller must determine who does what and decide on the time frame in the accounting department, especially when considering transactions and issuance of accurate financial statements.

2. Organizing

The controller is responsible for maintaining well-trained accounting personnel.

3. **Directing**

It is crucial for the controller to make sure that everyone works together efficiently.

4. **Measuring**

Performance management is an important task of the controller, who makes sure that targets are met or exceeded.

5. **Financial analysis**

The controller holds in their responsibility to analyze and review recommendations that correlate with the financial performance of the corporation. Excellent communication skills are required.

6. **Process analysis**

Major processes and transactions have to be periodically controlled and evaluated. The controller must make sure that the operations are running cost effectively and efficiently.

The main responsibility of the controller is to provide top management with the support that is needed to successfully operate their business (Olve & Samuelson 2008 p 18).

In some companies, the controller has the responsibility and role to keep up the self-image of the company as well to help the managers protect the company from nasty surprises. Olve (2014) asks if a controller with this type of responsibility should work below a CFO.

According to Dahl (2011) the difference between a controller and a CFO lies in their point of view. A controller is constantly looking back, closing books and taking care of the financial reporting, whereas a CFO always maintains his focus on how to make the company move forward.

The controller can help with analyzing and understanding numbers through financial analysis and stronger financial reporting. The CFO on the other hand has a deeper understanding of the company's business models and maintains relationships with partners, banks, board of directors, auditors etc. He or she is the one that is in charge in case of a merge or acquisition

and handles tax planning, budgeting and forecasting. A CFO is needed if the company is growing rapidly, has many employees or offers complex product lines (Popick 2011).

2.4 CFO in different parts of Europe

To truly understand the importance of the CFO, this chapter will emphasize the difference between the CFO-position in various European countries.

“While earlier [...] the director for finance had primarily supportive functions, now the CFO is focused on strategic development,” says Viktor Belyakov, CFO at the world’s largest potash producer Uralkali “That means the CFO does not simply support investment and development decisions anymore but initiates them.”(Arons 2012).

It is important for CFOs to keep an eye out towards the rest of the world, mostly to be able to make better decisions and to prepare the company for different situations and scenarios (Nordh 2013a).

The report of CFO Insight, which Arons (2012) brings up in his article discovered that 5 out of 10 German CFOs responsibilities expand beyond financial and administrative tasks e.g. HR and IT. This case is also relevant in France and UK.

Cultures play a big role in determining the tasks and responsibilities of the CFO. French CFOs tend to spend an average of four years at their current position, which is below the five years which is the European average. IAFEI President Angeli commented that this correlates with the French way of never being satisfied and looking for something new. The French CFOs are in general also younger than average (Arons 2012).

(3) Finally there: years in current position

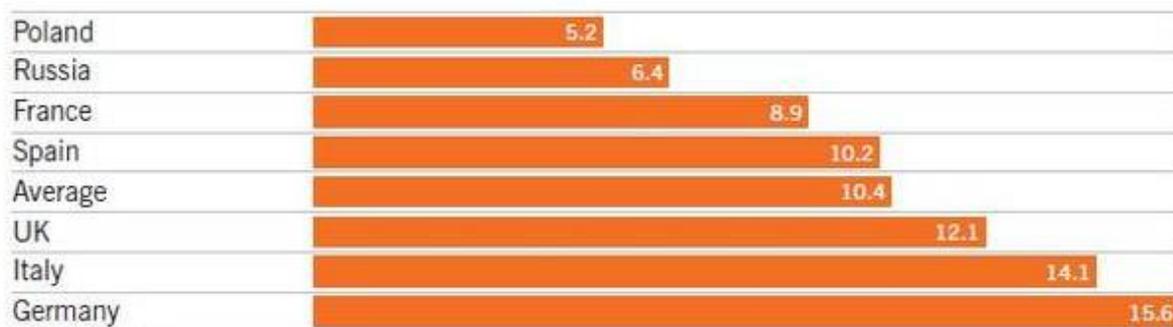


Source: CFO Insight

Figure 4: Amount of years CFOs stay in current position (Arons 2012)

When compared to other countries, German and Italian CFOs tend to stay with their companies for the longest time. Only three out of ten CFOs included in the ranking have been new to the company and their employer. This shows that continuity and a strong connection and familiarity with the business and the company are more valuable to German and Italian CFOs than trying to find more exciting and interesting tasks (Arons 2012).

(4) (Not) Here to stay: years at present company



Source: CFO Insight

Figure 5: Amount of years CFOs stay at present company (Arons 2012)

The role of the CFO has expanded from solely financial and administrative tasks to for example HR and IT and the importance of networking and communication skills keep increasing. During a financial crisis, a CFO's strategic planning and leadership skills are crucial. (Arons 2012)

Geert Hofstede developed in 1991 a theory about individualistic and collectivistic cultures. His focus was on measuring the power distance in relation to individualism. Power distance

describes how members of a certain culture perceive power relationships and hierarchies, meaning how the ones that do not possess power handle and accept that the power is unequally spread. Helkama et al. (2000, p296) define individualism is an important concept in culture research. It focuses on the individual, the self and the individual's rights to autonomy and privacy. Collectivism on the other hand focuses on the group and the society. In collectivistic cultures, the group member is expected to accept the values and behavior of the group. Helkama et al. (2000, p298) also emphasize that individualistic cultures are more equality focused than the collectivistic ones.

Hofstede collected information from 53 different countries or cultural societies by handing out questionnaires amongst people working within the same business or social relations. He made a chart showing every culture or country he had studied.

Finland was not mentioned in Arons (2012) article, but looking at Hofstede's power distance index, we can see that Finland and Sweden were placed with the other Nordic countries, as well as Germany and Czech Republic. These countries have low power distance, but were placed in between collectivism and individualism, with a heavier lean towards individualism (Helkama et al, 2000, p297). This means that they put focus on the individual, that they do not stress the importance of hierarchy and concentrate on equality instead. Hofstede's power distance index gives a view over which countries might have similar company culture, since every country has their own culture, traditions, laws and environment.

In conclusion, Finnish and Swedish CFOs are more likely to act like the German CFOs, meaning that their loyalty is stronger, they stay with the company for a longer time, and their scope include a broader variety of tasks and responsibilities. Finnish people are thus in general more focused on equality. This also shows that Finnish and German have similar company cultures, while for example France, Italy and Spain scored higher in power distance, meaning that the company culture and the hierarchies within the company differ from the ones in Finland.

