



THE CFO IN CHINA: BALANCING SPEED WITH PRECISION

- Over the past several decades, China has grown from a blip on the radar for multinational companies to one of their most important markets. Consumer spending in the world's second-largest consumer market continues to grow thanks to country's burgeoning middle class driving demand for products and services.

The pace of growth in China is not without its challenges, however — especially for locally based chief financial officers (CFOs), who are responsible not only for analysis and reporting but also for evaluating business opportunities. These are not always straightforward decisions that can be based solely on crunching the numbers.

Spencer Stuart recently convened a group of China-based regional CFOs of large multinational corporations for a breakfast meeting in Shanghai. The group talked about the unique challenges of doing business in China and reporting to distant headquarters, as well as the need for skills that go far beyond mere financial acumen.

The meaning of fast

It is hard to read a business publication today that does not give at least a nod to the astonishing pace of change. But in China speed takes on a whole new meaning, especially when it comes to the use of digital channels. China, both its businesses and its consumers, may be more attuned to the digital experience than any other nation in the world. Digitally savvy consumers are driven by a quest for the new, and companies that want to market to them have to come up with innovative ways to cut through the clutter and deliver value when and where customers demand it — often via their mobile devices.

For example, one retailing CFO described a campaign launched during the World Cup that allowed viewers to flag certain items worn by players, place an order using their computers or cell phones, and receive the merchandise the next day. This is typical of campaigns targeted at Chinese consumers: because so many of them are digitally connected, they have extremely high expectations with respect to accessibility and speed. As a result, companies need to reach customers through multiple channels, living where they live. If a company fails to respond, some other company will step in and seize the day.

This focus on the digital experience has prompted a culture of experimentation, especially when it comes to identifying marketing opportunities. In fact, the CFOs said, there are so many

opportunities cropping up all the time that the challenge is deciding which ones to pursue. This is where the CFO has an important role to play, helping to prioritize the most promising activities and advising on issues related to pricing, production and route to market. But unlike in other parts of the world, evaluating opportunities cannot always be based on looking at the numbers. In China, sometimes if you wait for the numbers, it's too late.

What it takes to be a CFO in China

Of course, any CFO worth his or her salt needs to have a command of the numbers. CFOs in China also need to be well-versed in financial controls, compliance and reporting — areas of particular importance to headquarters. The CFO also needs to have a deep understanding of the business and the environment in which it is operating. As one CFO noted, “Increasingly I find myself paying a lot more attention to macro issues ... the real strategic issues around the business model, how to stay ahead of the curve and how to take advantage of financial market developments.”

What makes the CFO role especially challenging in China is the need to support rapid decision-making, sometimes without the benefit of all the data. For CFOs, who by training tend to be analytical and methodical, perhaps even rigid, when making investment decisions, this is an enormous, almost counterintuitive

change in how they are required to think. CFOs operating in China need to gain comfort with a certain degree of “squishiness” in which decision-making is no longer an exact science and improvising is the norm. According to one consumer products CFO, the environment of speed has changed the game to such an extent that often “the decision we make is very simple: try.”

To avoid the catch-up game that will inevitably result from waiting for all the data to come in, many CFOs in China are looking to their digital operations for information to determine trends and support decision-making — either from the website or from various social media venues. Sometimes this is unstructured data, so the challenge is figuring out how to make sense of it. CFOs also can gather information by getting out into the market and seeing for themselves where the sales are happening — what is and isn't selling. None of this information fits neatly into a pie chart. But, say the CFOs, talking to customers can tell them more about the direction of the business than last month's sales figures.

Making the case to headquarters

While CFOs in China may have become more comfortable with the need for speedy decisions made with incomplete data, that is not always the case for executives back at headquarters. As a result, there can be a disconnect between the

corporate office and the company's China operations. Headquarters for these multinational companies is usually thousands of miles away, somewhere in the United States or Europe. The headquarters' perspective is decidedly that of a mature market, and there is a tendency to impose that perspective on other markets. For example, say the CFOs, many people at headquarters don't understand the enormous impact of e-commerce and digital in China. As one attendee noted, "One of our challenges is to explain to headquarters that there is a revolution going on in China. They think they know about it, but actually is bigger and faster than they think."

But this disconnect also presents an opportunity for China CFOs, because those who are good communicators can help bridge the gap in understanding. Even when decisions are not made locally, the CFO and the rest of the China team can influence those decisions by painting a compelling picture of the market and help headquarters understand what they need to be successful.

Looking ahead

As the China market evolves and grows, local finance leadership will become increasingly critical. Already, say participants, it is far more important for mid-level finance talent in China to have a combination of functional expertise, business acumen and exceptional communication skills.

CFOs and their teams operating in China increasingly must recognize that relevant business data today doesn't always come through the traditional channels. To be effective, CFOs need to be open and flexible about how to judge and process the constant barrage of new information coming from these new sources ... and that flexibility includes being willing to embrace new knowledge streams about the business.

Within the next decade, China may well become the most significant market for many multinationals. As that happens, leading the finance function in China will be one of the most important finance positions a company can offer, and it won't be long before the best and the brightest in finance will be heading for China. Ultimately, companies will need to develop the kind of well-rounded finance leaders domestically that have been the focus of more mature markets. At the same time, today's China CFOs, with their growing ability to balance financial rigor with rapid decision-making, may have a thing or two to teach their peers in other countries — once those countries catch up with China.

THE CFO IN CHINA

If you want to be a CFO in China:

BUILD THE FOUNDATIONAL SKILLS. "Core capabilities," including analytical and communication skills, commercial acumen and global business mindset, become increasingly important.

BE FLEXIBLE.

Be prepared to make decisions on the fly. Make them and then make adjustments. You might need to improvise.

BE CURIOUS.

Get out from behind the desk and go to where the sales are happening. There is important, albeit qualitative, information out there that can provide valuable insight to support decision-making.

LOOK TO THE WEBSITE.

Websites and other digital channels generate real-time information, but it is often unstructured and sometimes contradictory. Nevertheless, finance leaders who learn to interpret this data can provide real value to the business.

OVER-COMMUNICATE WITH HEADQUARTERS.

Leadership at headquarters often has a hard time grasping what is happening in the Chinese market. Help them understand what drives the business in China and how it differs from other markets.

EMBRACE THE TENSION.

On one hand you need processes and expertise in the finance area, and on the other you need to be able to make quick decisions with limited information. Make it work for you.

Roundtable participants

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