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EDUCATING THE ONES WHO COUNT

Karl Zehetner, Robert Pichler and Stefan Trappl

FH Wien University of Applied Sciences, Vienna, Austria

A qualitative study was the basis for the design of an academic post-graduate program geared to the education of CFOs. A later quantitative survey stimulated refinements of the program. The findings of the studies were directly incorporated into the program. The paper gives an overview of the studies' conclusions and gives clues on how to integrate them into post-graduate financial management programs.

Keywords: Financial leadership, Management education, Financial management education.

Introduction

Business schools have experienced vast growth both in the number of students and in the number of study programs. Roughly speaking, business schools are *the* academic success story of the last three decades. In the face of this success it is interesting, that there is hardly any research on the impact of a business school program on the students' later career. Those few studies that exist indicate that there is no impact at all (Pfeffer & Fong 2002). In other words: Whether you study at a business school or you don't does not make a difference for your ability to run a business. Of course these findings question the usefulness of business schools.

Even worse, since the beginning of the financial crisis the public opinion increasingly speculates, that business school education may harm students and society. Economists have raised this question even before the start of the financial crisis. Sumantra Ghoshal (2005) complained that bad management theories are destroying good management practice. He deplored that business schools propagate ideologically inspired amoral theories that free students from any sense of moral responsibility, thus strengthening the management practices that are now condemned. When the financial crises hit some economies with full force, the criticism found more and broader attention even beyond the scientific community. Today it is easy to find discussions in the mass media on the complicity of management and finance education in the creation of the structures that lead to the financial crisis.

A major criticism that business school programs are exposed to is, that these programs are teaching the wrong people in the wrong ways with the wrong consequences (Mintzberg, 2004), a commonly cited flak on MBA education. Contemporary business overemphasizes analytical skills at the price of developing leadership (Porter & McKibbin 1988; Mintzberg & Gosling 2002). Stacey (2010) argues that it is absurd to train future managers in terms of abstract decision making techniques only, largely ignoring the complex dynamics of real life in organization. Furthermore, classical MBA programs that cover the whole area of management are increasingly substituted by postgraduate programs that are more focused on single business functions like human resource management, marketing, or financial management. This makes the concern on the overemphasis of analysis at the expense of personal development even more urgent.

So, when designing a post-graduate academic program that is dedicated to the education of Chief Financial Officers (CFOs), how should it be managed to overcome the above discussed deficiencies? To ensure that the "right" practices are taught, using the "right" theories? That the degree holders are reflexive and responsible individuals and at the same time best qualified to navigate their organizations through rough sea and to guarantee sustainable financial success – in other words: to serve their organizations as financial leaders?

One possible way is to ask financial leaders – experienced CFOs –, and in a second step to find out, if financial leaders excel in the avoiding of crises and in the coping with crises.

Study 1: Research Questions and Method

In four subsequent years, from the beginning of the financial crisis 2007 to 2010, 124 semi-structured interviews with the CFOs of Austrian companies were conducted. There were 31 interviews each year with an average interview length of 1,600 words.

The interviews were published in the respective following year (2008 to 2011). The interviews were the basis for three studies. The first was on the motives and behaviors of CFOs, the second on the preferred key performance indicators and controlling instruments, and the third was on the professional requirements and the necessary skills and competences of CFOs. This article discusses the third study.

The research questions of this qualitative study are:

1. What are the professional requirements for CFOs in the (near) future? Which professional topics become more important?
2. What are the personal and social skills and competences for CFOs in the (near) future? Is there a change in the importance of these skills and competencies compared to the importance of professional knowledge?

The method was a content analysis of the interviews, following the model of Mayring (2000)

Study 1: Results

Following the characterization of the CFO's responsibilities by Bragg (2007), we started with ten categories of professional requirements and tasks. In the process of analyzing the answers it became obvious that the interviewees focused at six categories. One of these categories was a top priority in the whole observation period, the other five categories were characterized as becoming more and more important, with the last one described as being significantly inadequately represented by contemporary financial management education.

Pursue of shareholder value is the classical task of the CFO. It has been and keeps being a top priority. The next five tasks have increased in importance. **Understanding and mitigating risk** became more significant, obviously because of the financial crisis. **Ensuring compliance and governance** has come on the CFOs' radar as a consequence of increased public awareness of executives' responsibilities and pressure to justify their conduct. **Linking performance measurement to strategy** is a necessity from the efforts to reduce data processing and reports that contribute little to nothing to support decision making and may even misdirect the managers' attention. **Initiating efficiency improvements and innovation** is becoming more and more a task of the CFO, together with the CEO, a matter that underlines the growing importance of their partnership.

The sixth task has not only increased in importance, but is also considered to be inadequately represented in financial management education. We call it **personal competence**, it is comprised of social and personal skills, networking and public skills, international experience, multidisciplinary education, ethical orientation, and strategy orientation (“seeing the big picture“). Interviewees pointed out the new role of the CFO as partner of the CEO, which makes a deeper understanding of strategic and entrepreneurial issues desirable.

