

The CFO's new environment



A report prepared by CFO Research Services in collaboration with ACCA

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Executive summary

When CFO Research Services and ACCA embarked on this research in February 2009, countries around the world had been in the grip of the downturn for well over a year, facing what some called a perfect storm of volatile energy and commodity prices, unpredictable credit markets, banking-sector disarray, and job and housing markets in decline. In view of this, companies have inevitably shifted their priorities from maximising profits to managing cash flow, working capital and liquidity, and this shift has put the spotlight on the CFO.

This seems to be a blessing and a curse. On one hand, the CFO has achieved more internal recognition, is perceived to be more valuable, and receives more support from the boardroom. On the other hand, CFOs have arguably never been so stretched. They must refocus the priorities of their finance teams and provide extra reassurance about their companies' performance to colleagues and external stakeholders, while becoming more heavily involved in strategy, investment decisions and day-to-day operational matters.

The key findings of our research include:

Finance is in the spotlight

The economic downturn has put a greater focus on finance within companies. The function is now perceived internally as a valuable guide through the downturn and CFOs are receiving more support from the boardroom. This is, in part, driven by companies' sharpened focus on cash and liquidity. (See section 1)

Risk management is now a priority

The economic downturn has given CFOs a lot more to contend with, and they are being stretched in all directions. Adopting a more hands-on, managerial role in business operations, they are monitoring more closely than previously staff numbers and

>About this report

In February 2009, CFO Research Services, a unit of CFO Publishing and part of The Economist Group, began a research project with ACCA, the global body for professional accountants, asking senior finance executives for their thoughts on the impact of the new economic environment on their role, responsibilities and priorities.

This report is based on the results of an online survey completed by more than 450 senior finance executives across the world, and on in-depth interviews with executives at the following companies:

Abu Dhabi National Energy Company (TAQA)

Fortis Bank

Gemalto

MindTree

Numonyx

Odeon & UCI Cinemas Group

Pitney Bowes

SIX Group

Sonic Healthcare

TNT

Virgin Mobile

CFO Research Services and ACCA developed the scope of the research jointly. ACCA funded the research and the publication of our findings, and we would like to thank their team for its insight and support. At CFO Research Services, Christopher Watts conducted the interviews and Emily Williamson wrote the report.

We would also like to thank the executives who took the time to share their views with us.

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workloads, overhead cost reduction initiatives and remuneration and bonus schemes, as well as capital expenditure decisions, credit control and cash collection, and banking relationships. But above all, they're homing in on risk identification and management. (See section 1)

Investment decisions are being delayed

Most finance chiefs surveyed are delaying non-essential investments until economic conditions improve and some are even delaying essential investments. Capital spending decisions are being dissected more carefully, given the higher levels of anxiety and uncertainty among stakeholders and the widespread scarcity of capital. (See section 2)

The CFO is more involved in strategy

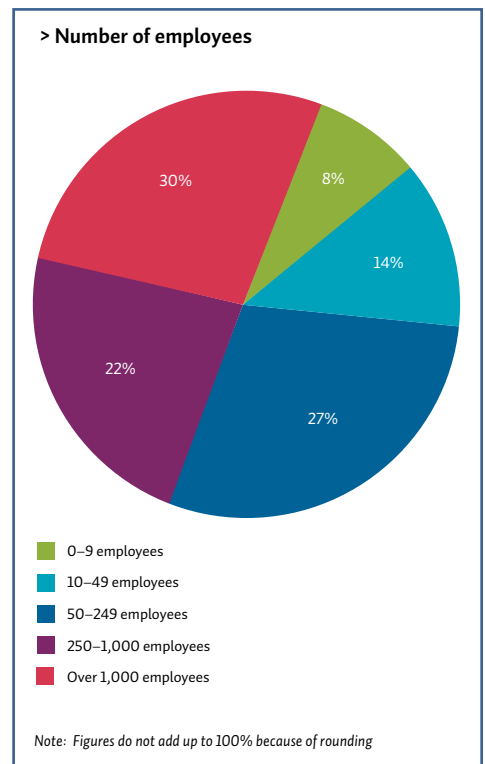
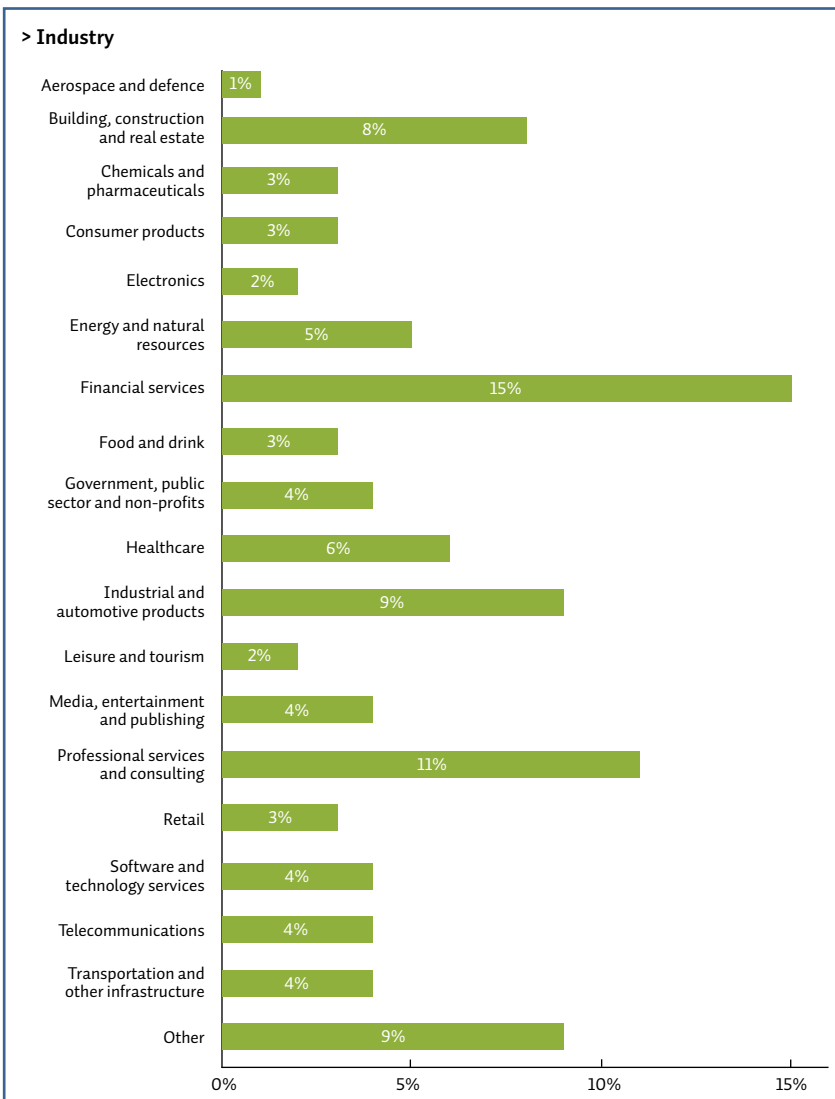
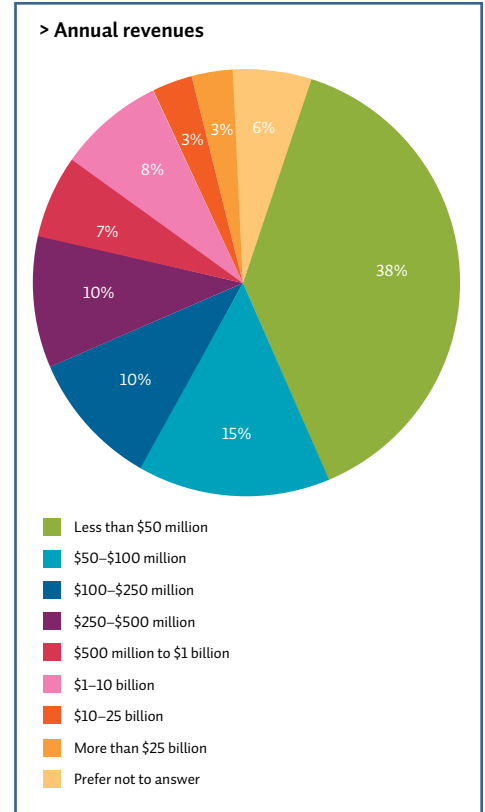
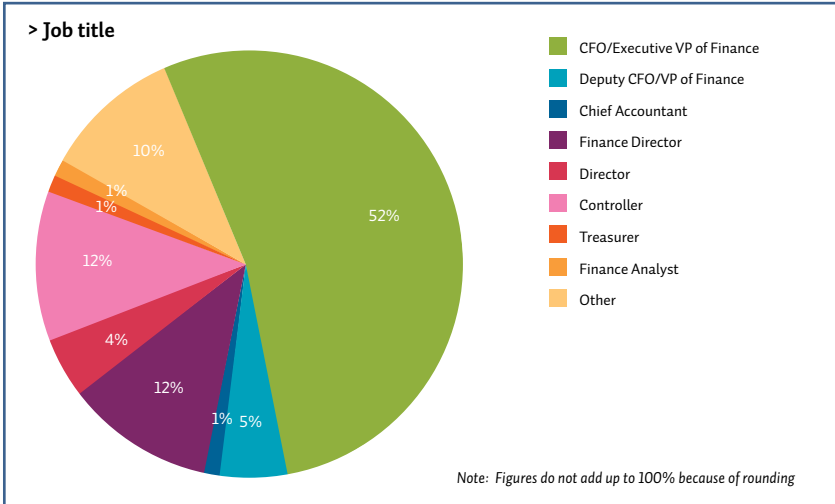
Finance is working more closely with various business units in strategic planning. Just over two-thirds of respondents agree that the CFO is more involved in establishing medium- and long-term corporate strategy. However, doing so is