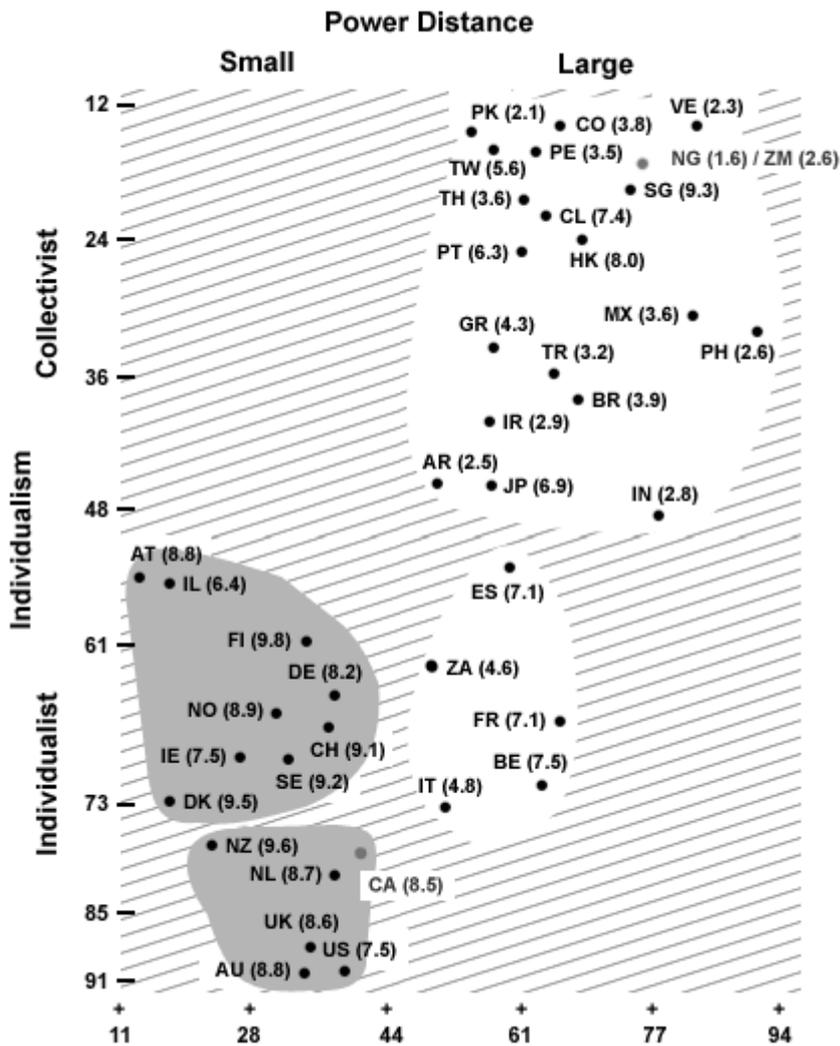


Figure 6: Hofstede's Power Distance Index vs. Individualism Index (Commentary 2014)

2.5 When is a CFO necessary

A CFO's main focus lies within financial analysis and reporting. They work with creating and managing financial tools and systems and provide advice concerning the firm's principals. Risk management also belongs to the CFO's responsibility and they are important members of the strategic planning team. The more a company grows, the riskier it is to ignore the importance of financial administration (Wilson 2012).

When the economic crisis struck in 2009, CFOs took on tasks involving strategy and crisis management, which was new to many (Dill 2013). One example of an issue that has been a

great concern is the Russia-Ukraine conflict. This has been the one of the greatest concerns for Finnish CFOs during spring 2014 mainly because the country risk in Russia has raised by 134%, at the same time as the exchange rates shot to the sky with 120%. It has led to companies and especially CFO's being forced to find their growth from other markets than Russia (SEB/Deloitte CFO Survey, spring 2014).

Outsourcing or hiring external advisors and auditors can lead to a greater cost than simply having one person managing everything. When having a business CFO within the company, he or she can increase communication with the legal counsel and HR, improve strategies, manage banking relationships and do various financial projects in favor of the company's best interest. (Wilson 2012)

According to Wilson (2012) the more consultants and external advisors the company hires the tougher and more complex the communication management becomes. Having too many players in the game aggravates the process of communication. One party might be ignored while the other takes full charge. With one CFO who controls everything, the risk of miscommunication decreases.

Wilson (2012) also states that banks need continuous financial information from the company when considering loans and bonds. If the reporting is not done on time, the loan might be called, which has crucial consequences for the business. A CFO's task is to keep track on these reports and obliges to ensure that everything is done on time. If the company is breaching covenants, it's a sign that a CFO is needed.

A growing company cannot avoid increasing number of employees and the number of transactions with clients and suppliers will naturally increase. Penalties and interest costs might occur in case of failure to remit amounts within a certain amount of time or failure to file correct returns. This increases the risk of an audit conducted by the revenue authorities (Wilson 2012). CFOs in Finland prefer to improve financial status by e.g. introducing new products, focusing on organic growth as well as preparing for investments and acquisitions (SEB/Deloitte CFO Survey, spring 2014).

CFOs have the internal knowledge to ensure that strategies are well planned and executed. Within risk management, this is a crucial part. ”What if”-scenarios and sensitivity analyses on expected results must be prepared in any situation. The CFO’s intimate knowledge about the company and their market is an advantage that external advisors don’t have. The CFO of the company can make sure that these reports and systems meet the investors’ needs. (Wilson 2012)

2.6 CFOs and large companies

Large sized companies are defined in CFO Rapporten 2013’s question as companies that have a turnover of more than 500 million Swedish crones, which is equivalent (per 6.10.2014) to 55 047 038 €.

This chapter will study the five largest companies in Finland, and determine whether or not their CFO is in the Management team, or in a leading position within the firm. It will discuss the CFO’s position in large companies and compare whether the responsibility fields of Finland’s top CFO’s respond to the main responsibilities of the CFO that was presented in CFO Rapporten 2013.

Table 1: The five largest companies in Finland according to turnover (Largest companies 2014)

Company	Amount of employees	Turnover (+1000)	Fiscal year
Neste Oil Oyj	5 097	17462000	2013/12
Nokia Oyj	59 333	12709000	2013/12
Stora Enso Oyj	28 231	10544000	2013/12
UPM-Kymmene Oyj	20 950	10054000	2013/12
Kesko Oyj	19 489	9315000	2013/12

1. Neste Oil Oyj

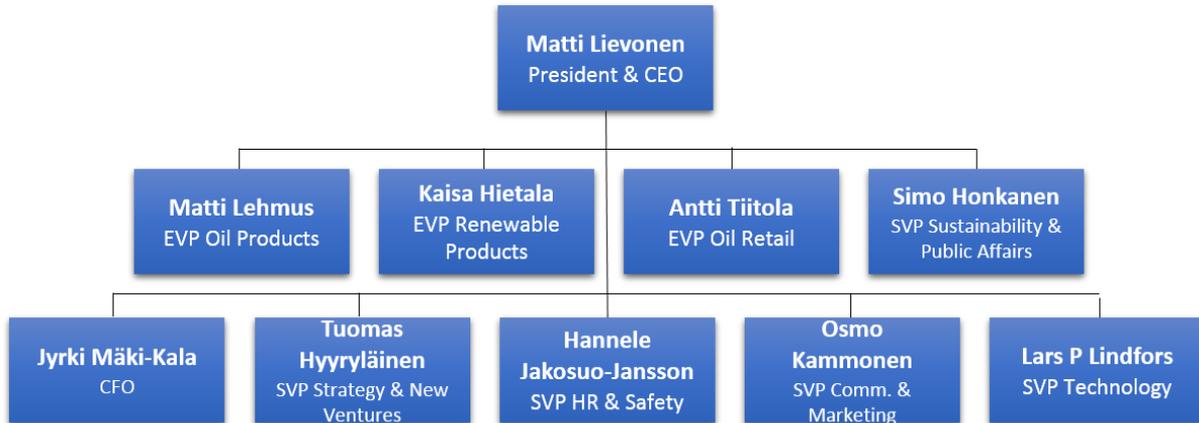


Figure 7: Neste Oil Oyj's organizational structure (Neste Oil Oyj 2014a)

The Chief Financial Officer of Neste, Jyrki Mäki-Kala, joined Neste in May 2013. He holds responsibility for the financial management of the group, he is in charge of investor relations as well as risk management. He is also a part of the executive management of Neste (Neste Oil Oyj 2014b).

