KPMG

Issue 3, April 09

Agenda

Insights into growth, performance and governance

"Now is the time to invest"

But where will Dubai's SWF Istithmar put its money?

Finding capital

Innovative ways to solve the CFO's biggest challenge

Geek tragedy

The true cost of misunderstanding IT

"Foolish courage, luck and a good bank manager"

How Kiran Mazumdar-Shaw created Asia's biotech giant

AUDIT ▪ TAX ▪ ADVISOR

“The plain fact is you can’t have capitalism without capital.

The current lack of liquidity is a serious challenge for CFOs as they strive to protect their businesses.

We are in a period of asset deflation. The recovery will begin when asset values stabilize and banks and investors move back into the market in a serious way. Banks may never, as we debate on page 18, lend as readily as they did in 2005-7, but they need to lend money to make money and businesses need to borrow it.

Until life returns to normal, companies must survive the turmoil and make strategies for the future. This means getting back to the old-fashioned virtues of clear direction, financial discipline, transparency and building the confidence of potential investors and lenders. But critically, they should also be looking for the opportunities that eventually emerge.”

ALAN BUCKLE
Global Head of Advisory

Publication name:
Agenda: insights into growth, performance and governance
Publication no
903007
Publication date
23 March 2009
Printed in the UK
by MPG impressions. Environmental Management System ISO 14001 accredited and Forest Stewardship Council (FSC) chain of custody certified
Printed on Think White, manufactured from 100% Elemental Chlorine Free (ECF) pulp, of which 50% is recycled post consumer fibre and is sourced from well managed forests independently certified according to the rules of the FSC.

contents

30

8

26

22

Agenda: Insights into growth, performance and governance is published by Haymarket Network, Teddington Studios, Broom Road, Teddington, Middlesex TW11 9BE, UK on behalf of KPMG International. **Editor** Paul Simpson **Managing Editor** Robert Jeffery **Art Editors** Stephen Hopkins, Jo Jennings, Sarah Power **Production Editor** Vanessa Longworth **Staff writer** Laura Bridgestock **Sub editor** Ian Cranna **Designer** Paul Frost **Group Production Manager** Jane Grist **Senior Production Controller** Hannah Pettifor **Board Account Director** Kate Law **Senior Account Manager** Caroline Watson **Group Art Director** Martin Tullett **Editorial Director** Simon Kanter **Acting Managing Director, Haymarket Network** Andrew Taplin **Reproduction by** Colour Systems, London, UK. **Cover photography by** Juidin Bernarrd/Khaleej Times.

strategic intelligence

Revolutionizing regulation

G20 targets tax havens, hedge funds and risk taking

"Business should expect a revolution in regulation over the next two years." That is the stark message from Jorg Hashagen, KPMG's Global Head of Financial Risk Management, who says the push for clear, consistent and stronger regulation is being driven not by traditional bodies such as the Basel Committee but by the leaders of the world's 20 largest economies (G20).

15

percent of the world's countries are described by the OECD as tax havens

Hashagen says this revolution aims to avoid another financial meltdown, bring hedge funds and private equity into the regulatory fold, ensure taxpayers get value for public money being invested through bailouts – and seeks to ensure that tax havens like Andorra, the Bahamas and Switzerland are not used to evade taxes or launder money.

G20 working groups are now exploring three key issues: sound, transparent regulation; global cooperation to protect financial markets; and reform of the IMF, World Bank and other multilateral development banks.

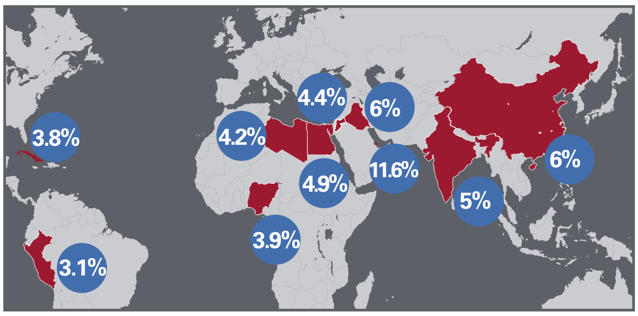
Hashagen says that the financial sector should be under no illusions about the new regulatory environment. "Regulation and oversight are likely to be more closely aligned with the risk profile," he says, "and be more alert to upcoming systemic risk. Banks will have to supply a much more detailed picture of their liquidity position and regulators will be quicker to react if they see something they do not approve of."

Hashagen says the G20 countries are backing previous rhetoric with investment in technology and personnel to ensure regulators are better suited to fulfil their new, more ambitious, global mission.

G20 leaders talked tough on tax havens, and they're set to back it up with appropriate measures

Going for growth

Not every country is counting the days until 2009 ends: for some, the year could see genuine growth, as the map below shows. True, India and China's respective 5% and 6% rises in GDP are disappointing after prolonged double-digit growth, but Qatar – which already has the highest GDP in the world – is predicted to lead the pack again with 11.6% growth. The Qatari government's policy of investing up to 3% of its GDP on R&D is seen as a key reason for its success.



Projected GDP growth, 2009
Source: Economist Intelligence Unit

microtrend

Emerging MNCs

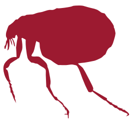
They don't like to shout about it, but multinational companies (MNCs) from emerging economies are gradually making their presence felt. China's Haier has quietly become the fourth largest white goods manufacturer on the planet, while China Mobile is the leading mobile carrier and Gazprom has sidled its way into the list of the world's biggest companies. Last year the combined revenues of the top 10 emerging MNCs were just shy of US$1 trillion (€800bn). Within 10 years, they're likely to represent a third of companies in the Fortune 500, up from 4% 10 years ago. Latin American MNCs are growing too, including Boeing's Brazilian rival Embraer and Mexican food giant Bimbo.

Wolfgang Kumm/epa/corbis. Shutterstock

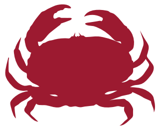
Corporate animals
Which creatures should execs ape?

Want to get ahead in business? Rent *Watership Down*, says Stephen J. Spear, author of *Chasing The Rabbit*. "High-velocity rabbit organizations" are apparently the future. It's not the first time business gurus have looked to the animal kingdom:

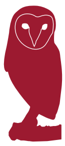
Fleas
Big businesses are elephants, says organizational expert Charles Handy – but they need a "team of fleas" (nimble, lean sub-contractors) to survive, and must learn from their diminutive friends if they want to flourish.



Crabs
"If you want to build a new culture, do not attack the old one. It simply invites a battle. Instead, act like a crab; tackle the culture sideways on," says author Jo Owen. While she doesn't say so, claws are also useful.



Owls
Management coach John van Maurik believes a business leader should "behave like an owl". That means knowing the ins and outs of an organization but never getting your hands dirty with in-fighting or scrapping for survival.



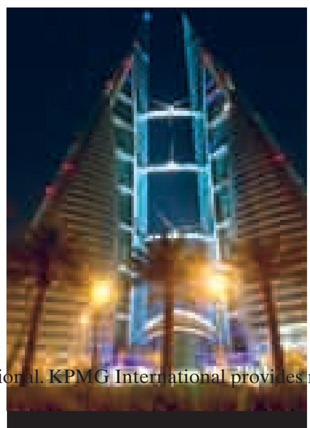
Starfish
Ori Brafman became a best-seller with his deep-sea cost-cutting analogy. Starfish look like spiders, but "cut off the arm and they'll grow a new one... and the severed arm can grow an entirely new body."

Banking on Islam
The West wakes up to Shari'ah finance

Bankers seeking inspiration in tough times might find it in an unlikely source. Islamic finance is growing at 10% a year and has escaped the worst of the credit crunch. What is it doing right?

Many conventional financial istitutions are anathema to Islamic finance, which is governed by Shari'ah law. Restrictions include a requirement for all investments to be backed by assets, a ban on investing in such areas as gambling, pornography or pork, and no interest on investments. As Indonesian finance minister Sri Mulyani says: "Banking should be an instrument for development, not speculation."

Such principles ruled out investing in collateralized debt obligations and other disastrous schemes – so Islamic banks have few toxic assets. Dubai, Malaysia (around 12% of its assets are Shari'ah-compliant) and London are regional bases for much of the US$500bn (€390bn) global Islamic finance assets, and Bahrain (left) is also popular.



The good news for private equity

Vittorio De Pedys, affiliate professor of business finance at ESCP EAP European School of Management, says it s not all doom and gloom for the troubled sector

Leverage is out of fashion   especially in private equity
At this year s SuperReturn annual conference in Berlin, where the world s private equity investors met, the delegates were in reflective mood. They may have realized relying on cheap debt to fund covenant light acquisition deals of US$100bn (€78bn) is no longer viable.

This kind of fund can still generate equitable returns
Henry Kravis, co founder of KKR, and David Rubenstein, co founder of Carlyle Group, agree private equity must change to survive. Managing a buyout takes different skills to those that generate cash in an expansion. Big funds are behaving differently: TPG, an LBO house and specialist in distressed financial companies, is returning to investors 25% of the US$6bn (€4.6bn) it raised for such opportunities, yet Carlyle is raising fresh funds for this purpose. Many are focusing on preserving existing holdings.

This is what the future will bring for private equity:
Smaller deals, lower IRR, longer divestment times (funds must hang on to investments longer, with exits provided by strategic buyers), fewer distribution opportunities, increased regulatory scrutiny, lower acquisition multiples, more effort in managing and improving the EBITDA growth of acquired firms, more minority stakes, more equity and less debt.

Expect a discount on NAV
With smaller amounts of new money flowing into funds and many risk averse investors looking to sell their quotas, it is safe to imagine a larger than normal discount on NAV. Independent funds may become smaller and more focused; more deals will be undertaken in emerging economies.

The need for equity capital is greater than ever
This means it's not all gloom for private equity investors. In times of crisis everyone turned to the only available provider of equity 'of last resort': the state. But private equity funds might engage with governments looking to exploit the fact that these market players have lots of capital and are willing to invest. This will require more transparency, co-operation and collaboration. It won't be easy, but there is a powerful coincidence of interests here. With banks experiencing a credit crunch, private equity funds may look to directly refinance companies.

Investing at a lower trading multiple should mean high yields
It also means less debt from banks, with more rigorous terms attached, will force discipline on deal making and on the day to day job of focusing on balanced and healthy growth of portfolio companies. A return to more normal, safer business patterns will, in the long term, be good for everyone.

What's on their 'to do' list?

These five senior executives have very different backgrounds but one goal: ensuring their company grows wisely in difficult times

01

D. MICHAEL STEUERT

60, Senior VP and CFO, Fluor Corp

According to CIBC World Markets, governments will spend US$35 trillion (€27 trillion) on infrastructure in the next 20 years. As companies jostle for orders, Texas-based Fluor has a key differentiator: smart technology that makes it possible to build bridges and mass transit systems faster, safer and more efficiently.

