

The Changing Role of the CFO: From Accounting to Accountable

JOB DESCRIPTION: Oversee financial accounting systems, reporting, and disclosures; assure compliance of financial reporting with generally accepted accounting principles and securities law accounting requirements; assure compliance with local government, federal government, and international tax laws, regulations, and rules; expert in disclosure compliance with federal and state securities laws; establish, monitor, and evaluate internal controls; work with the CEO in the development of the strategic goals and plans, execute the strategic plans, and evaluate performance relative to the strategic goals; participate in long-term and short-term budgeting; exceptional communication and team leadership skills; able to raise capital and manage the firms' capital structure to maximize the value of the company and minimize the company's cost of capital; develop, monitor, and evaluate a program of risk management; communicate with the company's Board of Directors, shareholders, creditors, and credit rating agencies; no sensitivity to the effects of kryptonite.

Many years ago, the role of the *chief financial officer (CFO)* was to keep the financial records, and had accounting, internal control, budgeting, and treasury responsibilities. But the role has changed over the years to be much more comprehensive and to include decision-making that extends beyond the accounting and treasury functions. The CFO of today is responsible for measuring and monitoring performance, but the CFO is also now involved in managing risk and creating value for owners.

What has caused this change? There is not just one cause; but rather several forces that have resulted in the expanded role of the CFO. In the 1990s, we saw the role expanded from financial accounting and accounting systems to include financial analysis and an active role in strategic planning.¹ This expanding role is apparent in the Chief Financial Officers Act of 1990, which

¹ *The Practice of Management Accounting*, Institute of Management Accountants (Montvale, NJ, 1996), and *Reinventing the CFO: Moving from Financial Management to Strategic Management*, Coopers and Lybrand (New York, 1997).

specifically addressed the changing role of the CFO in federal government entities.² In the 1980s and 1990s, with the continued globalization and technological innovations, the CFO in some companies became a starring role as a deal-maker who sought out growth opportunities for the company.

The role of the CFO widened further because of the financial scandals of the 1990s and early 2000s that included Enron, WorldCom, and, unfortunately, many more companies. The resultant changes in laws and regulations focused attention on the CFO and broadened the responsibilities of this position. This resulted in a renewed emphasis on the CFO's role in accounting and financial reporting, but also added responsibilities for restoring confidence in the integrity of the company's financial accounting, internal control systems, and risk management.

Throughout this book, we discuss the responsibilities of the CFO in an organization. We recognize that in large companies the responsibilities of the CFO may be shared with the controller, a vice-president of finance, the corporate treasurer, a chief risk officer, or some other, similarly titled individual. However, in referring to the CFO, we are referring to responsibilities of the financial officer with the ultimate responsibility for the financial decision making of a company, responsibilities that may be shared or split among persons in the organization.

SOX ACT OF 2002 AND THE CFO

The *Sarbanes-Oxley Act of 2002* (SOX Act) is the most wide-sweeping legislation to affect the securities industry since the Securities Act of 1933 and the Securities Exchange Act of 1934.³ The SOX Act was passed as a reaction to the failures of corporate governance that were pronounced in scandals such as Enron.⁴ The SOX Act affects many participants in our financial markets: investors, security analysts, corporate management, and accountants. The Act includes provisions to increase internal monitoring, regulate the gatekeepers (e.g., chief executive officer, CFO, and the board of directors), penalize insider misconduct, and increase transparency.

We summarize the key provisions of this Act in Table 1.1. The SOX Act came about following numerous financial scandals that involved publicly

² The role of the CFO, as expressed in the Chief Financial Officers Act of 1990 [Public Law 101-576], was expanded by the Government Management Reform Act of 1994 [Public Law 103-356].

³ Public Law 107-204, July 30, 2002.

⁴ For an overview of the failures in the case of Enron, see William C. Powers, Jr., Raymond S. Toubh, and Herbert S. Winokur, Jr., *Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp.* (February 1, 2002), 2002 WL 198018 ("Powers Report").