2. Nokia Oyj

Nokia was the biggest mobile device company in Finland. Microsoft bought the mobile devices in spring 2014, which led to changes in the corporate structure.

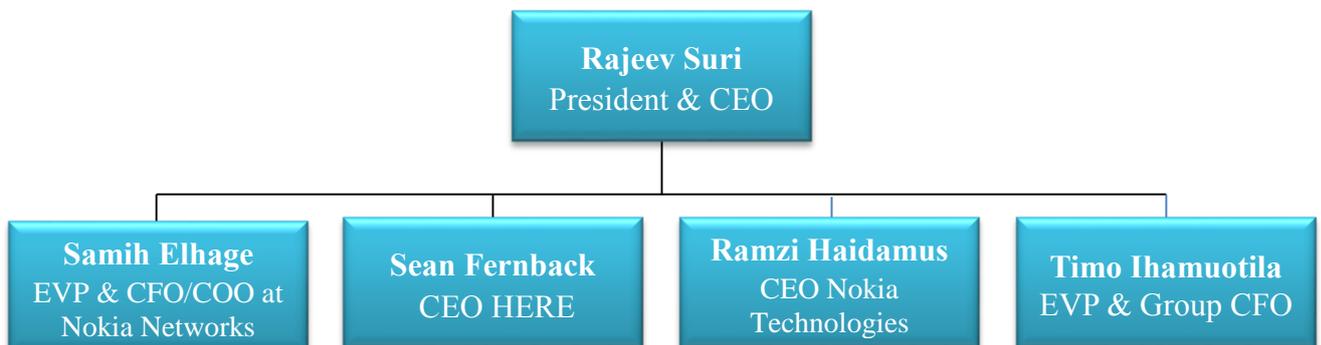


Figure 8: Nokia's Group Leadership Team per 5.4.2014 (Nokia Oyj 2014)

Their Group Leadership Team consist now of CEO Rajeev Suri, Samih Elhage, the Executive Vice President, Chief Financial and Operating Officer at Nokia Networks, Sean Fernback CEO of HERE, Ramzi Haidamus, CEO of Nokia Technologies, and Timo Ihamuotila who is the Executive Vice President and Group Chief Financial Officer.

3. Stora Enso Oyj



Figure 9: Stora Enso’s organizational structure. (Stora Enso Oyj 2014a)

Besides being the company’s CFO, Stora Enso’s CFO Seppo Parvi also serves as the deputy CEO. (Stora Enso Oyj 2014b)

4. UPM Kymmene Oyj

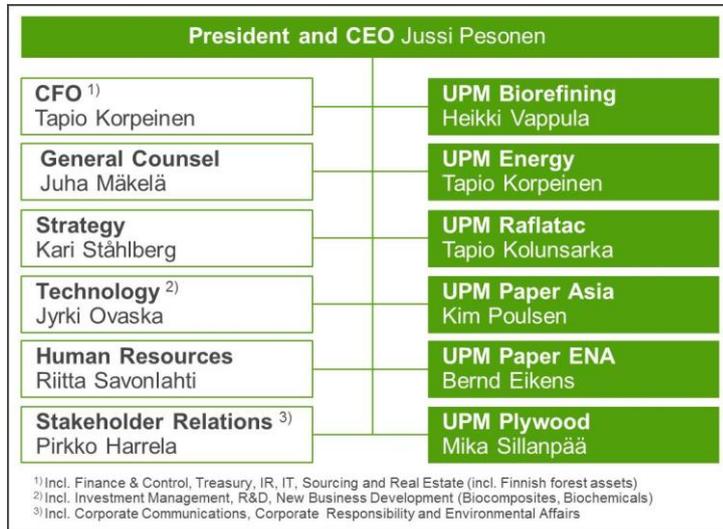


Figure 10: UPM Kymmene's organizational structure. (UPM Kymmene Oyj 2014)

According to the organizational chart, the CFO of UPM Kymmene Oyj has a broad responsibility area which includes finance & control, treasury, IR, IT, sourcing and real estate (UPM Kymmene Oyj 2014).

5. Kesko Oyj

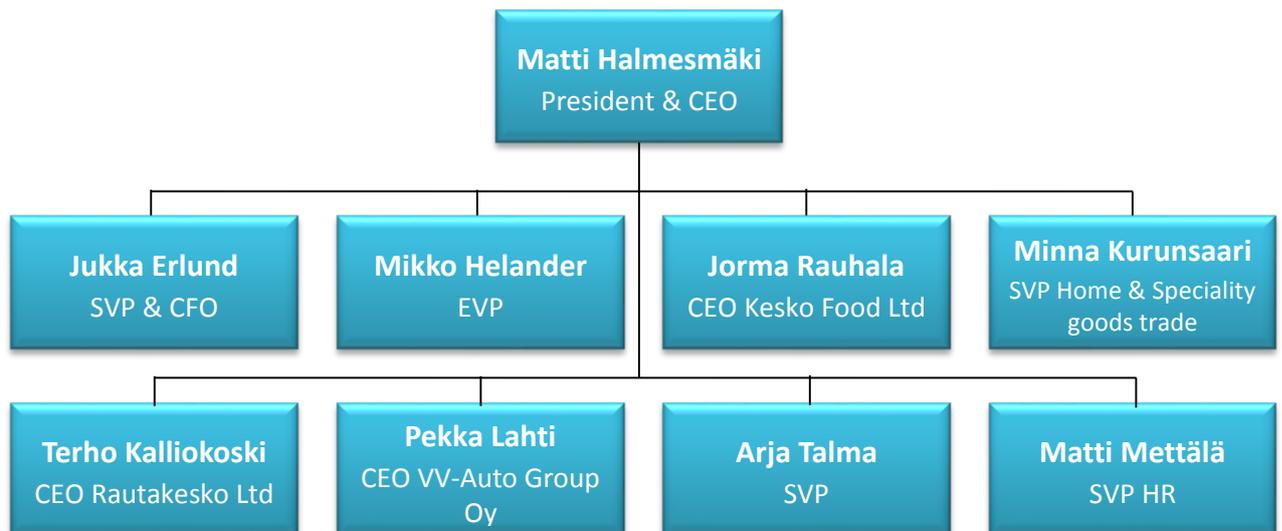


Figure 11: Kesko Oyj's organisational structure per 1.10.2014 (Kesko Oyj 2014)

The CFO of Kesko Oyj, Jukka Erlund, is responsible for finance & control, IT and financial services. He is also directly reporting to the CFO (Kesko Oyj 2014).

