



# When CFOs debate.

(Is there more than one right answer?)



# Contents

- Stop and go..... 1
- Start here..... 2
- Ready...or not ..... 4
- Now or later ..... 6
- The great divide ..... 8
- Over there ..... 10
- In a fix ..... 14
- Decisions. Decisions..... 16
- Tick, tick, tick ..... 18
- Playing the game ..... 20
- Going green ..... 24
- The voice of reason..... 26

# Stop and go

It's tough being a CFO these days. You're facing complicated decisions on many fronts, and knowing exactly how to proceed at any given time is harder than it looks. Should you grow finance to deliver more business value, or hunker down to protect profits? Build up cash to weather a tough economy, or capitalise on instability to gain market share? Move into well-established countries for offshore operations, or look to new markets where costs are even lower?

The list goes on, but there are few "right" answers to most of the big questions. A smart move for one company could be crazy for another – and understanding which way to turn requires experience, insight, and a steady hand.

Fortunately, there *are* practical steps you should consider to help you find answers that make sense for your unique situation. And the good news is they don't involve predicting the future.

*When CFOs Debate* is a workbook that can help you think through some of the important issues facing CFOs today. It's designed so you can easily involve others in your decision-making as well.

So roll up your sleeves, grab a pencil, and let's get started.

# Start here

Before you dive into the individual debates, please spend a few minutes taking stock of how your finance organisation currently operates. Use this guide to assess your overall position.



RATE YOUR AGREEMENT WITH EACH OF THE FOLLOWING	<- DISAGREE — AGREE ->
We have production of error-free financial statements down to a routine that doesn't require unusual heroics.	① ② ③ ④ ⑤
Our controls meet compliance requirements and also seem sensible from a business-risk standpoint.	① ② ③ ④ ⑤
Our operating model for finance provides a good balance of centralisation and business alignment.	① ② ③ ④ ⑤
Our current level of investment in finance is about right.	① ② ③ ④ ⑤
Internal customers value the decision support provided by finance. Finance clearly makes a difference.	① ② ③ ④ ⑤
Management discussions about performance focus on what to do, not on how the numbers were put together.	① ② ③ ④ ⑤
The time spent on annual planning is commensurate with the value we receive.	① ② ③ ④ ⑤
Our forecasting process works. Surprises are rare.	① ② ③ ④ ⑤
Finance is able to provide a clear picture of how internal performance is likely to affect the value of the company.	① ② ③ ④ ⑤
Finance – including tax and treasury – has a seat at the executive table for significant decisions (even decisions that aren't strictly financial).	① ② ③ ④ ⑤
We have a clear strategy of who we want to hire in our finance organisation and what jobs are most critical to achieving our objectives.	① ② ③ ④ ⑤
We have a clear strategy for identifying, deploying, and developing finance leaders.	① ② ③ ④ ⑤
Our finance systems strategy provides an appropriate backbone for supporting our financial processes.	① ② ③ ④ ⑤
Business leadership positions are often filled with people who worked in finance at some point in their careers.	① ② ③ ④ ⑤
We know who our top performers are, and we're not losing significant numbers of them.	① ② ③ ④ ⑤
We have a clear tax strategy that is understood by the Board and reflected in our tax risk management.	① ② ③ ④ ⑤
<b>TOTAL</b>	

**Interpreting your score:**

- ≥ 65: You have a high-performing finance organisation. You probably don't need this workbook, but consider reading it anyway to learn about where your peers may be struggling.
- 43–64: You're doing well, but could be doing even better. Consider this workbook when deciding how to improve.
- ≤ 42: Grab a handful of pencils – and some erasers. You may need them.

# Ready...or not

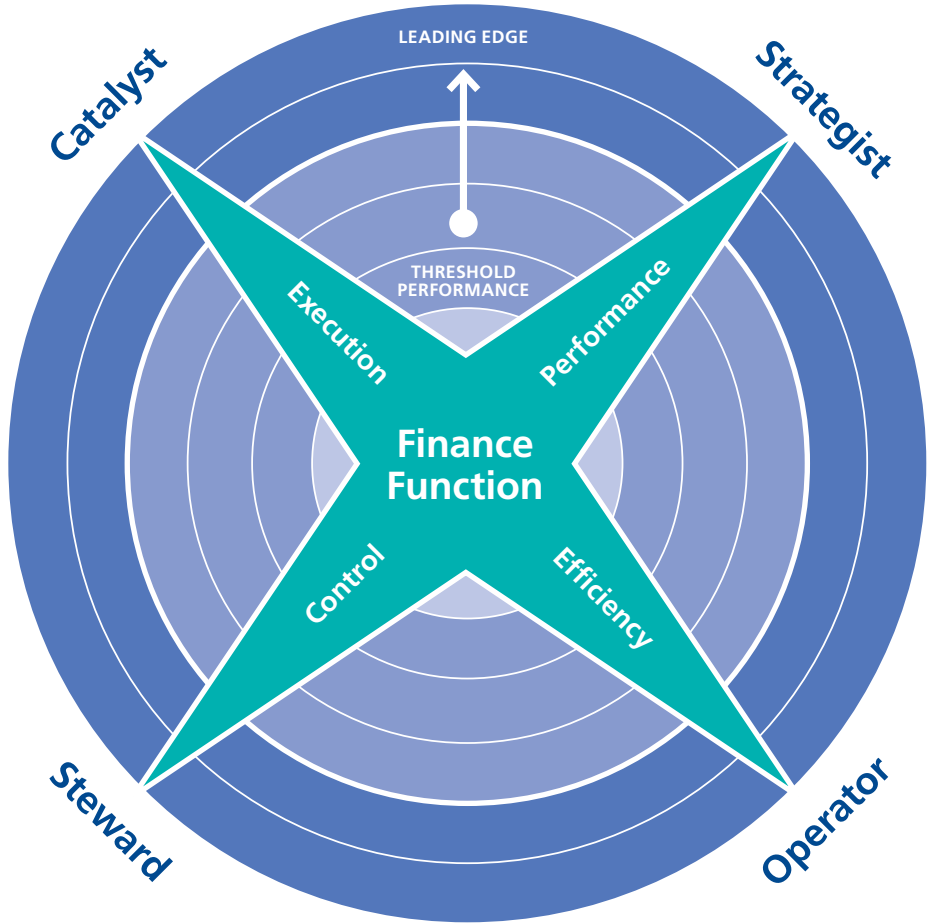
“I want finance to be a strategic partner in running the business, but right now we’re too busy closing the books.”