TABLE 1.1 Key Provisions of the Sarbanes-Oxley Act of 2002

Title I	<p>Public Company Accounting Oversight Board</p> <ul style="list-style-type: none"> ■ Establishes the oversight board, as well as provides policies and procedures for registration of accounting firms. The purpose of the board is to provide oversight of auditing firms and develop standards for auditors, auditing, and auditing reports, as well as to inspect accounting firms for compliance [Sec. 101].
Title II	<p>Auditor Independence</p> <ul style="list-style-type: none"> ■ Prohibits most types of non-audit services of client by auditing accounting firm [Sec. 201]. Any non-audit service by an auditor must be approved by the audit committee of the client [Sec. 202].
Title III	<p>Corporate Responsibility</p> <ul style="list-style-type: none"> ■ Requires that members of the client's audit committee be independent (i.e., not an employee of the client or consultant or adviser other than in capacity as a member of the board of directors.) [Sec. 301]. ■ Requires certification of the annual and quarterly filings with the SEC by the chief financial officer and the chief executive officer, attesting to the internal controls of the firms [Sec. 302]. ■ Prohibits improper influence on audits [Sec. 303]. ■ Specifies forfeiture of bonuses and profits on securities in the event of financial restatements [Sec. 304]. ■ Prohibits insider trading during pension fund blackouts and requires sufficient communication to fund participants and beneficiaries in the event of a blackout period [Sec. 306].
Title IV	<p>Enhanced Financial Disclosures</p> <ul style="list-style-type: none"> ■ Enhances disclosure of off-balance-sheet transactions [Sec 401]. ■ Requires reconciliation of pro forma financial information with results according to generally accepted accounting principles [Sec. 401]. ■ Prohibits many types of personal loans to directors or executives [Sec. 402]. ■ Increases disclosure requirements for transactions with directors, executives, and principal shareholders [Sec. 403]. ■ Requires disclosure of whether the firm has a code of ethics for financial officers [Sec. 406]. ■ Requires disclosure of whether there is at least one financial expert on the audit committee [Sec. 407].
Title V	<p>Analyst Conflicts of Interest</p> <ul style="list-style-type: none"> ■ Increases the independence of analysts and investment banking activities and requires disclosure of potential conflicts of interest of analysts [Sec. 501].

TABLE 1.1 (Continued)

Title VII	<p>Studies and Reports</p> <ul style="list-style-type: none"> ■ Requires studies of the accounting industry [Sec. 701], the credit-rating industry [Sec. 702], violators of securities laws, enforcement actions [Sec. 704], and investment banks [Sec. 705].
Title VIII	<p>Corporate and Criminal Fraud Accountability</p> <ul style="list-style-type: none"> ■ Imposes criminal penalties for destruction of documents [Sec. 802]. ■ Provides whistleblower protection in fraud actions [Sec. 806]. ■ Provides criminal penalties for defrauding shareholders [Sec. 807].
Title IX	<p>White-Collar Crime Penalty Enhancements</p> <ul style="list-style-type: none"> ■ Provides increased criminal penalties for white-collar crimes, such as mail and wire fraud [Sec. 902]. ■ Imposes criminal penalties for false certification of financial reports [Sec. 906].
Title XI	<p>Corporate Fraud and Accountability</p> <ul style="list-style-type: none"> ■ Imposes fines and possible imprisonment for tampering with documents in an investigation [Sec. 1102]. ■ Provides the SEC with authority to freeze payments in the event of an investigation [Sec. 1103].

traded corporations, accountants, investment bankers, and brokers, with most of the provisions of the SOX Act traceable to specific misdeeds. For example, the provision for the reimbursement of bonuses prevents lucrative exits of executives from companies that were involved in accounting misstatements, such as those that occurred at Gateway.⁵ As another example, the provision for the independence of the audit committee members from management of the company prevents management from participating in the dealings with auditors, which was a problem in the case of Adelpia Communications.⁶

The provisions of SOX 2002 that directly affect the CFO include the following:

- *Section 206*: This section reduces potential conflicts of interest by making it unlawful for a CFO, CEO, controller, or equivalent officer to have

⁵ *Securities and Exchange Commission v. John J. Todd, Robert D. Manza, and Jeffrey Weitzen*, Complaint for Violations of the Federal Securities Laws.

