

## FDE roundtable

Managing for sustainable, profitable growth is at the top of the agenda for CEOs today. But what does it mean for the CFO and the finance function to move beyond restructuring, cost management, and compliance – which was the focus of many finance teams in the past – and to manage for profitable growth? **Juergen H Daum** explores the issue with CFOs and senior executives at **BHP Billiton**, **Electricité de France** and **Microsoft Germany**.



# GO FOR GROWTH

### Our chairman



#### JUERGEN H DAUM

Juergen H Daum is chief solution architect of SAP's Business Solutions Architects Group. He advises CFOs and controllers in the areas of finance transformation and enterprise performance management. He is also the founder and president of the International Institute of Enterprise – Heidelberg.

### Our participants

#### MICHAEL SILBERMANN

Michael Silbermann is CFO of Microsoft Germany and is based in, Munich, Germany

#### CHRISTIAN LÉVI

Christian Lévi is senior vice-president and head of EDF Group Finance Transformation of EDF Group, based in Paris, France

#### PAUL KOPPELMAN

Paul Koppelman is CFO of Commercial BHP Billiton and is based in The Hague, Netherlands

### WHY DO COMPANIES NEED TO GROW?

**Juergen H Daum:** Mr Silbermann, what is your view from a Microsoft perspective?

**Michael Silbermann:** On one hand we have to grow because we have constituents who invest in our company and they want to see a return. They expect that our share price goes up and for that you need to continuously grow your business. On the other hand, if we don't grow, others will. There is competition and we have to deal with competition – even if some people think that this is not the case for Microsoft. But think for example about Linux on the server side, the ERP business, or the X-Box. And if others grow and you don't, then they take away market share from you. And if you lose market share, the more market share you lose in a market, the less important you get and the less important you might get in other markets as well.

**JHD:** Mr Lévi, what is your view from an EDF perspective? I think EDF is a special case, because until recently it was, for the last 50 years or so, a state-owned company.

**Christian Lévi:** To answer your question, I need to say some words about the energy sector. One clear trend in the energy business today, especially in Europe, is, due to the opening of the energy markets, to go from a business model, which was until recently a local business model, to an international business model. In 2003, when I joined EDF, some people believed and told me that electricity is a local business.

Today, you can buy energy on the energy exchanges on paper – like you can buy raw material on the commodity exchanges. And this trend is reinforced by the fact that you cannot stock electricity. To cover peak demand, you have to buy electricity from others, in addition to what you produce yourself. So, trading in electricity is becoming more and more

important. And with that, the energy business has become an international business – not only for producing electricity, but especially for trading electricity. And with this trend of electricity becoming an international business, you are going to see battles between companies who are fighting for international market share.

**JHD: So the main reason for growth at EDF is the trend to market deregulation and the subsequent consolidation process across Europe. Without growth, you probably wouldn't be able to survive as an independent company.**

**CL:** Yes. The investment requirements are growing as well, which is another reason why we need to grow. We have to invest in the next five years €50 billion in the network. This is because success in the electricity market is not only dependent on your production capacities. It's as well a question of transport. You have to transport electricity and that's not so easy. So, we have to invest in maintaining and renewing the local network, but we as well have to become a real international platform. For this we have to invest in what we call interconnections. Interconnections are the electricity links between the country networks. And the interconnections are not yet very well developed. So all this requires considerable investments. And to be able to fund these investments we have to grow as well.

**JHD: Mr Koppelman, growth – why? What is your view from a BHP Billiton perspective?**

**Paul Koppelman:** We, like most listed public companies, want to grow profitably to improve our share price. External investors are looking for and ultimately staff should be aware that a major objective of a listed company is to drive shareholder value. The attitude in organisations is growing that a strong share price is good, and obviously we want to increase our enterprise value continually. We have come from a long way behind. Our challenge is to maintain our strong current momentum, which, if it continues, will take us into one of the top ten global companies of the world. And what's the next big growth thing in our industry? It's the need for resources in the emerging markets of China and India. For these countries to grow they need our resources to develop their infrastructure and grow their economy.

## WHAT ARE THE MAJOR CHALLENGES IN MANAGING FOR SUSTAINABLE GROWTH?

**JHD: Mr Silbermann, what is your view from a Microsoft perspective?**

**MS:** It's having a pipeline, a pipeline of new products and making the right decisions about where to invest and where to expand the business. You have to find the opportunities for further growth. First of all, you sustain and grow your core

business. We all know the product cycle: at some point in time the curve is flattening out and you have to find ways to steep it up again so that you have your continuous growth. It happens through product innovation, continued research and development. And we are spending \$6 billion per year in research and development.