more challenging than ever, and many companies are delaying making strategic decisions. Others are adapting the way they develop strategy and preparing for the eventual upturn. (See section 3)

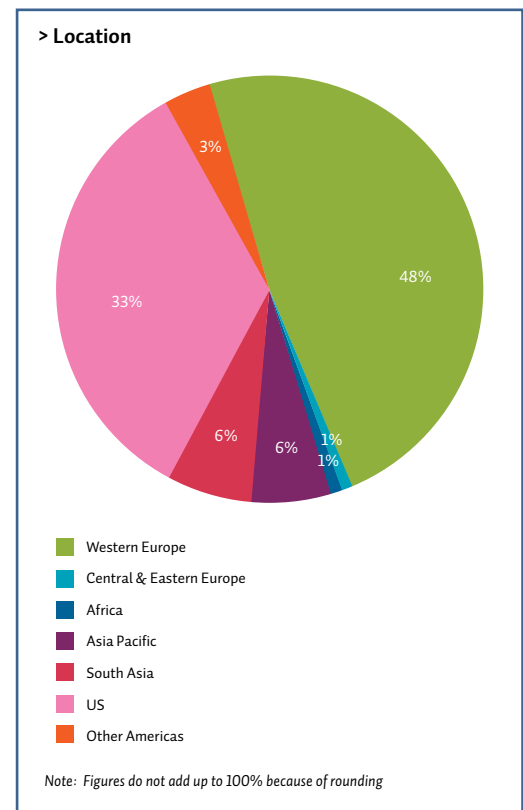
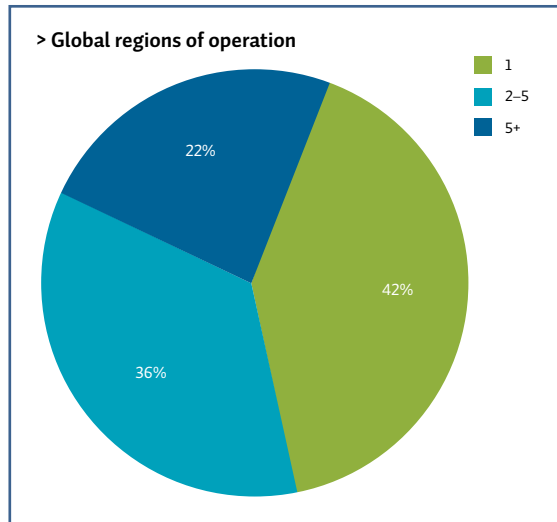
Levels of communication have increased, internally and externally

In the past 12 months, companies have increased internal and external communication in response to fast-changing business conditions. On the one hand, this is an exercise in reassuring stakeholders about the health of their business. On the other, it is a critical way to stay close to external stakeholders—notably suppliers and customers—in order to understand how they are faring. (See section 4)

Study methodology



Study methodology



Section 1 — In demand: Finance in the spotlight

The CFO's star continues to rise. In our survey, 83% of respondents say the finance chief's role is more important today than a year ago, while three-quarters agree that the CFO's contribution to the business is now perceived internally to be more valuable than in the past. That, in turn, leads to more support for the finance team—70% agree that the function receives more boardroom backing now than a year ago. (See chart 1)

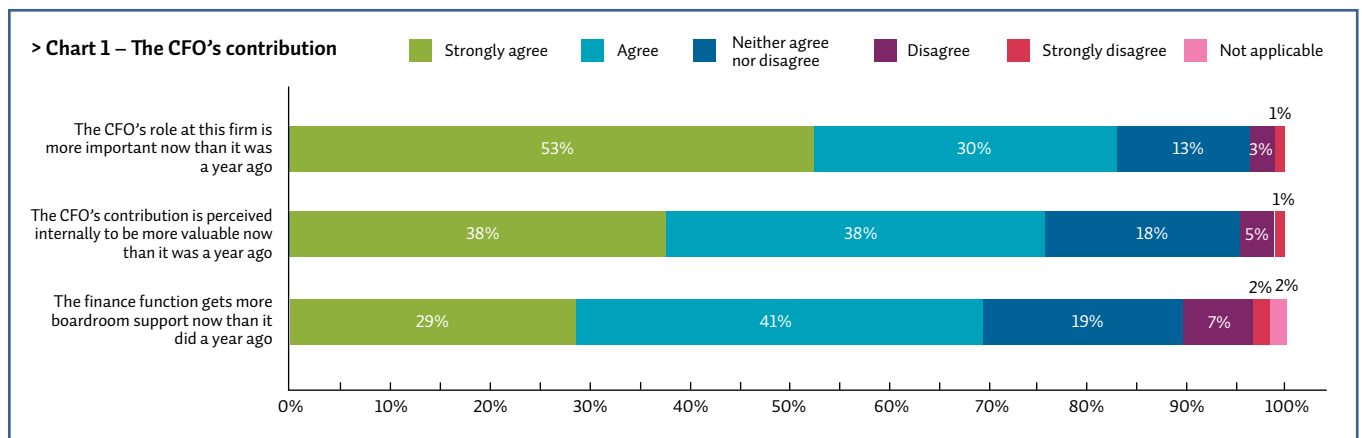
Little wonder, given companies' sharpened focus on cash and liquidity. "Funding, cost-saving, liquidity—these are the top three topics for my bank now," says one respondent. "Where do we find solutions? In the financial division—this is why the CFO and [finance] division's role is changing and gaining more importance." Another respondent observes that a "focus on cash and liquidity, which has always been the responsibility of the CFO, has [moved] higher on the priority list than market share increase."

That's a logical knock-on effect of this particular economic slump, add finance chiefs. "This is typically a different downturn than I have ever witnessed in my previous 30 years in business," says Henk van Dalen, CFO of TNT, a €11 billion (in annual revenue) Dutch logistics group. "In none of the downturns in the last 30 years, has there been a restriction on the availability of funding, cash lines and credit lines."

Subsequently, van Dalen for one says he is spending more time than before focusing the organisation on cash management. "You have to really make sure that everybody in the organisation understands what managing cash means," he says. "It goes down to the nitty-gritty of a strong focus on accounts receivable, accounts payable, and making sure that investments are managed with a full view of the pipeline of cash out." This can be a new focus for divisional management in business units or country units, if they are used to only tracking operating income. "This is not automatically the same as managing cash, because cash is something that you manage on a legal-entity basis," van Dalen explains.

