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A BANK CFO'S JOB IS DIFFERENT FROM THOSE IN OTHER INDUSTRIES. **WHAT ARE THE CHALLENGES FACING THE COMMUNITY TODAY?**

CFOs OF A DIFFERENT HUE?

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CORPORATE FINANCE: BEAN COUNTERS OR MORE?

The What, Why and How of Business Partnering.

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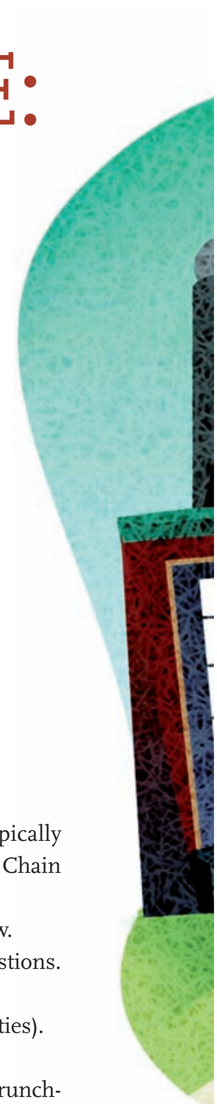

A full 15 years after the advent of 'business partnering', finance continues to be called bean counters! So where did we go wrong?

While the traditional roles of finance - treasury, accounting, management reporting, audit, etc. - are generally being accomplished well, unfortunately, the higher role of value creation – finance engaging with other functions to help make the right choices - often takes a backseat. The CFO may personally be convinced of the need, but how many Level 2 and 3 finance managers actually influence real business decisions? We are not talking of simply punching numbers in an excel sheet to get NPV. But going in depth on the reasonability of assumptions, pushing back where required, modelling the future uncertainty using insights on key value drivers, identifying risks and mitigation plans and then giving a business recommendation as a Venture Capitalist?

In a survey of more than a dozen Fortune 100 firms (Asia offices – India, Singapore, Hong Kong, Malaysia, Australia and Thailand), the stakeholders for finance (typically heads of other functions like Marketing, Sales, Supply Chain etc.) lamented that finance:

1. Often sees a problem purely from a cost point of view.
2. Needs more business knowledge to ask the right questions.
3. Is mainly involved in accounting and reporting.
4. Is generally risk averse (often overlooking opportunities).
5. Is largely internal focused.
6. Does analysis that is often only a post-facto number crunching paper exercise.
7. Has a limited impact on real business decisions.

> "In most organisations, just about 10 per cent of finance FTEs are in business partnering roles and in 66 per cent of the companies, finance was primarily playing a reporting or reactive analytical support (read number crunching!) role."
>
> — RECENT RESEARCH BY ONE OF THE BIG 4 FIRMS

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8.Has limited influence on business partners through knowledge based decision making.

This is such a waste! For four reasons:

1 Finance is uniquely positioned to influence some key business decisions. They know the entire P&L from top-line to bottom-line and generally know the expectations and constraints of the GM well. Theirs is an all encompassing role with knowledge of the inter-linkages between departments. Indeed the correlation between high performance business and high performance finance organisation is 84%!

2 A good business oriented financial analysis brings objectivity in decision making. Often Marketing, Sales, R&D or Supply Chain tend to be over optimistic, not because of (mal) intent but because the project owner may be too involved to take a distant look.

3 Most business partners expect finance to help them make choices by providing clear decision rules and benchmarking. “Help me to invest better; don’t just tell me to stop spending”. “Tell me something I don’t already know”.

4 Junior and middle finance managers tend to grow frustrated with the transactional nature of their role. They aspire to get involved in main

business. Business Partnering adds to job satisfaction.

So what specifically can finance managers do better?

Jeff Emmelt, CEO of GE, outlined the work plan for his CFO: There is a dual role to be played. The first is the obvious oversight/controllership role (bottom-line stewardship). But the other, at the higher end of value add, is business partnering that helps achieve growth (top line stewardship). The latter may include:

1 Strategy Formulation: Making the business look outwards through insightful competitive and industry analysis. Analysing the company's right to win and then putting a trajectory of profitable growth, with clear targets for each function. Playing the portfolio game by recommending which new segments to get into, which segments to exit etc. Strategy, fundamentally, is making a choice, and financial analysis should help the business in making a better choice.

2 Initiative/Investment Analysis: Better modelling of future cash flows with probability based analysis and sensitivity on key input drivers. Kotler found that 60% of all marketing initiatives are generally a failure! Understanding the key drivers of top line and bottom-line, objectively assessing whether volume forecast is too good to be true, decoding the value of each channel and consumer segment, checking if the investment is too front loaded, whether we have adequately built in potential competitive reaction, are we doing post launch monitoring/analysis etc. Developing comfort in the qualitative section of analysis much like an external Venture Capitalist would do.

3 Cost Structure Optimisation: Doing benchmarking externally with competition and internally with the best manufacturing locations, to find the right cost structure. Competition should be defined as "whoever the consumer may prefer versus our product", and so, in a developing world, say, could mean the local player with a lean and mean cost structure. Pricing should be led by consumer demand and then finance needs to lead the work backwards to find the cost structure that can afford that pricing. Cost savings can also come in tax by better utilisation of various government schemes and incentives and by newer (but legal) corporate structures. Outsourcing is another option.

