MICPA MALAYSIA

TECHNICAL INSIGHTS

REINVENTING THE ROLE OF A CFO IN RECOVERING FROM THE PANDEMIC

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Introduction

The subject of COVID-19 is no longer of a foreign matter after 2 years, with the name triggering a sense of familiarity for individuals and businesses alike. The initial implementation of the Movement Control Orders (MCOs) in Malaysia, has undeniably resulted in significant business disruptions and heightened economic uncertainties. With the nature of the virus that is constantly evolving and the emergence of new variants, Malaysians continue to stay wary and cautious of their business activities as the strike of the COVID-19 pandemic has left a permanent scar on how we live our lives.

The Malaysian Government in realising its efforts to break the chain of infection, has taken stringent steps in ensuring maximum protection for the nation with the widescale administration of vaccinations and booster shots, in addition to the continuous development of the standard operating procedures (SOPs). Though times have proven to be looking up with over 70% of the population vaccinated, the road to complete recovery and to diminish the effects of the pandemic seems a long and complex journey. Businesses still face limitations and disruptions to their operations, posing a significant impact on the Malaysian financial markets, resulting in accounting implications for many organisations.

To restore the hope and further drive the recovery plan for the nation, Chief Financial Officers (CFOs) can play their part as leaders and provide a roadmap for their businesses to heal. With 2022 being the pivotal year to recover from the pandemic, The Malaysian Institute of Certified Public Accountants (MICPA) prepared this publication, aimed at highlighting the role CFOs play on the journey to recovery from the pandemic.

Effective leading

Two-way effective communication with employees and other stakeholders, and being transparent in their expectations towards the progressive achievements of the organisational goals are key in leading the team effectively. However, while we are still absorbing the aftereffects of the pandemic, a CFO has to step up their game in monitoring the finance function. In these difficult times, it is important to provide the necessary support to employees and be prepared to addressthe needs of employees. In fact, this helps employeesfeel more motivated to ensure that productivity is restored, knowing that their well-being is being taken care of.

Though the pandemic has stripped organisations of the privilege of staff freely meeting up with one other and has instead boosted the use of virtual platforms, CFOs continue to play an important part to constantly remind team members of their roles and responsibilities. Working remotely in isolation and without in-person exchanges may lead people to misread signals and perceive positive or neutral feedback negatively. As such, regularly reminding team members about their work objectives and showing appreciation to them for their continuous efforts in keeping the business running are two key actions to mitigate negativity in these challenging times. This can potentially encourage brainstorming and ideas in open communication with the team members, subsequently leading to swifter action in problem solving. Additionally, the team will feel more comfortable to share their opinions and thoughts on any area as their voice is heard and valued.

It is also important for the CFO to stay connected with each team member at all times. In a group call, meeting durations often run long – the probability of CFOs missing out or overlooking important or critical discussion points from the team is likely. Hence, leaders need to connect with team members proactively through efforts such as weekly catchup calls to be kept updated and up to speed on any issues faced by the team regularly.

Digital transformation

With the modernisation of business operations, there is an increasing need for digitalisation and stable tools in running the business, such as business intelligence, robotic processes, electronic records management and digitised documents for and by banking channels for secure transactions. The pandemic has accelerated digital transformation. It has shifted the course of businesses, and the era of virtual meetings and events has taken off. It is now the new norm where stakeholders expect that with all these technologies in place, there will be more effective operations and the creation of a lean and agile business environment, considering the opportunity to network with a larger audience at a reduced cost.

The pandemic has also caused massive disruptions to global supply chains. The road to recovery has shifted the focus of businesses from being exclusively centred around proficiency to now representing strength and steadiness. In order to create a resilient business operating environment, CFOs need to digitize their core business processes as well as reduce the impact arising from these unprecedented times. In fact, CFOs are the best individuals to improve the cross functional collaboration with other departments by leveraging on technology. They are also the bridge to external parties, for example, to engage external experts in deploying digitalisation tools for the benefit of the organisation. Furthermore, digitalisation enables organisations to produce various reports such as financial modelling forecasts, revenue growth, recurring revenue and other detailed analyses – CFOs are the best individuals to understand the sources and objectives of these reports in assisting them to make informed business decisions.