It's not just cash management that is taking up more of the CFO's time. The majority of respondents say that in the past year, the CFO has adopted a more hands-on role in areas such as staffing numbers and workloads, overhead cost-reduction initiatives, remuneration and bonus schemes, as well as capital expenditure decisions, credit control, banking relationships and risk identification and management. (See chart 2) It is unsurprising, therefore, that the CFO is spending more time on everything from managing cash flow and costs to managing headcount, arranging financing with lenders, contributing to strategic decision making, communicating financial performance, and managing operational and strategic risk. (See chart 3)

In rising to the challenges of new levels of scrutiny, increases in workload, and the pressure on the CFO to keep control, finance teams can tap



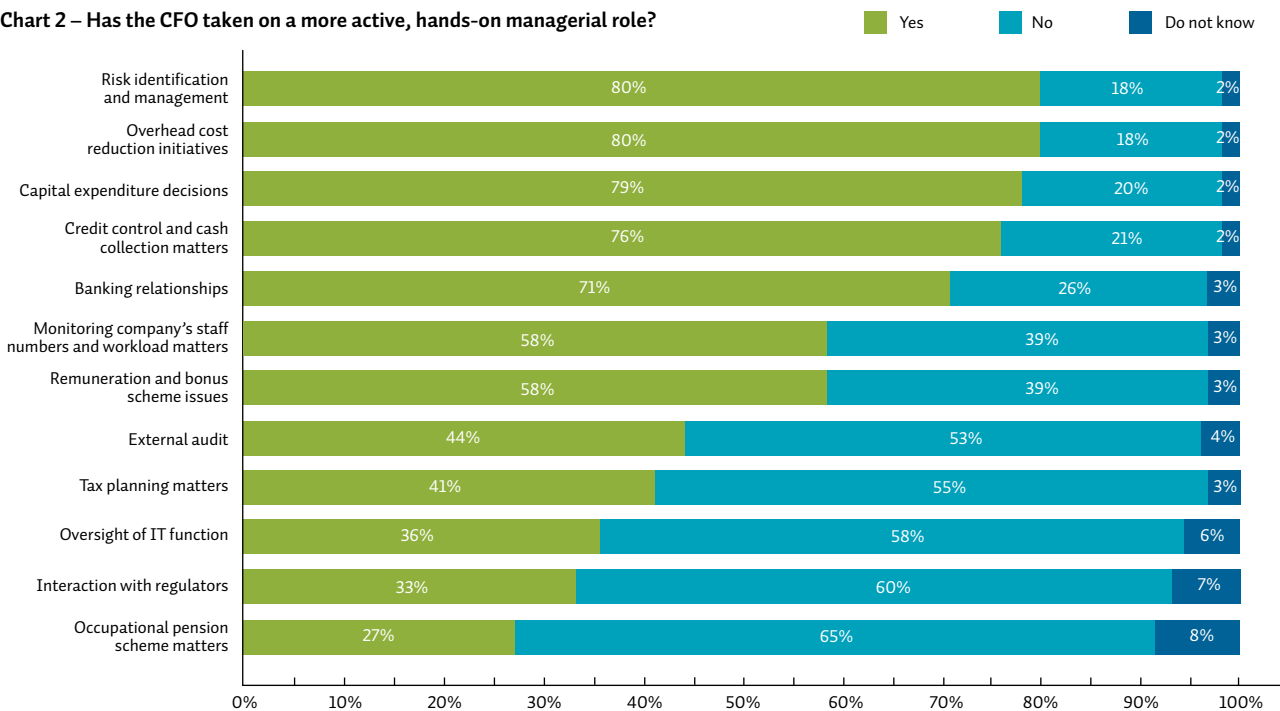
various sources of knowledge and training. In the survey, 77% of respondents who are members of a professional accountancy body say that the training they have received from that body has provided them with sufficient skills and expertise to steer their organisation through current economic conditions. Meanwhile, two-thirds of respondents say they attend conferences and training courses to glean further information and training, while just over half say they turn to external auditors/accountants for advice and additional knowledge, and over a third turn to their professional accountancy body. (See chart 4)

One of the main skills gaps in which finance can expect more training is risk management—two-thirds of respondents say they plan more education for their teams in this area. In all other areas, however, a greater number of respondents plan no change in training than plan an increase. As for the small minorities of respondents who say they will do less training, 13% will cut back on training for the 'soft' skills of leadership and coaching and mentoring, compared with 5% who say they will do less risk management training. (See chart 5)

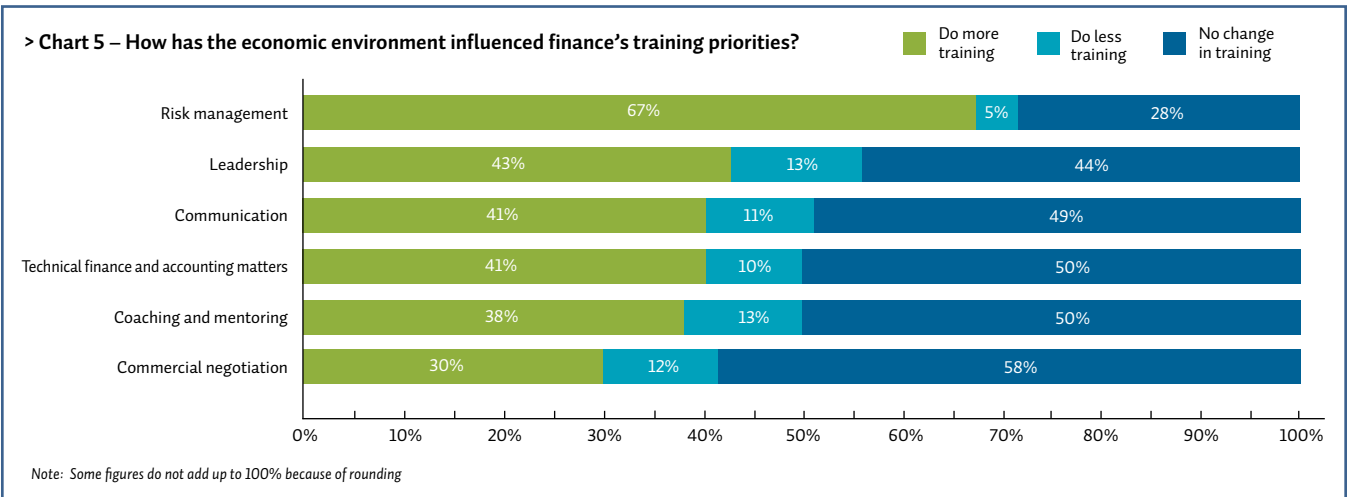
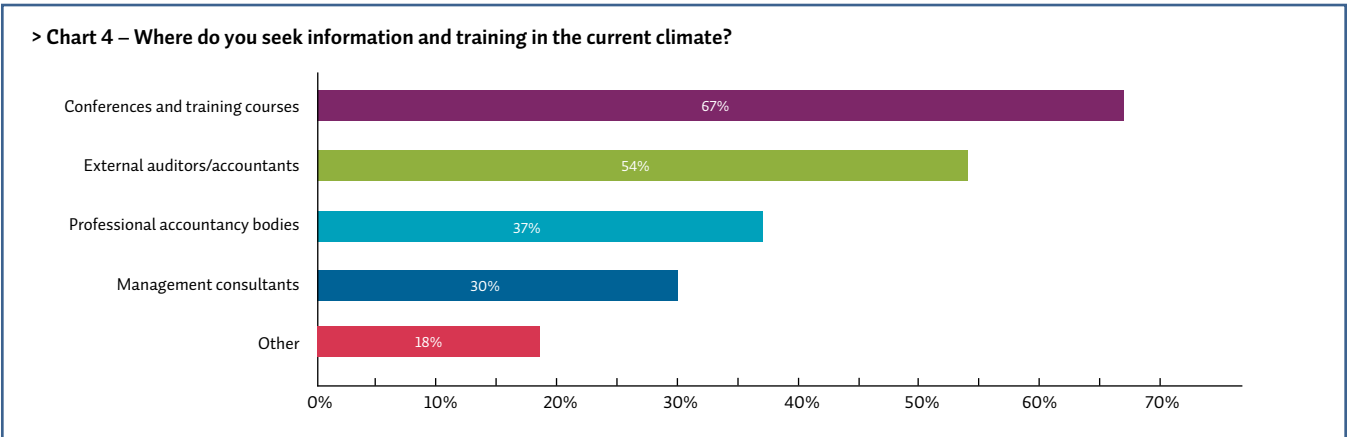
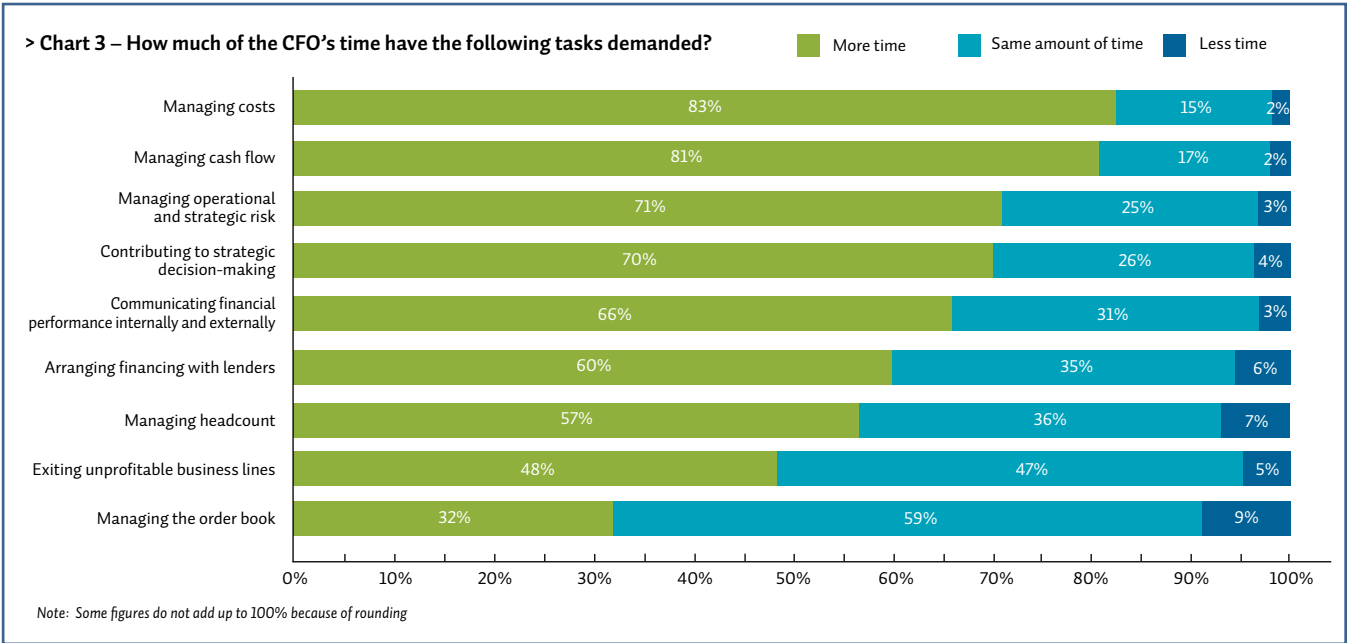
Indeed, managing risk is yet another task now taking up more of the CFO's time. "It goes hand in hand with managing liquidity and solvency," says David Ahmad, CFO of the UK branch of Fortis Bank. As the bank increased focus on risk management during the downturn, Ahmad has taken the step of incorporating risk management into the specific tasks and targets of each person on the finance team. "Risk management is everybody's business," Ahmad emphasises.

