

HOW CFOs CAN NURTURE AN INTERNAL CULTURE OF INNOVATION

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Emerging Role of CFO as Financial Innovator – Clarian Call

Though traditional finance skills of analysis, reporting & control are still crucial, the job of the 'CFO' is broadening far beyond from mere functional expertise (Doer & learning mode) in to role of much more strategic & persuasive.

Fierce competition in today's global markets, the sky limit expectations of customers yet sustenance of business margins and delivery of financial performance to meet expectations of investors have put CFO role on the hot seat and repositioned his role from mere number cruncher to 'Strategist or Financial Innovator', to be able to meet expectations of the varied stakeholders.

On business dynamics, CFO has to strike balance between operational effectiveness & business strategy, since both are essential to superior performance & profitability.

In current turbulent times CFOs role in strategic partnering with CEO is imperative, thereby, required to demonstrate his visionary leadership, innovative & strategic execution skills, while displaying greater levels of perseverance and adaptability.

In brief the role of CFO is extending from 'Governance' to 'Guidance'. Newer areas where CFOs add significant values comprise of 'capital budgeting', 'Risk Management', 'Customers Profitability', 'Business development', 'M & A support', 'Pricing Strategy', New product development (NPD) & competitors mapping & analysis. As a result CFO role is emerging with far more influence at the enterprise level and can make fundamental difference to the destiny of the organization.

However the challenges faced by CFOs are compounded by falling governance levels and complex regulatory environment and macroeconomic issues, while performing his role in delivering business performance improvements, supporting business growth strategies & overseeing risk management strategies, regulatory compliance & fostering innovative culture with the organization.

How culture of innovation has helped to accomplish Corporate Transformation (Corporate case study)

It would be appropriate to dwell a corporate case study. Just a coincidence, I joined Crompton Greaves Ltd (CGL) as Global CFO in 2001, the market cap of CGL plunged from earlier peak of USD 1 billion to barely USD 20 million. Years of high costs & disappointing sales has caused pathetic decline to business value, resulting in the employee's morale being low, shattered confidence of customers & suppliers, with mounting losses and sinking cash flow, the company felt stressed to repay its loans regularly. Fresh borrowings was being done, but at very high cost.

In hindsight CGL had invested heavily on new manufacturing facilities resulted with underutilization has also caused strain on profitability & free cashflow. Almost fifty percent of the company's net worth built over 5 decades has been destroyed in span of 2-3 years. On the top of the above, this has to be viewed in the backdrop of falling Sensex & depressed market scenario.

Strategic Initiatives taken supported with Innovative Financial Engineering

This was time of great introspection for all of us in order to reposition CGL as global player.

A lot of things had to be done in span of next 2 years. In first place, a clear three pronged strategy was designed by CEO with support of CFO through proper integration of financial strategies & initiatives.

- a) A drastic reduction in working capital coupled with other stringent financial initiatives.
- b) Cut on excessive employee & infrastructure costs by relocating manufacturing facilities and / or hiving of uneconomical ones, with well deployed financial strategies.
- c) Implementing productivity enhancement schemes linked with incentivisation process.

The key actions and innovative approach of CFO which have significantly contributed to profitable growth

- a) A de-novo aggressive review was undertaken, with time bound actionable steps, of business portfolio & investments in subsidiaries / Associate companies to facilitate exit decisions, which did not align with CGL strategic business intent & core competencies. Almost 15 businesses were exited such as CG newage, CG Igarashi, CTR Mfg, SG Smith, Informatics, to name a few.
- b) Sale of non performing assets in form of land, factory, buildings & residential flats etc in view of downsize & relocation of plants.
- c) Raised funds (first tranch of USD 15 mln) in very innovative way, despite no leveraging capability and acceptable security, to meet statutory obligations of VRS payments and provide lifeline support to critical operations.
- d) Other strategic initiatives with extensive involvement of CFO to contribute on organic growth of CGL i.e. setting up newer manufacturing facilities (motors, stamping, fans & lights). The process included investment evaluations, optimization plans for revenue, cashflow & tax.
- e) On inorganic side, taken key lead role by evaluating several M & A initiatives to facilitate key decision making process. This has resulted into first outside India acquisition in the history of CGL i.e. Belgium based Pauwels Group, Hungary based GANZ & Ireland based Microsol and a few others.
- f) Next item on the agenda was to generate better ROI or positive EVA. A formal EVA incentivisation process was introduced by CFO.
- g) Strong working capital initiatives were implemented. To exemplify, a lot of businesses were over dependent on Government and semi government bodies that were paying for the goods after 150 days even longer. CFO and Finance team could influence to change the business model to concentrate on companies that had a cash surplus or good liquidity.

Outcome of CFO's in partnering support to CEO - strategic innovative actions

a. On Key Financial Metrics

- i) Market cap has risen from USD 20 mln to USD 2 bln in less than 5 years.
- ii) The loss making company over USD 40 mln (2001) became a valuable company with appx USD 1 bln profits in year 2009.

- iii) Generated free cashflow over USD 100 mln through planned unviable business exits and NPA's, which have been deployed to reduce high cost borrowings, pay off statutory liabilities of closed divisions and support to other critical profitable operations.
- iv) Borrowings came down from USD 360 mln to USD 40 mln in less than 5 years & generated higher leverages for additional borrowings to fuel revenue growth.
- v) Cost of funds was drastically brought down (by 50%) through tapping innovating financial products, best treasury practices & cash management system, Rating enhancement, proactive & aggressive focus on inventory management & receivables pragmatic tax & legal strategies.
- vi) Stringent working capital management resulted into reduction of receivable time cycle to less than 40 days and inventory level below 60 days.

b. On Non Financial Metrics

- a) The outlook of CGL got transformed into end to end solution provider in Power T & D as Indian MNC.
- b) CGL International business share increased from 15% to 50% of its consolidated revenue, with opportunities of synergies in terms of sharing marketing network, cost & design optimization, sourcing of key raw material & technology.
- c) CG got super brand status for 'fans' & 'Lighting business'

The above predominantly financial innovations have helped transformed CGL from a survival focused outlook into sustainable growth centric organizational mindset.

Recognition to CFO

With my all humility, I could take pride to share, that I was recognized by getting several laurels within the organization & thrice as 'best performance CFO award' by nationally acclaimed best jury' under auspices of credible institutions, probably unprecedented. However, the trend of awards continued with recently ICAI also recognized me as '**Best Performing CFO' in 2012**, while working with Welspun Corp as 'Director & CFO'.

Final Word & Takeaways

- In the backdrop of current economic crisis, inflationary pressures, exchange rate volatility, practical turmoil & extreme corruption, the business landscape is facing challenges like never before. All CFO's are grappling with important issues of survival, sustainability & at the same time bringing about profitable growth. Innovative CFOs must constantly question the conventional wisdom in such times.
- CFO, has to work very closely with all business heads & must have ability to sensitize and align business goals with financial goals & necessarily he has to be absolutely committed & passion for the results. You have to finally believe that 'You can do it' by creating adequate bandwidth in terms of finance organization & nurturing innovations across the organization belt.

During an earlier crisis, management guru Peter Prucker advised:” In turbulent times, an enterprise has to be managed to withstand sudden blows & avail itself of sudden opportunities. Survival is necessary but not sufficient. It is only the first task. The larger important task is preparing organization to seize new opportunities that every crisis reveals. Finding & exploiting these opportunities more than cost cutting will separate tomorrow's winners from the losers”