Study 2: Research Questions and Method

Inspired by the interviews, a second study was executed in late 2011. The focus of this quantitative study was on the correlation between excellence in financial management (referred to as financial leadership) and excellence in overcoming financial turbulences.

The research questions of this study are:

- Does financial leadership contribute to a company‘s ability to avoid financial crises?
- Does financial leadership contribute to a company‘s ability to cope with financial crises?

4066 senior comptrollers and CFOs of small and medium sized enterprises (SME) were invited by e-mail to answer the survey. The response rate was 6.5 % (n=263). The idea to concentrate on SME (up to 500 employees) came up, because the focus of the interviews in the first study was on larger enterprises, and it seemed inappropriate to assume that smaller enterprises face the same challenges in the financial crisis as the big ones.

Based on the six categories found in the qualitative study, 17 items (questions) were inquired, with bipolar scales of seven categories each, that split the answers into financial-leadership answers and non-financial-leadership answers. One of the categories had to be eliminated because the answers were inconsistent and suggested that the questions were interpreted differently by the respondents. The remaining 16 items were tested for reliability, which indicated “acceptable” reliability (Cronbachs Alpha = .702). The 16 factors were then subjected to a factor analysis, which indicated three factors: Proactive financial planning, openness to capital suppliers, and openness to alternative forms of financing. The quality of the factor analysis was measured with the Kaiser-Meyer-Olkin criterion (Backhaus et. al. 2010) with a result of .696. According to the usual interpretation (Kaiser & Rice 1974) this is an average value, but very close to the “good” value of .700. Significance was successfully tested with a Bartlett test. Normal distribution of the three factors was proved by Kolmogorov-Smirnov and Shapiro-Wilk tests. Correlations between the three factors and the two dependent variables (ability to avoid financial crises and ability to cope with financial crises) were measured by binary logistic regression.

Study 2: Results

This paper gives a first glimpse on the findings of this quantitative study, which will be fully published in spring 2013. The study covers three areas that hypothetically influence a small or medium enterprise’s ability to avoid and to cope with crises: Innovation orientation, entrepreneurial marketing, and financial leadership.

The conclusion of the study in respect to the aspect of financial leadership is:
There is **no significant influence** of Financial Leadership **on the ability to avoid crises**.
There **is a significant influence** of Financial Leadership **on the ability to cope with crises** (significance .059)

Discussion and Conclusion

As a practical use of the two studies’ findings, this paper suggests improvements in financial management education by giving hints on what might still be missing in a particular program to strengthen the entrepreneurial orientation of CFOs and to improve their ability to cope with crises, in other words: to educate financial leaders. It illustrates the growing importance of social and personal skills and competences for those who are in charge of financial issues – for *those who count* in a company in the double meaning of this word.

There is no commonly accepted definition of the term "financial leadership". While Bragg (2007) emphasizes the professional functions of the CFO, thus implicitly suggesting that analytical skills should be developed, Stenzel & Stenzel (2004) focus on the personal development of the CFO, who grows in leadership. The IMA (Institute of Management Accountants) favors a model of four maturity levels of the management accountant with both hard and soft skills to be developed (Thomson 2008).

At universities, a two-step education model (undergraduate and post-graduate) is usual, so there are two levels of maturity. FH Wien University of Applied Sciences Vienna is focused on management and communication programs. Its Institute of Financial Management offers a Bachelor in Finance, Accounting & Tax Management, which is dedicated to the education of accountants, controllers, tax advisers and auditors. The second program is a Master in Financial Management and Controlling. This post-graduate program is designed to educate Chief Financial Officers (CFOs). Taking into account the changes in economy as well as hypothesized changes in the role of the CFO, the program was re-designed, and the changes became effective in fall 2012. The concern in the design process was to find out, what the difference between" good" and "poor" CFOs is, or in other words: What makes CFOs to be financial leaders? In the re-design of our program we took advantage from the findings of the studies.

We created three module clusters of professional competence. The first one covers shareholder value management, efficiency improvements, innovation, strategic performance measurement, and compliance. The second one focuses on financial markets and risk management and thus regards the increasing importance of capital markets for the financing of European companies, where traditionally bank oriented financing has been dominant. The third cluster is dedicated to accounting policy and tax management, both with an international emphasis. These three professional competence clusters are complemented by a cluster of personal competence modules, including business ethics, leadership, coaching, negotiation skills, and competence in public appearance.

We want to close with a critical reflection on the limitations of this research. The two empirical studies were used for the conception of a post-graduate program in financial management. Even if the authors' first experiences with the application of this model are promising, it has to be admitted that so far there are no empirical studies focusing on the impact of the changes on the graduates' careers or on their ability to build up sustainable success for the organizations where they are employed. Therefore further evidence is needed to underline the proposed improvements.

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