



Post Event Review 2009

Making the most of now

Unsurprisingly, the recession and ongoing fall-out from the credit crunch dominated proceedings at the FDs' Forum land event in June. But, delegates learned, uncertain economic conditions also create opportunities, both for businesses and their finance directors.

The finance director has to be the most level-headed member of any board. When times are good, a company needs to ensure it's expanding responsibly. The FD can ensure growth doesn't mask the emergence of bad habits, either operationally or fiscally.

When times are bad? It's the FD who can chart a way through stormy waters and instil confidence in his or her fellow directors using hard facts and reliable numbers. What's needed is a positive mindset geared to making clear and well-informed decisions.

Delegates to the FDs' Forum Savoy Place were delighted, then, to find that the conference programme delivered a wealth of opportunities not only to enhance their understanding of the current business environment, but also to share ideas for helping their companies to survive and then thrive.



Knight turns to day



The opening keynote address was presented by Angela Knight CBE, former blue-chip company director Economic Secretary to the Treasury in the Major government. She's currently Chief Executive of the British Bankers' Association, "not the most popular position to hold at the moment," she admitted. For FDs still concerned about business borrowing, her presentation on financial stability in the banking sector was essential listening.

Of course, accounting standards and regulators failed to stop the credit crunch spinning out of control – while many governments foolishly assumed they only needed one monetary tool (base rates) to control inflation. "In the UK, we're now trying to resolve problems in an aggressive media spotlight and at the wrong time in the political cycle," Knight explained, reminding delegates how difficult it had been to pass the US's bank re-financing package in the run-up to their general election in November. "It's just too convenient for all the parties to blame the banks."

And it wasn't fair, either, to blame UK banks alone for the problems businesses are having with borrowing. "Around £200bn of the £500bn being lent to UK companies does not come from the main UK banks and much of that comes from overseas banks," she replied. Many of the countries where these banks are located have prioritised repatriation of capital, so many lines of credit have disappeared."

Rejecting both bank nationalisations (which add a burden to taxpayers without offering any prospect of increased lending for business) and heavy-handed oversight (either on bank structures or bonus schemes that deliver realistic rewards for appropriate risk-taking), Knight nevertheless called for smarter regulation. Clarifying the responsibilities of the FSA and Bank of England is vital, for example.

But ultimately, we should be wary of crippling financial services in the UK. By seizing the opportunity to put in place appropriate controls without needlessly demonising banking as the only cause of the credit crunch, we can maintain Britain's leading role in the sector – and ensure businesses are able to raise sensible levels of finance.





Light at the end of the tunnel

The conference's first panel session covered strategies to cope with an economic downturn – and the coming recovery phase. It featured five FDs from a range of sectors discussing their own priorities. The key, they agreed, was to inject as much flexibility as possible into your planning.

Or, as turnaround expert Jim Weight put it, "You've got to be downside protected." A former finance director at Westminster Healthcare and HIT Entertainment, he has helped several businesses where there has been no Plan B. "I come across it a lot. The MD convinces himself that rather than plan to make a lot of his friends redundant, he's sure he can deliver the perfect sales pitch, the money will come in and everything will be fine. Often it isn't."

But one of the biggest dangers discussed by the panel is that panicky management cut the one thing that makes them special and will be essential to their future growth: their people. "I'd just like to say a big thank-you to all our competitors who have been getting rid of such great staff at the moment," said Andy Blackstone, European CFO for M&C Saatchi. That's helped the firm open up new offices in Brazil, Japan and Switzerland. Better yet, he said, when your existing staff see you hiring great people, it motivates them to raise their game, too.

One FD in the audience – whose operations include a call centre – had seen staff turnover fall from 60% to 25%. But he also recognised that it might just be the weaker members of staff sticking around. "If you don't identify, protect, motivate and develop your best people – because you're worried there's not a lot of money to go around – you could lose them to companies that clearly do value talent," said panellist Steve Hill, UK FD of Uniq PLC. "And when the recession is over, you'll definitely lose them."



Stuck in the middle with you

The second panel debate focused on the relationship between private equity firms and their investee FDs in a challenging economic environment. Michael Denny, founder of NVM Private Equity and former chairman of the British Venture Capital Association, explained how the private equity model has changed over the years: "It became financial engineering, and by 2008 everything was predicated on models built with forecasts of ever-increasing profits, backed by bank debt issued with 'covenant lite'." In other words, unsustainable.

He said the amount of debt due for refinancing in 2010 is £100bn. That's a problem investee company FDs can't ignore, not least because some PE firms are prepared to surrender their equity and simply hand over their holdings to the banks.

Panellist Sarah Hunt runs EquityFD, placing finance executives into backed business. "The good news is that FDs with a big appetite for risk can buy into these distressed businesses at relatively cheap levels," she said. "It could all go wrong again – but at least you're approaching it from a value perspective. The question is: have you got the right experience of dealing with the banks?"

For an FD's perspective on these challenges, we turned to Chris Blaxall. The CFO of Kilfroast has experience of working with PE backers as well as in family businesses and quoted companies. "Two years ago you were running a growing business and sitting on some nice equity – and that's changed," he said. Simply finding the working capital to grow and develop a business is tough right now.

Denny added that whoever is backing the business and whatever the circumstances of delayed exits or missed growth targets, management must be properly motivated. Without restructured incentives, there's a danger management could walk – and fatally damage the prospects of protecting residual value. "You've got nothing to lose in approaching the backers and having a conversation about how and why that has to happen," said Hunt.