It's an area that has become more difficult to deal with given the rapid pace of change in everything from economic activity to fuel costs and currency rates. Sonic Healthcare, a global Aus\$2.4 billion medical diagnostics company based in Australia, has been having to manage its way through the hugely volatile exchange rate of the Australian dollar against the US dollar. "I think the ten most significant movements in the previous 25 years all happened in the first two weeks of October [2008]," says finance director Chris Wilks. "And each movement was something like six standard deviations from the mean. That's only supposed to happen every 200 years, and we had ten of them in two weeks."

> Chart 2 – Has the CFO taken on a more active, hands-on managerial role?



Note: Some figures do not add up to 100% because of rounding



Case study: Numonyx

Avoiding potholes

For many CFOs, the downturn has been a chance to get back to some of the basics of running the finance function. Indeed, the risks that come with the global downturn mean that there's no room for complacency.

As Ken Lever, CFO of Numonyx, a privately held Swiss manufacturer of flash-memory devices formed in March 2008 by Intel and STMicroelectronics, says: "When you go into a significant downturn in the economy, as we have done, inevitably your attention has to turn to dealing with a number of basics. Ultimately companies will want to thrive, but in order to thrive they have to survive."

That calls for a focus on potential short-term problems as well as the long-term vision: "You can't be looking at the horizon if you're falling in potholes," Lever adds. "And the problem is that there are an awful lot of potholes around at the moment".

Subsequently, Lever has spent recent months addressing operational issues, such as headcount, systems and appropriate controls for dealing with customers' liquidity and supply chains. Many of these areas would have warranted little attention in better times, the finance chief concedes: "When the economy's going well, a lot of the basics take care of themselves. So you don't have to worry unduly about the liquidity of your customers or about the continuity of supply."

No more. Supplier risk is now a big focus for Lever and his colleagues, whether it's reviewing existing contracts or making sure they're not overly reliant on any one supplier. Last year, Lever introduced a new check list to evaluate suppliers—as well as traditional financial ratios, which analyses suppliers' "liquidity ratios, the cash generation of the business in the past, how important you are as a customer to them, whether they have any other very large customers and how the viability of the supplier would be impacted by the loss of that [other] customer. You look at critical raw material patterns in their business and who supplies those raw materials." Lever expects such scrutiny to work both ways, adding that Numonyx's customers are now more likely to want to assess his company's liquidity as well.

Although focusing on these fundamentals shouldn't take finance professionals too far outside of their comfort zone, Lever admits that talking to suppliers about the company's health, for example, is "not the sort of thing that I've done in the past on a day-to-day basis." Indeed, the CFO points out that while he believes his finance team has the skills to tackle its new priorities—including risk management—they won't necessarily have the experience. "Some people won't have gone through these difficult periods of the economic environment," he says. "It's more a dearth of experience rather than a dearth of knowledge." Now is proving a good time to put that knowledge to the test.

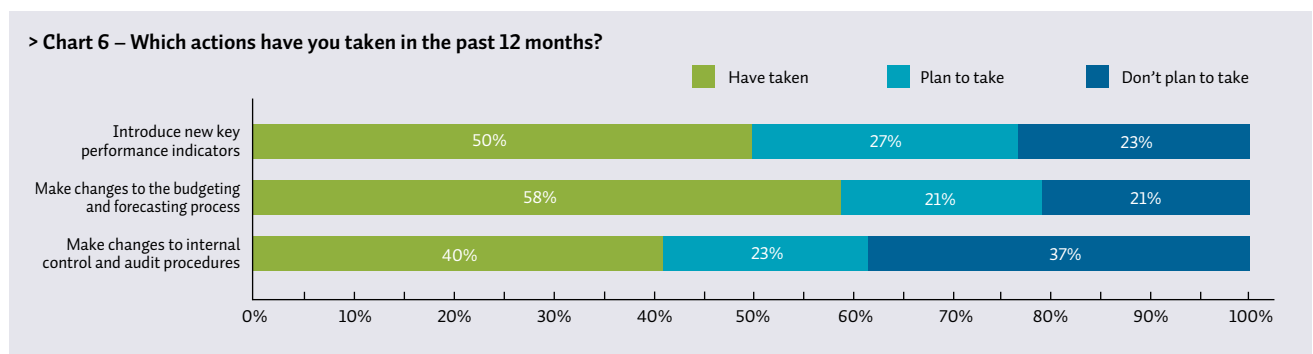
Incorporating change

In the past 12 months, most companies have already taken action to reflect their heightened focus on cash and the need to balance short-term concerns with long-term vision. For example, more than three-quarters of survey respondents have either already introduced new key performance indicators (KPIs) or plan to do so, compared with 23% who don't plan to. (See chart 6) Indeed, respondents' comments show that CFOs are changing KPIs to suit the current economic conditions: "[Our] KPI changes are refinements to existing metrics, notably in the area of cash management," writes one. "Detailed KPIs for cash management are now embedded in our scorecard," says another. "New KPIs are mainly due to a new focus on long-term value vs. short-term profitability," adds a third.