These companies have a turnover that is placed well above the 50 million of being a large sized company according to the limit of CFO Rapporten 2013, but all of them have a CFO; the CFO is in the management team and they have a broad responsibility field.

As we can see based on the descriptions provided, the CFOs of the five largest companies in Finland are all a part of the top management and they have similar tasks and responsibilities. The CFO of Neste handles investor relations and risk management (Neste Oil Oyj 2014b). Stora Enso's CFO is also the deputy CEO in the company (Stora Enso Oyj 2014b). CFO of UPM Kymmene handles finance & control, treasury, investor relations, IT, sourcing and real estate (UPM Kymmene Oyj 2014), and Kesko's CFO also has the responsibility of finance & control, IT and financial services (Kesko Oyj 2014). According to Wilson (2012) a CFO's focus lies on financial analyses and reporting. In figure 2, we can see that the two main responsibilities of the CFO's that participated in forming CFO Rapporten 2013 were accounting & reporting and tax & legal matters, which many of the CFO's in the top five companies in Finland also handle. Arons (2012) also says that the responsibilities of the CFO has expanded to include HR and IT. We can see that the CFO's of the top five companies in Finland all have a broad responsibility field, including strategic planning in all forms as well as IT, which has been the newest addition to position's responsibilities.

In CFO Rapporten 2013 (p 59) CFO's from large sized companies claimed that knowledge about business and operations was the absolute biggest strength of the CFO; 36,8 % of the respondents from the larger sized companies claimed that it was their most important competence. 30,9 % of them felt that their most important competence would be an overall view on the processes within the company. (CFO Rapporten 2013, p59).

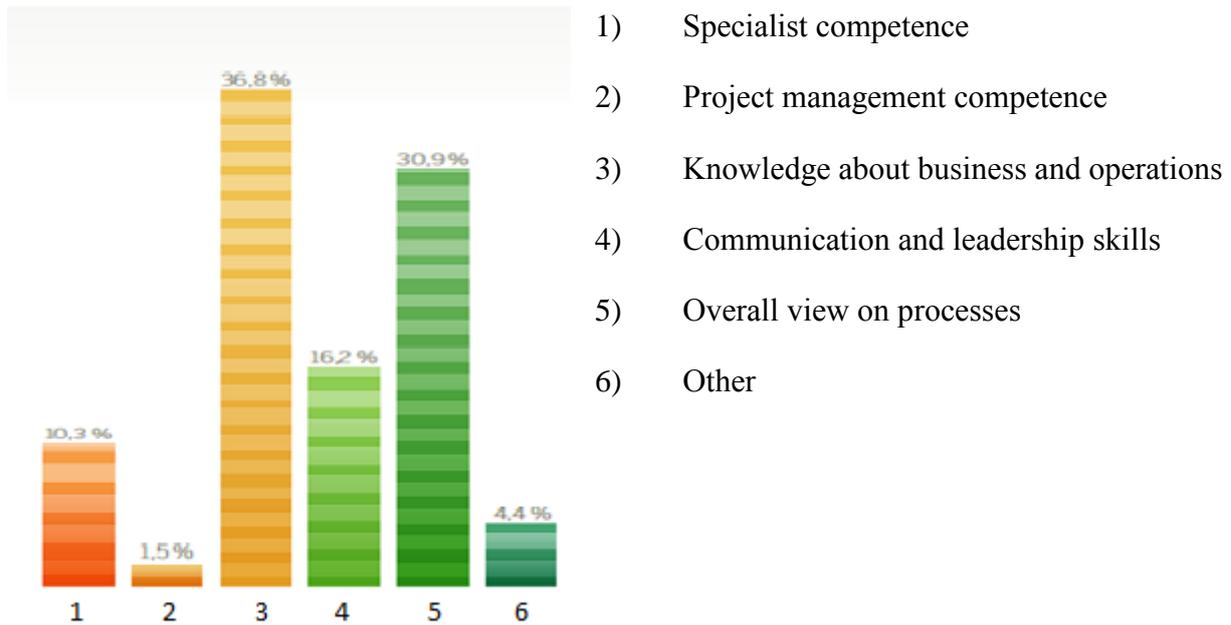


Figure 12: Large companies: Which traits are your biggest strengths as a CFO? (CFO Rapporten 2013, p59)

2.7 CFO and Small- to Medium Sized Enterprises (SME)

Earlier in this study, the author defined large sized enterprises as enterprises with a turnover of more than 500 million Swedish crowns, equivalent to 55 047 038 €. Naturally, Small-to-Medium Sized Enterprises (SMEs) are those with a turnover of less than 55 million euros.

The CFO in a Small- to Medium size enterprise handles the analyses of the results, measures of cost control, capital acquisition and forward-thinking. One might say that the financially responsible of a small-sized enterprise can't be called a CFO, since the role of a CFO in a small-sized company is more different than the CFO of a large-sized enterprise (IDG Content & Marketing Services 2014).

According to CFO Rapporten 2013, conducted by CFO World magazine, it is clear that the title of the financially responsible within the company matters when considering the amount of and what kind of responsibility the person has. Those with titles equal or similar to CFO or Financial Director have more fields of responsibility than those with other titles. (CFO Rapporten 2013, p54).

Every company is not in need of a CFO. However, when a company reaches a level where daily functions such as accounting and treasury need an expertise in form of senior management, it has become crucial for the executive management to increase the time focused on revenue and value creation (Thomson 2014). A continuous growth causes the financial reporting to become more complicated which may lead to the CEO deciding to bring on a controller, but the decision to employ a CFO often correlates to a need for more strategic decision making, e.g. analyzing the competitive market or securing credit (Dahl 2011).

According to CFO Rapporten 2013, 30,2 % CFOs of small sized companies consider their greatest strength as a CFO to be to have a comprehensive and overall view on processes within the company. Knowledge about business and operations came close second with 27,9 % (CFO Rapporten 2013, p59).

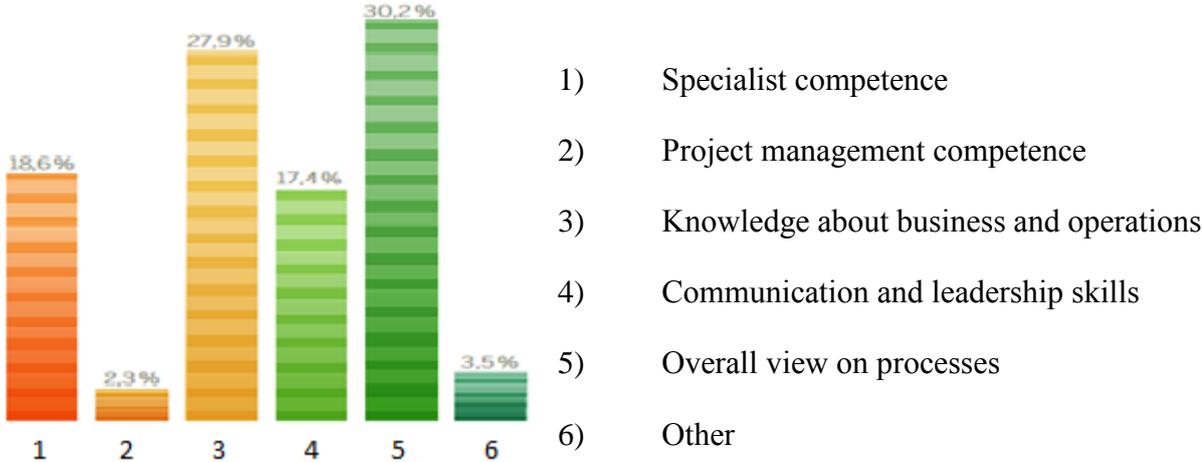


Figure 13: Small-to-Medium sized companies: Which traits are your biggest strenghts as a CFO? (CFO Rapporten 2013, p59)

The answers between CFOs from smaller sized companies and CFOs from larger sized companies (see figure 12 in previous chapter) did not differ greatly in this question. Both groups had the same top two answers considering the question about their greatest strengths; knowledge about business and operations, and having an overall view and knowledge on the processes within the company. The biggest difference between the two groups was the priority.