It wasn't long ago that many CFOs were debating whether to focus on accounting excellence or to become strategic business advisors. For the most part, that debate is over. Finance organisations today have to fill both of those functions – and more. The real question is *how*.

Chances are you've already taken some of the important first steps, such as consolidating accounting under a capable controller, or establishing a shared services organisation – maybe even moving it offshore – to manage back-office transactions.

But what's next? Now that you have time to breathe and focus on adding value as a strategic advisor, do you have the people to deliver what the business expects? And if the answer is no, how are you going to get them? Can you develop the talent you need from the people you already have in the organisation? What's the role of new hires? How does outsourcing fit in?

Like it or not, the days of being able to say “we're too busy closing the books” are long gone. Business leaders expect strategic advice and counsel that's grounded in solid information and a keen understanding of the business. Your job is to deliver it – without letting anything else slip through the cracks.



# Now or later

## Hire for current skills or future potential?

As a CFO, one of your biggest challenges is likely to be finding people to do the work. It's not just about filling an empty slot in the organisation chart; it's about finding individuals with the right skills and capabilities to accomplish your objectives. Should you go after deep knowledge in individuals already trained as qualified accountants? Should you target MBAs who could be more analytical and adaptable? How should you balance experienced hires with younger recruits? What's the right mix for today? How will your needs change in the next five years?

Many finance organisations are scrambling to hire for specific skills and experience, and that wave of specialisation is likely to continue. But how can you expect someone to become a leader if they have spent the past five years buried in hedge accounting? Here's the debate:

	POINT	COUNTERPOINT
<b>Hire for current skills</b> “I wish I had the luxury to hire for long-term potential, but right now I need somebody to work down this stack of unreconciled accounts.”	It allows us to do the things that need to get done <u>now</u> .	But then we end up with an army of drones who can only do one thing. What happens when the world changes and we need them to do something else?
	80% of what we do requires deep, specialised experience, knowledge, and skills.	Yes, but those are also the functions we’re moving offshore or outsourcing. The strategist and catalyst roles are the future of finance, and those require broader capabilities and a longer-term vision for our talent.
	No training required.	No growth either. Plus, if we don’t invest in developing our people, we’ll have trouble holding onto them.
	Hiring for long-term potential is a luxury we can’t afford.	Fixating on short-term needs is a liability we can’t afford.

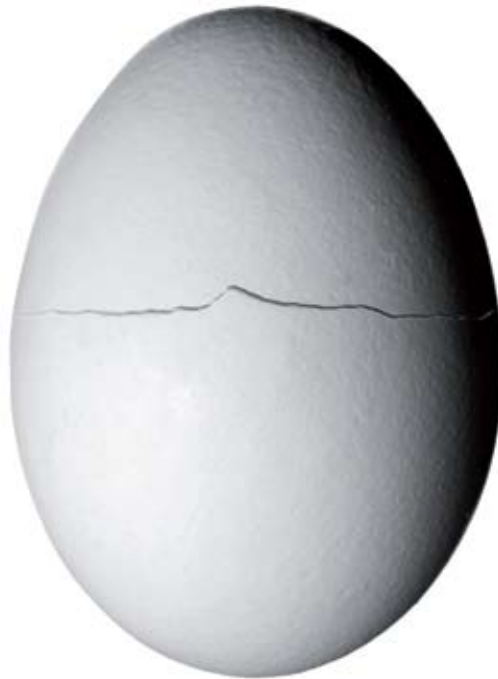
	POINT	COUNTERPOINT
<b>Hire for long-term potential</b> “Finance today is about business value. I need people who can partner with the business and help lead it into the future.”	Provides the kind of business-savvy talent we need to expand finance’s role as strategist and catalyst.	Today, that’s just a small part of finance’s role. It’s becoming more important, but for now we should stay focused on more basic skills.
	Produces the leaders of the future – both for finance and the overall business.	How many leaders do we really need? A colony of bees only needs one queen.
	These folks are versatile, which gives us more flexibility in deploying staff.	Versatile but expensive – and that’s not even considering the cost of training. Also, do we really think we can train these folks to be specialists in highly technical areas such as accounting, tax, and treasury?