The story so far Formed in 1912, Fluor is one of the world's biggest infrastructure groups, offering engineering, construction and project management across six continents. Once specializing in oil, gas and petrochemicals, Fluor's public sector business is growing. The 2008 results were so strong (fourth-quarter profit rose 30%, and the order book hit a new high) CFO D. Michael Steuert upped his projected earnings for 2009. These results also reflect the way Steuert has improved Fluor's financial processes since arriving in 2001.

What's next? Fluor has ridden out downturns before. It survived the Great Depression thanks to a huge order from Shell and, with the U.S. government tipped to spend around US$122bn (€79bn) on infrastructure technology, has beefed up its tech credentials thanks to a tie-up with Siemens. Fluor is also hopeful its renewable energy business will grow.

He'll succeed if… The U.S. administration doesn't take a 'jobs first' stance on infrastructure and renewable energy spend. Fluor meets its improved profit forecasts and makes strategic acquisitions. Its order backlog stays reasonably firm.

Landov/PA Photos

02

GAIL KELLY

52, CEO and MD, Westpac Bank

Eleventh on the *Forbes* list of most powerful women (ahead of Oprah Winfrey), Gail Kelly runs Australia's largest bank by market capitalization. Her immediate tasks are to justify the acquisition of a rival, and sensibly plot global expansion.

The story so far Once a Latin teacher, South African-born Kelly started in banking as a teller, rose to CEO at St George and in 2007 seized the chance to run Westpac, Australia's oldest bank. She then clinched a US$9.2bn (€7bn) merger with her old company to make Westpac the world's ninth largest bank. Kelly will defray much of the US$450m (€360m) bill for integration by cutting middle managers, economizing on IT and striving to cross-sell products across the expanded customer base.

What's next? Westpac has raised more than US$2.4bn (€1.9bn) of capital in the last four months and roughly the same again in bonds in Japan. Some analysts say Australian banks should exploit the recession to buy foreign rivals in new markets. But Kelly will be wary of over-ambition and will focus, in 2009, on integrating St George.

She'll succeed if… Australia's economy remains relatively robust. Savings from the merger continue to exceed forecasts by 10% – and the St George integration is handled smoothly. The group comes close to achieving its goal of not losing any Westpac/St George customers.

03

ONKAR S KANWAR

66, Chairman and MD, Apollo Tyres

After driving India's tyre giant forward for 30 years, chairman Onkar S Kanwar faces a triple challenge: rising raw material costs, cheap Chinese imports (which now account for 14% of Indian tyre sales) and downward price pressure as it seeks to become a major exporter.

The story so far In 2008, Apollo became the first Indian tyre manufacturer to achieve US$1bn (€760m) in annual sales. Rising costs of raw materials helped to wipe 91% off third-quarter profits in 2008 but Kanwar believes the worst inflation in these prices is over. He is so confident of long-term growth that the group is pressing ahead with a new plant in Chennai.

What's next? Apollo's quandary may become familiar to Indian business: its low-cost model isn't as low-cost as the Chinese, so it must look to new markets. After acquiring Dunlop's South African operations in 2006 and opening an R&D and sales base in Germany, Apollo wants to ramp up production overseas as it strives to become one of the top 10 in its sector by 2013. To do that, Apollo must treble sales. A new factory in Hungary has been canned due to local opposition but Apollo still plans to manufacture in eastern Europe in the future.

He'll succeed if… Indian vehicle sales pick up. Exports keep growing fast. Apollo acquires a European plant.

04

TONY FERNANDES

44, Chief executive, Air Asia

He's been likened to Richard Branson and Stelios Haji-Ioannou, but Tony Fernandes has his own vision – a global low-cost airline with a long-haul spin-off.

The story so far Once an accountant for Branson's Virgin, Fernandes is Malaysia's best-known entrepreneur and runs Asia's largest budget airline. Behind the high profile, Fernandes has shown courage: in 2001, he remortgaged his house to buy Malaysia's national carrier Air Asia when it was down to its last two planes. Within a year, the airline had broken even on a low-cost model and now has the largest network of routes in Asia.

What's next Despite the credit crunch eating into profits, Fernandes is expanding his long-haul arm, Air Asia X. By 2013, he wants 25 Airbuses flying to 25 cities. A new route from Kuala Lumpur to London already looks like a winner. "The low-cost model can only work if you stick to it religiously," he says. "We have survived SARS, bird flu, protectionism, earthquakes, tsunamis and terrorism, so we are pretty well stress-tested." A merger with Qantas's low-fare arm Jetstar stalled but even in 2008, a brutal year for the business, passenger numbers were up 21% and high-margin ancillary income soared by 88%. So far, Fernandes' motto – "Never listen to anyone else" – has stood him in good stead.

He'll succeed if… Fuel prices stay stable and passengers keep hunting bargains. Airlines don't engage in suicidal price-cutting. Fernandes' conviction that AirAsia should grow, even while rivals cut back, boosts shareholder value.

05

PHILIPP KOECKE

37, CFO, SolarWorld

The only cloud on Philipp Koecke's horizon is the stock market's bafflement at SolarWorld's audacious US$1.3bn (€1bn) bid for Opel. Its share price sank 20%, harsh punishment for what Koecke believes was a sensible plan to buy the technical know-how to create "Europe's first green automotive group". But the long-term outlook for this solar energy group remains sunny: its core business – making photovoltaic cells for solar panels – is growing at 30-40% a year.

The story so far SolarWorld is a market leader in solar energy, covering the whole value chain from raw material to finished product. Germany's fastest-growing company in 2008, it bought Shell's solar operations, built America's largest solar cell plant for US$500m (€390m) and saw revenues rise 30%, with sales less reliant on Germany. Fears over energy security and climate change should drive growth, especially in China, where the group leads a project to solar power 100 villages.

What's next? Koecke is "comfortable" with the company's financial position and predicts US$1.3bn (€1bn) sales in 2009. SolarWorld has high liquidity reserves to fund innovation, new products and investment. If he can reassure investors, the company's biggest challenge may be silicon: in 2007, it couldn't buy enough.

He'll succeed if… The new U.S. plant meets its target of 500% growth by 2011. Raw material costs don't balloon. His investor roadshow lifts the share price.

"We have survived SARS, bird flu, protectionism, earthquakes, tsunamis and terrorism, so we are pretty well stress-tested"

GO FURTHER

Find more about these businesses at: *www.fluor.com; www.westpac.com.au; www.apollotyres.com; www.airasia.com;* and *www.solarworld.de*

Do you have a philosophy of management? "Yes. Use your common sense"

Kiran Mazumdar-Shaw started Biocon in her garage in 1978.
So how did she build it up into Asia's largest biotech group?

BY PAUL SIMPSON

The best thing that ever happened to Kiran Mazumdar-Shaw was not making it as a brewer. "I actually started the business by accident," the chairman and CEO of Biocon admits with a hint of a laugh. "I had trained as a master brewer in Australia – my father worked in that industry – and came back to India looking to brew beer. But I couldn't persuade anyone to employ a woman. Then I met an Irish biotech entrepreneur called Leslie Auchincloss who was looking for someone to make a plant enzyme in India. I asked him if he was sure, because I was a woman, with no formal business training and I wasn't rich."

Backers were deterred by her youth, gender and specialism ("in those days, people couldn't even spell biotechnology"). She says: "The business was an act of foolish courage. I was high risk – 25, a woman, with my garage as an office – I had problems raising finance and hiring people. But, as someone said, defeat is temporary, giving up is permanent. Just when I thought nobody would back me, a bank manager said: 'I'll give you credit'.

The bank's faith was repaid spectacularly. In 2004, Biocon went public, in a massively over-subscribed share offering that left Mazumdar-Shaw with 40% of the stock. Today, Biocon is the largest biotech company in Asia, 20th largest in the world by revenue and is well placed to become one of the top five in the world by 2020.

That success has led Mazumdar-Shaw to be dubbed 'the biotech queen of India' (by the normally sober *Economist* magazine) and even India's 'mother of invention'. Such titles reflect the success of the business and her profile as one of the best known female entrepreneurs in India. But she stays grounded by referring to herself rather self-deprecatingly as "the accidental entrepreneur".

How does she manage?

The best managers, like great poets and actors, have their own style, influenced by their personality and the way they have synthesized and interpreted what they have learned from rivals, mentors and relevant examples of best practice. Some future managers are lucky enough to study the discipline at a business school. Mazumdar-Shaw started her business with just a technical qualification, a partnership, a garage and a few

Biocon's way

1. Manage by common sense
2. Avoid hierarchies
3. Delegate responsibility
4. Let divisions remain autonomous
5. Encourage people to own problems
6. Learn from failure
7. Don t duck the big challenges
8. Luck is about seizing opportunity

Biocon

thousand rupees. Had she, I wonder, been especially influenced by any particular manager or theory about management?

"A lot of management seems to me to be just common sense," she says with disarming candor. "And that's the way I've tended to manage Biocon. If you're making an acquisition, do it for the right reasons. It can't simply be because the time or price is right." But as she describes how she runs Biocon with "common sense", some themes emerge.

Many entrepreneurs who found a business become more autocratic as their empires grow and the corporate culture changes. But from the off, Mazumdar-Shaw has tried to keep the organization as flat as possible.

"I've veered away from the hierarchical style prevalent in many traditional Indian companies. That style is detrimental to growth, success and efficiency. You need to make decisions quickly and hierarchies tend to slow down the process."

She has preferred to recruit the best people and let them do their jobs. "I've tended to delegate a lot of high-end responsibilities across the company and allow the divisions to become autonomous. You empower people by getting them to own the job. My style is less about instructing people, it's encouraging people to step up and own a problem. Throw them in at the deep end, tell them there's a big problem and it's their job to solve it, encourage them to work with others in the business. That builds a sense of camaraderie, of teamwork.

"You have to remember that success and failure are two sides of the same coin. Even good people make mistakes, and they may cost you money, but in the long term, good people will deliver more value for the business."

Mazumdar-Shaw may call herself an accidental entrepreneur but she has never felt the slightest desire to stop being one or sell the business. "We have a different model of entrepreneurialism in India," she says. "I know in the West, you have what you might call serial entrepreneurs who start up a business with an eye to selling it. Here, an entrepreneur is measured by the ability to build a strong, secure business."

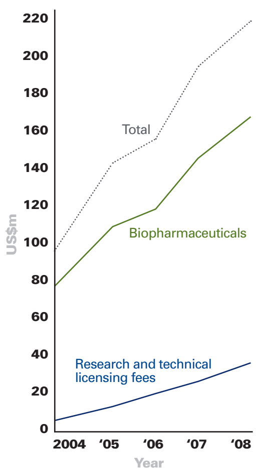
World service

To generalize crassly, Indian entrepreneurs are often characterized by their global outlook. With an Irish business partner, Mazumdar-Shaw had her eyes on the global market when she was running Biocon from her garage. "At first, I just wanted to run a profitable business. But ambition is evolutionary. When you reach a certain critical mass, you see the big picture. The focus has been on building a global scale in everything we do. And we

Biocon at a glance

- Founded by Kiran Mazumdar Shaw in 1978 to make and export a plant enzyme
- Biocon is now Asia s largest biotech company and the 20th largest in the world by revenue
- Revenues exceed US$360m (€275m), 75% from outside India
- Based in Bangalore, Biocon has joint ventures in Cuba and Dubai and a majority stake in German pharmaceutical marketing company AxiCorp
- Spends 5 7% of revenue on R&D
- Base EBIDTA margins around 30%
- Key drugs being developed include a new oral insulin and an anti arthritis molecule
- Aims to become a US$1bn (€780m) business by revenues in the next five years

Biocon's revenues
Source: Biocon



"We have a very different entrepreneurial model in India. We're not serial entrepreneurs looking to sell – we want to build a good, secure business"

strengthened our global presence with our first acquisition in Europe – buying 70% of AxiCorp for US$39m (€30m) in 2008."