Smaller-sized-company CFOs feel that their strength lies in focusing more on the overall view on the processes, while the larger-sized-company CFOs find that their strength as a CFO lies with having knowledge of the business and operations.

3 CASE MANAGEMENT EVENTS

3.1 The company

Management Events (ME) was founded in 1994 by Olli Muurainen and the company organizes about 170 invitation-only events per year in Europe and Asia. ME operates in eleven countries; Finland, Sweden, Denmark, Norway, The Netherlands, Germany, Austria, Switzerland, Poland, Turkey and Singapore. The company is currently also exploring the markets in France and the United Kingdom, and it is are also expanding its business in Asia. Management Events employs a little over 200 people at the moment, whereas about 120 of them are situated in the headquarters in Helsinki.

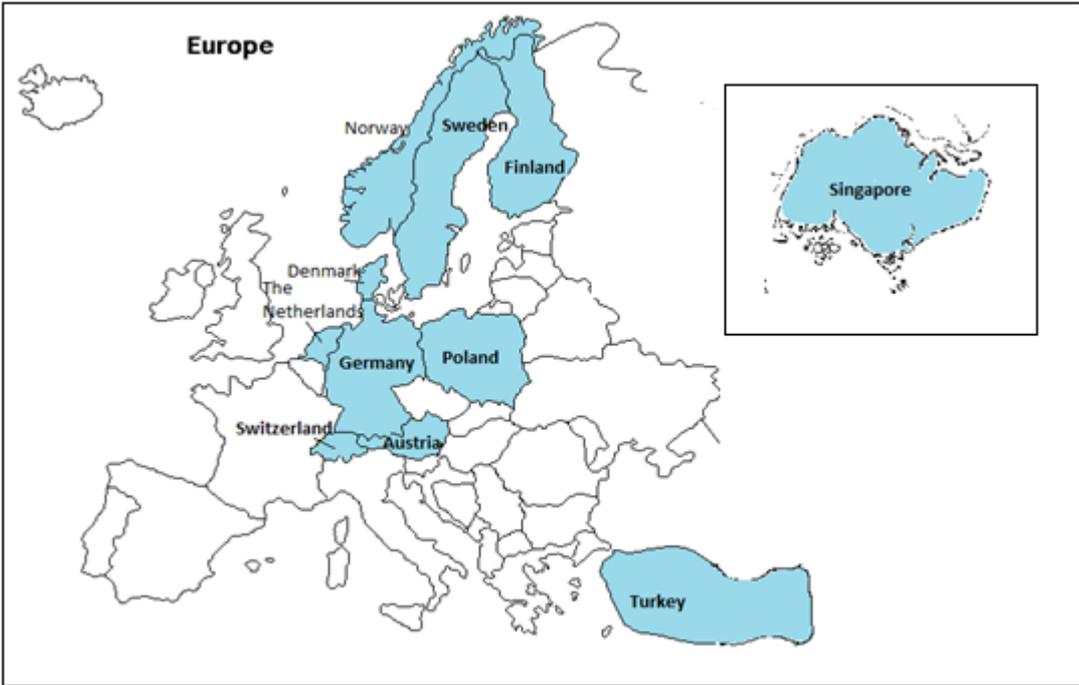


Figure 14: Countries in which ME operates

ME has a turnover of 26 million euros, looking at the numbers of 2011. According to a previous statement concerning the definition of large and small-to medium sized enterprises, with a turnover of 26 million euros, ME is considered as an SME.

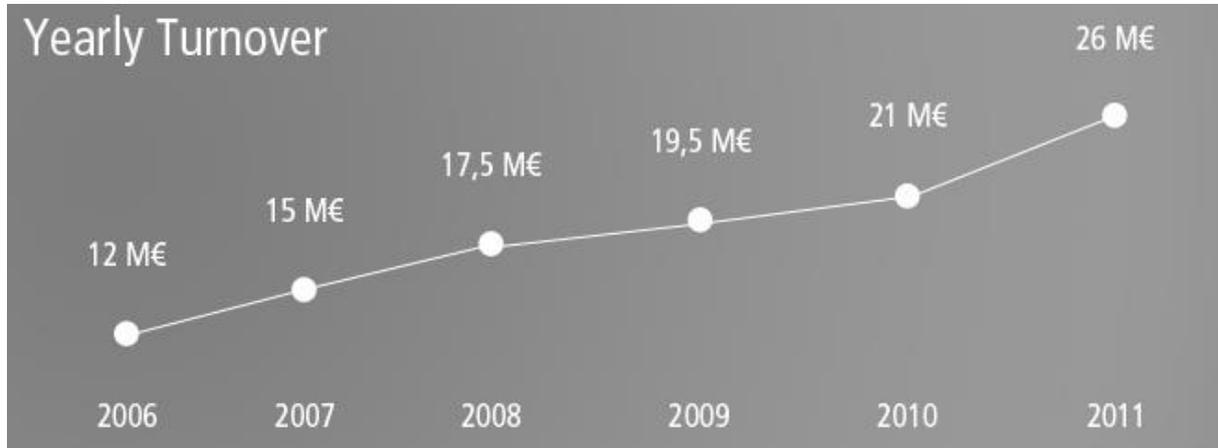


Figure 15: Yearly turnover of Management Events (Management events 2014)

As seen in the table above, the turnover of Management Events has significantly increased since 2006. This is an indication of how much and how fast the company has grown and is still growing. ME recently expanded their business idea to Singapore and is now also conquering the Asian market.

A prospecting calculation has been made based on MEs turnover from 2007 to 2011. The turnover has grown with 11 million euros, which gives a growth percentage of 73%.

The formula used to perform the calculation was:

Growth rate = the present value – the past value / the past value

Growth rate = $26\ 000\ 000 - 15\ 000\ 000 / 15\ 000\ 000 = 0,7333 = 73\%$.