Of course you need both, but what’s the right mix? Step back and ask if your finance organisation needs to change the way it thinks about people. It might be time to focus on the bigger picture, not just the individual boxes in an organisational chart.

# The great divide

## Separate finance and accounting?

It used to be that most business units within a company had an internal organisation that handled both financial planning and analysis (FP&A), and controllership. But after the corporate governance scandals earlier this decade, many corporates pulled controllers out of the business units as they tighten corporate governance and controls. Ever since, CFOs have been debating whether to separate finance and accounting or have finance and accounting activities roll up under the same umbrella. The discussion goes something like this:



	POINT	COUNTERPOINT
<b>Separate accounting and finance</b>  “Keeping finance and accounting together creates distractions that make it hard for either one to do its job.”	<b>Finance and accounting require very different people with very different skills. Separation helps us develop specialists with deeper knowledge and experience.</b>	<b>We can still have specialists in a combined organisation. Combining accounting and finance doesn’t mean every individual has to wear two hats.</b>
	<b>Separation improves alignment with the business because analysts report to the business units.</b>	<b>Finance analysts may get so wrapped up with the business unit that they lose sight of corporate objectives and the big picture.</b>
	<b>It’s easier to make improvements because each group can really focus on its unique needs.</b>	<b>True, but that only applies if things are really messed up. If we just need to tweak things, we are better off keeping finance and accounting together.</b>

	POINT	COUNTERPOINT
<b>Keep accounting and finance together</b>  “Most of our current leaders have experience in both finance and accounting. I don’t see how we can grow future leaders if the disciplines are separated.”	<b>It’s easier to develop the next generation of leaders because people can rotate through diverse assignments.</b>	<b>We can still do job rotations across separate organisations. It just takes a little more coordination.</b>
	<b>We’ll save money by reducing overlap and duplicated effort.</b>	<b>The cost savings are insignificant compared to other factors such as compliance and business alignment.</b>
	<b>Having finance and accounting work side by side makes our analyses and data more consistent, bringing us closer to a “single version of the truth.”</b>	<b>People can still work side by side, even if they report to different executives. Plus, we don’t want them to get too chummy, or we might end up with a single version of the “distorted truth.”</b>

Finance and accounting organisations that face significant compliance or operational challenges are generally good candidates for separation so that each can focus deeply on what needs to be fixed. On the other hand, organisations that are running smoothly – and have a focus on developing future finance leaders – are likely to keep the two roles together.

# Over there

## How much offshoring makes sense?

As your competitors reduce their cost structures by moving finance activities offshore, the pressure increases for you to do the same. But what amount of offshoring is the “right” amount?

The biggest concern that CFOs have about offshoring is loss of control. In theory, it doesn’t really matter if you relocate your finance operations to South Australia or Bangalore – both are beyond your direct line of sight. But for most CFOs, the difference between those two locations is huge. It’s not just an issue of distance or

time zones – it’s an issue of training, experience, and cultural norms. CFOs generally feel confident that domestic employees have training and experience in the appropriate regulations and accounting standards. Also, they know what they are getting in terms of work ethic (and ethics in general). Not necessarily so with offshore workers. As more finance organisations shift work abroad, these issues are starting to fade. However, they remain a valid concern.

Is this the right time to extend offshoring beyond transaction-oriented activities such as procure-to-pay, order-to-cash, and record-to-report? Should you move in stages, or wait until you have a comprehensive plan? Or if you already have an offshore presence, should you expand it, maintain it at its current level or pull back? Here’s the debate:

### Sustaining the savings

First-tier offshore cities such as Mumbai, Bangalore, and Prague are becoming too pricey for organisations that are just getting started with offshoring. In these well-established locations, competition for talent is driving up wages. That’s why many CFOs are setting their sights on locations such as Chennai and Bucharest, or countries such as China, Latvia, and the Philippines. These up-and-coming options may offer a significant cost advantage over more mature offshore markets, potentially allowing companies to capture more savings and sustain them for longer.

Unfortunately, their lack of maturity also creates some risks – particularly for organisations that are new to working offshore. One way to resolve this dilemma is to get your feet wet by establishing a small offshore relationship in a first-tier market (even if it means paying a premium), and then shifting the bulk of your finance operation to a second- or third-tier location once you’ve gained some experience.

Your offshore strategy hinges on your unique needs and time horizon. If steep and immediate cost reductions are essential, an alternative to a traditional location might be right.

If your business plans include expansion into new markets, other considerations may trump costs.

Also, you need to keep pushing for improved productivity and efficiency. Your business case might look good today, but a year from now it could be an entirely different story. Companies that depend solely on labour arbitrage for sustained cost savings may be in for an unpleasant surprise.