⁶ Adelpia's audit committee at the end of 1999 comprised three members: Perry Patterson, Pete J. Metros, and Timothy J. Rigas, and was charged with the responsibility of monitoring and financial reporting for investors and the board of directors (Adelpia Communications Corporation Definitive Proxy Statement, Schedule 14A, filed July 7, 2000). However, Rigas was the company's executive vice president, CFO, chief accounting officer, and treasurer, which means that he was responsible for monitoring himself.

been employed by the independent public accounting firm and have participated in the audit of the company within one year of the audit.⁷

- *Section 302*: This section requires the CEO and CFO, or equivalent officers, to certify annual and quarterly reports and, in signing, they are responsible for the establishment and maintenance of internal controls. By certifying, they are also attesting to have reported any deficiencies to the auditors and the Audit Committee of the Board of Directors.
- *Section 304*: This section permits the Securities and Exchange Commission (SEC) to sue for forfeiture of any incentive-based, equity-based, or other bonus compensation of management in the event of a restatement of financial statements due to noncompliance. This provision deters management from manipulating reported financial accounting results for personal benefit.⁸
- *Section 401*: This section requires that periodic financial reports not only be presented accurately but be presented in a manner that includes incorrect statements or fails to state material information. It also requires that the issuer disclose material off-balance sheet transactions,⁹ contingent obligations, and other relationships between the issuer with unconsolidated entities such as special-purpose entities.¹⁰
- *Section 404*: This section requires disclosure of management assessment of internal controls and independent public accounting firm attestation of management's assessment. The requirement of reporting on internal controls imposed substantial startup costs on companies. More important, however, is the fact that this section creates a liability risk that is borne by the CEO and CFO. That is, the auditing firm and the executives signing off on the internal control report bear the liability for any failing in the internal control system.¹¹
- *Section 409*: This section requires real-time, plain-English disclosures of material changes in the company's operations or financial condition. The effect of this is (1) an expansion of the number of events that require a company filing a Form 8-K under the Securities and Exchange

⁷ Amendment to Section 10A of the Securities and Exchange Act of 1934.

⁸ However, as determined in the courts, this is a disgorgement action that must be brought by the SEC, not private parties [*Neer v. Pelimo*, No. 04-CV-04791-SD (E.D. Pa. September 27, 2005)].

⁹ We discuss off-balance-sheet transactions in Chapter 3.

¹⁰ We discuss special-purpose entities in Chapter 5. Enron used these entities to create misleading financial statements.

¹¹ This increased liability risk may affect the risk-taking behavior of these executives, as suggested by Daniel A. Cohen, Aiysha Day, and Thomas Lys, "The Sarbanes Oxley Act of 2002: Implications for Compensation Structure and Risk-Taking Incentives of CEOs," Working paper, July 8, 2005.

Act of 1934 from 9 to 22, and (2) a shortening of the deadline to four business days.¹²

- *Section 906*: This section requires certifications of audit reports by CEO and CFO with respect to compliance with securities laws and that the information represents fairly the financial condition and operating performance of the company. Criminal penalties are possible for certifications when in noncompliance.

EXPANDED RESPONSIBILITIES OF THE CFO

The broadening of responsibilities of the CFO has made this role less of a reactive, purely financial function, and more of a proactive role in the company's future, participating in many dimensions of the company's decision-making.

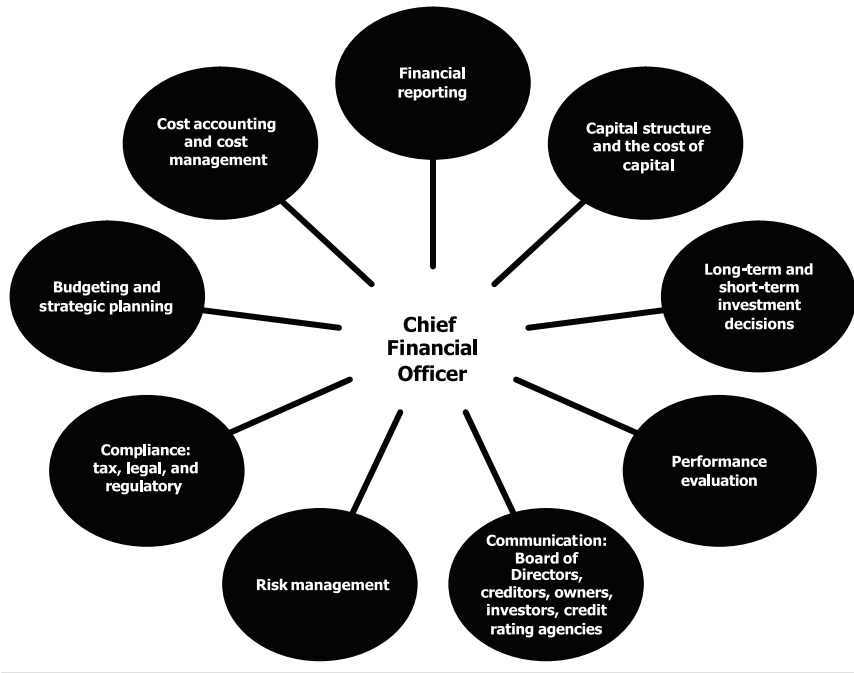
Traditionally, the CFO's responsibility related to accounting and treasury tasks. The traditional accounting functions included budgeting, forecasting, financial reporting, and performance measurement. Therefore, the CFO must be familiar with financial accounting, management accounting, and budgeting, and have an ability to communicate this information internally, as well as to creditors, shareholders, and others. The traditional treasury functions include capital structure decisions and investment decisions. Investment decisions include both working capital management as well as long-term capital investment, and require the CFO to be well versed in valuation principles.