She makes the journey to becoming biotech queen sound easy. It wasn't. "There was the technological challenge of building a biotech business in a country where the infrastructure was too primitive to support a high tech industry that demanded uninterrupted power supply, high quality water, sterile labs, imported research equipment and advanced scientific skills. I had to manage risk by addressing these challenges. It took a lot longer than I thought."

She persevered for the good of Biocon – and India: "My purpose was to create a biotech business in a country that had a poor research culture with limited opportunities for scientists and engineers. It was about stopping the 'brain drain' from India."

The brain drain hasn't stopped, but in biotech it has slowed. Through growth and acquisition, Biocon has moved up the drug industry's value chain, offering pre-clinical discovery, clinical development and commercialization. Syngene, the group's custom research subsidiary – the first of its kind in India – has 1,000 scientists and engineers and enjoys the lowest attrition rate in the industry.

Such talent will, she says, give Biocon an edge in a stagnant economy: "The cost base is very competitive here." Even in 2008, India's biotech industry grew 20%. But Mazumdar-Shaw says the Indian industry is on the brink of two paradigm shifts. One is caused by the economy, the other is a shift the industry must embrace to prosper.

"The silver lining in this gloomy economic scenario is that, with the hostile regulatory environment and with insurers and governments challenged by rising healthcare costs, there is tremendous pressure on Western companies to bring down the cost of drug development. We expect more R&D and manufacturing to shift to India."

In the long run, Mazumdar-Shaw says, Indian biotech cannot compete on cost alone. And here, she believes, the industry and its financiers need to make their own paradigm shift: "If India Inc is to lead globally in pharmaceuticals, we must enable the shift from manufacturing generics to inventing and commercializing novel drugs."

Developing intellectual property in the pharmaceutical business is fraught with risk. But she says: "Only by building intellectual property can the Indian drug industry attain sustainable growth, moving from low margin, commoditizing generics to stable, high margin new molecules."

The rewards are almost as big as the risks. Biocon is seeking partners to market its oral insulin molecule. The insulin is now in its third phase of trials and could, she estimates, be a blockbuster drug in a few years.

She can see the challenges but isn't daunted by them. "One problem with India has been that we are not good at innovation. We are good at imitation. But there is nothing wrong with that. Even Japan was like that. The inputs for innovation have to come from outside. My model has been partnering for innovation. I'll do all my development and mistakes here in India at a much lower cost."

Blood, beer and biotech

Mazumdar-Shaw could have been a brewer or a doctor ("I didn't get into medical school because I couldn't react to blood in the way a doctor should"). Instead, through gender bias and squeamishness, she founded a biotech firm. She is grateful to the brewers who turned her down – and the man who has been a pivotal influence on her career: her father. "The family pressure for girls to marry young can be very strong in India, but my father would say: 'Look Kiran, I don't want you to focus on just getting a good husband, like the rest of your friends. I want you to make use of your education and pursue a good career.' That was very unconventional." ●

Finns can only get better

How finance minister Jyrki Katainen plans to soften the impact of recession

BY PAUL SIMPSON

Booming economies seem much alike, recessionary economies shrink in their own way. The outlook for Finland may seem bleak: its GDP will contract by 1-2% this year, government debt will grow while vital export markets shrivel. Yet 38-year-old finance minister Jyrki Katainen (below right) can make one statement that will have his peers turning dollar-green with envy: "The vast majority of Finns will be economically better off this year than last."

With inflation, personal taxation rates and borrowing costs falling while wages rise, Katainen says: "Wage earners who do not lose their jobs will see a large boost to their buying power." The cost of stimulus and unemployment (which may rise to 9% in 2009) will force the state to borrow at least US$38bn (€30bn) in the next three years, but public debt will still amount to only 45% of GDP. A controversial plan to raise the pension age from 63 to 65 was recently withdrawn and other ways to increase working years are being considered.

After an agonising recession in the early 1990s, when house prices fell 50%, Finnish leaders redefined their country's global competitive edge, investing in education, innovation, technology and R&D. Between 2000 and 2005, the country spent a third more on R&D per capita than the U.S. Export credit agency Finnvera has created 70,000 jobs with guarantees, microloans and advice. Finland has become a knowledge economy, strong in IT and telecoms. The nation's flexibility is symbolized by telecoms giant Nokia which, 140 years ago, was best known for pulp and galoshes.

The strategy worked. Last year, the government surplus was 4.4% of GDP (good enough for it to borrow money at lower rates than most of Europe) and the trade surplus was US$4.7bn (€3.8bn). Well-capitalized Finnish banks own few toxic assets, corporate balance sheets are strong and there has been no property bubble.

Even Katainen, named best European Union finance minister by the *Financial Times*, cannot stimulate trade. He will cushion the blow with US$380m (€300m) in tax cuts, aid for corporate finance, phasing out of employers' social insurance contributions and infrastructure spending. He says: "When a billion in state funds is spent on roads, its impact will be that of a billion. If the billion is spent on bank capital, it will mean 10 billion in credit to business and a significant impact on employment."

His officials are studying 300 ideas for economic stimuli from readers of the *Helsingin Sanomat* newspaper. That sounds gimmicky, but officials say many of the ideas for small-scale infrastructure projects are workable. The scheme reflects Katainen's view that Finland's social cohesion will be a strength in the coming storm: it has the seventh smallest wealth gap in the OECD. He urges business to ensure incentives and stock options do not create a sense of inequality: "It is not always sufficient to say these are based on agreements that have been made. That is what jobs are also based on."

Looking ahead, he expects renewable energy (which already accounts for 23% of Finland's energy use) and an ageing population to bolster its economy: "The whole world will need mobile welfare services for the elderly and Finland will confront these questions before other countries. We need to develop these products."

> "If the state spends a billion on bank capital, that is 10 billion in credit for business. That will help employment"

Katainen may have to spend more, and can't forecast the timing of a turnaround, but he hopes Finland will face a very different problem in a few years time: a labor shortage as baby boomers retire and exports soar again. ●

FINNISH BUSINESS

1. Nokia
The telecoms giant and its suppliers account for 7% of Finland's GDP.

2. Moomins
Tove Jansson's ghost-like creations have attracted 32 million visitors to a theme park and sold millions of books and comics.

3. Linux
Linus Torvalds designed the open source operating system at the University of Helsinki.

4. Xylitol
The sweetener created by Finnish group Cultor.

5. Santa Claus
Responsible for 10% of Lapland's GDP and keeping thousands of huskies in gainful employment.

John Warburton-Lee Photography/Alamy. Martti Kainulainen/AFP/Getty Images

'The Money Lenders' by Massys or Metsys, Quentin (c.1465-1530), Museo de Bellas Artes/Bridgeman Art Library

Are you optimizing costs or just making false economies?

CFOs should look beyond 'slash and burn' to sustainable savings that transform businesses

BY CLAIRE OLDFIELD AND WALTER HALE

Nearly 800 years ago, an unknown Florentine banker invented double-entry bookkeeping. A fragment of his account book survives, proof that as far back as 1211, keeping track of outgoings and incomings was a challenge. Even with all the data, spreadsheets, and IT systems at a modern CFO's command, their picture of their business's costs is unlikely to have the clarity and simplicity of a 13th-century banker's, making it especially hard, at this critical point in corporate history, to be sure they are managing cost effectively. That's why the institutionalized approach – 'a 10% cut in budgets across the board' – is so appealing. Appealing but potentially dangerous.

The key is not to cut costs, but to optimize them. The distinction might sound meaningless but Steve Hill, Global Head of KPMG's Business Performance Services practice, disagrees. "It's about getting people to do things better, smarter and more efficiently. You have to look at how to shift assets to value creation. That's why KPMG firms talk about cost optimization, not reduction or cuts." The aim is to cut the right costs through operational and organizational change that will ultimately make the business more viable in the long term.

Hill suggests one of the first steps is to look at your business in 3D. Focus on key factors as you consider the problems you face: people, processes, technology and risks. "You should look at these in terms of sustainability," Hill says. "Then measure them to ensure those metrics have been maintained or improved on."

1 Don't be scared of the bigger picture

You don't have to outsource key operations to India to benefit from the principles of frugal engineering. "It's reverse engineering," says Hill. "You figure out where you need to be and go back and see how to do it." In other words, think like a start-up – work out at what price you need to sell your product or service and work backwards.

This could mean tearing up established processes and starting again. Every strategy starts to decay the day it is created and you may need to

Kings (and queen) of cost

Three leaders who made a real difference to the bottom line

1984

Reuben Mark

Colgate's new CEO cut management, fostered entrepreneurial spirit and closed plants. In two years, net income rose more than 150%.

2006

Haruka Nishimatsu

Japan Airlines' frugal CEO takes the train to work, has taken drastic pay cuts and led the company into the black.

2008

The Queen

The royal grant hasn't changed since 2000 – a 19% cut in real terms. Last year HRH cut her phone bill by 20% and utilities by 12%.

Rob Kinmonth/Time Life Pictures/Getty Images. Rex Features. MovieStoreCollection.com. www.oneworld.com

reinvent your business model to compete with newer rivals. "Ask yourself if it's possible to simplify your business model and whether your model was correct in the first place," says Hill.

2 Thinking small can be useful too

When Larry R. Carter became CFO of Cisco Systems in 1995, he was amazed by the size and complexity of the monthly profit statements. Reducing them to a single sheet of A4 was the most obvious way to prove financial processes were being rethought. He went on to amalgamate departments, giving managers the power to restructure them in the most efficient way possible. The sound base he put in place is one reason Cisco now has US$30bn (€24bn) in cash.

3 Share the pain

It's good for morale if staff can see that senior management are suffering too. FedEx CEO and founder Fred Smith has taken a 20% pay cut: "All our management compensation is heavily related to the performance of the company," he says. "At the first-line management level it's maybe 15% or 20%. At my level it's 90%. So obviously, as the economy has gotten weaker, a lot of that expense has simply gone away." Smith's act of leadership sends out a strong message to staff and investors.

4 Look beyond your peer group

It's easy to emulate your rivals' cost-cutting strategies, but are they the most effective for your business? "CFOs should look outside their traditional peer group for ideas about cost," says Aidan Brennan, Head of Performance Advisory for KPMG Europe LLP and partner in the UK firm. "It's beyond traditional benchmarking, instead asking bigger, more challenging questions by looking for alternative comparisons."