Typifying this trend, Jonny Mason, CFO at UK cinema chain Odeon & UCI, is monitoring the company's revenue KPIs more frequently than he once did: "The two key things that we're looking at quite carefully are retail revenue and screen advertising revenue," he says, "Those are the two [areas] that might suffer most in any downturn". Mason is also scrutinising the underlying causes of shifts in revenue more frequently than he used to. "We always looked at retail revenues weekly, and then we might have a deep dive monthly or quarterly, to understand what was driving that," he explains. "Now we're looking at the supporting data weekly. And we're not just looking at advertising revenue, but also component parts of it, in order to understand the way that it might be moving in the future."

Nearly 60% of respondents say their company has made changes to the budgeting and planning process in the past 12 months, while 21% have plans to do so. (See chart 6) As one respondent writes, "changes to the budgeting and forecasting process are moving from a static annual budget to a rolling multi-quarter forecast, in order to keep focused on the longer-term versus the current fiscal year." This is reflective of a general preference for a rolling forecast, which sees 12-month forecasts updated, often on a quarterly basis, each time looking forward by another three months. This contrasts with annual top-down or bottom-up budgeting, which, with its longer-term outlook, is no longer an adequate response to today's fast-changing economic conditions.

As John Feehan, CFO of Virgin Mobile USA, says, "These economic times have definitely placed a larger emphasis on the CFO's role in terms of forecasting." Feehan explains that has spent much time with CEO Dan Schulman over the past year talking about the downside risks of a worsening economy and how the company will prepare for that. Feehan's approach is to "plan for the worst, make sure we are covered under worsening scenarios, and makes sure that we as an organisation are able to deal with those scenarios," he says.



Section 2 — When and where? Reviewing investments

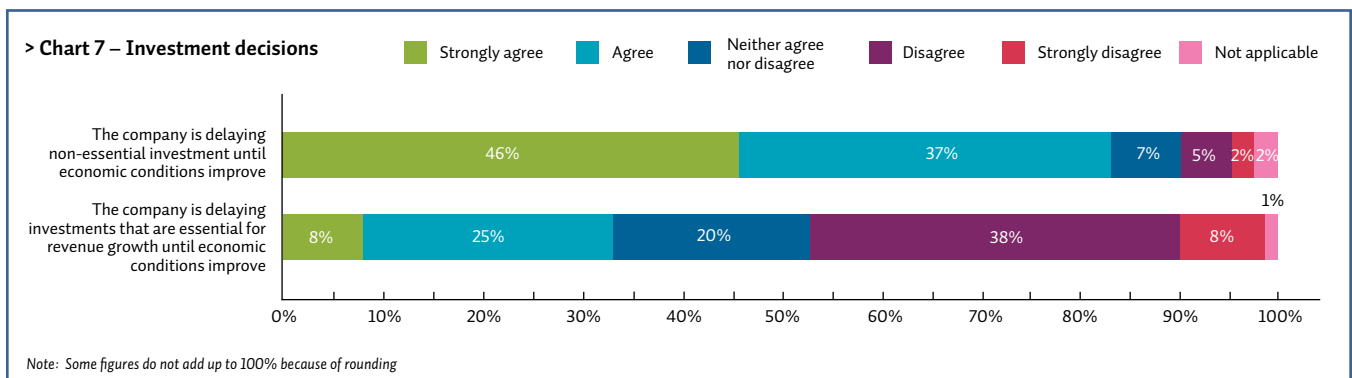
With cash ever scarcer, investment decisions have come under closer scrutiny—83% of respondents say their companies are delaying non-essential investment until economic conditions improve. (See chart 7) As one respondent says, “Companies are awaiting better economic times to justify their investments.”

Thirty-three percent of respondents say that their companies are even delaying investments that are deemed essential for revenue growth. One CFO articulates the dilemma faced in this respect: “The current environment has produced a unique dynamic, as companies have to rethink investments in growth opportunities, even though growth is what will pull them out of this economic crisis.”

Respondents point to two key challenges in making investment decisions today. The first stems from turbulence in the banking sector and the widespread scarcity of capital. “In the past, you were probably able to take your relationship with your bank a little bit for granted, in that if you

needed funding, you'd be able to sort something out fairly readily—it was just a matter of price and negotiation,” recalls Sonic Healthcare's Wilks. “It's true to say that there's more focus on just maintaining your facilities than there has been in the past, and if you want to increase them, it's even more complex, because it probably means even more banks, which means creating new relationships.” That complexity in tapping new funding means every investment decision has to be weighed more cautiously. “Investments need to be more carefully considered in the light of more restricted access to finance”, says one respondent.

The second challenge in making investment decisions is high levels of anxiety and uncertainty among shareholders, banks and other stakeholders needing to be convinced of a plan's worth. As one respondent put it, “psychological reasons rather than economic sense” are driving some decisions. That's not to say that CFOs are shying away from investments that make economic sense. As another respondent says, “The business still needs to take some measured risks in order to emerge from the recession in a position to grow and expand. Hence some investment decisions are still taking place, albeit on a smaller scale than before.”



Case study: Odeon & UCI Cinemas Group

Watch this space

“Cash has suddenly become a scarce resource and [a more stringent] prioritising of projects/investments is needed. In the overall planning, it is the CFO who is asked questions as to how much can be invested,” asserts one of our survey’s respondents.

One finance chief who would agree is Jonny Mason, CFO of Odeon & UCI Cinemas Group, which is owned by the UK private equity group Terra Firma and had revenues of £563 million in 2008. “I need to be involved in more decisions,” Mason says. “It’s not like all of a sudden the CFO’s been promoted. It’s that more of the organisation’s activity [now] needs the CFO’s input.”

Mason says that the thrust of his greater involvement is in investment projects. The finance chief has always had a role to play here in validating rates of return, but he adds that today he also has to offer his views on capital constraints as money becomes tighter. “The operational heads are looking more to the CFO to provide reassurance that investment projects can be afforded and to prioritise between different projects,” he says. “Whereas in the past, their view might have been that finance will find a way to get this funded, they are now acutely aware that there are tougher constraints and that they need to operate within more fixed parameters.”

It’s a far cry from the days when a private-equity-backed company like Odeon & UCI could expect to tap into new funding lines easily. “We [previously] worked on the assumption that when the existing financial facility ran out, there would be another one,” Mason says. “You can’t work on that basis any more.” Re-working this assumption and adapting the company’s future plans to the new financial circumstances has been a learning curve, he adds. “We have to educate the operators a bit more. By explaining to them how the capital constraints work, we can work together to choose the optimum project or plan for this environment.”

Although the company’s results are rising, it is restricting some of its investments, including the introduction of the latest digital projectors, because of this lack of capital. “In the past, it would have been a no brainer for the bank to support that investment,” Mason says. “But now we must work much harder to raise capital from different sources.” Part of that, of course, boils down to banking relationships. “We used to have a constructive relationship with our banks,” he says. “Now, whether the projects make sense or not—in other words whether they earn a fabulous return or not—they do not want to grant any more lending. If that were to continue for long, inevitably your business would just shrink.”

Expansion plans have also been put on hold. “Because these cinemas can take two or three years to [develop], we know there are retail developments going up that will have a new cinema,” Mason says. “[But] unless we can strike an especially good bargain with the developer, we’re having to not bid on certain sites because we haven’t got [funding].”

Case study: MindTree

Adapting systems for better decision support

At MindTree, a Re12.38 billion Indian IT and R&D consulting company focused on offshore software development, product engineering and outsourcing services, CFO Rostow Ravanan recently invested in an upgrade of the company’s ERP systems. For some CFOs, that would be the kind of non-essential capital spending that could be put on the back-burner in tough times. But Ravanan believes the upgrade has given MindTree a stronger decision-support system thanks to a real-time view of revenues.

Ravanan’s priority was to get a “real-time sense of where we are on revenues, with at least 80% to 85% accuracy, [enabling us to] monitor actual versus budget for costs on a granular level.” The CFO explains that it was important to establish a system that could provide an early warning if revenues were at risk. “Faster invoicing and collections help much-needed cash flow and avoid receivables risk,” he adds.