The expansion in the role of the CFO includes compliance, risk management, communications, and performance evaluation. This expansion adds to the complexity of the role of the CFO, requiring an expanded knowledge of laws, rules, and regulations, an understanding of risk and the ability to communicate risk both internally and externally, and an ability to evaluate performance, using such tools as the balanced scorecard, economic value added, and other metrics. We illustrate the nexus of CFO responsibilities in Figure 1.1.

Compliance: Tax, Legal, and Regulatory

The compliance obligations of the CFO become more complicated as laws, regulations, and rules are created or change. For example, the CFO is re-

¹² *Final Rule: Additional Form 8-K Disclosure Requirements and Acceleration of Filing Date*, Securities and Exchange Commission [17 CFR Parts 228, 229, 230, 239, 240, and 249, RIN 3235-AI47].

FIGURE 1.1 The CFO's Responsibilities

sponsible for expertise in laws, regulations, and rules that affect financial reporting, risk management, and the management of internal controls. The laws, regulations, and rules that the CFO must be familiar with include:

- Securities and Exchange Commission reporting requirements and regulations.
- Compliance with Sarbanes-Oxley Act of 2002.
- U.S. and international generally accepted accounting principles (GAAP).
- Internal Revenue Service reporting requirements and regulations.
- Compliance with U.S. Foreign Corrupt Practices Act (FCPA).¹³

Additionally, depending on the type of business, other laws and regulations may be relevant. These laws, regulations, and rules are all part of the responsibilities of the CFO, though many of these responsibilities may be shared with the controller.

¹³ Some of the challenges imposed by this law and the interaction with SOX Act of 2002 are in Tom Leander, "In China, You Better Watch Out," *CFO Asia*, March 20, 2006.

Additionally, the CFO must be aware of the changes that are on the horizon to effectively plan and forecast. For example, U.S. accounting standards are converging with International Financial Reporting Standards (IFRS) as the Financial Accounting Standards Board and the International Accounting Standards Committee (IASC) work out the differences in these standards. These changes in accounting standards affect financial reporting and may affect financial decisions. As another example, securities laws are tightening in a reactive manner to financial or accounting misdeeds and the CFO must grapple with the implications of these changes to financial disclosures and financial planning.

Communications

The CFO's role in company communications has changed such that the CFO is now an important player in communicating with the company's stakeholders—the creditors, shareholders, and others—not only the financial condition and operating performance of the company, but the risks and strategies of the company. The increased demand for transparency has expanded the type of information disclosed and the method of disclosure. Companies are now required to make real-time disclosures of material company events, which increases the pressure to provide accurate, current information. A number of the disclosures that U.S. publicly traded companies must make are summarized in Table 1.2.

The acceleration of the speed of disclosures began with Regulation FD. In an attempt to “level the playing field,” the Securities and Exchange Commission in 2000 adopted new rules regarding selective disclosure.¹⁴ These rules, in the form of the Fair Disclosure regulation (Regulation FD), require that if a publicly traded company or anyone acting on its behalf makes material, nonpublic information available to certain persons, the company must make a *public* disclosure of this information. All intentional disclosures are simultaneously to the public—not filtered through analysts, which was the previous custom. Now, if someone makes an *unintentional* disclosure, the company is required to make a prompt, public disclosure of the information. Regulation FD, combined with the real-time disclosures required under the new rules for 8-K filings due to the SOX Act of 2002, creates pressure on the CFO to be both fast and accurate.¹⁵

¹⁴ Securities and Exchange Commission, RIN 3235-AH82, “Selective Disclosure and Insider Trading,” effective October 23, 2000.