And then you are able to find other niches or other areas for growth where you can supplement that growth in your core business. In our case that was when we expanded from Windows Client and Server business into Xbox, into ERP systems, into Search, etc. It's about gaining market share in the core business as well as in the new markets. How can the organisation incorporate these new businesses? I think that is the challenge you have to master.

**JHD: What are the major challenges in managing for sustaining growth at EDF, Mr Lévi?**

**CL:** We have launched a global transformation programme at EDF. The first key challenge was to change the culture, the mindset, and not only the culture of employees, but the culture of senior managers and consumers. One challenge here is that consumers often think that they own the electricity company of their country. Another one is that an electricity company or energy company that creates profits and is committed to create profit is not very popular with all consumers. So you have to start to communicate and to convince consumers that you have to become an international business and that you need profits to be able to do the necessary investments required to secure our future.

**JHD: And on what did you focus in your transformation programme?**

**CL:** The first thing we thought about was how to shift the culture at all levels of the company. We launched a cultural change program starting with senior management, but then including, for example, the unions as well. We trained more than 20,000 people in less than three years. Then we made several important decisions. The first one was to give everyone a clear target. Having become a listed company, we have to communicate a target to the market. So, the first thing was to define a target internally. We said ok, we are here and we want to go there – for the debt rate, for EVA, for dividend, for cashflow, for all key indicators.

The second decision was to create a new business model. Traditionally the electricity business was in all countries more driven by cost than by result. In the former regulated markets, electricity companies didn't have to fight for clients. So, in fact, the revenues were considered as an input, as something that was happening anyway. As a result, most of the companies were managed by controlling just the cost. But now, with the deregulation, we as the former monopolist, are obliged to lose clients. It's clear that our intention is to keep the best customers and to lose the others to the competition. But the competition

is trying to do exactly the opposite. So we had to change the business model and focus on fighting for customers and to focus on margin and results.

**JHD: Mr. Koppelman, what is your view? What are the major challenges in managing for sustainable growth from a BHP Billiton perspective?**

**PK:** One challenge in the resources industry is that in the past there have been ‘boom bust’ cycles. It’s highly volatile. So everyone has a tendency to invest at the wrong time. One challenge we have in our industry is to invest in what we call low-cost assets, so when the prices fall, we can still make a good profit margin. The other challenge we have is around having a good pipeline of growth opportunity.

A major challenge we have is to educate the capital market on our long-term investment strategy versus the current boom cycle which is driving unsustainably high prices and thus high current profits. Another challenge in a high resources market like we have at the moment – when the market is basically dominated by the supply side rather than the demand side – is: do we extract everything out of the ground in an inefficient way to maximise our current new profits, or do we take it, maximise our yield, which effectively reduces our current new profits, but maintains our value in the longer term? That’s probably our biggest challenge that we face at the moment.

**THE ROLE OF FINANCE IN MANAGING FOR SUSTAINABLE GROWTH**

**JHD: Now, let’s come to finance. What is the role of finance in managing for sustainable growth? How can finance help the business to manage for sustainable growth? Mr Koppelman, what is your opinion?**

**PK:** How do we help with profitable growth from a finance perspective? I think the key asset we have in finance is that we have a lot of data. So it is about turning that data into information to assist growth and making sure that when we are doing the analysis from a growth perspective, that there is consistency. So that there is a template that you can use to make sure that you get consistent business decisions on a global basis. And then, finally, it is around helping with the risk-reward trade-off that you put in for growth.

**JHD: Mr. Silbermann, would you like to add to that?**

**MS:** I agree with what Mr. Koppelman said, that finance has all the data and that our task is to make sure that we make the best possible use of that data. On the one hand it’s the ex-ante view of it, on the forecasts driving future decisions. But we also have to step in in the ex-post analysis, saying ok, this is what we decided, is it still valid? All plans are based on assumptions and the numbers you have planned are based on these assumptions. So our role in finance is also to make sure that we have a continuous process in the company where we

regularly check if our plans are really delivering the growth we are expecting and if our assumptions we have made are still valid. And we also have to make sure that we have that information in time, that we have the numbers early that tell us whether we are really delivering on what we expected, so that it’s not too late.

**JHD: But probably it isn’t just about tracking deviations. It is also about facilitating learning. I think that is something very important in our volatile and dynamic world today: that we establish a process of continuous learning about what works and what not and under which circumstances. In the old days companies just said ok, let’s look on a business case or plan, and after they have released it, they didn’t track it and didn’t look into it again and check, if they were still able to really achieve it. But if you do this, you can gain a lot of knowledge and experience.**

**MS:** Yes, of course. You learn from what worked and you learn from what didn’t. If you thoroughly and regularly look into your assumptions and what you are actually achieving in reality, you learn a lot. So I agree, it is a learning process. Absolutely.