So how can we bring this behaviour change? In our consulting with companies like J&J, Kraft and Cadbury, we use a holistic 7 step process:

1 Mandate from CEO: The CEO needs to provide a clear mandate that finance will get involved in decision making. This requires the CFO to have a personal credibility where the CEO feels 'yes this person can be trusted to give good business inputs'.

2 Time Out from Transactional work: An effort to free up time from transaction processing by adopting technology and standardising processes. 20%

CASE STUDY

ONE OF THE WORLD'S LARGEST CONFECTIONARY GIANTS

The newly appointed Asia CFO of this firm lamented that his finance people were mainly focussing on 'reports, reports and reports'. There was limited analysis and impact on real business decisions.

He first impressed the Asia CEO and got the mandate that finance can and should get involved in business strategies. We interviewed all his key business partners to get an honest assessment of 'strengths and opportunities of finance employees – and based on that made an action plan.

Parallely, through outsourcing, rationalisation of reports and automation, he freed up time of his 100+ staff. He also started hiring a mix of top Bschool MBAs and CAs at the entry level in finance.

He then articulated the 'VC mindset' through a 'House of Finance' action plan, where finance was expected to drive Jedi-style, helping predict the future (versus rear view driving where you only focus on what has already happened). A series of 3 day workshops were organized in major cities within Asia, coaching on commercial (e.g. how exactly does consumer research forecasts volume for a new product and therefore what are the limitations of such a calculation), financial and softer skills needed for partnering.

Specific action plans were then aligned with each finance resource and a date set to review progress. They were told clearly that promotions may be difficult if their business partners do not find value add from their analysis. Regular mentoring and coaching was provided as new and middle managers undertook this behaviour change.

After one year of efforts, the Asia CEO publicly congratulated the finance community on how he had seen a significant change in their output and influence. The Global CFO also pitched in saying this was probably the best-in-class and supported the roll-out of similar workshops beyond Asia.

time to be kept aside for thinking, analysing and recommending. According to a survey with over 100 respondents from the corporate finance community, the #1 reason for not doing enough business partnering is that CFOs are overburdened with transactional work. The Country CFO of a Fortune 50 FMCG giant recalled how his analysts saved 25% time just by mastering Microsoft excel (pivot tables, vlookups, linking etc.). Boeing, for example, reduced its Chart of Accounts from 15,000 to 1,000 and its spreadsheets/reports by 75%!

> "Honestly, most finance professionals are at the back-end of the pipeline, still analysing what others have done. The challenge in the future will be to help develop the pipeline, rather than reporting on the pipeline and on the ideas of others."
>
> — GLOBAL CFO OF A FORTUNE 50 FIRM (2010)

3 Venture Capitalist Mindset: Especially the entry and middle levels finance managers have to see themselves as a Venture Capitalist. A VC does not blindly accept what the entrepreneur says. A VC knows how to ask the right questions. A VC will look at industry and competitive data (external orientation and benchmarking) to arrive at his position. While the entrepreneur may be the better subject matter expert on that particular opportunity (just as the marketing person in an FMCG may know about the consumer and market potential much better), it does not stop the VC from taking an independent data based stand. A VC is a partner in helping the entrepreneur grow, not just in keeping the accounting right. Both go down if the top-line targets are not met.

4 Developing Business Acumen: Understanding the key drivers of business and risk. Developing comfort with the qualitative part of the analysis including consumers, customers and competitors. For example, the analyst in a prestige cosmetic company explained how he always thought lipsticks were a drag to financial profitability till he understood that lipsticks provided the all important footfalls to the counter and almost always enhanced the sales of other (more profitable) products. Understanding the 'Right to Win' of your offering and developing insights on the business.

5 Learning Analysis Tools: Analysis of a business opportunity requires a holistic assessment of the 7Cs: Category, Customer, Consumer, Competition, Communication, Capability and Cash Flow. Most often finance gets involved at the tail end focussing only on (projected) cash flows. But we need to bring such qualitative aspects like: whether we have the first mover advantage in the category, whether the consumers will require a habit change, how the competition is expected to react etc. Similarly, within the cash flow analysis, we can incorporate a more probability adjusted assessment that models reality more closely.

6 Mastering Soft Skills: Mainly Influencing skills, Business Communication and Time Management. Learning the art of influencing in a knowledge economy by balancing between Advocacy of their point of view and Inquiry of the other person's point of view. The cross functional team should feel, "my proposal becomes better after discussing with my finance resource". Communicating with clear analysis of risks and commensurate rewards. Being aware of the forest as well as trees – the larger business context and impact of individual building blocks. Providing simple 'rule-of-the-thumb' to non-finance business partners (e.g. "a new telecom tower okay as long as it attracts 800 subscribers in 3 months"). And doing all this while managing Time - carving out slots for 'important but not necessarily urgent' activities: capability development, analysis, strategic thinking, relationship building, benchmarking etc.

7 Redefining KRAs: Finally, including metrics on superior business partnering in assessment of finance employees. Ask: "What would the multi functional team leader not have done but for the analysis by finance?" In Procter & Gamble, for example, a specific gold standard exists for every finance role, identifying what behaviour and actions are expected from a top performer. Promotion to a Business Unit CFO is almost impossible unless there is strong evidence of business partnering.

Unfortunately, many companies hurriedly focus on just 1 or 2 of these steps, and then complain that behaviours have not changed even after many years. Like many things in life, there are no short-cuts! CFO

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