

Crisis management

The 2008 Finance Directors' Forum took place amid turmoil in financial markets and a looming recession. However, delegates remained solidly upbeat, taking valuable lessons from a conference programme packed with great advice for managing in a crisis.

Although the modern finance director can only succeed these days by demonstrating a mastery of "soft" skills – leadership, communication, empathy and persuasion – more traditional attributes come to the fore in times of trouble. Delegates facing the prospect of scarce capital and a worsening economy showed that level-headedness, discipline and decisiveness remain at the core of the role.

Their commitment to these principles was reinforced at the 2008 Finance Directors' Forum thanks to a programme that took a positive approach to managing in a crisis. From keynote speeches that emphasised calmness and integrity under pressure, to seminars covering smart cost-cutting, incident management and motivating teams, the conference did much to equip FDs with the tools to cope in harsh times.

Keynotes: the value of planning



The Forum began with an engrossing talk from Frank Abagnale, the teenage fraudster made famous by the Steve Spielberg film *Catch me if you can*. His story showed that one of the secrets of crisis management is to keep your focus on the long term, rather than getting mired in current problems.

Although his young adulthood was defined by an incredibly successful criminal career, Abagnale told how he'd turned his life around after prison terms in three countries by making a positive contribution to the fight against fraud. Even when things look grim, he said, there's always time for those with integrity to put things right.

The second keynote was delivered by Dr Ian Pearson, former BT futurologist who now runs his own predictions consultancy. One of his many themes was the opportunity for technology to solve some of the crises we're facing on a global scale. Solar energy production, for example, can fix our addiction to fossil

fuels; our consumption of rare earth materials for technology will decline as we shrink computers and phones to the size of lapel pins.

But panicking about our problems – or mistakenly assuming that we should halt investment in technology to reduce current consumption – would be a mistake. Instead, we should plan for the future – and invest in it.

Planning of a different – and more immediate – kind was the subject of a moving presentation from Colonel Bob Stewart, commander of the British forces operating under the UN banner in Bosnia in 1992-93. His handling of a deadly crisis was hampered by unclear mission objectives and a limited mandate for action.

But, he explained, by writing down personal mission plans for each new situation he faced, he was able to give his soldiers clarity of objectives, maintain morale and deliver outcomes consistent with his own sense of integrity and honour. No FD will ever have to cope with the atrocities he witnessed. But delegates recognised that his tactics could be applied to their own moments of crisis to deliver positive results.



Crises in the finance function

Closer to home, FDs were treated to three sessions highlighting the need for that kind of steadfastness under fire in their own businesses. Eric Tracey knows a thing or two about problems in the finance function: he's been a "trouble-shooter FD" at two high profile corporate calamities, construction group Amey and leisure business Wembley. Using anecdotes from his time with these businesses, he warned delegates facing hard times about the biggest danger of all: denial. In both cases, the board believed that the best possible outcome would come to pass. As FD, his first job was to convince them it wouldn't.

"Days after joining Amey, I had to stand in a room of angry banks and lawyers and say, 'I have no basis for believing in these numbers [the latest management cash flow forecast], but I need money.'" Shock tactics that awoke the board to its dilemma.

Tracey then explained how to get out of a hole. The first few days of the crisis are critical – an FD must get a true sense of the situation, work out where the biggest problems are and look for any positives. Second, you need to know who are the most important stakeholders – including those inside the business.

Then it's about rebuilding credibility with them, which means being honest, open and positive. "If you can fulfil your promises, own up to mistakes and communicate clearly, you'll do well," he said. Other tips? Use advisers well. Look for "sacred cows" – symbolic gestures, like curbing executive bonuses, that will help win over key stakeholders. And always have a "plan B", of course!



That last point was the theme of Doug Ross's presentation on incident management – subtitled "how planning for failure can boost your chances of success". Too many businesses, he explained, expect everything to run smoothly and don't stress-test their assumptions (Terminal 5 being a prime example). "By taking a dispassionate look at the undertaking and asking 'where might it all go wrong?', organisations are much better placed to respond and recover swiftly," he said.

His consultancy, Square Peg, has a five-step process to improve scenario planning. First, "face the music" – conduct imaginative risk assessments that factor in unlikely but high risk crises. Second, put necks on the line – make sure people know they are responsible if something goes wrong. Third, drill ruthlessly – there's no substitute for practicing responses. Fourth, embrace central command – an organisation's leaders should see problems coming and direct the response. Finally, accept that what doesn't kill you makes you stronger – and apply those lessons in the future.