And their advice for FDs? Blaxall stressed the need to act decisively in the recession: "Don't be shy about cutting as deep as you can, as soon as you can and stop the uncertainty." Hunt said FDs should seek out CEOs with whom they can have a massive row – "you need that kind of resilient relationship at times like this." And Denny? "Tell the truth, however bad; act quickly; and remember that it's your job to avoid being bowled over by ambitious plans to expand using debt."





The long view



LSE Professor Charles Goodhart is a former member of the Monetary Policy Committee and coined his own economic law: "any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes." For opponents of target-driven policy, this sounds sensible. But how would FDs – arch users of data to drive decisions –

react to his keynote on the UK economic outlook?

"Beware all forecasts," he began. As Goodhart explained, "they're delivered on the basis that the present, on average, will equal the past. But at the moment, there simply aren't any past circumstances to match our present." Even markets, which ought to be more resilient guides to what may happen, are only semi-efficient. They broke down in the wake of exotic derivatives that divorced pricing from any reasonable notion of underlying cash flows.

But he stressed that there's a real danger that the term "toxic assets" is masking the true situation in the banking system. While some holdings are worthless (or even contain hidden liabilities), plenty of perfectly reliable assets have been dismissed as "toxic" when, if held long term, they retain much or all of their value. Markets may thrive or fail thanks to such semantic distinctions.

Excessive doom in the markets is actually an opportunity to buy. And after the gloom of March 2009, there are plenty of reasons to be positive. For example, the inventory cycle is already turning (stocks are running low, so orders are creeping up again). And demand for housing in the UK remains high – unlike the US, there's no massive overhang of stock, so prices should rise. But the big problem for the UK is that it's hard to determine our "equilibrium growth rate". Between 1960 and 1990, Japan grew at 5% to 6% per annum, he pointed out. Since 1990, it's been more like 1%. That means we could reasonably expect a lower run of "normal" growth here, too – perhaps 2% rather than 2.5% to 3%.

And the UK is walking a razor's edge when it comes to inflation. "If government cuts back on the deficit too quickly, we could enter a new recession and possibly deflation," Goodhart warned. "Cut back too slowly, and inflation will take hold. We need a clear exit strategy – but that's only going to be apparent after the election." Even if the recession ends decisively in 2010, the UK's new government will have to get it right first time.

Great expectations



Suzzane Wood, head of the global CFO practice and partner at Heidrick & Struggles, is the doyenne of finance function headhunters. Her presentation unveiled a collection of research and first-hand experience on how the demands on FDs have changed.

The financial discipline aspects of the role are more acute than ever, of course. Refinancings have become tough; cash, cost-cutting and working capital management are back to the top of the agenda. Meanwhile, boards are demanding FDs with a "just so" approach to risk – not too prudent, nor obviously cavalier.

"The CFO has evolved into a leadership position, they're the right-hand man for the CEO now, a co-pilot," said Wood. No one person could be expected to manage the tsunami of information washing over the FD's desk, so delegation, team management and strategy are much more important. "It's now about working with all the teams in the business to deliver on shared strategic goals."

That places the ambitious finance director in a dilemma. Most of them – especially those aspiring to CEO roles – view leadership skills and visible contributions to value creation as must-haves in the role today. And while battle scars are respected in this environment – handling a profits warning shows you're made of strong stuff – you don't want to be stuck doing all the legwork for board colleagues when times are tough. "There's an expectation that you'll be a Superman," Wood said. "But you can only do so much."





Leadership and the 5,000 mile screwdriver



The closing keynote – on leadership, appropriately – was delivered in idiosyncratic style by General Sir Mike Jackson, former Chief of the General Staff of the British Army. Having led front-line troops in both Northern Ireland and Kosovo, as well as taking on higher-level strategic command positions, his insights were incredibly pointed, practical and inspirational.

“Leadership is art as much as science,” he told the assembled FDs. “It’s innate as much as learned – but it can be nurtured, brought on and developed.” For the army, that means equipping officers and NCOs with the ability to analyse situations; take appropriate decisions; then ensure they’re implemented. Of course, the higher up the chain of command you go, the more you need to delegate. And the further away from the front line you get, the more dangerous it can be to take tactical decisions. Sir Mike calls this “the 5,000 mile screwdriver” – where operatives in Whitehall start ordering “a quarter turn” at the handle end without truly understanding how the head of the tool – in the field – will respond. Leaders must trust their people – and, in turn, be trusted by them to behave rationally. “It’s vital that people feel they can communicate upwards,” he said.

Sir Mike has little time for convoluted mission statements and KPIs. “Process can become the be-all and end-all; outcomes get brushed aside,” he explained. But straightforward objectives and clear milestones are valuable tools for leaders. He gave an example from a squaddie who succinctly explained the objective before the invasion of Iraq: “Get across that border, kick that bugger out and get home for some beers.”

Of course, competence is a basic requirement for leadership. But sound judgement, integrity, humanity, confidence, sense of humour, accessibility and courage are all important. “And the biggest challenge is change,” said Sir Mike. “It’s human nature to cherish our comfort zones. But that just won’t do.” Leaders have to know how to bring people out of themselves.

In a period when businesses are facing strong external forces of change, this was a vital message. FDs must beware the temptation to sit in an ivory tower. A strong understanding of what’s going on, the ability to plan and then act – and, above all, the ability to take others with you – are essential qualities in today’s finance function.

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