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Should CFOs have a seat on the board?
By Irving Low

In the current era of heightened risk and increased regulation, the role of the chief financial officer (CFO) has never been more important.

CFOs with strong financial knowledge and experience can be the difference between a high-performing company and an average one. CFOs are taking on more roles within the company – overseeing mergers and acquisitions, digitisation and cyber security. In organisations which do not have one, CFOs are now often acting as de-facto chief risk officers.

With the greater role CFOs are playing within their companies, one natural question to ask is this: Should they also sit on the board?

The benefits

The first and most obvious reason why the CFO should be on the company's board is that they are primarily responsible for the financial statements of the company, a key document that a company produces on a regular basis for investors and the general public.

The board approves the financial statements, which means that they are liable for any issues that may arise. There have been cases where directors were found to be in breach of their duties for failing to notice errors in the company's accounts. A case in point is Centro Property in Australia where the directors relied on the finance team and the external auditors, but the court nevertheless convicted them for not exercising the degree of care and diligence required when reviewing the financial statements.

In this case, having the CFO on the board may be useful to ensure that he (or she) is held directly accountable as a director for the accounts that he was responsible for producing.

In 2013, the Singapore Government said that it was studying ways to make CFOs and chief executive officers (CEOs) liable for the accuracy of financial statements, regardless of whether they are on the board or not. But so far, no legislation has been enacted on this front.

There is also stronger financial oversight with the CFO on the board. A 2010 study by academics from Northwestern University of companies listed on the New York Stock Exchange and Nasdaq showed that those with a CFO as an executive director tended to have a lower incidence of material weaknesses in their financial statements.

Apart from the CEO, the CFO probably has the clearest oversight of the company, its operations and its strategy. If he can help contribute to the company's business strategy and play a crucial role in big decisions such as major mergers and acquisitions, then having a CFO on the board becomes a significant advantage.

The downsides

So far, the number of companies with their CFOs on the board is small. According to a 2012 study by executive recruitment firm Spencer Stuart, just 19 CFOs of the Fortune 500 companies sit on their boards. This was down from 37 in 2005.

In Singapore, less than one per cent of the companies listed on the Singapore Exchange have their CFOs siting on the board.

The reluctance of more companies to appoint their CFOs to the board could point to a few issues.

The most problematic of these is that of board independence. The key role of the board is to lead and control the company, and part of this role is to oversee management and ensure the company is run in the best interests of shareholders and other stakeholders.

The Singapore Code of Corporate Governance (the Code) recommends that while executive directors can be part of the board, the Code limits their number and requires a minimum proportion of independent directors.

Most of the time, the CEO already sits on the board, and acts as the main representative of the management on the board. Placing another executive director, such as the CFO, on the board could end up diluting the independence of the board.

Similarly, the audit committee, whose role has expanded in recent years, may find it difficult to function independently with the presence of the CFO on the board. The role of the audit committee includes overseeing the financial statements of the company and implicit in this role is overseeing and evaluating the CFO's performance.

In any case, when faced with important decisions that require sound financial analysis, CFOs can always be called up to sit in at select board meetings to provide counsel. He or she does not need to be part of the board to fulfil this important role.

At the same time, it is also common for companies to appoint former CFOs to their boards, including their own former CFOs. This combines both the knowledge and experience of having a finance chief as a non-executive director but takes away the conflict of interest inherent in appointing a current CFO as a director.

Should CFOs sit on boards? There is no clear answer except that companies who are considering appointing their CFO to the board will have to carefully weigh up the benefits and disadvantages of such a decision.

Irving Low is a member of the Governing Council of the Singapore Institute of Directors.