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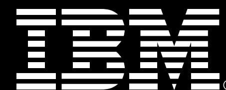

From Anxiety to Optimism—Global Insights from Finance Forum 2009

Information Management

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Global Insights from Finance Forum 2009

Finance Forum 2009 took place in an economic environment characterized by varying degrees of anxiety, shock, and eventually – as people's worst fears failed to be realized – cautious optimism. At events in 60 cities across Europe, the Americas and the Asia Pacific region, attendance was 20 to 30 percent higher than in recent years, and attendees included a higher proportion of top-level executives than in years past, including many CFOs and senior VPs of finance.

Three of the featured speakers from Finance Forum got together afterward to compare notes and reflect on what they heard from the thousands of attendees they spoke with as they travelled from event to event around the world.

David Axson, President of the Sonax Group (and former head of Corporate Planning at Bank of America), **Mary Driscoll** Senior Research Fellow at AQPC, and **Steve Player**, North American Program Director of the Beyond Budgeting Roundtable, all saw distinct patterns in how different regions, different countries and different finance organizations were reacting to the current state of the economy. David, Mary and Steve gained some fascinating insights on the situation and on the business case for financial transformation. This white paper is based on their observations.

Finance Forum is a series of exclusive thought leadership events held in cities around the globe. It offers finance professionals the opportunity to hear from recognized experts about the latest practices and proven techniques in financial performance management. The theme of Finance Forum 2009 was "Driving Performance in Turbulent Times."

David Axson, President, Sonax Group

Mary Driscoll Senior Research Fellow, AQPC

Steve Player, North American Program Director, Beyond Budgeting Roundtable

Early on, an anxious mood

Compared to Finance Forums of the recent past, there was a marked difference this year in the heightened sense of anxiety in the crowd and an eagerness to find a way forward during these difficult times. Finance Forum took place over a period of months, and as time went by, people became more relaxed. But there was still apprehension, with people looking for answers they could apply in their own companies.

Audiences were very keen to hear what other people were doing in the area of cash flow management, and getting a handle on default risk. They were especially concerned about customer payments as company after company saw their DSOs (days sales outstanding) climbing.

But reactions varied considerably depending upon the country or the region, as did the state of their respective local economies. In this respect, there were three very distinct groups of countries visited by Finance Forum.

Different levels of distress around the world

First were those countries suffering from the same severe difficulties as the US and Western Europe, including the UK, Ireland and some of the trade-based nations such as Japan and Singapore. These countries have been struggling with 5, 6, or 7 percent declines in GDP in the first quarter – relatively stagnant economies at best.

In the early Finance Forum events in February and March, a lot of people were very nervous. Those who were not using IBM Cognos solutions recognized that their old approaches to budgeting, planning and forecasting were obsolete. They were not able to deal with real-time management issues and update their view of the future based upon a real-time flow of information. That was one group.

The second group consisted of those countries that have been hit hard, but the impact hasn't been anywhere near as great as the first group. For example, in Chile, Malaysia, Thailand and most of the Scandinavian countries, their economies have been growing so strongly that, while they have experienced a slowdown in the growth rate, which is painful, so far it has not produced massive across-the-board job losses or serious declines like those experienced in the US by the auto and financial services industries.

In the Scandinavian countries in particular, you see a much higher degree of adaptability and willingness to take a global perspective, because their indigenous economies are so small that they have to be global to be successful. You don't meet people who describe themselves as working for a Swedish company or a Finnish company. Instead, they describe themselves as either European or global. That's just the nature of how their economies have to behave in order to function.

Finally, there was a third group of countries that are actually still doing reasonably well. In Brazil, China and Australia, growth rates may have slowed from roughly 8 or 9 percent to only 2 to 4 percent, but these economies are still growing. The people who visited Finance Forum in those countries were actually a bit shocked because they thought the worldwide impact of the crisis in the US would be less than it has been. Those countries whose banks didn't buy subprime mortgages had a very different profile from those that did. But in this third group they were still fairly positive about the future and were seeing this recession as an opportunity to learn from other economies' mistakes.

Common business challenges

In terms of their performance management challenges, people continue to struggle with trying to understand what to measure and how to measure, and how to clearly identify cause and effect relationships. In many cases it may be easy to get to the financial outcomes of a business event, but the financial result doesn't necessarily explain the operational cause and effect, and unless a person can understand the physical things that are happening, you're not going to be able to correct the problem.

There were strong indications that people are looking for an alternative to traditional budgeting – looking for better ways to plan and control their organizations. They were particularly attentive to themes of forecasting, and trying to anticipate what's going to happen by looking at upstream measures for early warning signals on financial results.

> *"You may not be able to stop the hurricane from coming, but if you can spot it early enough and determine its path, you can prepare for it."*

One powerful image that resonated with audiences presented finance as the "hurricane control center" (see Figure 1). You may not be able to stop the hurricane from coming, but if you can spot it early enough and determine its path, you can prepare for it. You can determine if you need to get your people to a safe place or, for example, if you are in the business of selling repair supplies, it might be a huge market opportunity. After all, we've seen certain niche companies and industries actually do well in this downturn. But it's getting those very early warning detection systems working and having people do a lot of scenario planning and what-if modeling that can make all the difference.