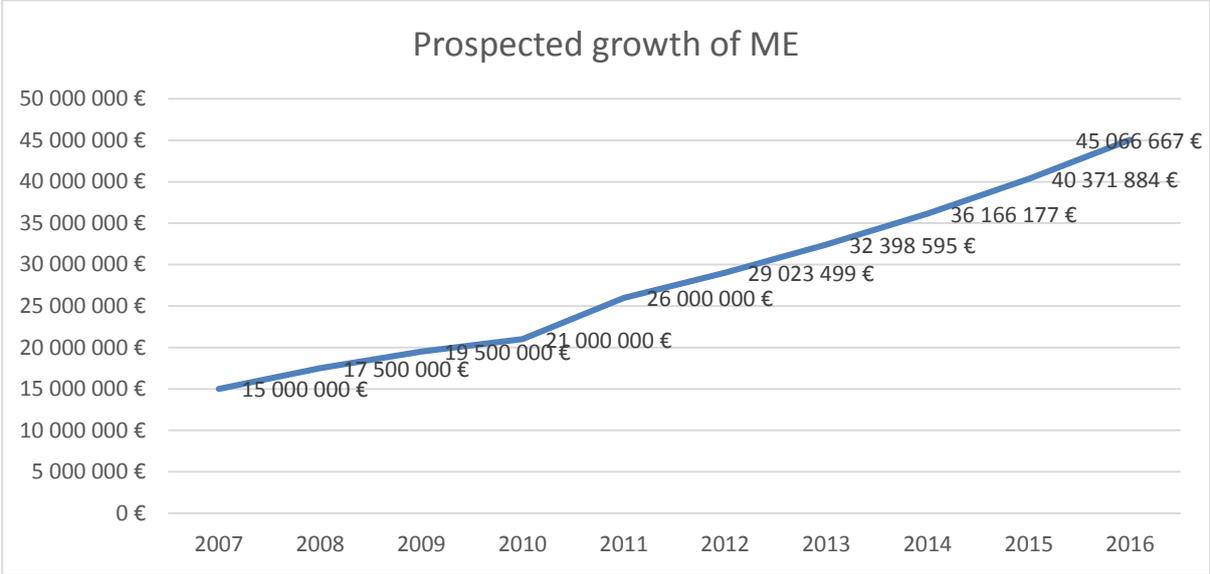
The annual growth rate has been calculated by using the formula

Annual growth rate = (present / past)^{1/n} - 1

Annual growth rate = $(26\ 000\ 000 - 15\ 000\ 000)^{1/5} - 1 = 0,1162 = 11,62\%$.

If ME’s turnover continue to grow at the same pace, in this scenario the company will reach a turnover of 45 000 000 euros by the year 2016.. The growth was calculated by multiplying the turnover of the previous year by 1,1162, since the annual growth rate is 11,62%.

Table 2: The prospected growth of ME



Looking at the table above, we can see that Management events is rapidly closing in on the gap between being a small-to-medium sized company to becoming a large sized company.

3.2 The concept

Management Events gathers top decision makers and solution providers in about 170 invitation-only events in the operative countries. Besides arranging events in the 11 countries in which ME is operating, ME is also organizing Nordic, DACH and Pan-European events. The company arranges 1-1 meetings between the top level decision maker and the solution providers.

The solution provider is presented with the opportunity to find potential clients through sales meetings. A solution provider might have around 20 sales meeting during one event.

The top level decision makers get the opportunity to expand and maintain their network, discuss relevant topics within their field and discover the most modern solutions that currently exist on the market.

3.2.1 The events

Management Events organize three different main events:

1. IndustryForum
2. 600 Minutes
3. Conference

1. Industry Forum & Strategy Forum

The industry forum is as the name explains, industry based. The event gathers top managers and executive management from each industry, such as energy, machinery or HR.

2. 600 Minutes

600 Minutes & Executive Forum are job based events which gather top decision makers within a certain position. Management Events arranges 600 Minutes Executive IT, which is their biggest and most important event in each country, as well as 600 Minutes CFO, which comes in close second.

3. Conference

The conference is based on solution area. They gather top managers and solution providers that are interested in one solution area, such as Business Intelligence, Big Data or Cloud Strategies.

3.3 The organization

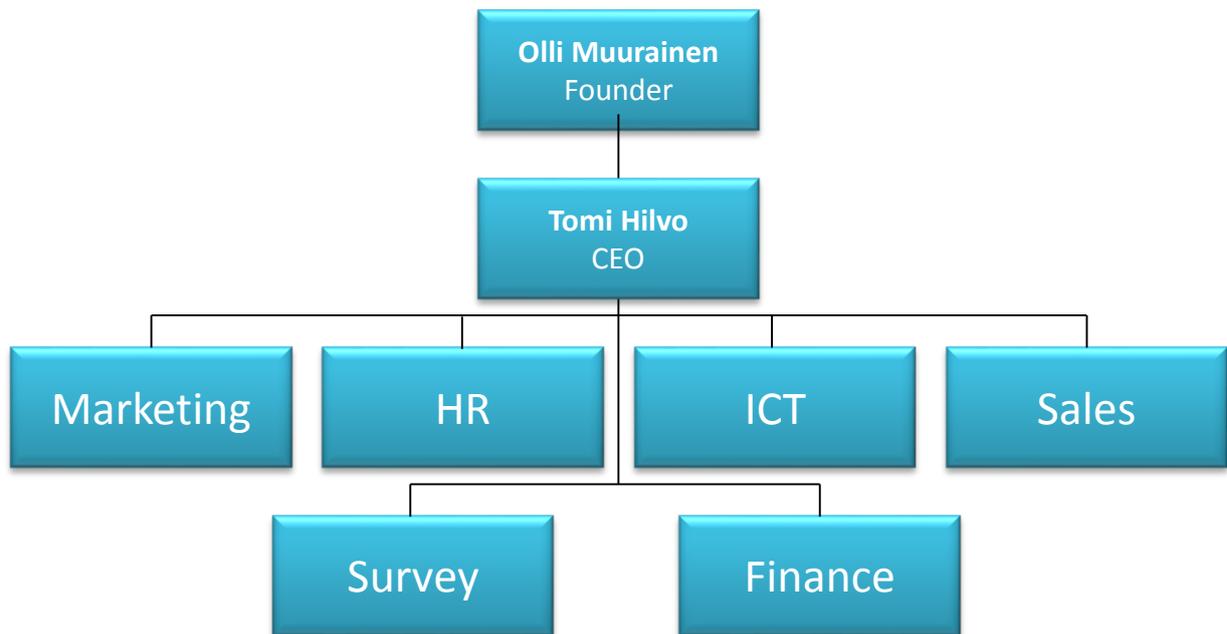


Figure 16: ME's organizational structure

ME has six main support functions, which are presented in the figure above. Besides these six, there is also a Production team, which is divided in to two parts: partner and delegate. The production team takes care of the partners and event delegates at the actual event. They are also in charge of the partner and delegate follow-up as well as building up the event arena according to ME's standards.

3.3.1 The management team

The top management team of Management Events consists of Tomi Hilvo, the Chief Executive Officer, Olli Muurainen the chairman of the board and the founder of Management Events, as well as Håkan Gershagen, member of the board.

3.3.2 The financial department

ME's financial department consists of three regular employees and three interns. The three regular employees are the group controller, the Financial controller and a third team member,

who doesn't have a specific title. The interns are employed at the company for five to six months at a time.

As seen in the chart below, the financial team has no hierarchy among the regular employees, while the three interns report to the three regulars. The three regular employees report directly to Tomi Hilvo, CEO.