Instead of just aiming to reduce the cost of the finance function by 10%, CFOs could consider moving the function offshore or to shared services. As Brennan says: "You only get to the big prize if you do something big." Simplifying the finance function by streamlining traditional processes may also free up the department to take a more strategic role.

Four years ago, Tony Davis, CEO of Singapore's low-cost carrier Tiger Airways, decided the airline industry's cost base was unsustainable. "We don't look to Cathay or British Airways for inspiration but to Amazon," he said. Getting the cost base right was essential if Tiger was to compete on ticket prices and stood it in good stead when fuel costs surged. Davis now expects to win new passengers in a recession and believes business passengers will account for 15% of its traffic by March 2010.

> *"Ask yourself if it's possible to simplify your business model – and whether your model was correct in the first place"*

5 Engage the workforce

Plotting a clear course forward is vital. "If your whole message is 'we have to do this cheaper' you don't energise an organization," says Brennan. "It is really effective when the message comes from the top of the organization, painting an idea of a future strategy. Winning people's confidence is an important part of change management and that comes from leadership. Difficult times put a premium on leadership and it is a unique opportunity to build and enhance trust and show everyone is working on things together." If staff have a sense there is a long-term strategy, they are more likely to bear the short-term pain.

Cost-cutting gone wrong

Milky way
The Joseph Schlitz Brewing Company was ranked America s second best brewery in 1976. But then the company introduced a cheaper, high temperature fermentation process which gave the beer that made Milwaukee famous a milky taste. Sales plummeted and the family brewer was bought out in 1982. Old style Schlitz beer is still made today by the Pabst Brewing Company.

Jet back
Airline TWA started selling off assets after chairman Charles Tillinghurst announced: There s no money in the Pacific and no money in cargo. We re gonna shrink this airline until it s profitable. That day never came Trans World went bankrupt in 2001 and was sold to American Airlines.

Double trouble
Moviemakers who have dreamed of making two films for the price of one should heed the cautionary tale of director Richard Lester. The stars of *The Three Musketeers* (below) Racquel Welch, Oliver Reed, Richard Chamberlain and Michael York claimed that Lester hadn t told them they were being used to make two swashbuckling adventures. (The second, *The Four Musketeers*, was released in 1974.) Enraged, the actors sued and won damages.

Spirit of Scrooge
Whatever you do, don t cancel Christmas. Canadian department store Eaton s had sponsored Toronto s annual televised Christmas parade North America s largest since the 1930s. In 1982, it laid off Santa and his elves and cancelled the parade in the midst of a cash crisis. Cue front page pictures of tearful kids (there was a three year wait to appear in the event) and a customer boycott. Rival stores gleefully stepped in to save the day.

Working with the relevant parties can also help you focus your cost optimization efforts. Cutting capital expenditure can, superficially, seem like an easy save but a collaborative approach should, at least, ensure that the business isn't harmed. The same approach could yield sustainable cost savings in inventory. Some consultants suggest that a sustained, careful systematic attempt to eliminate such buffers as "I order a week early just to be on the safe side" can reduce inventory by 20% without jeopardizing the future of the business. Swiss chemicals company Clariant has assigned a team of 40 people to work on reducing global inventory, with CEO Hariolf Kottmann lauding its effects after just a few months of scrutiny.

Recessions are a self-evident catalyst for change. And a business that develops line managers' leadership skills – and asks them to lead on an issue as vital as cost optimization – will find itself better placed in the long run.

6 Manage your head count wisely

Many cost-cutting programmes rely on head count – it is a quick win if businesses just want to survive, and the savings are relatively easy to predict. But simply getting rid of staff is not always the best strategy, and can be poorly executed. "Focus on those who are performing better, and focus on 'fit' to get the skills to make the business better," says Hill.

If job cuts are not properly coordinated and communicated, staff may be distracted by the need to mend processes and the workforce may be unfocused and unmotivated. A more strategic approach could be to consider a 5% reduction in salaries and a flexible work program.

7 Technology isn't always the answer

Managers looking to improve efficiency often latch on to technological solutions – and staff, especially in technically driven organizations, will often suggest these. But one global chemical company, running a pilot project to improve efficiency, found that 60% of the value it generated came from new work processes. This realization led the group to raise its goals, sometimes by a factor of three. Italian distribution company Amplifon sees the downturn as a positive opportunity to focus on embedding existing systems, rather than expand. CFO Ugo Giorcelli says IT costs account for only 1% of sales – looking at the supply chain, and cutting down on outsourcing, will save more.

8 If you've bought a business recently...

…ask yourself: has the full potential of that merger or takeover ever been realized? (Research from KPMG in the UK suggests that most acquisitions don't live up to expectations.) Often the very people who were responsible for the merger don't stick around in the business, and little energy is put into efforts to integrate. This can lead to duplication of services and positions. "Companies grow like this for decades," says Hill. "You have wild duplication and overlap, and inefficient business processes." Realizing this – and making the appropriate organizational changes to rectify it – can permanently benefit the business.

9 And make sure you deliver

In the past, says Hill: "Businesses have set very modest cost reduction targets and failed to deliver on those." CFOs can come unstuck if they don't track the benefits of cost cuts. The program can be mired in confusion, with people claiming they have made savings but no overall sight of what success looks like. "Make sure savings are hard-wired to what you are doing," says Brennan.

Cost should always be on the agenda because, Brennan says, it is about encouraging better quality service and better processes: "It is part of the over-arching business goal and tied to strategy. The market is in a troubled state and reducing cost comes into sharper focus. That is the challenge for all organizations." And that challenge falls especially heavily on CFOs. ●

So why is Dubai's sovereign wealth fund investing in a circus?

Because David Jackson, CEO of Istithmar World, is sticking to his long-term strategy – even in a downturn – and defying the stereotypical view of SWFs

BY RHYMER RIGBY

ISTITHMAR EXPLAINED
Founded 2003
Chairman Sultan Ahmed Bin Sulayem
CEO David Jackson
Structure The group has three divisions – capital, ventures and aviation – and employs around 120 staff. Istithmar's parent company is Dubai World, which falls under the jurisdiction of prime minister Mohammed bin Rashid Al Maktoum.
Investments include Barneys, Bumrungrad Healthcare, Cirque du Soleil, EMPG publishing and Inchcape shipping.

"What's happened in the past 18 months has shocked people," says David Jackson, CEO of Istithmar World, "but there are economic cycles and investment cycles. If we were sitting here saying, 'If we'd only known that was going to happen,' that would mean our investment strategy was flawed from the beginning." Jackson's high-profile Dubai government-owned sovereign wealth fund (SWF) is pursuing much the same strategies as 18 months ago, so has the global meltdown changed anything? "Well, I'm getting more inbound phone calls than I used to."

We're sitting in Jackson's offices in the lofty Jumeirah Emirates Tower. His office commands an appropriately regal view across the Emirate's mushrooming cityscape, but there is nothing especially glitzy about Jackson. He's big but unassuming – measured unflappability with a down-to-earth approach and a tendency to play things down. He's learning Arabic ("I have a four-year-old's vocabulary"), loves the fact that he can "work as hard as I do and be on the beach in 15 minutes", yet is infuriated by Dubai's heavy traffic and the trouble he has parking at the mall on a Saturday.

Popular stereotypes suggest that SWFs are largely run by neophytes with no solid investment experience. A graduate of Princeton and Yale, Jackson worked at Lehman Brothers for nine years, specializing in mergers and acquisitions and becoming a senior vice president. After a year at Marco Polo Partners he joined Istithmar as chief investment officer and was appointed CEO in 2006, running a SWF in an Arab country, an American business leader in the Middle East.

The best-known emirate divides opinions like nowhere else, but there's no denying its dizzying success. Dubai's rulers followed the diktat 'build it and they will come' to its logical extreme and they were right. Dubai is the world's seventh most visited city and is set to receive 10 million visitors a year by 2010.

Jackson's company ('Istithmar' is Arabic for investment) is one of the newer SWFs, only starting out in 2003. Since then, it has made some headline-grabbing investments, including New York department store Barneys, the world-famous Cirque du Soleil and Indian airline Spicejet. It is reckoned to have about US$8bn (€6.2bn) under management, and its access to the funds of parent company Dubai World – the government's holding company – make it a huge global player in real estate investment, albeit below the levels of its world-beating neighbor, the Abu Dhabi Investment Authority.

Istithmar's willingness to buy up prime real estate gives it a high profile, and Jackson believes it is riding out the credit crunch well. He has denied he is looking to offload the struggling Barneys, although he has shed 10% of Istithmar's workforce to ensure "long-term growth". He sees an upside to the turmoil: "Things are very bleak now, but if you look at some of the most successful funds, it's at times like these that they made their best investments."

The transition from a Wall Street bank to his present surroundings hasn't been daunting, Jackson insists: "The Dubai perspective is very commercial and the questions are more 'what kind of return are we getting' than anything political." It's true that Istithmar's directors are appointed by the government, "but the questions we go through are no different to those we went through on Wall Street". Investment, he explains, is now a global business. Time zones aside, it doesn't really matter where you work. That said,

Photo Al Seib and Costumes: Dominique Lemieux. Shutterstock

SWFs do have one great advantage – the luxury of being able to take a longer-term view and not generating instant returns. The shake-up from recent events may persuade other financial services providers to adopt similar strategies.

When he first arrived in 2003, Jackson admits things were a little different. "Firstly, we were a new start-up and we didn't have the profile we have now, plus the idea of Dubai as a financial centre was still very nascent." It meant, he explains, that it was a bit harder to find people to work there. "But maybe that means they self-selected a bit – they were people who understood our vision and could see what we were trying to build. As a result we've got a pretty unique culture." At the moment, around 35% of the workforce is local; less than 20% of Dubai's total population comes from the emirate.

Istithmar concentrates on a few industries such as retail, entertainment, banking, insurance and transportation – Jackson says it spends 95% of its money and time on 10-12 industry groupings. "We don't do a lot of auctions, we don't chase whatever deal is coming to market but we do areas where we think there's an economic story."

With Cirque du Soleil, he says, the fund was already looking at the rise in live events and the relative decline of passive forms of entertainment. "We had a strong view about that and looked at who was doing it well. People say it's just a circus, but you go to Montreal and do the due diligence and you see their university, which trains everyone from gymnasts to lighting experts and you realize they have a built-in competitive advantage. They have millions invested in their R&D space." Similarly, he says, what attracted Istithmar to Barneys was the way it presented itself as "retail entertainment."

Equally, though, there are areas he's just not interested in, such as chemicals, telecoms and automotive. "They're either not areas of expertise, there are huge entrenched players or the industry's flawed. We had a lot of people phone us a couple of years ago when businesses like Aston Martin and Jaguar were for sale, but even in the good times a lot of automotive companies don't make money."