In any case, the utilisation of digitalisation to assist the organisation in dealing with any emergency arising from the pandemic, ought not be viewed as a one-off occasion. CFOs and their finance functions should play a role in upholding digitalisation even post pandemic, given the recent technology disruption, benefits of digital transformation and increasing demand for it. Hence, CFOs are encouraged to collaborate with the Chief Information Officer (CIO) to provide more efficient support for digital transformation of finance functions and operations. simultaneously, CFOs are expected to be cognisant of the prevalent cyber risks and threats due to the heavier reliance on technology and digitalisation. Given that information and data assets of the business are critical and sensitive in nature, leaders have to safeguard them by educating each team member on cyber risks and threats, and deploying resources to mitigate such risks and manage cybersecurity effectively

Mental Health

Traditionally, in large organisations, CFOs are highly authoritative figures in the organisation that most employees do not have direct communication with unless required. Undeniably, it is not common to see CFOs that are in touch with employees' psychological needs as the hierarchy of the business creates an invisible barrier between leaders and employees. The pandemic has broken that stigma as now, times are very trying and employees may be struggling financially, physically and mentally to meet the demands and expectations placed on them. They are under high pressure due to health risks, remote working, and the fear of losing their job or being subject to a salary cut, which may have a severe impact on their mental health. If an authoritative figure such as the CFO addresses their concerns by protecting their employees from the effects of the pandemic, it will give a sense of security and peace of mind to the employee and allow them to channel their focus onto their work, knowing that the organisation recognises their setbacks and allows room for it.

From the finance perspective, CFOs play a big role in ensuring that a budget is allocated for the "right" to disconnect from work. The pandemic has blurred work life balance and this has led to a variety of mental health issues such as overwork, job insecurity and stress. CFOs play a role in allocating funds to provide employees with appropriate support. This can also be promoted through collaboration with counselling support centres in order to provide free counselling sessions to team members who require external expert support. Additionally, CFOs are also encouraged to allocate a budget for virtual teambuilding events such as a virtual run and other team bonding events aimed at promoting a stronger team spirit outside the work environment.

On the road to recovery from the pandemic, CFOs can also advocate a hybrid working mode to allow employees a change of scenery. In 2022, most companies have advocated a hybrid working mode where most employees are back in the office physically, which is important for team members to reestablish stronger communication and enhance their teamwork. CFOs need to create a positive culture by providing more feedback to the team. Throughout the feedback session, CFOs should encourage team members to share their thoughts openly. This can also enable them to identify and address any mental health issues amongst team members in a timely manner.

Financial Stability

Some companies faced a liquidity crisis when the pandemic initially took effect. In order to kickstart the right action plan to manoeuvre through this crisis, CFOs need to focus on maintaining a healthy cash flow and sufficient cash for the daily operations of the company. After weathering through these difficult times, CFOs may want to produce a framework to account for the potential impact of the pandemic and allocate resources to monitor the conditions of the pandemic on a timely basis including setting up plans for other possible scenarios that may unfold in the near future. While planning for the unexpected turn of events, CFOs should progressively follow up on the impact that cash transactions are having on the company's capacity to brave the unprecedented times. CFOs should revisit the cashflow model in order to have more up-to-date information on the liquidity of the company arising from the pandemic, for example, the direction of the company should be pre-determined in the event that another MCO is implemented by the Government.

It is also important to refresh their understanding of loan arrangements and formulate action plans for any potential breaches of loan covenants that may affect the company in getting funding in the near future. Therefore, for CFOs to further embed security for their company, they may want to get into a discussion with financial institutions to secure new lines of credit while also taking advantage of relief measures initiated by the Government to ease the economic recovery. In addition, CFOs should closely monitor the collection and credit control processes. In view of the economic conditions that have affected businesses nationwide, a delay and slight hiccups in customer payouts is expected. Hence, CFOs, with the right basis of actions can negotiate with customers for a more efficient payment process, including appropriate terms and conditions. Conversely, if suppliers are struggling to meet their expected returns, CFOs can always negotiate to extend the repayment terms. In the event that negotiations fail to be initiated, CFOs can seek alternative suppliers to ensure the continuity of supply.

In times where assets and liabilities are in a tight limbo, CFOs can take the opportunity to inspect the balance sheet items and filter out unnecessary subjects in the company's accounts. With this, the CFO can firmly assure stakeholders of the company's financial adaptability in the evolving pandemic, while accounting for key material matters. To further amp up the capabilities of the company to mitigate the effects of the pandemic, CFOs can also leverage on their network to bring in highly qualified and versatile individuals who are capable of executing tasks from digital, finance to business operations. This can lead to a higher quality of work which will in return, generate the ideal cashflow for the company.