<p><b>Stay local</b></p> <p>“I know we have to go offshore, but the lack of control scares the heck out of me. What if we do it wrong?”</p>	POINT	COUNTERPOINT
	<p>The cost savings are overrated. I hear that labour prices in India are going through the roof.</p>	<p>Although wages are rising in hot offshore markets like India, the opportunities for labour arbitrage are still huge. Also, second and third-tier markets still offer very low wage rates even as their capabilities mature.</p>
	<p>We don't want to be a first mover. Let somebody else blaze the trail.</p>	<p>First mover? You're kidding, right? Lots of companies have already moved big chunks of finance offshore and are saving a ton of money. If we don't do it, we'll get left in the dust.</p>
	<p>Finance is a small part of our company's cost structure. Why risk it?</p>	<p>Finance needs to lead by example. That means reducing our costs any way we can. If we start making excuses, other groups will too.</p>
	<p>Offshore markets don't have the skills or experience to handle anything beyond basic transactions.</p>	<p>Offshore professionals are getting more experienced and sophisticated all of the time, and pretty soon they'll probably be able to handle just about anything.</p>
	<p>It's too risky, particularly for critical activities. We need to keep those activities where we can see them.</p>	<p>Yes, there is some risk. But our fear is mostly fear of the unknown. Once we start doing it, we'll be fine. We just need a good transition plan and high-quality documentation.</p>
	<p>Our company has a responsibility to keep jobs at home. Also, we don't want to face a backlash from customers who think offshoring is morally wrong.</p>	<p>Fair enough. But if that's the direction we choose, we need a strategy to counter the fact that our cost structure could eventually be much higher than our competitors. If our customers feel strongly about keeping jobs at home, that's great. But will they back up their talk by paying more for our stuff?</p>
	<p>Offshore service is undependable. That's why companies are pulling their customer service back onshore.</p>	<p>Service quality has been a problem in the past, but it's getting better. That said, service quality is key, so we'll need to keep close tabs on it. Also, there might be situations where keeping things local is the right answer.</p>

	POINT	COUNTERPOINT
<b>Move offshore</b> “I need to find ways to keep reducing costs, and this is the biggest opportunity.”	<b>We can save a lot of money – particularly on labour, which represents 80-90% of our total costs.</b>	<b>But for how long? Labour costs are rising fast, particularly in well-established markets like India. Unless we are willing to roll the dice on an emerging market like Vietnam or Latin America, the expected savings may vanish before we even get up and running.</b>
	<b>Offshoring gives us access to skills and talent that are increasingly scarce here at home.</b>	<b>That’s a good point. More and more companies now view offshoring as a source of talent, not just cheap labour. But it’s not an inexhaustible supply. In hot markets like India, employees are constantly being lured away by better offers, leading to significant problems with turnover, service quality, and training.</b>
	<b>Our competitors are doing it. If we want to remain cost competitive, we have no choice.</b>	<b>Just because everyone else is doing it doesn’t mean we should too. Differentiation is the thing to keep in mind. Our labour laws give us more flexibility to hire and fire people – we can use that to our advantage. Also, some customers think offshoring is wrong and might be more likely to do business with us if we keep everything local.</b>

Think about your long-term strategic needs and compare them to long-term offshoring trends. Offshoring certain finance activities makes sense for many companies, but one size definitely does not fit all. As CFO, you need to be honest with yourself about the amount of uncertainty and risk you are willing to tolerate – particularly for reports and transactions you will be supporting with your signature. Also, remember that even after you decide to make the offshore leap, there’s still a question of whether to do it yourself or through an outsourcing provider.

# In a fix

## Should we improve our systems and processes before we outsource?

The debate about whether outsourcing makes sense is all but over. In fact, it never really was much of a debate. Finance organisations have been outsourcing certain back-office functions for decades, and the trend continues to expand. The real question is how to do it. Should you get your systems and processes running smoothly before you outsource, or let the vendor do the work (and reap the rewards)?

### Getting more value from outsourcing

Deciding how to move forward with outsourcing is only the first step. Here are some ideas to consider.

**Think big.** If you view outsourcing as nothing but a cheap way to get lots of bodies, you're missing an important part of the value equation. Increasingly, businesses are outsourcing highly specialised finance functions because they simply can't hire enough of the right talent in-house. From speciality areas such as transfer pricing, hedge funds, real estate, compensation, intellectual property and more, companies are collaborating and contracting to get things done more than ever before.

**Start small.** Finance organisations that get a late start on outsourcing sometimes try to catch up by farming everything out in one fell swoop. That's usually a mistake. Effective outsourcing involves more than simply signing an

agreement; it requires active and skilful management. These capabilities take time and experience to develop.

While many outsourcing vendors have strong offerings in basic transaction areas such as payables and billing, some might not be as competent in areas that require more judgment, such as accounting and financial reporting. Outsourcing your advanced activities without covering the basics first could be asking for trouble. In most cases, it's much better to start with a few well-defined areas, then gradually expand as your skills and confidence improve. Also, don't outsource functions that are responsible for managing the complex interfaces between different parts of the business. Those intersections are where you often can find major opportunities for competitive advantage and value.

**Focus on people issues.** The tools and processes for outsourcing are relatively straightforward – very often

the real challenge is overcoming resistance to change. People have legitimate concerns about losing their jobs, or being forced into new and unfamiliar roles.