Istithmar prefers to invest in medium to large companies and will choose the kind of investment – share stakes, joint ventures, private equity, venture capital, hedge funds – that best suits the opportunity and fits its long-term goal to become the world's best alternative investment firm.

Jackson becomes more animated discussing the clamor for greater transparency among SWFs: "We're completely transparent to the people who matter, the people who provide our capital. They're the only people to whom we owe any transparency. If you want a set of [universal] rules, then fair enough, I'll play by them. But my obligation is not to other market participants."

Jackson is a bit bemused by all the attention SWFs attract: "One problem is that everyone clumps them together and they're very different and distinct. If you look at SWFs' size relative to other funds they're actually very small. We get a disproportionate amount of attention because it feels new. But they've actually been around since the 1950s. They're not the elephant in the room people would like to think they are." The fascination will grow as CFOs worry about illiquidity and the media looks for white knights. Don't expect David Jackson's phone to stop ringing any time soon. ●

"Things are bleak now, but it's at times like these that successful funds make their best investments"

Not clowning around
Istithmar has invested in Cirque du Soleil for sound financial reasons

Capital is the new gold. Discuss

With credit frozen, confidence low and lenders in turmoil, where can CFOs turn to find the capital they need to stay competitive?

BY PAUL SIMPSON

Now, more than ever, hard-pressed CFOs must yearn for the luck of Kevin Hillier, the Australian who took his new metal detector out for a trial in October 1980 and discovered a 60lb (27kg) gold nugget worth US$1m (€770,000). The largest nugget still in existence, Hillier's find is now on display, appropriately enough, at the Golden Nugget casino in Las Vegas.

The search for capital hasn't got so desperate that CFOs are jumping on a plane for Vegas to try their luck. But with the banking industry in crisis, the regulatory landscape unclear, and recession undermining confidence, CFOs are going to have to be a lot more creative in their quest for capital.

To explore this challenge, *Agenda* talked to three specialists who see the credit crunch from different perspectives: Simon Collins, Head of Corporate Finance for KPMG Europe LLP and partner in the UK firm; Josh Lerner, professor of investment banking at Harvard Business School; and Stephen J. Marzo, group CFO of Noble Group, a global supply chain business.

Is the credit crunch with us for the long haul?

Collins No. If you had asked me 18 months ago whether that period of irrational exuberance in the financial sector would last forever, I'd have said no, but I couldn't see the definitive reason why it should end. Now I can't see the event that will take us on from where we are now. What's needed might be that old elusive chestnut: certainty.

Marzo This is a cycle. A severe one, probably the severest I've experienced in my 25-30 years in the business, because of the significant over-leveraging in many financial sub-sectors, but I don't believe that credit will be more expensive for everyone. The banks will focus on certain companies – I was talking to one the other day who said they had 10,000 major corporate clients and, in future, they'd be focusing on 3,000 – but good businesses will be able to borrow money on attractive terms. The reason there's no liquidity at the moment isn't because there's no capital, it's because lenders don't have the confidence.

Lerner The good news is that what we saw in 2005-7 was so extreme. The feeling at the time – that if we don't do this deal it will damage our share price – led to such extremes that it's absolutely clear there will be a lot of pain as a consequence. The big question is: just how apocalyptic will it be?

Collins The credit market in 2006 and early 2007 already looks like an aberration, a strange period where too many people forgot the old rule that lending money to people who probably can't pay it back isn't very good business. The difference in price between good loans and bad loans narrowed stupidly. But at some point, when confidence returns, we will go back to reasonable access to capital at a price that reflects the genuine risk.

"The role of government is being redefined… we will end up with a very different kind of free economy"

The panel

SIMON COLLINS
Head of Corporate Finance for KPMG Europe LLP, a debt finance specialist and partner in the UK firm

PROF JOSH LERNER
Professor of investment banking at Harvard and regarded as one of the most advanced thinkers in the field. Has testified before the U.S. Congress on venture capital and private equity

STEPHEN J MARZO
Group CFO of Noble, a Hong Kong-based global supply chain management group which debuted on the Fortune 500 last year and reported a 124% rise in profits for 2008

Hulton Archive/Getty Images

What lessons should the CFO take from this crisis?

Collins Look after your cash. Be in control – have a Plan A, B and C because if you don't, Plan B may turn out to be insolvency. Know your investors and lenders. And generically, work much harder at managing cash and run your business for cash and not for the price of your share options.

Marzo You need to really understand your financial model and make sure you have the appropriate level of long-term funding for your business. Receivables and inventory, for example, are seemingly short term but nevertheless they present a long-term funding requirement. It's a good idea to pay for the assurance of having legally contracted credit facilities for, say, two to three years, enough to give you breathing space. You can trade fees for a smaller margin on the loan and it will help you sleep at night.

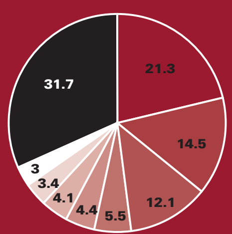
Lerner Now is the time for seriously questioning assumptions. A lot of businesses I talk to say they had run worst-case scenarios, but what happened was far worse than anything they envisaged.

Collins The credit markets of 2006 and 2007 tell everyone – bankers, CEOs, non-executive directors and leaders of government – that we should not be afraid to ask just what the emperor's new suit is made out of.

How do you expect different sources of capital to behave in the next few years?

Collins Banks will get back to doing what they used to do best: lending money to someone they trust because they believe that person is a good risk. They will be far less likely to make or buy loans on the basis that they believe they can sell them to someone else and make a profit.

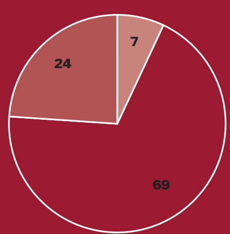
Biggest net exporters of capital



- China *21.3%*
- Germany *14.5%*
- Japan *12.1%*
- Saudi Arabia *5.5%*
- Russia *4.4%*
- Switzerland *4.1%*
- Norway *3.4%*
- Netherlands *3.0%*
- Other countries *31.7%*

Source: International Monetary Fund

Bank capital raised by source, Jan July 2008 (total US$300bn (€230bn))



- Public investors *69%*
- Other institutional investors *24%*
- SWF *7%*

SWFs have had their fingers burnt with some investments. Their wealth is fed by natural resources so, as prices are low, their surplus funds are lower than they were a year ago. But if I were an SWF, I'd be thinking: "Why rush?" Prices are only going to go down. To me, that explains their temporary absence from the market.

Private equity firms have plenty of cash in their war chests, but their model needs redesigning. They can't get the leverage to deliver the returns they were used to and that isn't going to change soon. But some funds may emerge as long-term owners and specialize in sectors, managing portfolio companies.

Marzo CFOs shouldn't forget that there is still a lot of money in China. Being based in Hong Kong, we've been able to access a lot of capital from China. I won't go into figures, but it's maybe 20-25% of what we've raised – compared to 10% two years ago – and we believe there's more potential there.

I would urge CFOs to look at Islamic funding. We recently raised the first Islamic loan for a Hong Kong-based company. It wasn't a lot of money, but developing a knowledge of that investor base, and helping them get to know your business, could prove invaluable.

In Asia, the development of local bond markets in places like Australia, Singapore, Taiwan and Thailand is a necessity if businesses are to rely less on short-term funding.

Lerner The worry, especially for the U.S., is that the venture capital business seems to be gridlocked. Companies backed by joint ventures created 10 million jobs and US$2.2bn (€1.7bn) in revenue in 2006. Investing in an entrepreneur is a leap of faith and when there is no confidence, it's hard to have that faith.

Tighter loans and a slower economy will make it harder for private equity firms. The deals that were done belong to a different era. And this approach has attracted some misguided political attention. Our research shows, for example, that debt from private equity-backed companies defaulted at roughly the same rate as all other corporate debt. But private equity may need to put more emphasis on a back-to-basics approach that focuses on managing assets.

Collins One of the great unanswered questions is exactly how much of a free economy will emerge from this wreckage?

I believe it will be necessary and desirable for governments to play an interventionist role for some time to come. The role of government is being redefined as we speak, but it's clear that we will end up with a very different kind of free economy. Many governments will be direct




investors (taking stakes in companies), indirect investors (through regional development grants and banks) and more vigilant regulators.

Will regulation affect the availability of credit?

Marzo It will to some degree. Banks won't be able to leverage the same asset 25-30 times, there'll be more vigilance about what is on and off their balance sheets and they will be required to be more vigilant about return on capital. Regulation of the financial and banking markets is too disparate and leaking. I hope the regulations needed to patch the holes do not clog the constructive creativity of the investment banks in their approach to finance.

Lerner I don't think anyone should underestimate the palpable public anger, especially in the U.S., against the banks and Wall Street and the amount of money that every taxpayer is effectively paying to bail out some of these institutions.

There is a real risk of regulation contagion. That is a concern because if you look, for example, at the history of anti-trust enforcement in the U.S., it is littered with well-intentioned actions that prevented businesses from taking actions that would have benefited them and society.

Collins Governments haven't launched into a knee-jerk regulatory purge. You can argue that some kind of regulatory failure has occurred, but hopefully governments will not overreact with a formulaic, prescriptive set of rules.

Will the crisis affect the way CFOs run their business?

Marzo You're going to need to be more modest in your spending, focus heavily on your capex plans and adjust to the fact that the risk/return spectrum has been recalibrated. And you'll need an integrated, well-run risk management function to survive. Prudent, conservative financial management will be rewarded.

Noble has demonstrated over the years a conservative approach to liquidity, as evidenced by our historical high cash levels. Our financial profile also reflects a high level of flexibility, with nearly 50% of the company owned by management and staff. Our prudent approach will be an asset as new opportunities present themselves.

Lerner Any CFO looking to the long term will have had a powerful lesson in the cyclicality of the availability of capital and that what you may face tomorrow will be very different from today. This lesson might be useful. While it is tough to resist the pressure of market cycles, keeping an eye on the broader ebb and flow of the financing environment is essential.

Collins The first target has to be survival. And not being in a position where you have to borrow heavily in the next 10-12 months. Beyond that, I would say look for the opportunities to exploit distress. Companies that can access capital will find there are opportunities. We don't know how long recovery will take, but history suggests that we are incredibly resilient and things will bounce back.

Marzo Marginal players – companies who only have a slice of the value chain – will find it harder to survive. We're already seeing consolidation in some commodities, for example. Efficient, lean capital management is never out of vogue. Companies that do survive will benefit from greater pricing power and, if they have the capital, be able to seize opportunities. ●

"I don't think anyone should underestimate the public anger against the banks and Wall Street"

Finding capital in unusual places

From left: Christopher Columbus convinced Spain's Ferdinand II and Isabella I to fund his quest for a Western route to the East; Gottlieb Daimler's career in car manufacturing started with compensation money for patents from Deutz-AG; billionaire entrepreneur Kirk Kerkorian bought surplus WWII bombers, drained them and sold the fuel to clear debts; Dhirubhai Ambani founded Reliance Industries using money earned as a petrol pump attendant for Shell.