Value Driven

The pandemic has emphasised the importance of value towards stakeholders. Businesses are expanding beyond financial information to involve business strategies tackling value creation for its stakeholders especially in these unprecedented times. CFOs are expected to drive and report on how the business deploys resources i.e. multiple capital approach to perform its business activities in order to produce the intended outputs with an aim of achieving planned outcomes. To fulfil such goals, CFOs need to change their mindsets to embrace value creation.

Traditionally, the focus is always placed on financial key performance indicators (KPIs). There is a need for a change to a multiple capital approach, managing other capitals of a business including natural, human, social and relationship, manufactured and intellectual capitals. In addition to KPIs, CFOs are involved with setting and measuring non-financial KPIs including innovation, customer satisfaction, employee engagement and quality of services. The deployment of a multiple capital approach helps organisations move away from reporting silos and embrace integrated thinking. Integrated thinking refers to communicating the interconnected and interdependent nature of these capitals. such thinking needs to be cascaded down from top to bottom as part of the DNA of the organisation. A CFO is expected to manage value and drive strategies, culture and mindsets, processes and organisational elements towards value.

Environmental, social and Governance (ESG) Agenda

Value creation includes initiatives relating to ESG. ESG has prevailed to show its importance upheld through investors and stakeholders who are approaching companies to reveal their efforts to showcase their social, sustainable and environmental responsibility. ESG is working its way up the agenda of boards of directors as a result of investors across the globe pushing and driving the practices in their business decisions. The pandemic has also re-emphasised the importance of transparency towards stakeholders in an organisation’s business operations. ESG reporting contributes to a large chunk of the demand, as the report covers the organisation’s efforts in building a safe, clean and sustainable future. It is important for organisations to uphold an interest which succeeds on being environmentally-friendly and ethical towards the planet. Undeniably, ESG reporting has become a material matter to organisations. In light of this, companies are expected to formulate a list of strategies in addressing climate risk and tackle such material matters.

The climate crisis relating to greenhouse gas emissions has been the key focus. The Government has recently committed to reduce its greenhouse gas emission intensity of Gross Domestic Product (GDP) by 45% by 2030 and achieve a carbon neutral nation by 2050. In light of this development, many organisations have also geared towards this agenda. CFOs have a role in navigating the way to achieve net zero emission targets including:

- raising and allocating funds needed for adaptation;
- providing information and data to drive the reduction of greenhouse gas emissions agenda;
- embedding the reduction of greenhouse gas emissions in the decision-making process and devising strategies to achieve those targets;
- interacting with capital markets to meet the targets; and
- reporting performance against greenhouse gas targets.

Henceforth, in paving the way for a greener future, CFOs have a key role to play by assuring that the information provided in the ESG reports are relevant and material, and ensuring the ESG reporting techniques are complied with, and generally, reassuring all levels of stakeholders on the execution of the ESG strategies. With the key position and knowledge that the CFOs possess, they can offer their skills to guide the organisation in risk analysis, governance as well as add value to both the finance and sustainability measures taken by the organisation. In fact, CFOs can delegate their expertise to support the organisation in finding the right balance between achieving targeted profits while accounting for their responsibility in being environmentally-friendly and addressing the alarming climate risk. It is fundamental for CFOs to gain a broad overview of relevant frameworks that can contribute to a positive ESG report. For example, they can allocate more resources to research and development (R&D) to uncover insightful information that can benefit the organisation to produce products or services that are in line with the climate action plan. Notwithstanding, CFOs can also create a culture that thrives on incentives to drive all stakeholders in the direction beneficial for ESG. Without a doubt, CFOs are not only essential to this area of work, they prevail to be the best fit to take the stand on ESG reporting as they have the privilege of their position in the organisation to oversee crossdivisional information, possess a large network that can help the organisation bring in experts to further develop the organisation's ESG journey, and ensure compliance with the professional guidelines while integrating the ESG agenda into the organisation's profitability targets.

Conclusion

The finance function is facing great pressure due to the sudden change in the mode of working, increasing stakeholders' expectations, as well as the greater business environment impact. CFOs have to take the stand and recognise the need for agility and flexibility to welcome any uncertainties that the pandemic might bring to the finance function and operations of the organisation. Though it is not an easy journey to recovery from the pandemic - in fact all organisations are still working to adjust to the new conditions, CFOs play a key role in weathering through this crisis for the betterment of the organisation and sustainable future.

(Note: This publication was also included in the Institute's magazine 'The Malaysian Accountant Journal' March / April 2022 Issue)