Looking further afield, Justin Urquhart Stewart of Seven Investment Management took FDs on a whistle-stop tour of the credit crunch and the global economy, highlighting how important some of Tracey and Ross's lessons will be over the coming months. We are facing a "perfect storm" of the end of a growth cycle, inflation, lack of credit and geopolitical threats, he said.

Sticking with one of the Forum's key themes, he explained his three-part recipe for survival. "You have to plan better – too few organisations look carefully at what might happen in the future or articulate clear aims for their business," he said. "Then you have to apply a process to ensure that what you plan to do happens as you want it to. Finally, you need discipline to keep your plan on track."

And his forecasts for 2009? A global slowdown is inevitable, although we will recover eventually. Credit confidence will remain an issue. There will be a key battle between a need for growth and the danger of inflation. Sterling will continue to be weak. And we're now facing some serious questions about global trade. In short, FDs need to take the Forum's lessons on crisis management seriously.



Coping with a recession

One of the great things about the FDs' Forum is that it features both the inspirational (such as Olympic rower Ben Hunt-Davis's talk on motivating teams) and the practical. In the latter category this year were a presentation on sustainable cost reduction and Kevin McCavish's "Reducing labour costs in a declining market."

McCavish, a partner at law firm Shoosmiths, laid out some truly creative options for managing employment costs. For example, while redundancies are clearly on the agenda for many businesses, smart FDs are working with their HR functions to find ways of using workforce flexibility – shorter hours, part-time work, sabbaticals – to reduce costs while ensuring skilled and experienced employees are kept on the payroll.

But the bulk of his advice related to redundancies. The key is that proper procedures are followed. Failure to do so can result in hefty awards to staff who have been treated unfairly. "So listen to your HR department when they talk to you about process," he warned. And ensure you have performance appraisals in place so that if you do have to lay people off, you have solid criteria for choosing the unlucky ones.



Simon Brew, a partner at Deloitte, asked whether sustainable cost reduction was possible – is it myth or reality? He highlighted recent research showing that more "invasive" cost reduction programmes – instead of cost savings sought as part of ongoing change projects – were now coming to the fore.

"But our concern is that companies are setting relatively conservative goals," he warned.

The problem is that most cost reduction projects overestimate their own effectiveness (Brew says you should target at least 30 per cent more savings than you need). Even those with board-level support run aground because the sponsors aren't able to provide the kind of focus needed to maintain momentum with middle managers. And many firms look for short-term reductions in cost that, in the long run, fail to cut outgoings.

A better way, Brew explained, is to identify areas that need attention – customer relationships, for example – and re-design the processes to strip out costs that fail to deliver truly beneficial outcomes. "By being proactive, you can use the need to reduce costs to reconfigure the business to adapt to new market dynamics," he said.

Brew finished by highlighting an approach that could have summed up many of the sessions on the FDs' Forum 2008. "Finance needs to arrive at a single version of the truth quickly, so that everyone knows what is required and you can eliminate undue optimism and pessimism," he said. "Explain clearly what you plan to do and how people can make their contribution to that mission."

Typical, then, of the excellent advice available throughout the two days of a Finance Directors' Forum that set out to stiffen the resolve of FDs under pressure – and succeeded.



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FOR FURTHER INFORMATION, CONTACT:



Victoria Coles
Conference Manager

Victoria Coles, Conference Manager

T: +44 (0) 20 8487 2266

E: vcoles@richmondevents.com



Joe Rutter
Delegate Manager

Joe Rutter, Delegate Manager

T: +44 (0) 20 8487 2277

E: jrutter@richmondevents.com



Andy Macey
Sales Manager

Andy Macey, Sales Manager

T: +44 (0) 20 8487 2269

E: amacey@richmondevents.com



Natalie Shattock
Operations Manager

Natalie Shattock, Operations Manager

T: +44 (0) 20 8487 2247

E: nshattock@richmondevents.com



www.fdforum.com

The Finance Directors' Forum
is organised by

Richmond Events Ltd
St Leonards House
St Leonards Road
London SW14 7LY
020 8487 2200
www.fdforum.com

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