By now, most companies know that people issues can be the biggest obstacle to change; however, it bears repeating because in the heat of battle many still forget. An effective outsourcing effort requires: actively managing the change process; building a clear case for change; getting people involved in the process to create a personal sense of ownership; and delivering clear and timely communication to keep the rumour mill in check. Also, it's important to select an outsourcing vendor that aligns with your business and organisational culture. More often than not, these "soft" issues can be the most challenging part of the effort.

	POINT	COUNTERPOINT
<b>Fix it</b>  “We should improve our systems and processes before we outsource them.”	<b>If we fix our processes and systems ourselves, we get to keep the savings. If the outsourcing vendor does it, they may get most of the benefits.</b>	<b>We can negotiate a contract that lets us share in the savings.</b>
	<b>We know our business better, so it makes sense for us to fix things.</b>	<b>Outsourcing providers specialise in this stuff and have world-class capabilities. That’s one reason we’re hiring them. Let the vendor do its job.</b>

	POINT	COUNTERPOINT
<b>Ship it</b>  “We should let the vendor worry about it.”	<b>A big reason for outsourcing is to get stuff off our plate. The last thing we want is to dink around with our systems and processes for another year or two. Also, the sooner we outsource, the sooner we’ll get the savings.</b>	<b>We don’t want to be in such a rush that we do a bad deal or give away a lot of value.</b>
	<b>Our outsourcing vendor specialises in this stuff. They can fix things better, faster, and cheaper than we can.</b>	<b>We’ll get stuck with the vendor’s standard processes and systems, which means we’ll have to adjust our business to theirs instead of the other way around. That’s like the tail wagging the dog.</b>
	<b>Once we sign the outsourcing contract, it’s the vendor’s problem.</b>	<b>Sure, but in the end we’re the ones who end up paying the price. What if they never get around to fixing things?</b>

The right answer for you depends on your priorities. If you are anxious to unload the work so you can move on to more important things, it probably makes sense to outsource your systems and processes as is. On the other hand, if you’re interested in negotiating a better price on the outsourcing contract (and can spare the time and resources), you might want to fix things first. Either way, the sooner you make a decision, the sooner you’ll get the benefits.

# Decisions. Decisions.

## How much decision support should be automated?

When implementing a new performance management system to improve business decision-making, it's tempting to try and automate everything under the sun. But is that really an effective approach?

Most CFOs agree that finance should be extending its focus from accumulating information to adding value through insight. Most also agree they need to be operating from a "single version of the truth." But how far should finance really push to automate decision support? And where should you start?

A lot of operations managers make decisions based largely on "gut feel." But not necessarily by choice. In some cases, they simply lack the performance management tools to easily combine operational data with financial data. In other cases, they have developed their own tools, but the resulting numbers don't align with anyone else's. In either case, finance can play an important role in helping the business make better decisions. And you might be surprised to learn how many operations managers will welcome the help, as long as you don't force it on them.

### First things first

There's no question that a top-notch performance management system has the potential to turn mountains of confusing data into nuggets of valuable insight. But only if you're ready for it. If the systems and data that feed into performance management are out of whack, the resulting analysis will be, too.

How can you tell if you are ready? Here are three clues to look for:

**Sound business processes.** Are existing finance and transaction processes reasonably logical, controlled, and well defined? Or are they filled with workarounds that nobody really understands? Do the processes depend on "human middleware" for manual reconciliation and number crunching?

**Master data management.** Is data defined and used consistently across the enterprise so that it's possible to compare apples to apples? Is it clear who is responsible for governing data?

**Business alignment.** Do your finance systems and processes still fit the business, or has the business and operating model changed dramatically?

If you face major problems in any of these areas, a new performance management system may not help you very much. You need to fix the basics first.

	POINT	COUNTERPOINT
<b>Automate everything</b> “If a little automation is good, then a lot of automation is better. Right?”	Automation reduces costs.	Automation that supports routine decisions definitely reduces costs. But automation to support one-off decisions is a waste of money.
	Sophisticated models enable us to make better decisions and give us a competitive edge.	Sometimes they do, but only if we understand how they work. Otherwise, we’re just replacing one type of uncertainty with another. It’s often better to stick with simple models that our people understand and trust.
	Automation enables fast, informed decisions. Our decision support systems need to be fully automated so we can make informed decisions that are sound and timely.	Yes, but only for decisions we make often.

	POINT	COUNTERPOINT
<b>Automate only routine activities</b> “Good enough is good enough.”	Routine decisions should be automated. However, automating one-off decisions isn’t worth the trouble. Special decisions require special handling and that’s okay.	Whenever we use special reports, we end up spending all of our time arguing about who has the right data, instead of focusing on the decision itself.

To manage performance effectively, companies need a solid base of information that is accurate, reliable, and consistent. You shouldn’t have to manually mine multiple systems or conduct a special study for routine decisions and performance reports. That’s not to say you should try to automate everything. Consider an 80/20 approach that automates the routine stuff but recognises that many critical decisions require unique, in-depth analysis. In addition, you might want to consider creating a special data repository that provides a “play room” for analysing non-routine decisions.