MindTree’s refinements to its ERP system allow for complete billing within two days of month-end, the preparation of monthly revenue estimates at the middle of the month based on current projects, and monthly forecasts that are tied to resource allocation. “This means we can have a very good sense of where the quarter will end,” Ravanan says. This in turn minimises forecasting errors, a boon both from the perspective of the public market and the company. It also gives MindTree the flexibility to fine-tune its future plans on a quarterly basis as the year unfolds. As Ravanan says, in today’s environment, “a traditional annual operating plan would hamstring us.” In the current climate, some investments are clearly still worth making.

Section 3 — Decisions, decisions: Strategic planning

The finance function is more involved in shaping a company's strategy than it was a year ago. Seventy-two percent of survey respondents agree that finance now works more closely with business units in strategic planning, while two-thirds agree that the CFO is now more involved in the creation of a medium- and long-term corporate strategy. (See chart 8) Furthermore, 70% of respondents say that contributing to strategic decision-making has demanded more of the CFO's time during the past year. (See chart 3)

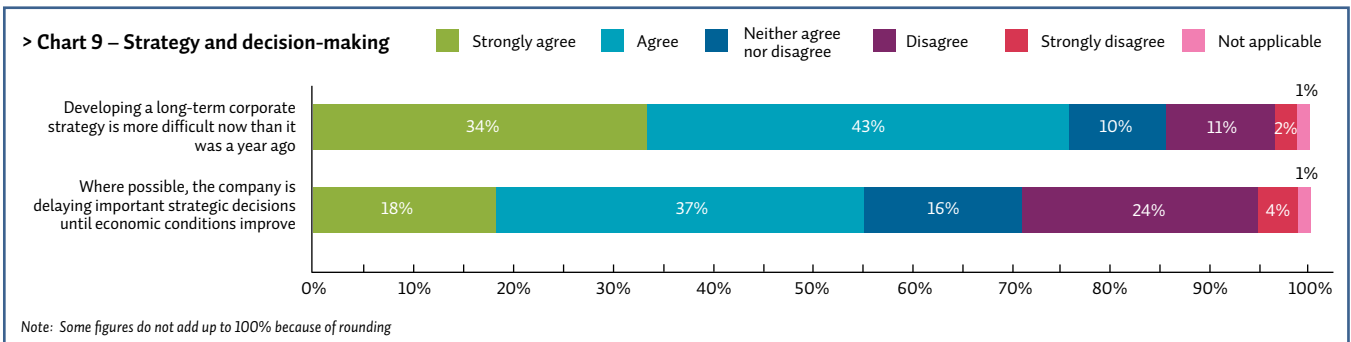
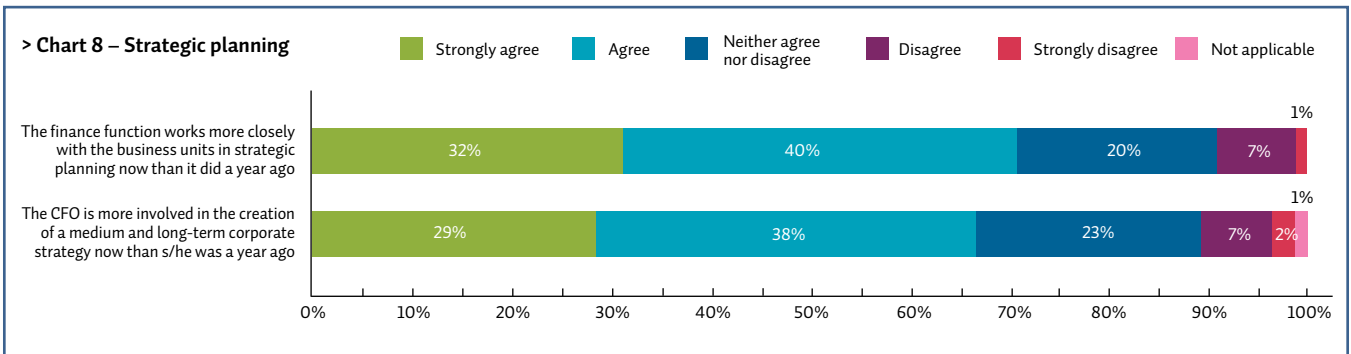
One respondent suggests that the impetus for this collaboration is coming from the business units as much as from finance, as operations look to finance for guidance during the downturn: "The interaction from other functional areas is now initiated by those departments. Finance becomes involved from step 1 as opposed to step 3."

In the new economic environment, two main factors underlie the CFO's greater involvement in strategic decision-making. The first is the growing importance of financial performance targets in deciding strategy.

As one respondent writes, "The environment in which CFOs function is changing and getting more complex. Risk management in current economic conditions needs more effort and deep thinking. Financial goals have to be included in strategic planning and the results should be measured to evaluate overall success of the strategies established."

The second factor is the growing difficulty of developing strategy itself without taking into account views from across the company—77% of respondents agree that developing a long-term corporate strategy is more challenging now than a year ago. (See chart 9) "Visibility into the end-customer market is poor and, as such, the potential medium- to long-term impact on the business is impossible to evaluate," writes one respondent. "Longer-term planning becomes very difficult."

This is causing many companies to hold fire on strategic decisions for now—more than half of the respondents agree that wherever possible, the company is delaying important strategic decisions until economic conditions improve. (See chart 9) But senior finance executives have not lost sight of the importance of long-term vision, even if setting strategy is tougher in the current economic climate. As one respondent comments, "Long-term



planning is difficult when three months is hard to see, but we mustn't lose sight of the vision and leave ourselves unable to meet an upturn." For companies with robust finances, current economic conditions may even present fresh opportunities: "Most companies fall in the 'trap' of economic chaos overall," comments one respondent. "But if we take a minute to reflect, this is an opportunity to invest and get market share."

TNT's van Dalen, for example, says there are now "opportunities to change your strategic direction by analysing and re-focusing your own business, as well as from time to time doing smart acquisitions. Those opportunities in these times are larger than in the time when everybody only looks for growth and expansion."

In fact, respondents' comments suggest a trend for adapting the way that they strategise to reflect the economic reality. For some this means developing strategies to capture different market and worst-case scenarios. As van Dalen says, "At the end of last year, it wasn't clear how the financial markets would develop in

the first two to three months of 2009. So we decided to enlarge our availability of commercial paper funding to prepare for a short period of sharp decline in demand—maybe even an enormous decline—or non-availability of funding. So you try to protect yourself, although it costs you a few basis points, on the downside."

For others, this involves re-evaluating their companies' identity and purpose: "We must base our strategies on the knowledge that, inevitably, economic conditions will improve—or else, close our doors," writes one respondent. "That said, we have to create a strategy that recognises our strengths as well as our weaknesses—and the weakness of the economy—in order to take full advantage of the recovery when it occurs. That may mean a degree of internal restructuring, but certainly a great degree of "re-imagining". Who are we, as companies? What do we really offer? How are we perceived? In short, what is our value and how do we make the market understand and appreciate our value?"

Case study: Virgin Mobile USA Benefiting from the downturn

Virgin Mobile USA was "the canary in the coal mine" when the recession hit the US, says John Feehan, CFO of its mobile virtual network operator (MVNO). "We went public in October 2007, and in November and December we started to see our customers' usage start to come down," Feehan explains. Rather than hunkering down and riding things out, the company used the deteriorating economy to its advantage in identifying possible acquisition targets.

Feehan and the team started by analysing other MVNOs in the US that were struggling. "We looked at how we could potentially grow our subscriber base through acquisitions, and, at the same time, we looked at how we use that acquisition to de-lever our business and reduce our debt load at the same time," the CFO explains. Subsequently, last year Virgin Mobile USA spent \$39m to acquire Helio, a US cellular operator. It's a deal that Feehan says wouldn't have happened if it weren't for the downturn— "[Helio's owners] would have had many more other options to continue to grow their business if they wanted to," he says. As it was, "We were able to get it at a very, very low price and do an all-stock deal," Feehan adds. "But at the same time, we were able to attract new investment money, which allowed us to pay down more of our debt to a point where we're very comfortable with our debt level."