Sebastian D'Souza/AFP/Getty Images. Nick Ut/AP/PA Photos. Sipa Press/Rex Features. Daimler Chrysler

ISSUES ON YOUR AGENDA

In an era of unprecedented change, here are 10 challenges that could be crucial to your business

1 Fighting fraud

Fraud soars in a recession. One survey says nine out of 10 multinationals have been victims in the past three years.

Criminal gangs commit 70-75% of fraud, but internal fraud is on the increase. The CFO of one U.S. drilling company defrauded his employer out of US$77m (€60m) with bogus invoices. But often, fraud is subtler – a massaging of figures as revenues fall and debts rise.

Fighting fraud must be systematic, as some organizations know: the British National Health Service's program has cut fraud by US$407m (€317m) in four years. By using analytics to sift through company data, it was able to highlight anomalies. But it is vital to have the right processes and training in place, and to foster a culture of non-tolerance.

One overlooked key to fraud prevention is realistic targets. Recent corporate disasters have proved business guru W. Edwards Deming's adage: "People with sharp enough targets will meet them, even if they have to destroy the company to do so."

2 Joint ventures

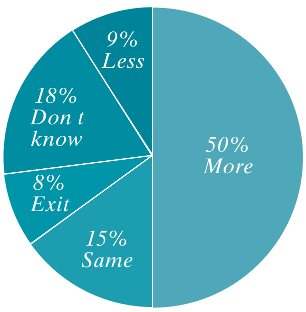
In good times, CFOs seeking growth dial M for merger. But with capital scarce, the joint venture comes into its own.

Doug McPhee, deputy chair of KPMG's Valuations practice and partner in the UK firm, says joint ventures can be a relatively inexpensive, low-risk way of growing in tough times – if partners follow a few rules. "The joint venture must become its own company, with its own culture and strategy. You need clarity about breaking decision-making deadlocks – it's often easiest to refer it to the partners' CEOs – and about the terms on which the joint venture ends."

McPhee says businesses should consider what they put into a JV: "Alliances like Star Alliance have boosted airlines' revenues through collective purchasing." But you might not want to share a product via proprietary IP.

KPMG's research shows that 50% of recent JVs met or exceeded expectations, compared to 27% of M&As. That's partly why half of CFOs expect to enter into more JVs in the next two years.

Level of JVs CEOs expect to enter into in 2009



Source:KPMG in the UK

3 Adapt or die

Cary Grant might seem an odd role model for CEOs, but the man who was once an acrobat called Archibald Leach reinvented himself to become the world's suavest icon and the first major star to sell his services direct to Hollywood studios rather than labor under a contract.

Many firms regard a logo change as reinvention, but low-cost retailers and budget airlines have changed their markets by pioneering new business models, and drastic action may be needed to survive in tough times.

Western Union faced such a quandary. When banks' electronic payment systems threatened its money transfer business, it became a market leader by focusing on mobile payments, and will solidify its position with its first ever global marketing campaign.

Japanese giant Softbank spent 20 years specializing in software and magazine publishing, but is finally enjoying success as a mobile and internet service provider. Even Microsoft is pondering reinvention. New chief software architect Ray Ozzie wants the IT giant to start behaving more like a start-up, relentlessly pushing out new product rather than following

H. Armstrong Roberts/ClassicStock/Corbis. Shutterstock

4 Reducing churn

Reducing customer churn by 1% can add millions to your bottom line. The challenge is keeping customers through cost-effective retention drives.

Attrition rates can hit 40% in the cell phone industry, so Orange used a Europe-wide predictive model to identify customers most likely to cancel contracts and wooed them with special offers and the chance to air grievances, boosting customer satisfaction by 25%. Similarly, AXA Australia used business metrics to show customers the value of its expertise, improving retention on the funds it managed by 200%.

With budgets under scrutiny, companies should focus on the most urgent customer needs. For example, one bank scrapped a costly upgrade to its ATMs with a new user interface and more screens when research showed customers were more worried by a lack of ATMs and a lack of cash in those ATMs.

CFOs may want to ask if costly 'customer delight' programs will really deliver the expected revenues and, if not, save the cash or spend it elsewhere.

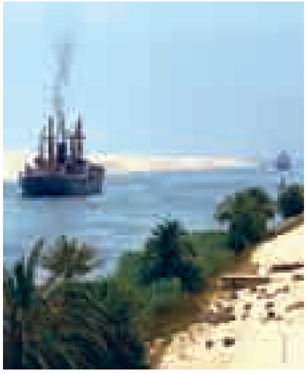
5 It pays to go green

A number of leading retailers have been handing their suppliers a stark message: sign up to strict environmental standards or we'll find greener alternatives.

Why? The Carbon Disclosure Project – a huge database of corporate climate-change information – is asking multinationals to carbon-audit their supply chains so it can inform institutional investors, purchasing organizations and government bodies.

Companies are also increasingly required to include suppliers in their carbon footprint. IKEA monitors suppliers' adherence to forestry standards, and Marriott International is reported to have switched suppliers in everything from room key cards to toilet paper. Brazilian oil behemoth Petrobras has used its market position to ensure suppliers fit its environmental standards.

"Companies that take a value-chain perspective have discovered lower costs and better products," says supply chain expert Andrew Winston. "So why go back if you've discovered a better way of doing business?"



6 Forecast

When the Suez Canal opened in 1869, Egyptian viceroy Said Pasha's pride was tempered by the fact that the project had run 1900% over budget.

The overrun was proof, in part, of our tendency to overestimate our ability to predict the future. Some events, like the credit crunch, are largely unpredictable, but the current downturn has exposed forecasting's failings.

Companies have reacted in different ways: some have reverted to rolling forecasting, others are using 'scenario planning' to bring reality to their number-crunching. Some are providing less detail, and a number of major companies have abandoned forecasting altogether.

Fiona McDermott, a partner in KPMG's Transaction Services practice, says many scenarios could be anticipated if firms took forecasting more seriously. "The task shouldn't be a time-consuming process. It should be fast and flexible, reflecting the dynamics of the business and market. Really effective forecasting includes board-level input and a wider range of sources, including economic data, understanding of suppliers and additional sector knowledge," she says.

7 Value creation

"Why does LEGO group exist?" When CEO Jorgen Vig Knudstorp (below) asked that in 2004, the answer helped the group focus on being best, not biggest, and develop a strategy of 'niche differentiation' which helped deliver record profits in 2008.

Understanding what really drives a business's value – and not focusing simply on earnings per share – is key to delivering for investors.

American retailer Nordstrom recognized that gross-margin return on inventory investment was its key value driver, invested US$200m (€155m) in a new inventory system, reduced stock it held by 20% and grew sales by 29% in five years.

Aidan Brennan, Head of Performance Advisory for KPMG Europe LLP and partner in the UK firm, says: "Companies should use the traditional indicators – profit and loss, balance sheets, sales growth – alongside underlying drivers of value. They should develop performance indicators around such factors as brand loyalty and human capital, to deliver sustainable value to shareholders in the long run."

Niels Aage Skovbo/Lego press shot. Everett Collection/Rex Features. Peter Muhly/AFP/Getty Images. Shutterstock. iStock

8 Judging the evidence

As the smoke clears from a corporate crash, one question is often asked: “What were they thinking?”

The question might be less frequently posed if managers based their decisions on what authors Jeffrey Pfeffer and Robert Sutton call ‘evidence-based management’. They say: “If doctors practiced medicine like many organizations practice management, there’d be a lot more dead patients.”

The core principles of evidence-based management are common sense (face the hard facts, use the best evidence, look for the risks even in good proposals etc), but Pfeffer and Sutton believe too many managers rely on untested beliefs, past practice or uncritical benchmarking of industry leaders.

For example, rivals striving to emulate Southwest Airlines have often failed by focusing on externals – the way flight attendants are dressed and the quick turnarounds – rather than its culture of putting staff first. In the 2001 aviation recession, Southwest didn’t lay off any of its staff.

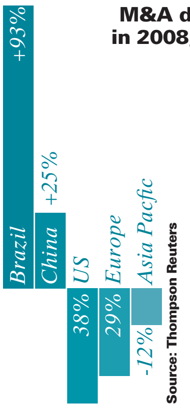
In good times, businesses can survive bad decisions. But the credit crunch has shrunk the margin of error.

9 Where now for M&A?

At first glance, the market for M&A seems bleak – early 2009 deal volumes are down 35% year on year, says Dealogic. But the market is far from dead.

Pfizer announced in January that it will buy Wyeth for US$68bn (€52bn) – to create, in the words of Pfizer CEO Jeffrey Kindler, “a broad, diversified portfolio”. African mobile operator MTN is looking for smaller acquisitions to aid expansion, particularly in Asia. And they aren’t alone – almost a third of European companies and half of Asian executives believe they will conclude at least one deal during 2009, according to recent polls.

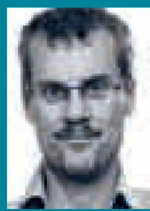
M&A has often kick-started recovery by culling under-performers. “The resurgence in dealmaking is the market’s way of pruning the weak from the strong,” says Paul Weisbrich of McGladrey Capital Markets. With private equity holding up to US$250bn (€197bn), the shakeout is set to grow.



M&A deal volume in 2008, compared to 2007

Source: Thompson Reuters

10 Post-crunch, what will a CFO’s job look like?



Recession is miserable for every director on every board. The chief marketing officer, starved of funds, sits around fretting about the loss of market share. The head of HR is beyond busy reducing the head count while wrestling with the bird’s nest of employment law. For the CEO, never have Shakespeare’s words, “Uneasy lies the head that wears the crown, been truer. It’s lonely at the top when things get rough.

All are united in one thing: frustration with the CFO – the man (and he usually is male) who likes to say no. He’s the one who goes around pronouncing “cut early and cut deep”, slashing budgets with the enthusiasm of Conan the Barbarian and, occasionally, instituting such draconian measures as banning international calls on mobiles.

Yet, at the same time, the ‘safe pair of hands’ syndrome is seeing more CFOs become CEOs, with Sky, 3i, Unilever and Royal Dutch Shell leading the way. Lengthy experience inside one organization will increasingly be smiled upon – portfolio CFOs will be viewed with suspicion, deemed to lack staying power. But what will the CFO’s job look like when the sun comes back out, as it must?

During the early stages of watching those longed-for green shoots of recovery, the CFO will remain cautious. No CFO worth his accountancy qualification is going to permit an early return to feckless behavior. There will be a lot of squashing bold, wild ideas involving large buckets of risk. The orthodoxy will be that growth should be of the organic variety, rather than via expensive, highly geared acquisitions.

The CFO’s big problem now will be to avoid being a stick-in-the-mud who deters growth. He must resist the temptation to expand his remit and micromanage. He should remember that CFOs are servants of the company, not its drivers.

When economies are flat on their backs, there are bargains to be had for the brave. To allow the imaginations of those in the organization to do what they re supposed to grow the business the CFO will need wisdom, experience and good judgement.