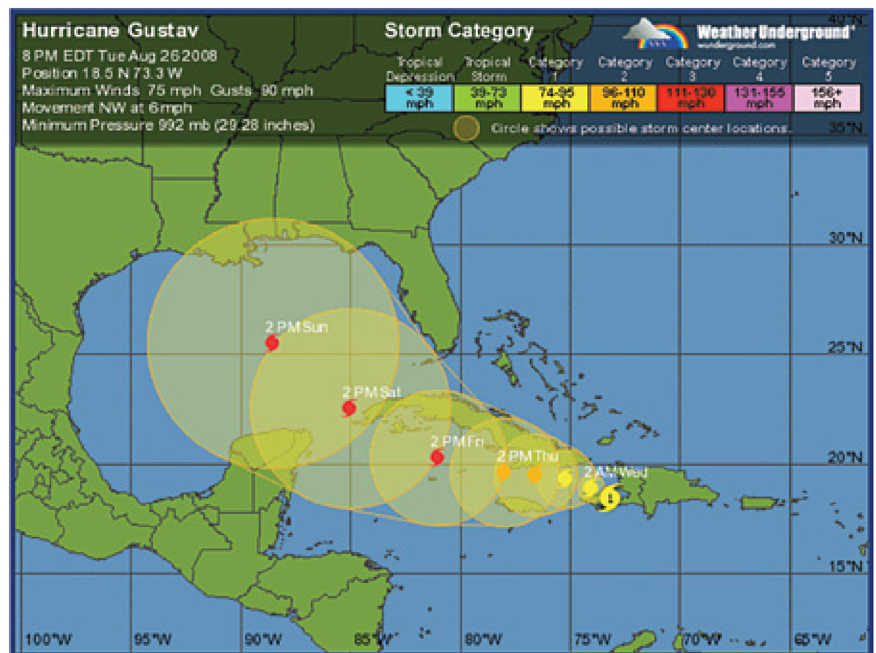


Figure 1. Finance should act like a hurricane control center.

Finance feeling "beaten down"

The "hurricane control center" image led to a frank discussion about how "beaten down" some of the people in finance feel these days. Finance department resources have been cut at many companies and even seasoned analysts have been laid off. With all the statutory reporting to do along with the immediate daily work of closing books and getting invoices out, to say nothing of trying to stem the rising tide of DSOs – which may have just lengthened by 20 days – there's precious little time for analysis and scenario planning.

> *"Smart people don't want to spend their time 'juggling spreadsheets,' and it's hard to recruit them for jobs that give so little satisfaction at the end of the workday."*

In fact, statistics from the Beyond Budgeting Roundtable show that 77% of the time, people in planning don't do planning. Instead, much of their job is caught up in manual data manipulation and tracking spreadsheets – simply trying to make sure everyone is using the right data. Only 23% of the time is spent on any kind of value-added planning.

As one young finance professional said at an event in Seattle, "All I do is juggle spreadsheets. There's no time for anything else." When many of these tasks could be automated, that comment indicates a serious waste of energy and talent.

Ironically, given what was said earlier about finance staff being laid off, a 2008 survey found that talent retention is a top concern of corporate CFOs. They can't compete for the types of analytical minds needed to evolve into an advisory role with business units. Smart people don't want to spend their time "juggling spreadsheets," and it's hard to recruit them for jobs that give so little satisfaction at the end of the workday.

We need to transform the finance function from one that does a lot of transaction processing into one that has more value. We want to free up their time so they can do scenario planning and become the "hurricane control center." But you can't do it with a lot of the traditional approaches that have been applied in the past. And you certainly can't do it with spreadsheets.

Making the case for finance transformation

On the subject of finance people spending more time on high-value-added work, people in the audience at Finance Forum definitely "get it." They understand the benefit of dynamic processes that deliver shorter planning cycles and more credibility in forecasting.

But all too often the business case for investing in technology to automate hasn't made the cut. That's because it's often seen as a finance productivity investment rather than a business performance investment. As one participant observed, "We have never been able to make the case to the people outside of finance what the real tangible value is, apart from the fact that the people in finance get to go home at five o'clock in the evening."

Now, however, there is an opportunity to move beyond the simple issue of finance productivity. Most CEOs can now see how ineffective the traditional budgeting and forecasting processes are. So, a lot of the finance people sense a real opportunity in the next 12 to 18 months to reframe the conversation from one about productivity to one about decision quality and risk management.

Were they lucky or were they smart?

Some companies are actually going through the exercise of going back and recasting decisions that they would have made if they'd had an alternative approach to budgeting or forecasting or whatever the problem area might be. They're asking themselves, if we had had a different way of viewing the future of our business a year ago, how would that have changed the decision making? What would have been the impact on our performance?