Focus on areas that drive the most value for the business instead of sprinkling your performance management investments equally across the entire organisation. Look at the strategic plan to hone in on your company’s strategic priorities. Conduct an analysis to determine where the most value is being created (or destroyed), and then concentrate extra effort in those areas. Also, for routine reports, it’s generally better to stick with simple models that are well understood rather than developing complex models that no one really gets.

Whatever you decide to do, recognise that this isn’t a problem you can just dump on the IT organisation. Finance needs to own it, working with IT to ensure the resulting information does the job.

# Tick, tick, tick

## Do it right or do it fast?

Large-scale improvement efforts – whether they are new systems or full-blown finance transformation – often present the age-old quandary: do it right or do it fast? Should you take the time to carefully analyse and align every dimension of the problem – e.g. strategy, systems, processes, and people – or just slam something in and tidy up later?

Business gurus generally preach the gospel of doing things right the first time. Yet business leaders – faced with never-ending pressures from the real world – often choose the quick and dirty approach. So who's right?



### The need for speed

A major international airline recently spent more than five years implementing an end-to-end finance system designed to integrate every aspect of its business. During that time,

the global airline industry experienced significant changes, including a major shift to distributed operating models built around third-party outsourcing, as well as business units operating as standalone entities to sell services

to other airlines. This fundamental shift was completely at odds with the airline's new system, which had been designed years earlier, rendering it obsolete from the day it was implemented.

	POINT	COUNTERPOINT
<b>Do it right</b>  “Every element – processes, systems, strategy, people – should be in perfect alignment.”	<b>It’s more efficient to do it right the first time rather than waste time and money on throwaway solutions and rework.</b>	<b>Yes, but we’ll lose a lot of potential benefits while we’re waiting for the comprehensive solution to arrive.</b>
	<b>We can only create an effective solution if we are allowed to adjust and align all variables (people, processes, systems, etc.).</b>	<b>Our organisation doesn’t handle big changes very well. It’s better to do things one piece at a time, even if it’s less effective.</b>

	POINT	COUNTERPOINT
<b>Do it fast</b>  “We can’t wait years for a fix. We need it now.”	<b>The market is moving so quickly that by the time we “do it right,” the requirements will have changed. (See sidebar: The need for speed)</b>	<b>Good point. But is there a way to do it fast and right (or at least not do it wrong)?</b>
	<b>We have a life-threatening problem and need to do something to stop the bleeding. Once we get things under control, we can come back and clean up.</b>	<b>We just need to make sure we’re not replacing one problem with another. For instance – doing it fast can cost the organisation real money as the end tax position might become a lottery if it is not well thought through.</b>
	<b>We’re implementing an ERP system based on effective practices and world-class processes, so we will let the system define everything else.</b>	<b>Okay, but does the system really fit our business – or will we have to bend over backward to fit our business to the system? And what about differentiation? IT can be a competitive weapon, but not if we’re doing exactly the same thing as everybody else.</b>

If your existing systems or processes are causing major problems such as financial restatements, slamming in a quick-and-dirty solution may offer just enough improvement to stop the bleeding. But if you go that route, make sure you immediately go back and get it right once the crisis is over. By acting quickly, you can leverage the knowledge and experience you just gained and won’t have to start from square one.

Also, look for ways to do things right even when you’re charging full speed ahead. Spend some time thinking about your future requirements, even if you don’t plan to address them immediately. By thinking ahead, you can avoid painting yourself into a corner – which could save you a lot of time and effort down the road.

# Playing the game

## Should we provide earnings guidance?

There's a lot of debate these days about whether companies should provide earnings guidance. The media has produced an endless string of articles and opinion columns. Academics have churned out study after study. And corporate executives have debated the issue until they are blue in the face. But are these arguments focusing on the right question? At the end of the day, we believe the real issue is how to get analysts and investors to see your company's future prospects the same way you do –to buy into your company's "story." In this broader context, quarterly earnings projections are little more than a footnote.

In recent years, we have seen a slow but steady trend away from giving earnings guidance. Yet many companies continue to spend countless hours agonising over their earnings numbers as if they are all that matters. Here are some of the issues:

### **Different ways to tell your story**

Earnings are important, but they are only part of the story. In some cases, you might be better off with a more balanced approach that doesn't revolve entirely around earnings per share. Here are three additional angles to consider when telling your story:

**Strategic initiatives.** A number of companies tell their story by focusing on their overall strategy and the key initiatives that support it, which can help gain the market's confidence. If investors and analysts find the story and strategy compelling, management can provide guidance simply by showing that the strategic initiatives are on track. Some financial institutions use this as their primary approach to guidance. We know of one large company that even produces a separate supplemental disclosure that describes the progress the company is making against its strategic initiatives.

**"Big picture" trends.** Other companies tell their story by demonstrating how their investments and assets

are positioned to pay off in response to specific demographic and macro-economic trends. If analysts and investors buy into the story, they will likely remain positive about the company as long as the trends unfold as expected.

Another large company uses this technique as its primary mechanism for providing guidance about its Internet business. As long as overall Internet activity continues to expand in size and scope, investors and analysts are likely to maintain their rosy view of the company's market value and future prospects. This is just one simple example. Companies in many industries use a similar approach, hitching their fortunes to trends such as interest rates, energy prices, and immigration patterns.