¹⁵ The significance of the communications and compliance burdens on the CFO is evident in recent surveys of CFOs. See, for example, Stephen Taub, “Survey: Sarbanes-Oxley Making CFO Job Tougher,” *CFO.com*, March 10, 2003, based on a survey by Deloitte Consulting and *BusinessWeek*.

TABLE 1.2 Summary of Filings of Publicly Traded Companies, Their Owners, and Executives

Statement	Purpose	Information
10-K report	Annual disclosure of financial information required of all publicly traded companies; due 90 days following the company's fiscal year-end.	Description of the company's business, financial statement data found in the company's annual report, notes to the financial statements, and additional disclosures including management's discussion and analysis.
10-Q report	Quarterly disclosure by publicly traded companies; required 45 days following the end of each of the company's first three fiscal quarters.	A brief presentation of quarterly financial statements, notes, and management's discussion and analysis.
8-K filing	Filed to report unscheduled, material events or events that may be considered of importance to shareholders of the SEC.	Description of significant events that are of interest to investors, filed as these events occur.
Prospectus	Filing made by a company intending to issue securities; registration statement complying with the Securities Act of 1933.	Basic company and financial information of the issuing company.
Proxy statement (Schedule 14A) ^a	Issued by the company pertaining to issues to be put to a vote by shareholders; complies with Regulation 14A; circumstances that are required for a vote are determined by state law.	Description of issues to be put to a vote; management's recommendations regarding these issues; compensation of senior management; shareholdings of officers and directors.
Registration statements (e.g., S-1, S-2, F-1)	A registration statement is a filing made by a company issuing securities to the public; required by the 1933 Act.	Financial statement information, as well as information that describes the business and management of the firm.
Schedule 13D	Filing made by a person reporting beneficial ownership of shares of common stock of a publicly traded company such that the filer's beneficial ownership is more than 5% of a class of registered stock; filed within 10 days of the shares' acquisition.	Report of an acquisition of shares, including information on the identity of the acquiring party, the source and amount of funds used to make the purchase, and the purpose of the purchase.
Schedule 14D-1	Filing for a tender offer by someone other than the issuer such that the filer's beneficial ownership is more than 5% of a class of registered stock.	Report of an offer to buy shares including information on the identity of the acquiring party, the source and amount of funds used to make the purchase, and the purpose of the purchase, and the terms of the offer.

^a There are different types of proxy: preliminary, confidential, and definitive. The most common is the definitive proxy, generally indicated with the abbreviation DEF (e.g., DEF 14A).

Strategic Planning

A company's CEO may be the primary person who works with the board of directors to establish the strategic plan, but the CFO is often being asked to work closely with the CEO in the company's strategic planning, in both the development of the strategy and its implementation.¹⁶ The finance function within a company is broadening to provide the bridge among the company's divisions, management, and the board of directors. In other words, the CFO makes the strategic plan happen and monitors the company's progress towards the strategic goals.

The CFO is involved in evaluating growth opportunities by assessing mergers, acquisitions, or joint venture opportunities, and by developing growth opportunities from within the company. The CFO is integral in bridging finance with strategy, bringing financial and knowledge and analytical skills to help the company achieve its strategic goals.

Performance Evaluation

The CFO has traditionally been instrumental in measuring performance because of the role played with respect to financial reporting, both internal and external. The CFO is in a good position to understand the drivers of performance, which is important in aligning incentives with performance. For example, if the performance of a division is attributable in part to factors controllable by the division manager and in part to factors outside of the control of the manager, the CFO can then attribute the performance of the division manager to the controllable portion of performance.

There are numerous management processes and tools that a company may choose from to gauge performance. We summarize a few of the many available management tools in Table 1.3. The key is to devise and implement a system that most closely aligns the reward with the performance. The CFO, in working with Human Resources, plays a role in setting the expectations for performance for the company's management and then communicating this to investors.