This is not to say that better forecasting would have saved a company from being whipsawed by the events of the fourth quarter of 2008. No one could have predicted that with any accuracy. But the objective here is less about precise prediction than about the early identification of issues that were likely to manifest themselves. And more importantly, having contingency plans in place so you could at least mitigate the impact.

Based upon the case studies of how companies made decisions over the last two years, it's quite easy now to see how a different decision, made at a different point in time, based upon a more dynamic, real-time performance management system could have had a positive impact upon performance and produced a different set of financial outcomes. Would it have avoided all the problems? No, clearly it wouldn't. But we've begun to see that some organizations positioned themselves better. The question is—were they just lucky or were they smart? And if they were smart, what were they doing differently?

Companies like Procter & Gamble, GE, Johnson & Johnson, and others have really distinguished themselves in times of great turmoil. They are clearly in a stronger position than many other companies that are trying to navigate through this downturn. Somehow, Ford got themselves into a better position than some other automakers. Were they just lucky?

> *"In your planning process you need to be open to the possibility of things being volatile, that things could ratchet up or ratchet down–and you have to be as open to the up as to the down."*

Look at what the German airline Lufthansa did. Their preparation from a strategic standpoint and their ability to retool capacity and pricing has allowed them to distance themselves from their competitors in Europe. You can make a strong argument here that the right management processes deliver real value. It may be seen in the avoidance of negative results in a downturn but we can also reasonably expect to see it in the enhancement of positive results in an upturn.

Transformation without hiring a "change management champion"

The advantage you need to gain, by the way, may not necessarily be huge. It may be just a small edge. Perhaps a modest price change at the right time. You may not need to do light years better than the competition, just a little bit better. Scenario playing is critical here. In your planning process you need to be open to the possibility of things being volatile, that things could ratchet up or ratchet down–and you have to be as open to the up as to the down.

Organizations can achieve dramatic improvements in results just by not being locked into a fixed budget or plan. They've got to be flexible and ready to move. And the right performance management tools and practices allow you to be flexible.

Companies like the ones mentioned above made a deep commitment to excellence in finance long ago, embracing analytics, driver-based forecasting and the like. But many others are really struggling to get a handle on the variability in the market. They are looking for best practices to benchmark. They want to understand how to best segment customers and understand the risks and cash flows from different types of customers.

And what is perhaps not always clear to companies who are evaluating finance solutions, is that the kind of transformation we're talking about is not going to cost a fortune or take nine months to achieve. This is not an ERP installation all over again. You don't need to hire a "change management champion" to run the project. The fact that finance gets to be more productive is a bonus, but it's not the main reason for making this kind of change. The main reason is improved decision quality and risk management.

> *"A number of top executives and observers have spoken of the economy—even capitalism itself—being 'reset.'"*

Lessons learned

Quite a few companies are beginning to feel optimistic about the opportunities available out there, because of very distressed or low asset prices, and the possibility of tapping into stimulus-related spending that governments are pouring into economies around the world. Yes, they had to lay off people. Yes, they may have taken a loss in one or two quarters. But in terms of basic balance sheet strength, the difference between this downturn and so many others is that there's still a lot of cash around.

Having said that, a number of top executives and observers have spoken of the economy – even capitalism itself – being "reset." They believe that business "needs to adjust its expectations and behavior to a new, post-recession world."[1]

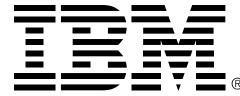
So we can expect continued volatility and variability. This is part of the new normal going forward. Resources are going to be more precious, opportunities for growth will be more scarce, and businesses will not be able to deal with it effectively using spreadsheets. When the economic recovery does come, it will be folly for financial analysts to apply the same performance metrics and assumptions that made sense during the boom years of 2003-2007. Forecasts must be more frequent, they need to consider a rolling horizon, and they must be driver-based. So now is the time to make the case for investing in the technology that will give you the navigation system you need.

All of which brings to mind something very interesting that we observed in some of the less-well-developed countries that we visited during Finance Forum. Some of those countries are lacking in traditional telecommunications infrastructure. But they are investing heavily in broadband deployment. In fact, in many of those countries, broadband and wireless connectivity is almost inversely proportional to GDP. The poorer the country, the better the network connectivity and the lower the price to the customer.

> *"Performance management technology and the business practices that go with it are available to anyone, anywhere in the world. If you wait, others may not."*

Because of the pace at which their infrastructure is evolving, many business people in these countries felt they had a real opportunity to leapfrog technologically. And along with the technological leapfrog comes the chance to leapfrog to better practices in performance management as well.

The point here is that performance management technology and the business practices that go with it are available to anyone, anywhere in the world. If you wait, others may not. Finance organizations need to embrace new tools and disciplines to drive improved decision quality and risk management because opportunity will go to the nimble and the quick.



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Endnotes

1 Maria Baritomo, Inside a Company Resetting for Recovery, Business Week, July 13 & 20, 2009

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