**Management confidence and trust.** Some companies have such a strong track record of meeting or exceeding investor expectations that the market is willing to accept their story more or less on faith. Some of the world's most respected companies fall into this category. For example, we know

of one large company that provides investors and analysts with very little guidance or insight into its business, preferring to let the company's results and management reputation speak for themselves. Although establishing this level of confidence and trust isn't easy, companies that have achieved it can generally use it to their advantage.

Each situation is different and requires a tailored approach. That said, you may find that your company can tell a better story by employing one or more of these different angles – either as a supplement to earnings guidance, or even as a replacement. These richer stories are generally more meaningful and reliable predictors than quarterly earnings projections, which often provide little or no insight into how the results will be achieved. In many cases, these alternative approaches also improve transparency – which can help bolster investor confidence.

	POINT	COUNTERPOINT
<p><b>Use earnings guidance to tell our story</b></p> <p>“Providing earnings guidance is a pain in the neck, but the market will hammer us if we don’t do it.”</p>	<p><b>Investors and analysts expect it. We’ll get hammered if we don’t do it.</b></p>	<p><b>A growing number of highly valued companies don’t do it. We just need to train investors and analysts not to expect it.</b></p>
	<p><b>Improves transparency.</b></p>	<p><b>Maybe in theory. But in reality, everybody tries to show steady growth.</b></p>
	<p><b>Shows that finance has its act together.</b></p>	<p><b>Although it provides the appearance of competence, it actually undermines finance’s ability to do its job because it consumes so much time and resources.</b></p>

	POINT	COUNTERPOINT
<b>Tell our story in other ways</b> “Don’t take earnings guidance as a given. We have a choice.”	<b>Earnings guidance requires time and effort that could be better spent on activities that actually improve business performance.</b>	<b>The finance staff who crunch the numbers are not the ones who would provide strategic decision support.</b>
	<b>Earnings guidance promotes short-term myopia.</b>	<b>It’s not our job to change the world. We don’t make the rules, we just play by them.</b>
	<b>Earnings are just part of the picture; there are better ways to tell our story. (See sidebar: Different ways to tell your story)</b>	<b>Some companies don’t have the luxury of telling their story any other way. If we do, then good for us – we should definitely take advantage of it.</b>

Some companies have stopped giving earnings guidance because they can’t produce reliable forecasts and are tired of embarrassing themselves. But other companies have a better reason. These trend-setters believe that earnings guidance promotes short-term thinking and does little or nothing to increase the company’s long-term value. Rather than contribute to the market’s myopia, they prefer to tell their story in ways that are more compelling and meaningful. These companies are helping to dispel the popular notion that detailed guidance leads to better valuations. They are also able to focus more time and attention on activities that actually contribute to business performance and shareholder returns.

The key takeaway is not to take earnings guidance as a given. If you step back, you may realise you have other options to supplement (or even replace) earnings guidance with other story angles that strengthen your message and boost investor confidence.

# Going green

## Should finance take action on sustainability?



These days, most major companies are talking about eco-friendly business practices. In the process, many are making some big claims that are not always substantiated or consistent across the business – potentially exposing themselves to significant risk.

Although the government has not yet mandated specific reporting requirements around sustainability, that doesn't mean companies can simply ignore it. If investors care about sustainability and factor it into their valuation decisions, then companies have a responsibility to accurately disclose and report their related activities.

No one knows if sustainability will remain a significant business issue over the long term. But there's no question that it's a very real concern today. In fact, a record number of shareholder resolutions on global warming were filed this year, nearly double the number filed just two years ago.<sup>1</sup>

When it comes to sustainability, the big question for CFOs is what to do about it.

### **What are the benefits of going green?**

As CFOs debate the issue of sustainability reporting, their companies are wrestling with an even larger issue: Does sustainability produce real business benefits, or is it mostly just

good PR? Proponents argue that going green delivers immediate and tangible benefits, including tax credits, reduced energy costs, and greater appeal in the talent market. Plus, they say it's the right thing to do. Sceptics argue that purchasing renewable energy and carbon offsets will cost a company

more than it saves from conservation. Also, they say being ahead of the curve could disqualify a company from tax credits and other improvement incentives the government may offer in the future. As with any good debate, the "right" answer is unclear.

	POINT	COUNTERPOINT
<b>Start formalising sustainability reporting</b> “We need to get this under control before it’s too late.”	<b>We’re making claims that are inconsistent or hard to substantiate. This exposes us to unacceptable risk.</b>	<b>So is everybody else. Don’t worry about it. Right now, it’s just PR.</b>

	POINT	COUNTERPOINT
<b>Wait until the government requires us to take action</b> “We’ll focus on compliance when there’s some guidance on how to comply.”	<b>We’re not required to do it.</b>	<b>Investors care about sustainability and factor it into their valuations. That means it’s important and needs to be reported accurately and consistently, whether or not the government explicitly says so.</b>
	<b>We don’t know what we’re supposed to do.</b>	<b>Not knowing what to do is not an excuse for inaction. Maybe our first action item should be “figure out what to do.”</b>

Some companies might be better off waiting. Other companies might find sustainability too important to ignore. But here’s the rub. Because this is still an emerging issue, there aren’t clear standards or guidelines for how to handle reporting and disclosures about sustainability. So even if you decide to take the initiative, it’s not clear what you’re supposed to do.