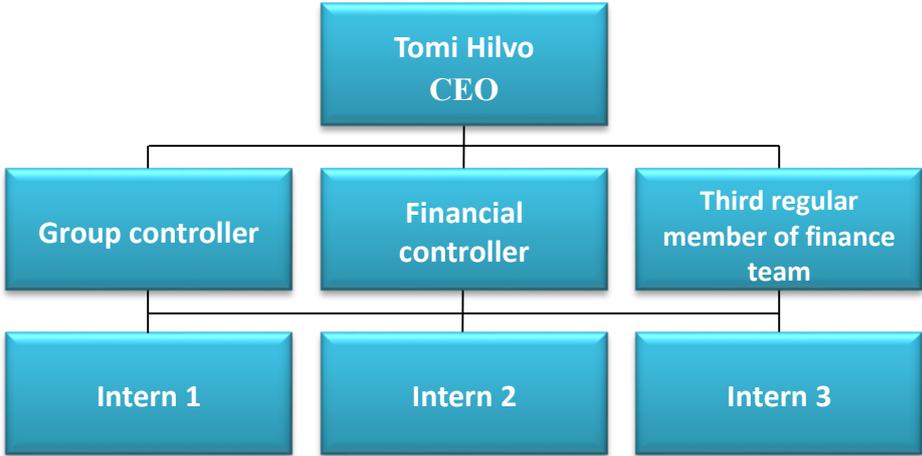


Figure 17: The structure of ME's financial department

To analyze how the business controller-position correlates with the role of the CFO, the Financial controller and the Group controller of the company Management Events have answered some questions relating to the main research questions.

The financial department of Management Events is run by a Group controller and a Financial controller. Their finance team consists of three regular employees and three interns. The interns vary every five to six months.

Management Events is outsourcing its accounts payable, the accounts receivable, its credit management, the accounting and auditing and the invoice scanning.

3.3.2.1 Financial controller

Based on the answers given by the Financial controller of ME, we can see that the person has worked for the company for 2,4 years. The Financial controller is not in the executive management and reports directly to the CEO.

The main tasks of the Financial controller of ME are annual and monthly reporting, tax and legal tasks, and cash and treasury. The most time consuming is the operational auditing and reporting. According to the Financial controller, the most important competences, when ranked on a scale from one to five, where 1 is most important, are:

1. expertise within finance, economics and administration
2. an understanding of operative processes
3. good communication skills
4. being a good leader
5. strategic thinking and planning

Besides annual and monthly reporting, tax and legal tasks and cash and treasury, the Financial controller also serves as the Team leader for the Business Support Service Center. Because the company is growing, ME will at some point need someone to lead the finance department, but according to the Financial controller, it doesn't necessarily have to be the CFO.

3.3.2.2 Group controller

The Group controller of ME has worked for the company for 2,5 years. The Group controller is not in the executive management and reports directly to the CEO.

The main tasks of the Group controller are annual and monthly reporting, risk management and performance management. The most time consuming tasks for the Group controller are the communication with the CEO and the executive management, strategic planning and budgets and follow-ups.

The Group controller considers the most important competences to be good communication skills and ability of strategic thinking and planning. These are seen as equally important. Other

competences that the Group controller believes are within the top five most important qualities within the profession are understanding business, understanding micro and macroeconomics and having an analytical mindset.

The Group controller is also in charge of the dialogue with the management team, to conduct analyses to support decision making, ensure processes are followed, controlling main Key Performance Indicator developments, ensure estimate accuracy and to coordinate management practices. The Group controller claims that the title doesn't matter, but that all functions, including Finance, needs leadership. The Group controller meets with the management many times a week; a certain number of times was not specified.

3.4 Discussion

ME is growing in a fast pace, as seen in table 1. They are constantly adding new types of events to their concept, they are conquering new markets and countries which has led to ME being forced to continuously employ more and more people. This requires an expansion of automated systems and more capital and/or financing to deal with the consequences of growth. These are complex procedures which require the knowledge that a CFO would be able to provide ME (Thomson 2013).

In conclusion, the controllers of Management Events are sharing the tasks that CFO Rapporten 2013 presents as the most important tasks of the CFO's. The Group controller manages monthly reporting, risk and performance management and communication with the management team, whereas the Financial controller has the responsibility for annual and monthly reporting, tax and legal as well as cash and treasury. In this case, we can see also the same outcome as in chapter 2.6, the main tasks of the Financial controller and the Group controller are not the most time consuming.

We can again draw parallels to the discussion in chapter 2.6, where the main responsibilities of the large company CFO's were stated. The CFO's of Finland's top five companies had finance & control, risk management, treasury, financial services, investor relations, IT, sourcing and real estate as their main tasks. The Financial controller and the Group controller of Management

Events already have the responsibility of a few of those fields, which shows that there is a need for someone that has the experience and knowledge to take on more of the CFO tasks.

Both the Financial controller and the Group controller stated that ME needs a financial leader. The Financial controller even pointed out that it does not necessarily have to be a CFO.

By taking the answers of the questionnaires in consideration, and the personal opinions on the two people that are working closest with the finances of ME, the conclusion is that ME is indeed in need of a financial leader. ME has outsourced many of its processes and has a very complex business, considering that it is operating in 11 countries.

Since the Financial controller and the Group controller already have great knowledge of the company's business model and have established certain rules and ways of working, as well as have a functioning connection to the top management, the natural step would be to make one of them the financial leader.

Dahl (2011) showed that controllers main focus is to close books and look back, but since ME is constantly growing and looking forward, a financial leader should take on that assignment. The financial management of ME does not have a hierarchy, but as already stated, a financial leader is needed for the company to be able to move forward.

4 CONCLUSION

4.1 Overall conclusion

The aim of this research was to study the main tasks and responsibilities of the CFO in large companies and SME's as well as analyzing the importance of their role in their enterprise. Firstly, the author decided to focus on the function of the CFO and main tasks that correlates with the position. Secondly, the change in the role has been studied and compared to the role of the corporate controller. This has been done by analyzing literature and previous assumptions as well as compared to a real life case, Management Events.

During the course of this study, many important factors about the CFO function and its importance have been repeated. The author came to the conclusion that these are the most

important factors for the necessity of a CFO in a company. The biggest difference in the necessity of a CFO and their importance in a company depends a lot on the size of the company. A larger sized company has different needs than a small or medium sized company.

The three main factors that indicate whether or not a company is in need of a CFO are:

1. The size of the company.
2. Rapid growth.
3. Restructuring or big changes within the company.

If a company is small, is steadily and slowly growing, is outsourcing and doesn't have a business that requires many transactions, it is not in need of a CFO. Companies such as consulting companies, sole proprietors or those having a limited liability company might settle for having a controller or simply an employee that is responsible of finance. On the other hand, if a company according to turnover is seen as an SME, but belongs to those with a higher turnover almost reaching the limit to becoming a large company, they should definitely consider bringing on a CFO. Such companies are bigger to their size, they are growing, have high costs and want to reduce them efficiently and they most probably have complex transactions with customers, clients, partners and suppliers. During financial crisis in 2009, many companies are forced to restructure, come up with saving plans and make significant changes; this requires the strategic knowledge of a CFO.