In integrating the acquisition, Virgin Mobile USA downsized its operations, as Feehan explains. "Standalone we had 400 people—we bought a company that had 600 people, and when we had finished integrating the company we were back down to 400 people for the combined company," Feehan says. The company also outsourced the running of its IT infrastructure, which it says will save it \$50 million over five years.

The company hasn't banked all of the resulting cost savings to the bottom line. "We've invested some of those cost savings in the customer, in terms of their handsets and usage and texting plans," Feehan says. Virgin Mobile USA has also introduced a Pink Slip Protection plan: "As long as you're a customer of ours for at least two months, if you lose your job, we'll pay your service for three months", Feehan explains. In this way, Virgin Mobile USA's reinvestment of its cost savings has become a competitive advantage.

Case study: SIX Group**More than number-crunching**

At SFr1.5 billion SIX Group, which provides infrastructure services to the Swiss financial services industry, CFO Ursula La Roche believes the downturn has taught CFOs to prepare for every eventuality. "The economic situation, and the collapses such as Lehman Brothers, show that you should put more [effort] into strategic planning," she says.

La Roche explains that the nature of the SIX Group requires intense strategic planning. "Our business is a pretty long term," she says. "We are an infrastructure provider and, as such, our costs are to a very high degree fixed, which means that they don't change within a quarter or within a month. This requires a much closer focus on strategic planning, because you can only influence the financial situation of our business with a longer-term view."

In line with many of her peers, the CFO says that she has found herself becoming more involved in quantifying strategic impact. "We have to quantify the financial impact of strategic decisions, and that's the reason why the CFO becomes more important," she says. Furthermore, SIX Group needs a team of finance professionals capable of more than just number crunching. "We want to have, at all levels, people who analyse numbers and who are able to draw the right conclusions," La Roche says. "In order to do this, you need a deep understanding of the business dynamic, of how it evolves over time and what the financial outcomes of the different scenarios are. And I think that's an area where all of us should get more experience in, and more training." To address this, the company has hired a business analyst to train the team's controllers in peer analysis, which La Roche sees as "the first thing to consider in strategic planning."

Section 4 — All talk: Communication

Seventy-seven percent of respondents say they have either increased or plan to increase the amount of internal communication carried out in their company, while two-thirds say they have either increased or plan to increase the amount of external communication. (See chart 10)

One reason for increased communication is the view that it is essential in implementing any new strategy during current economic conditions. As one respondent comments, "Communication is a key to successful business plan implementation, whether it is internal or external. I have seen too many mistakes made due to poor or improper communication procedures. In this economy especially, it is incumbent upon every corporate leader to ensure full and open communications up and down the ladder internally, and to the customer and supplier base externally. Doubt creates fear, and fear is the enemy. We don't want our employees or our clients to have doubt about our path as a company."

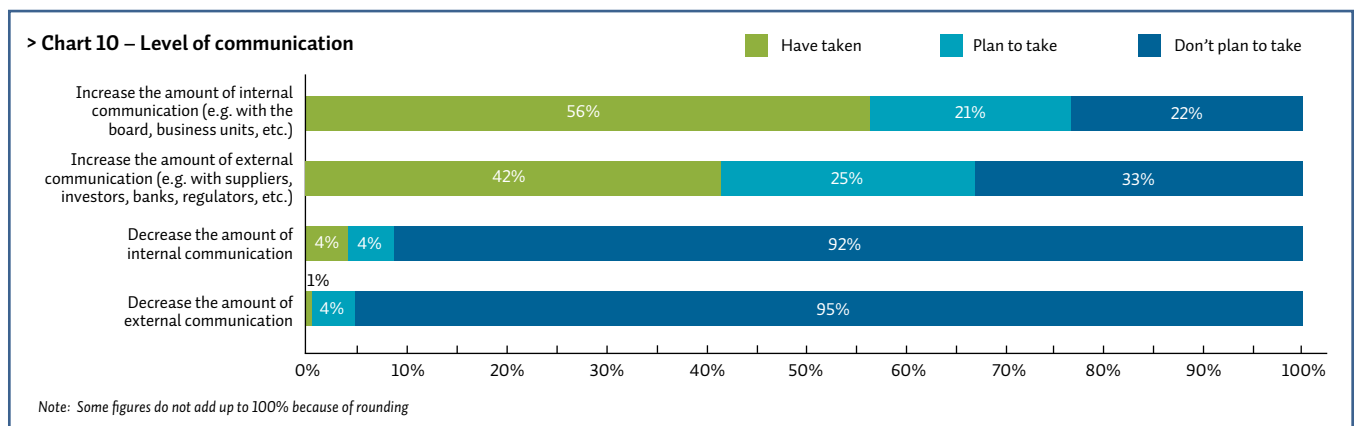
Yet companies' increased communication with customers and suppliers is as much about gaining a clearer picture of their respective businesses as informing them about the organisation's prospects. One respondent's company is "driving more open dialogue with suppliers and customers to better understand the impact that the downturn is having," while another says: "We are in touch with

customers and suppliers to improve processes and to help some valuable customers who are having difficulties paying [their bills]."

External stakeholders are an important focus of companies' increased communication efforts, both in order to guarantee long-term support and to avoid short-term shocks: "Communication to our stakeholders needs to continue to ensure their continued support for the organisation," says one respondent, while another adds: "Now is the time to be working very closely with all stakeholders on managing the company's way through this difficult period. The more involved key stakeholders are in the process, the more likely it is that they will tow the line in terms of playing their part in securing the company's survival."

At Sonic Healthcare, Wilks agrees with this view. "It's important to make sure we are managing the expectations of the market as well as we possibly can," he says. "It's always a focus of any public company to manage expectations, but in such a volatile environment, I think it's probably a matter of a little more communication with the markets, in terms of releases and interaction with analysts."

One of the most challenging communication tasks for CFOs such as Wilks can be explaining the company's vision to sceptical equity analysts. "We need to make sure that analysts aren't getting out of control in terms of the way they perceive the future," he says. "There's a bit of a 'glass half empty' attitude out there at the moment. You might have ten issues at an organisation, nine of



which are positive, and one of which is negative, and there's a tendency at the moment just to focus on the negative one."

The CFO is also finding that analysts' estimates of the company's future performance vary depending on what exchange rate they are using, generating inconsistency in their outlooks. He believes this too can be remedied with increased communication: "At the moment, analysts have different assumptions about exchange rates, and they might have some wildly varying estimates about our future profits. We try to discuss some of those issues with analysts to make sure that the market has some consistency in numbers."

Internally, heightened communication is essential in bringing focus to employees' efforts, say finance

executives, enabling staff across the enterprise to head in the same direction. "These troubled times call for increased communication with associates, in order to maintain overall focus," says one respondent. Survey respondents add that communication is key to boosting morale during uncertain times. "Now more than ever, managers need to be accessible and in touch with employees' concerns," says Ahmad at Fortis Bank. "People are worried, so more communication allows everyone to ask questions and seek reassurance about the company's choices and direction," he adds. Ahmad has increased the regularity of departmental meetings he holds with staff to every month, rather than every other month, and has also introduced informal lunches. He follows the discussion points up with emails. This allows him "to feel the pulse of the business," the CFO says.

Case study: TAQA (Abu Dhabi National Energy Company)

Deep impact

Communicating with banks and investors has required the finance team at AED87 billion energy group TAQA to develop a new skill set, says CFO Doug Fraser.

"My focus is very much on communicating with investors, rating agencies and banks, because everybody needs assurance these days," says Fraser, who joined the company in early 2008. "I get a lot of questions [like] 'What's your liquidity like?', 'What kinds of bank lines do you have?', 'What's your nearest refinancing?'"

To deal with this new level of scrutiny from external parties, Fraser says the finance function needs to boost its communication skills across the team. "In finance you tend to have people who are very technically strong [...] but sometimes lack the ability to communicate effectively and also get buried in the details," he says. To counteract this tendency, Fraser is training his finance leaders in communicating persuasively.

"Whether my people are speaking to investors or internally, I want them to be able to make their point quickly, articulately and persuasively," he says. This training started in 2008, when Fraser "noticed a few examples where my people would be in a meeting, and would just talk and talk and talk. And everybody shuts off. And I said afterwards, 'Unfortunately you made no impact.'" The training, which Fraser went through himself six years ago as treasurer at Petro-Canada, has helped take staff "from being specialists, technical experts and given them more of an executive presence," adds the CFO. "It has been very powerful in terms of enhancing the strengths of the finance organisation."