Depending on the country in which you operate, now or in the near future, real money may be at risk as a result of tax incentives for green activities and tax penalties for polluters and high users of natural resources. So we better start, at the very least, figuring out the options that are available to us.

That said, companies should ensure that their messages and claims are consistent across every part of the business. There might not be a right answer when it comes to sustainability. But contradicting yourself is a sure way to get it wrong.

# The voice of reason

CFOs today face a variety of big debates. And in most cases, there is no “right” answer. To find your way, you have to consider the variables and apply good judgment.

So it’s especially ironic that some of your biggest challenges stem from the one thing that’s constant in your job: the need to be your company’s voice of reason.

When business is booming and everyone around you is getting swept up in irrational exuberance, it’s your responsibility to keep them grounded. That means maintaining cost discipline and ensuring that every investment has a strong business case. On the other hand, in uncertain times when other people are heading for the bunkers, you need to keep things moving ahead. You have to make sure that critical activities and investments continue to receive the funding and support they require.

As CFO, it’s your job to ask tough questions and demand clear answers. Like it or not, your voice should be the counterpoint in every business debate. It’s a tough assignment, but if you don’t do it, who will?

## What have we missed?

We hope this workbook has given you a lot to think about, but we know there's even more on your plate. That's why we're hoping you will weigh in with your own ideas. If there are other issues being hotly debated in your organisation, or if you know of something that should be added to the next edition of this book, please let us know. Share your thoughts by contacting one of the partners below. Thanks!

# Contacts



## **Donal Graham**

Partner, Consulting  
e-mail: [dgraham@deloitte.com.au](mailto:dgraham@deloitte.com.au)  
Tel: +61 (0) 2 9322 7279  
Mobile: 0419 255 340



## **Iain Gerrard**

Partner, Consulting  
e-mail: [igerrard@deloitte.com.au](mailto:igerrard@deloitte.com.au)  
Tel: +61 (0) 8 9365 7216  
Mobile: 0419 908 887

## Our Signals

**Recruit and retain the best** – Our people are talented, enthusiastic, self-starters, team players who are bursting with potential. They are people with whom we have a lifetime association.

**Talk straight** – When we talk, it's open, regular, honest, constructive two-way communication between our people and our clients.

**Empower and trust** – We encourage a sense of ownership and pride by giving responsibility and delegating authority.

**Continuously grow and improve** – We have an environment that respects the individual, rewards achievements, welcomes change and encourages a lifetime of learning – with ourselves and our clients.

**Aim to be famous** – We aim to reach for the stars – and beyond. To be thought leaders, showcasing our clients and our team's talent and expertise.

**Play to win-think globally** – Winning is our stated objective. It is also our state of mind.

**Have fun and celebrate** – There is never a wrong time to celebrate and have fun – recognising, appreciating, acknowledging and learning from the experiences and success shared between our client and Deloitte teams.

## Our Culture – our essence

Culture at Deloitte does not just happen – we work at it.

It's the sum total of the actions of our people, it's the way we treat others – it's the way we behave. Our seven Signals embody these values. Our passion for teamwork and exceptional client service is our point of difference.

At Deloitte, we live and breathe our culture.

Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate. Our mission is to help our clients and our people excel.

## Recent awards and achievements

- leading Organisation for the Advancement of Women (more than 500 employees). EOWA (Equal Opportunity for Women in the Workplace Agency) Awards 2008
- winner of the Accounting Services Firm of the Year – CFO Awards 2006 and 2008
- Australian HR Awards – Giam Swiegers, HR Champion-CEO Award, and Alec Bashinsky – Best HR Director Award for Australia (September 2006)
- voted best brand globally in tax services (International Tax Review 2006)
- winner of the 2005 Institute of Internal Auditors Lawrence B Sawyer Award, for recognition of outstanding achievement in the development, promotion and commitment to the Certified Internal Auditor Program
- named number one non-investment banking firm for global corporate reorganisation by 'The Deal' (December 2005)
- rated as a 'Leader' in ERM\* Consulting achieving the highest overall score in the evaluation (October 2005)  
*\* Enterprise Risk Management*
- Deloitte CEO, Giam Swiegers: winner of 'Leading CEO for the Advancement of Women' in the Australian Government's EOWA Business Achievement Awards (September 2005)
- winner of the 'Most Innovative Firm' in BRW-St George Client Choice Awards (March 2005).

Liability limited by a scheme approved under Professional Standards Legislation.

© Deloitte Touche Tohmatsu Ltd, November 2008. All rights reserved.

This publication is provided as general information only and does not consider your specific objectives, situation or needs. You should not rely on the information in this publication or disclose it or refer to it in any document. We accept no duty of care or liability to you or anyone else regarding this publication and we are not responsible to you or anyone else for any loss suffered in connection with the use of this publication or any of its content.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 150,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

Syd\_11/08\_036506

Member of  
**Deloitte Touche Tohmatsu**