**PK:** And that directly translates into growth and value. From a capital market perspective, if you are able with such a process to have minimal downsides on prices, ultimately, your key ratio relative to your peers gets upgraded.

**JHD: Mr Lévi, what is the role of finance at EDF in supporting sustainable growth?**

**CL:** In general, I think that the role of finance is to help a company as a whole to grow in a profitable way. But its task is not always to help managers. Sometimes we have to be in conflict with some managers.

The first thing for us is to make sure, as I said before, that we have defined good targets. And that is, I think, the key action that a finance guy or a controller can do. It’s to make sure, that we define a clear target and we are committed to a good challenge. If everybody then agrees on the target, it’s much easier after. So that’s the first thing that finance can do.

The second thing is good processes: reporting, forecasts, business reviews and so on. Managers should not focus too much on business reviews and should not spend too much time with it. Our role in finance is to create the transparency, so that managers can focus on management, on sales, on marketing and so on. So, that’s our role as well, we have to build efficient and effective processes. And with them we have to facilitate both the finance view and the management view.

And that means we have to be as effective as possible, as low-cost as possible. Managers should see finance not as a constraint, not just as the cost-cutter, but that it can be value-added to help them in their job.

## FINANCE AS A BUSINESS PARTNER

**JHD:** Let us get back to the finance organisation, not just the CFO, but the finance organisation: how do you have to organise finance to support the business in managing for sustainable growth? What is your view, Mr Silbermann?

**MS:** Finance has to be a real business partner. And that means finance, its processes, has to be set up in a way to support this business partner role. And the CFO and finance teams have to be able to understand the business, because as a partner you have to be on the same level so that you can really help. I think that is crucial.

**PK:** I agree. Obviously we all like to be business partners, but you have to bring your house in order first. Then you have to have the skill sets to be able to do that. So a business partner in finance to me is not somebody who is only a finance expert. He has to have much broader business knowledge. So a lot of finance people, who should become business partners, will have to have business knowledge before. That's the major challenge. For us that means, that most of the individuals, who should move in a CFO role, will have to manage a broader portfolio like one of the assets, so that they actually understand how the business operates and that they are able to see also the other issues and not only the financial ones.

**JHD:** Do you see a contradiction between fulfilling the business partner role, being close to the business, being the friend of the business, if you will, and the other roles finance has to fulfill, mainly the stewardship/governance role?

**PK:** No. Finance has to play all roles – that of a strategist, of a business partner and of a steward. The critical thing is that there is enough independence in the CFO role. And for this there has to be recognition for the CFO role from the CEO to actually enabling the CFO to really play his stewardship role. Once that is understood in the business, then you can really focus on strategy and adding value and being a real business partner.

**MS:** I fully agree. You are business partner as long as you are within company policies, within compliance. And that means that you have to say no sometimes to certain things what the business wants. You have to say, we can no longer support you with that or help find another solutions which is in compliance with policies. And that's also a positive aspect of business partnership. Because you help the company avoiding possible compliance issues

**JHD:** That means, you first have to fulfill the stewardship role, before you can move on to become a business partner.

**PK:** Yes, the stewardship role is your platform. If you do not have stewardship, you do not have to worry about the rest. And that is the real issue that some finance teams have: they

have a current state here and have a future state there, meaning that they want to be the business partner. But if you are not filling yet all the gaps in your stewardship role, don't even try to build up the business partner role, because you do not have credibility. And credibility starts with stewardship and it builds on that.

**CL:** I think the model is clear: put controllers as close as possible to the business, automate and centralise as much as possible in the back-office, in transaction processing, and you centralise the expert services. So it means shared services in accounting and centers of excellence in treasury, in tax, in legal and good controllers, who are close to the business.

**JHD:** And this kind of centralisation, with shared services using an integrated system platform, also enables you to automate some of the controls.

**PK:** But you have to be careful: you centralise only the operational task and you decentralise the strategic ones.

**JHD:** But isn't there another challenge when finance, as a business partner, wants to be closer to the business: that finance gets to much under the control of the business?

**CL:** I think the trend goes more in the opposite direction, because most finance functions become more and more centralised. The former dotted line of local CFOs or business controllers to the corporate CFO are becoming more and more solid lines and the dotted line goes to the business head. At EDF finance is now nominating the local controllers. If you want to have transparency and more financial control, you have to centralise finance. One of the key discussions we had with business managers, and that was part of the change as well, was, if the business controller will sit beside the manager or in front of him. And we decided that the controller sits beside the manager. He is part of the finance organisation but at the same time he is the partner of the business. But at the same time there is another controller in front of the manager – the controller of the next level together with the manager of the next level to whom the business manager is reporting too. At the beginning it was difficult to understand, even from senior managers, that a manager should not report to a controller. **FDE**