Matthew Gwyther is editor of Management Today.

MAKING SENSE OF IT

IT costs should be fiercely scrutinized, but it may be smarter still to use your CIO to gain a competitive advantage in a downturn

BY RHYMER RIGBY

INTIMIDATING TECHNOLOGY
The complexity of IT can deter, baffle and frustrate managers

Even at the best of times, business often regards IT as a burdensome cost; in the worst of times, as a black hole. An optimist might say the credit crunch is a chance for business and IT to learn to collaborate productively; a realist would say it's a chance to bash their heads together because they have no choice in the matter.

Asking IT to cut its budget by 10% will only get you so far. Research suggests that if, for example, IT and business work together to sharpen insights into customer segments, pinpoint opportunities to change prices or focus sales efforts, these projects may return up to 10 times the bottom-line impact of simple IT cost reductions over 18 months.

The biggest and longest-standing problem is the yawning cultural chasm between business and what many may dismissively regard as the helpdesk. "IT is a world unto itself", says Adam Thilthorpe, director for professionalism at the British Computer Society. "IT needs to be judged on business outcomes, and IT professionals should be valued like accountants and lawyers." But if you want to be valued like an accountant, you should think like one: "An IT leader needs to be a business leader. IT must understand the business to use technology for competitive advantage. And companies need to move away from viewing IT as purely an internal service provider."

Unfair though this may seem, the job of closing the greatest cultural divide in modern business falls to IT. Thilthorpe says: "IT can't sit around waiting for business to understand it. IT needs to understand business and the business it works for." The reward could be immense: organizations rarely agree on business priorities for IT, and CIOs could help constructively focus that debate.

Lost in a technosphere

Many IT staff see themselves as techies first and employees of the business in question a distant second. Cocooned in their technosphere, they take little notice of the business's performance, its products and markets. They love technology for its own sake and genuinely don't understand when externalities rudely intrude on their world.

Even now, says Egidio Zarrella, partner in the Hong Kong firm and Head of KPMG's IT Advisory practice: "Many of them still don't get it. Rather than saying 'the situation is dire, how do we help the business, a budget cut of 10% is cool', IT protests about how unfair it is. If they read the *Wall Street Journal*, they might realize they got away lightly with 10%. Instead they're acting like it's still 2007."

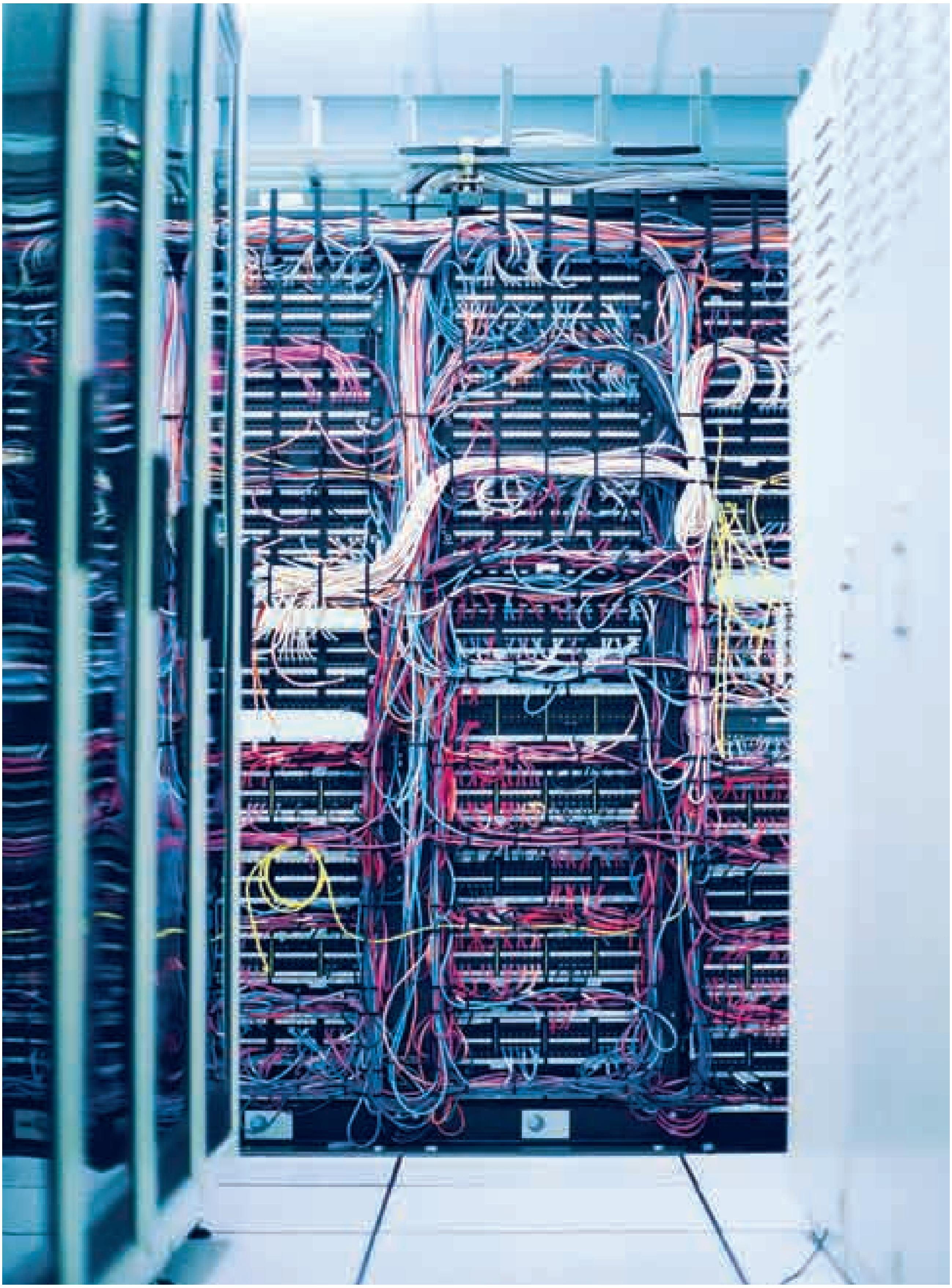
> *"IT protests about a 10% budget cut. They've got away lightly but they're acting like it's 2007"*

Much of IT's bad rep is down to big projects that don't deliver. Zarrella believes this could be even more serious in 2009, according to figures from KPMG's Global IT Programme survey of 600 companies. "Eighty percent of IT projects don't come in on time or on budget. So 80% of IT projects fail – and it's not IT that carries the can." Often the issue is communication: "Business guys don't care about IT – they demand a business solution. IT talks tech and business doesn't listen."

Thilthorpe says the can-carrying could work both ways: large IT projects that go belly up mysteriously change ownership. "It's often easy to blame IT. Projects which work become business projects, whereas the failures become IT projects."

Blaming the CIO may be cathartic but it may obscure the painful, necessary lessons a business needs to learn. One flaw may be that the business doesn't have an efficient 'kill switch' to ensure fast,

Bob Stefko/Getty Images. Shutterstock



FIGHTING FIRES
KPMG's Egidio Zarrella says businesses should expect more large projects to fail in 2009

cheap failure. Businesses need to work with IT to ensure that, say, a project that has already overrun budgets twice and hasn't developed a beta-level application doesn't drain funds. The cliché that some businesses end up with the IT departments they deserve has the ring of truth about it.

Dissatisfaction with the helpdesk also mars IT's reputation. Often, this is due to the fact that managers don't understand the systems that support their business. One U.S. technology company decided to combat this by charging business units for 'hopeless' help calls.

Vexation without representation

So what can be done? For starters, it really helps if the CIO is on the board. This idea gained currency during the dot com boom and has quietly lost currency ever since. "In companies where you have the CIO or CTO on the board, you often see real value," says Thilthorpe. "If the CIO isn't part of the decision-making process, there will always be problems." IT should be about driving efficiency and sharing risk. It cannot do this if its main decision-maker has only minimal contact with those who make business decisions and is denied insight into the factors that drove those decisions.

> *"If the geeks are left to their own devices, hidden in the basement, is it any wonder they go a bit nutty?"*

Empowering CIOs is just part of the solution. "IT is often physically very isolated," says Bill Pfleging, co-author of *The Geek Gap*. "In some businesses, IT isn't even in the same building. They hide their geeks in the basement – left to their own devices, is it any wonder they go a bit nutty and develop a culture of their own?"

Perhaps ironically, Thilthorpe says, one of the places where IT has best integrated with the rest of the business has been in the big investment banks. "I was at a major investment bank and there you had teams which included both IT and non-IT. The lines were very blurred, though, and the distinctions very difficult to pin down. It was often hard to say who was client-facing and who wasn't."

The sheer pace of change makes IT's task tougher, encouraging a "nobody ever got fired for buying Microsoft/IBM" mentality in those who spec systems. Take social networking, a focus of much corporate interest, both within IT departments and outside. Two of the biggest names in social networking didn't exist three years ago. Three years is a typical lifespan for an IT project. Similarly, many businesses have tons of data they do not analyze or use effectively, as it is never consolidated in one location.

On the other hand, e-commerce – once a pipe dream – is now a workable reality for almost every consumer-facing company of a reasonable size, and e-procurement delivers cost and efficiency savings in such diverse fields as agriculture and healthcare.

Strategic heartlands

Plenty of businesses have put IT at their strategic heart. Global supermarket giant Tesco has bent IT to its strategic advantage in areas as far apart as real-time delivery and mining loyalty card information so it delivers clear competitive advantages. Air France-KLM avoided post-merger IT chaos by investing in new systems to replace myriad legacy applications, while the multinational group Unilever has put IT at the centre of a 'One Unilever' program it claims can deliver US$1.4bn (€1.1bn) a year in savings, most notably through better supply chain management.

Putting intelligent trust in your CIO can have wonderful results. A Canadian law firm switched to Linux, the open source Windows alternative, in 2007, improving protection against viruses, reducing downtime and cutting maintenance costs. Pfleging says: "This was not an idea the suits – many of whom didn't even know Linux existed – would have ever come up with."

Clearly, IT can still transform a business. But only if there's buy-in from both the board and the geeks, the business case is clear and everyone is speaking the same language.

The fact that this ideal situation is so rarely encountered, says Zarrella, is one of the main reasons he has a job: "We're businesspeople who live IT and understand IT, so we can act as interpreters. Sometimes what we do feels more like marriage guidance." ●

TECH IN A DOWNTURN

Some of the IT issues as budgets tighten

Pricing
When prices change rapidly, being able to react instantly is vital: one telecoms company increased revenue by up to 20% by reviewing its pricing systems.

Information
KPMG's *Managing IT Through Market Turbulence* report highlights the importance of business intelligence.

Maximum security
Downturns see an increase in fraud, so cutting back on information security isn t an option.

Supply chains
With prices low, now may be the time to reinvest in supply chain technology. The best inventory systems and infrastructure will help position you for the recovery.