Performance evaluation and the related rewards are now the focus of a great deal of attention because of the backdated options scandals. Companies are rethinking the use of stock options to align employees' performance and rewards.¹⁷ In December 2006, the Securities and Exchange

¹⁶ The CFO surveys by Ernst & Young and Heidrick & Struggles are summarized in Mark L. Frigo, "Strategy, Value Creation, and the CFO," *Strategic Finance*, January 2003. In both surveys, strategic planning is one of the most important tasks from the viewpoint of the CFO.

¹⁷ Though many questioned the efficacy of using executive stock options to align management's interests with those of shareholders, the backdating scandals have

TABLE 1.3 Examples of Management Tools for Performance Evaluation

Management Tool	Brief Summary
Activity-based costing ^a	Planning and control method that attributes costs to different products or services, based on cause-and-effect analysis.
Balanced scorecard ^b	Process of determining the company's strategy, identifying measures to evaluate whether the company is meeting its short-term and long-term goals, setting targets, and then providing feedback from these measures.
Economic value added ^c	Measure of financial performance that relates directly to shareholder value.
Six Sigma ^d	System evolved from quality engineering efforts that involve measuring defects in process and then providing feedback to improve quality.

^a Robert S. Kaplan, "Measuring Manufacturing Performance: A New Challenge for Managerial Accounting Research," *The Accounting Review* 58 (October 1983), pp. 686–705.

^b Robert S. Kaplan and David P. Norton, *The Balanced Scorecard* (Boston: Harvard Business School Press, 1996), and Robert S. Kaplan and David P. Norton, *The Strategy-Focused Organization* (Boston: Harvard Business School Press, Harvard, 2001).

^c While formulated by the writings of economist Alfred Marshall in 1890, economic value added was commercialized by the firm of Stern Stewart and described in G. Bennett Stewart, *The Quest for Value* (New York: HarperCollins, 1999) and Al Ehrbar, *EVA: The Real Key to Creating Wealth* (New York: Wiley, 1998).

^d Bill Smith of Motorola is credited with the term *Six Sigma* and known as the Father of Six Sigma.

Commission issued new rules pertaining to the disclosure of executive compensation for publicly traded companies.¹⁸ These rules increase the transparency of the compensation by expanding and reorganizing the disclosure of compensation information in the Proxy Statement. The new presenta-

pushed the issue to the forefront. A *backdated option* is an executive option grant in which the date of the grant has been manipulated to provide greater benefits to the executive and to minimize taxes. Such manipulation, however, violates financial disclosure and tax laws. The recent problems related to the backdating of options, however, further frustrate the efforts to restore confidence in corporate management and financial statement reporting.

¹⁸ Executive Compensation Disclosure, Securities and Exchange Commission 17 CFR Parts 228 and 229, Release nos. 33-8765; 34-55009; File no. S7-03-06, RIN3235-A180, December 22, 2006.

tion of compensation will provide increased transparency, but also provide a linkage of the information on the Proxy Statement with that shown on the company's financial statements. Though the SEC rules affect the top-paid executives in the company, the increased transparency of compensation for the highest-paid executives reflects the growing demand for alignment of rewards and performance at all levels of the company. Whereas the Compensation Committee of a company's board of directors establishes the compensation program for the top management of the company, the CFO has the responsibility of devising a system of compensation for all other levels of employees.

Risk Management

CFOs have come to play a more active role in managing the risk of a company. There are many dimensions to an enterprise's risk. The CFO is responsible for measuring and managing the many different types of risks a company faces. Risk management may involve the identification of risk, working with the board of directions to assess the firm's risk appetite and risk tolerance, deciding on what risks to retain and which risk to transfer, and formulating strategies to maintain a company's flexibility to respond to surprises. The CFO's arsenal for shifting risk goes beyond traditional insurance. Today the CFO has available other tools and strategies: derivatives, alternative risk transfer, and structured financial transactions. In large companies, the risk management responsibilities may be delegated, in part, to a chief risk officer (CRO) or the equivalent, but the CFO is nevertheless responsible for the management and communication of the company's risks.

The CFO has a vantage point that offers one of the best views of the company's risks. And a good understanding of an enterprise's risk helps the CFO in his or her strategic planning and forecasting role. The SOX Act provides additional motivation for the CFO to be involved in risk management. The SOX Act's emphasis on corporate governance and accountability imposes more responsibility on the CFO for risk transparency; therefore, understanding the risks of the business, developing the strategy for dealing with risk, and communicating the risk strategy to the Audit Committee and the Board of Directors is now more important than ever.