Case study: Pitney Bowes

View from the ground

Mike Monahan, executive vice-president and CFO at Pitney Bowes, a \$6.3 billion mailstream specialist, has increased the frequency of its communication because “we’ve seen the pace of change in the environment increase dramatically, whether it’s changing currency rates, changing credit markets, or the change in the rate of business that we’re doing. The dramatic swings call for more frequent communication.”

To help make that communication clearer, Monahan pushed for a new set of metrics to be used across the global group. Previously, he says, the group analysed metrics that were “very business specific and they were not necessarily as operationally oriented—they tended to be financial metrics that you might get from a P&L.” Monahan wanted the company also to focus on metrics that were “indicative of what’s happening in the business and were better predictors of what may happen in the business going forward—for example, looking at the pipeline of written business or potential business.”

In using and discussing these metrics more regularly, the CFO hopes to get a clearer picture of what general managers on the front line are experiencing rather than making assumptions from the boardroom. “I want to make sure that I’m looking at what the general managers believe is important to be successful in their business, not what I think is important,” he says. “What they’re managing is what is going to drive the results in the business, so I must understand it from their perspective.”

Conclusion

The economic downturn has raised the CFO's internal profile. With cash and liquidity having risen to the top of most companies' agendas, a host of business activities have been placed under greater scrutiny, from capital expenditure decisions to remuneration and bonus packages, and the CFO's input and time are in ever-increasing demand.

It is part of the CFO's role to be primed to react to different economic circumstances as they arise, and it seems from our survey that CFOs are rising to this challenge, with the majority having taken on a more hands-on role in a range of operational issues. CFOs are also being relied upon more heavily to sanction any investment decisions, which are being weighed up much more carefully in the light of more stringent capital constraints. In return, the CFO has been rewarded by a boost in both the way that the role is perceived internally and by increased boardroom support.

The severity of this downturn may well be something that CFOs have not previously experienced in their careers, but despite this, most are confident that they have the requisite skills and expertise to cope. To a certain extent, this is because the downturn is calling the CFO to go 'back to basics'. One area where the majority of surveyed CFOs say they

need more training is risk management, where the waters are clouded by the rapid pace of change in the economic environment.

With one eye on the basics of running a finance function, the CFO has the other on setting medium- and long-term strategic goals, an area in which they are more involved now than previously. The downturn has rendered the development of strategy even more difficult than in the past, but those who are persevering are responding by adapting the way they strategise, for example by using a range of sensitivity scenarios and updating these more frequently.

Part of successful strategy implementation is communication, of which the surveyed companies say they are carrying out much more. Communication is crucial for enabling staff to pull in the same direction and alleviating their concerns. For a publicly listed company too, regular communication is essential for reassuring and managing the expectations of the market, as well as investors, rating agencies and banks in order to guarantee their long-term support. CFOs are also using it as an exercise to find out about the financial health of their suppliers and customers—the latter of which, after all, will be at the heart of their companies' future success.

Sponsor's perspective

This report is part of a series of projects commissioned by ACCA, the global body for professional accountants, to evaluate the impact of current global economic conditions on the finance community.

ACCA has been an active and prominent commentator on the implications of global economic conditions for the finance profession and business at large. It has published papers outlining its response to the G20's public agenda and analysis of the outlook for regulation of financial markets. It has also considered issues in accounting, such as fair value and the role of international accounting standards in supporting transparent business practices.

Through this work, ACCA aims to demonstrate how an effective global accountancy profession contributes to sustainable global economic development; to champion the role of accountants as agents of value in business; and to support finance professionals in times of change and challenge.

In commissioning this latest study, ACCA wanted to find out how the new economic environment is shaping the CFO's role and affecting the perception of their organisational value. With business under more pressure than at any time in recent years, we also wanted to identify the skills and strategies leading CFOs are using to cope with conditions and share these with a wider audience.

While the report presents input from CFOs across the world, there is a notably strong representation from the US (accounting for 33% of respondents) and Western Europe (48% of respondents), both regions of the world which have been particularly affected by recent economic conditions.

Results

This report shows that CFOs are rising to the challenges brought about by global economic conditions and, in the process, carving out a new and highly regarded niche for themselves.

A high-profile, value-adding agenda for senior finance executives is emerging. While CFOs are focusing on optimising cash, treasury and financial management processes, perhaps more importantly, they are also seen as key to designing and implementing a successful longer-term strategy. This reliance on their skills and expertise to help make their organisations sustainable for the future has propelled the CFO to a new level of importance and visibility.

A key driver in this elevation is a heightened focus on risk management. The CFO's analytical training and experience means that there is no-one better placed to understand and evaluate risk. As Ken Lever from Numonyx observed, risk management fits comfortably within the skills set of the finance function, but has not been a main area of focus – until now. Organisations are looking for CFOs to bring their technical knowledge to bear on the wider business, using analytical ability to understand the interconnectedness of risk across complicated entities, and help shape appropriate long-term strategy. It's a tall order, but it seems, from these findings, that CFOs are more than equal to the task – provided they hone their skills in this area.

Recognising this, finance chiefs surveyed have prioritised the need for more training in the risk management field. This strongly supports other research ACCA has recently undertaken with senior finance executives across all business sectors, where top of the list of skills expected to be more in demand over the next five years is enterprise risk management.

CFOs are appreciating that risk evaluation does not necessarily mean saying no, even in the current unpredictable business environment. While most are delaying non-essential investments, others are seeing opportunities for key acquisitions to help position their organisations to best advantage, once the economic upturn comes (such as John Feehan, CFO of Virgin Mobile USA). This highlights the need for a flexible and opportunistic approach to long-term planning – not, perhaps, an attitude traditionally associated with finance professionals.

Again, ACCA's other research in this area underscores this evolving aspect of the CFO's role. In ACCA's recent *Accountancy: The future outlook* report, senior finance executives highlighted an increasing need for strategic scenario planning skills, ranked second only in anticipated demand for greater enterprise risk management skills.

Analysing these latest results in more detail, one striking aspect is how consistent demands and priorities are for CFOs across large and smaller entities. The key difference between senior finance executives in companies with revenues under \$50m and their counterparts in other organisations is a greater focus on overhead cost reduction – this ranks top as the area which has demanded more of the CFO's personal time over the last 12 months in

smaller organisations, with risk management as a close second. With likely fewer reserves to call on, this is perhaps unsurprising. In terms of skills gaps, however, risk management is still the top priority for CFOs in these smaller companies.

The new reliance on the CFO has profound implications for the shape of the future finance function. Following on from this survey, ACCA is producing a further global report, reviewing the roles, skills and knowledge now needed across finance departments. This wide-ranging project will identify where finance is adding most value to organisations and how this contribution can be built on for the future, and will be a key component of ACCA's continuing work emphasising the role of accountants for business.

As the global body for professional accountants, ACCA is very encouraged to see an agenda for business emerging which puts the expertise of the finance professional at its heart. All in all, it could be argued that, despite the demands they face, this is a golden age for the CFO.

The challenge will be building on this level of influence and prestige when economic conditions improve and ensuring that the CFO's voice continues to be heard loud and clear across their organisations.

About ACCA

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

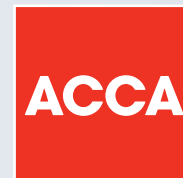
We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 82 offices and centres. Our global infrastructure means that examinations and support are delivered - and reputation and influence developed - at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics and governance, and we deliver value-added services through over 50 global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

Conclusion

In commissioning and disseminating this report, ACCA aims to support senior finance professionals through the challenges they face and highlight the increasingly central role they play in the success of their organisations and the economy at large. Work in this area also includes practical guidance for members, such as revisiting the fundamentals of cash flow management and advising on the balance of staff numbers against current and future workloads.

This project is part of a global initiative, emphasising the value accountants bring to business across the world. By promoting a global theme of accountants for business during 2009-2010, ACCA will highlight the unique contribution finance professionals make to creating sustainable business and the importance wide-ranging training plays in creating the finance professionals of the future.

Visit www.accaglobal.com/accountants_business to access more research and insight from ACCA in this area.



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