For a copy of the KPMG report, email agenda@kpmg.com

Be inspired by lipstick

Before you slash that R&D budget, think again. You'd be bucking a proven trend

BY KATIE JACOBS

America's centennial year should have been a time of national celebration. But in 1876, the U.S. was in the grip of the Long Depression – a six-year slump triggered by the failure of a large bank, a horse flu epidemic, the adoption of the gold standard, calamitous fires across the Midwest and the collapse of the Vienna stock exchange. The longest recession in U.S. history, it lasted 65 months.

With companies folding, the late 1870s seemed a perfect time to slash costs. Instead, Thomas Edison (below) built the world's first industrial research lab in Menlo Park, New Jersey. Within three years, he had patented the first phonograph and commercially launched the incandescent light bulb, laying the basis for General Electric, now the third largest company in the world by market value, according to 2008's Forbes Global 2000.

So recession can be the mother of invention – and invention can help cure recession. Ideas can thrive when there is no other choice. The Kaufman Foundation's 2008 study *Entrepreneurs and Recessions: Do Downturns Matter?* analyzed 8,000 businesses launched over 175 years and found businesses started in downturns are more likely to succeed and have "a higher likelihood of turning out to be economically important".

In boom years, any business plan looks good. But when capital is scarce, poorly thought-through businesses find it harder to attract funds. Businesses that do launch make a compelling case for capital and can survive on an IV drip for cash flow.

America's recovery from the Depression of the 1930s was driven by the fact that industrial investment in R&D tripled in real terms. Alexander J. Field, professor of economics at Santa Clara University, calls this gloomy era "the most technologically progressive decade of the 20th century".

Employment of research engineers and scientists grew by 72.9% between 1929 and 1933. As recession bit, spend on R&D and structural engineering soared: between 1929 and 1936, 580 new R&D labs were founded. Field's figures show that output per hour in the U.S. private sector grew faster than during World War II.

The 1930s gave us the Golden Gate bridge, nylon, polystyrene, synthetic rubber, the jet engine, the photocopier, television, instant coffee and the Volkswagen 'Beetle'. They also inspired a Japanese textile machinery company called Toyota to make its first car.

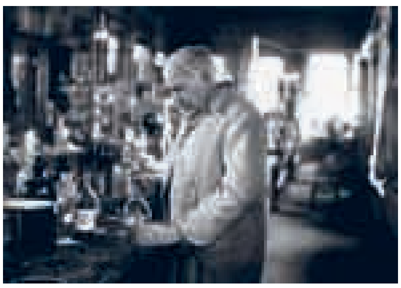
Revlon launched in 1932, capitalizing on 'the lipstick effect' (where women indulge in smaller treats – make-up rather than new clothes – in a recession). Working with a chemist, Charles Revson used pigments rather than dyes to create a wider variety of shades, while sensual names such as 'Kissing Pink' intrigued women bored by the usual shades of red. By 1934, the company had grossed US$68,000 (€53,000); by 1938, it was making multi-million dollar revenues.

Andrew Razeghi, associate professor at the Kellogg School of Management at Northwestern University, says: "Moments of economic turbulence offer a unique opportunity to start new businesses, launch new products and strengthen customer loyalty, often at a discount." Shrewd management in a recession is not all about cutting costs. Innovation in turbulent times may be risky, but the rewards can be immense. ●

LAUNCHED DURING A RECESSION

The telephone (1876)
The Adidas sports shoe (1920)
The Biro (1935)
Hewlett-Packard (1935)
Krispy Kreme doughnuts (1937)
Polaroid camera (1947)
Burger King (1957)
Fed-Ex (1973)
Post-It notes (1974)
Microsoft (1975)
Gore-Tex (1976)
VHS (1976)
Compact disc (1979)
MTV (1981)
Apple iPod (2001)

Invention can cure recession. Ideas are free and can thrive when there is no other choice



Roger Viollet/Rex Features

Beware **seductive** models

Creating a financial formula might win you the Nobel Prize for Economics, but the world is so unpredictable that such models offer dangerous comfort

BY MARTIN ROSSER

Hari Seldon, professor of maths at Streeling University, excels at two things: martial arts and using probablism to predict the future of markets, economies and empires with astonishing accuracy. Hari can t rescue us from recession he s a fictional hero created by sci fi guru Isaac Asimov. But the credit crunch should prompt directors to ask if today s mathematical financial models are any better than science fiction.

Take the mother of all financial mathematical equations for analyzing equity market data, Black Scholes. By successfully putting a value on an option, the model makes it seem that risk is defined and controlled. But like any model, Black Scholes makes assumptions, one being that the drifting value of an equity emulates Brownian motion.

Imagine, for example, a huge ball on the concourse of Tokyo s Shinjuku station. Busy commuters are rushing in all directions for trains, coffee, exits. The ball takes many hits but they mostly cancel each other out, so it goes nowhere fast, unpredictably. The commuters represent lots of fast transactions; the ball is the Brownian drift of the equity s value.

If there s a panic at Shinjuku, commuters dash for the exits en masse. When the market reaches crisis point, everyone wants out at once. Black Scholes can t handle that it was never meant to model unpredictable human behaviour.

Black Scholes was a huge advance that created more liquidity, but paved the way for CDOs (Collateralised Debt Obligations) sophisticated financial tools that repackage individual loans into a sellable product.

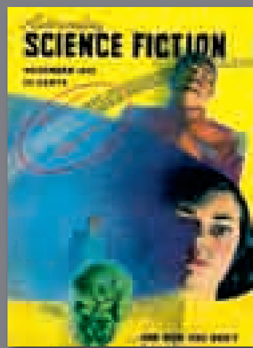
Did the model fail? Mathematical high brows Emanuel Derman and Paul Wilmott say all models sweep dirt under the rug, but a good model makes the absence of dirt visible. Black Scholes does this beautifully, but CDOs were so complex they could hide a lot of dirt. This prompted Derman and Wilmott to draft their Hippocratic Oath for Modelers which, in edited form, may help those obliged to use these models at work:

1. Don t be seduced or overawed by elegant equations. To confuse a model with the real world is to embrace a future disaster driven by the belief that humans obey mathematical rules.
2. If you don t understand what a model assumes, don t use the model.
3. When the assumptions stop applying to reality, stop applying the model to reality. Otherwise, your actions may have enormous effects on your job, your business and the economy, many of them beyond your comprehension.

Some CFOs have gone further than Derman and Wilmott, turning to simpler models derived from traffic lights three levels of alert that highlight escalating potential for disruption or developing scenario budgets that run alongside normal budgets and give early warning that forecast and reality are diverging dangerously.

Irwin Wladawsky Berger, chairman of IBM s academy of technology, believes businesses need to become smarter, and braver, as they spin scenarios: Like meteorologists tracking a hurricane, you want to leverage advanced technologies and real time information to figure out different scenarios and keep re running the models as new information comes in. But you need to assemble people with a diverse set of skills and opinions. The best decisions are based on quantification and numbers and human judgement, especially from experienced managers who intuitively feel when something is not quite right.

The Modelers Oath, simple warning tools, and the right blend of IT and instinct could help limit the damage until a real Hari Seldon comes along. ●



In Isaac Asimov's Foundation sci-fi stories, the future is mathematically predictable. In real life, such models have led some businesses dangerously astray

GO FURTHER
My Life as a Quant: Reflections on Physics and Finance by Emanuel Derman (John Wiley & Sons) contains more of Derman's musings on financial modeling. For more on the Hippocratic Oath for Modelers, see *www.wilmott.com/blogs/eman/index.cfm/Models.* Irwin Wladawsky Berger blogs at *irvingwb.typepad.com.*

A new take on the corporate agenda: choirs, bloggers and Vietnamese fish

Q&A

Tom Spurgeon, CFO of mobile money experts Monitise, on choirs, cash and concertos

What do you like most about your job?
As CFO you are at the centre of the business and play a pivotal role in defining the direction of the company – that is the real draw for me, particularly working in such a rapidly developing business.

What has surprised you most about the credit crunch?
The climate of the past few months has shown just how quickly all business comes back to fundamentals in times of uncertainty. Cash is always king for a growing business. Being mindful of this, we have continuously planned ahead.

What do you listen to in the car?
Working in the City of London, I don't drive to work, and having children aged three and five, it tends to be a variety of children's tapes – I know the words to 'The Wheels on the Bus' extremely well. My own choice is classical, particularly great Russian piano concertos.

Tell us something nobody at work knows about you…
As a schoolboy, I used to regularly perform at the Royal Festival Hall in London as a member of Southend Boys' Choir.

What do you do to relax?
I take great pleasure in beating my colleagues at squash. I'm also a keen hiker and look forward to my children growing up so I can show them the Lake District.

What do you admire most in a CEO?
Vision and commitment are a prerequisite, as is the ability to bring together a strong management team. However, it's the ability to maintain clear long-term goals and a real passion for success through both good and bad times that makes a great leader.

How long is a typical working week?
I tend to work around 60 hours but it really depends what deals we are working on at the time – and my BlackBerry is never far from my side.

What would you be doing if you weren't a CFO?
I'd be running my own business.

What advice would you give to someone at the start of their career?
Choose your sector wisely and don't get pigeon-holed into a specialist group early on. Also, being part of a large practice often means opportunities for working overseas, so make the most of this while you're footloose and fancy free.

Execs online

The edited highlights

"I wonder how many examples of Enterprise Agility we can quote from memory. Not many…The best I came across was from KFC. During the outbreak of avian flu in Asia, KFC – known for its vintage chicken recipes – adapted to selling fish in Vietnam and a few other countries."
George Eby Matthew, principle consultant, Infosys Australia (it.toolbox.com/blogs/guruspeak)

"Favorite TV show growing up: *MacGyver*. I carried around duct tape, tried to write *MacGyver* screenplay. Occasionally I would defuse bombs too."
Tony Hsieh, CEO of Zappos.com, on Twitter

"There was a great scene in the movie *300* where a Spartan soldier got his eye gouged out. His leader asks if he will be ok with that little scratch. The soldier says, no problem, I have a spare. As leaders prepare themselves and their organizations for glory, we all must be prepared for the inevitable little scratches."
Linda Cureton, CIO of NASA (blogs.nasa.gov)

"Restructure where you can, hire where you must… A hiring freeze is just plain dumb."
Beth Carvin, CEO of HR specialist Nobscot (nobscot.blogspot.com)

Shutterstock

Find out more

Finance of the Future
Ten years ago, KPMG in the UK made a series of predictions on the future of finance. This paper reflects on these predictions and offers thoughts on where finance will be a decade from now.

Beyond Purchasing*: *next steps for procurement
A research report with the Economist Intelligence Unit which explores how the procurement function needs to play a major role in finding new sources of value and competitive advantage.

To receive a copy of either of these publications, please send an email to *agenda@kpmg.com*

Get in touch

We are always interested to hear what you think about *Agenda*. Email your suggestions and feedback to us at **agenda@kpmg.com**.

© 2009 KPMG International. KPMG International provides no client services and is a Swiss cooperative with which the independent member firms of the KPMG network are affiliated.