Fiduciary Duty

Spanning the traditional and added responsibilities of the CFO are the fiduciary duties of care and loyalty that the CFO owes to the company, its creditors, and its owners. These fiduciary duties require that the CFO put

the interests of the corporation and the owners ahead of other interests, including self-interest. These duties apply whether the issues relate to risk management cost control, performance evaluation, or any other area of responsibility. A corporation has many gatekeepers who have such a responsibility, notably the accountants and attorneys, members of the board of directors, and other officers. However, the CFO is in a unique position with respect to the perspective and the available information.

The relationship between the agent(s) and the principal(s) is formalized in *agency theory*, which describes the relation between the company's decision-makers—the officers, directors, and management—and its owners, and the issues related to potential conflicts of interest between agents and principals.¹⁹ In this theory, the *agents*—the officers, directors, and managers—have the responsibility to make decisions in the best interest of the *principal*—the owners. In a small business, the owners and managers are often the same, so there is no potential conflict of interest between the owners and the decision makers. However, in larger businesses, there is a separation of ownership and decision making, and therefore the owners must entrust directors, officers, and managers with the responsibility to make decisions on their behalf. There are costs associated with the consequences of the conflicts of interest that arise from the separation of ownership and decision making. These *agency costs* may be direct costs—such as the cost of printing and distributing annual reports—or indirect costs—such as excessive consumption of perquisites.

The mechanism that manages the potential conflicts of interest and the related costs is the *corporate governance system*. Many of the more notorious financial scandals of the 1990s and early 2000s arose from failures in corporate governance systems. In response to these scandals, there is a renewed emphasis on effective corporate governance. The changes in laws and regulations—most notably the Sarbanes-Oxley Act of 2002—and increasing pressure from the business community have increased the visibility and importance of accountability and responsibility through corporate governance. The certification of financial reports now required under Sarbanes-Oxley Act of 2002 is just one of many examples of the reforms in securities laws that require accountability from the CFO.

The CFO, as an officer of a business, must serve the interests of the stakeholders of the business. These stakeholders include the capital market participants, the creditors, and the shareholders. However, there is also a growing awareness of the other stakeholders of the business, including sup-

¹⁹ See Michael Jensen and William H. Meckling, “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure,” *Journal of Financial Economics*, 3 (1976), pp. 305–360.

pliers, customers, and employees.²⁰ The increased role of the CFO expands not only the list of responsibilities of the CFO, but also the scope of the CFO's duty to owners, creditors, employees, and others.

OUR AGENDA

In this book, we provide an updated resource kit for the CFO. We cover topics that relate to the traditional role of the CFO, as well as the many new responsibilities of the CFO.

- We focus on raising capital and capital structure decisions in Part One. In addition to the discussion of the relation between capital structure, the cost of capital, and company value, we detail the different sources of debt financing and then discuss the issues related to equity financing, including dividends, repurchases, and classes of shares. We also discuss structured financial transactions—securitization, structured notes, and leasing—in this section.
- In Part Two, we discuss financial planning and risk management. Specifically we discuss the tools and processes by which a CFO may manage risk, including taxes, the enterprise risk management (ERM) process, and strategies for transferring risk.
- We provide coverage of performance evaluation in Part Three. Our focus in this part is on financial ratios and cash flow analysis and how the CFO can use these analyses to better understand the financial condition and operating performance of a company. We also discuss responsibility accounting, responsibility center performance, and transfer pricing in the context of performance evaluation.
- We focus on asset management in Part Four. We look at the fundamentals of the capital budgeting process, including cash flow estimation and the evaluation of cash flows in decision making. We also look at the management of the company's short-term assets (i.e., its working capital management) and leasing decisions.
- We cover the traditional cost accounting topics of product costing and strategic cost management in Part Five. These topics include classifying costs, cost control, costing, and the master budget.

²⁰ An example of this enhanced awareness of responsibility to stakeholders is the creation in 1999 of the Dow Jones Sustainability Index (DJSI), which is a benchmark that considers corporate governance, investor relations, risk management, scorecards, environmental management, employee satisfaction, and many other factors. The expanded role of the CFO includes responsibilities in the many dimensions of decision making that are captured in this index.