The CFO should give the organization tools to handle changes and steer the company towards profitable investments, even during hardships (Nordh 2013e).

The CFO is proven to be one of the most strategic players within a company. This means that they are of high importance to their company. This study has shown how role of the CFO has developed from leading the finance department, to taking over leadership for e.g. HR and IT. The scope of the job of the CFO has increased greatly over the past decade, which is mostly a consequence of the financial crisis in 2009.

The CFO has gained a status equivalent to an external CEO, because the CFO has started taking over more and more of the internal strategic operations (IDG Content & Marketing Services 2014). The financial department is a strategic business partner within the company. The role of

the CFO has developed from focusing on analyses and numbers to having an active role in the company's overall strategies (Consero 2013 p5).

As a CFO, it is important not to focus only on cutting costs, but also making sure that the operation as a whole works flawlessly (CFO World vol 18, p14).

4.2 Recommendations for ME

After analyzing the function and the main tasks of the CFO and comparing them to the controllers of Management Events, the conclusion that has been reached is that when a company focuses their labor on the right resources and is willing to outsource a large part of their operation, they can operate with solely controllers. This would not be a good solution for companies with a smaller turnover, because the costs will increase with a rapid pace if they outsource. If a multi-million company decides to outsource, it is not certain that it will have a meaningful effect on their cash flow.

The tasks of the Financial controller and the Group controller of ME do not completely correspond with the tasks of a CFO, even though they manage some of the responsibility areas stated in CFO Rapporten 2013. As we see in chapter 3.5, the controllers of ME come close to covering all the main responsibilities of a large company CFO. The controllers of ME do not handle any HR or IT matters; this belongs to the responsibilities of the HR manager respectively the IT-responsible of Management Events. This already reduces the responsibility of the controllers and gives a reason to why this solution with only controllers works, since the tasks of a CFO have seemingly increased over the years.

As we can see in Figure 1, the most time consuming task of a CFO in larger sized companies was to communicate with the executive management (CFO Rapporten 2013p. 61). This is also one of the main tasks of ME's Group controller. Among themselves, ME's Financial Controller and Group Controller shared some of the main tasks of the CFO that CFO Rapporten presented.

Although, ME is expanding and conquering new markets all the time, according Wilson (2012) the more a company expands, the more complex it is to administrate the finance of a company, which leads to the fact that hiring a CFO might help in keeping the company's business focused

and on the right track. The controllers themselves answered in questionnaire 2.0 that they do not see a future for ME without a CFO, considering how fast the company is growing.

Seeing that the Finnish economic growth shows the weakest numbers compared to the other Nordic countries (SEB/Deloitte CFO Survey Spring 2014), ME should definitely consider hiring or promoting a CFO that would be in charge of keeping the company at a stable position. The CFOs are also focusing their investments on international level instead of within Finland, which means that the CFOs strategic investments in Finland fell to 15%, almost 9% lower than half a year ago (SEB/Deloitte CFO Survey Spring 2014). Since ME is constantly expanding internationally, they should take advantage of this situation and make sure that they stay competitive both nationally and internationally.

It doesn't matter how small the company is, it can always benefit from having a CFO to keep things organized and structured. According to Dahl (2011), the hiring of a CFO does not become relevant until the company reaches a turnover of 10 million to 20 million dollars, equal to 8 million to 16 million euros. ME surpassed this figure already in 2008, according to Table 2.

When comparing to the three main factors that the author saw as the most important indication that a company needs a CFO, the conclusion is that ME is fulfilling all of them. They are a medium sized company with a constant, rapid growth that is seen in their expansion internationally, they operate in 11 different countries, which is a factor of complex transactions and they are also outsourcing their accounts payable, the accounts receivable, their credit management, the accounting and auditing and the invoice scanning, which is very costly for them.

During the analysis of the study, the author has come to the conclusion that there are two main ways for Management events to continue at this moment:

- 1) Promote one of the controllers to CFO
- 2) Hire a controller or responsible of finance in each operating country.

The controllers of ME already have an established relationship to the top management as well as great knowledge about the company, considering that they have been employed by ME for over 2 years.

If the company would decide to promote one of the controllers to CFO, the cost wouldn't be as large as if they would have to hire an "outsider". As a CFO, it is important to know the business inside and out, and the best way to do so is to learn from the beginning (Nordh 2013f). The controllers of ME have seen the business from many points of view, and should be able to take on the CFO role. If the company brings on a CFO, they might be able to cut down on the outsourcing, restructure the financial department and move to a more internal operation.

In general, ME should consider hiring a person in each country that would be responsible of their finances. Operating in different in countries is complex; they have different currencies, different environment and different cultures and it would be ideal to find someone who can be the link between the headquarters and the local operation. As we could see in Hofstede's power distance index, Finland has scored similarly to the other Nordic countries and Germany, which indicates that their company culture and traditions are more alike than others'. This is important because of the fact that Management Events' operation looks exactly the same in every country and they try to keep the same company culture in every country. By taking Hofstede's power distance index in consideration, ME can find those countries whose company culture differ the most and try to find the right people to bring on to the company.

If ME decides to bring on a responsible of finance in every country, it could be a good idea to go through Hofstede's study presented in chapter 2.4. This might help them find the perfect person for the positions, whether it is a person already employed at the company or if ME decides to bring on someone from the outside. Hofstede's study shows that the power distance and hierarchies are at different levels in many European countries, and this knowledge might help ME keep their company culture even abroad as well as holding on the Finnish view of equality and adapt it to countries with different levels of power distance and individualism. It is important for a multi-national company to understand the culture of the countries they decide to operate in.

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6 APPENDICES

6.1 Questionnaire 1.0

Thesis Questionnaire 1.0

1. What is your official title? _____
2. How long have you worked for ME? _____
3. How many people are in the finance department of ME? _____
4. Are you in the executive management? Yes/No
5. Who do you report to? _____
6. What are your main tasks?
 - accounting and reporting
 - tax and legal
 - cash and treasury
 - risk management
 - HR/Staff
 - IT
 - other? What? _____
7. What is the most time consuming of the following?
 - communication with CEO and executive management
 - strategic planning
 - negotiation/communication with external parties and outsourcing partners
 - project management
 - operational auditing and reporting

budgets / follow ups

8. Is any of the following outsourced in ME?

accounts payable/rescontra

accounts receivable

credit management

accounting/auditing

invoice scanning

cash management

9. What is the most important competence within your profession? Rank 1-5

good communication skill

strategic thinking and planning

an understanding of operative processes

being a good leader

expertise within finance, economics and administration

other, what? _____

6.2 Questionnaire 2.0

Thesis questionnaire 2.0

1. How many years has ME been without a CFO? _____

2. What besides of the following belongs to your main tasks?

- Accounting & reporting, tax & legal, cash & treasury, risk management

3. Is there a hierarchy within the finance department (with the three regular employees)?
YES/NO

- If yes, could you please write the titles in the order where highest is number
- 1.
- 1. _____
- 2. _____
- 3. _____

4. In your opinion, is it possible for ME to continue without a CFO in the long run?
Yes / No
Why? (Please explain shortly)

5. For the Group controller: How often do you meet/have meetings with the management?