

Promises, Promises

With cash at a premium, CFOs in Asia are learning how to get the most out their consultants.



by Simon Littlewood
President Asia Now

During a break in a recent interview with a regional chief financial officer, a quick glance over the stacks of paper on the CFO's desk revealed just how much the finance manager's job has changed in Asia of late.

While the usual spreadsheet suspects were there - budget forecasts, accounts payable - so too were thick reports on the company's supply chain, corporate intranet, and environmental liability.

The CFO as numbers cop? Not anymore. "The role of the regional CFO is changing," acknowledges John Norman, CFO of BP Asia. "There is less emphasis on compliance,

transaction processing and reporting, and more on adding value to the business through decision-support."

Apparently, other CFOs see it the same way. A recent survey by one professional services firm revealed that control, reporting and transaction processing - tasks that used to eat up 90 percent of a CFO's time - now take up only 50 percent.

According to the survey, CFOs said that, in the future, they expect to spend at least half of their time on decision-support. Such support encompasses the development and definition of strategic decisions and their effective execution. "The CFO needs to drive

change through the business, to act as the champion of value," says Patrick Forth, vice-president and director at BCG Singapore. "So he needs to not only provide clear metrics - that's the traditional part - but also to convince his colleagues, especially the CEO, of the need for change."

CFO's must think strategically

That's not to say the CFO's job has gotten any easier. While transaction processing and budgeting was more like hard labor than actual corporate managing, championing major corporate changes requires a whole new set of skills. CFOs now must think strategically. Moreover, they must have expertise in a wide range of disciplines.

Indeed, the CFO is now helping shape decisions that involve nearly every aspect of a company's operations. Should the company move its back office systems to a shared-services center? Are risk-management policies sufficient? How can the company better maximize shareholder value? What's the best way to streamline the finance function?

To help with the answers, corporate managers have typically turned to management consultants and professional services firms. There are lots of them to turn to - we list more than 30 in the table at the end of this survey. Some of these companies deal with very specific corporate functions - things like technology, human resources, operations and strategy. Others, including the Big Five professional services firms, boast a broad array of expertise. The bottom line: whether a company is looking to roll out a multi-million dollar enterprise resource planning (ERP) application, or simply wants to save three cents-per-mile on travel costs, there is a consultant out

there who claims they can help.

And despite the bleak economic climate in Asia, corporate managers seem to be taking them up on the offer. Consulting firms report that sales remain brisk in the region, with revenues expected to top US\$12 billion by next year. If that number is right, the annual growth rate of consultancy revenues in Asia since 1996 would top 20 percent, making Asia the fastest growing market in the world for consulting firms. And while finance managers at several multinationals in the region say they have, in fact, slashed spending on strategic advisory services, they note that they continue to shell out big bucks for ERP specialists and other technology consultants. Clients handed over nearly US\$40 billion to consultants last year for technology advice globally. That's almost 64 percent of all consultancy revenues.

Using a consultant ... is simply one tool available to CFOs

What's more, managers at local Asian companies seem to be hiring their fair share of advisors these days as well. That's something of a surprise. In the past, managers at Asian corporates tended to shy away from consultants. Explains one CFO: "In some cases in Asia, using a consultant is perceived as a sign of failure, when it's simply one tool available to CFOs to keep abreast of developments in the market."

Now, more local CFOs seem to be willing to make use of that tool. Of course, the consulting industry has something to do with this turnaround. Consulting firms are nothing if not nimble. With the Asian recession in full force, the leading consultancies - and ten account for

80 percent of market revenues - have switched from selling mostly growth-related products to offerings that target cost-cutting, productivity and risk management. Those products, such as third-party outsourcing, tend to hold great appeal for resource-strapped managers at small-to-medium-sized companies. Moreover, industry watchers say that any fundamental shift in a company's operating structure usually involves a technology-enabled solution.

That little fact has Asian corporates - not always known for their IT savvy - beating a path to local consultancies. "The big bucks in consultancy have always been spent on IT and the answer right now in Asia is still IT" says one consultant. "Nothing has changed." Indeed, the year-2000 problem has proven a huge boon to the consulting industry, with scores of Asia-based companies turning to outside advisors to help them eradicate the millennium bug.

The Good, the Bad, and the Ugly

If consulting firms in Asia are attracting plenty of clients, those clients are demanding - and getting - more bang for their consulting buck. Five years ago, buyers of consulting services commonly complained that some advisors seemed blissfully unconcerned with actually delivering the benefits initially promised in a sales pitch. But these days, with cash at a premium, many finance managers cannot get their bosses to sign off on large capital expenditures unless they can ensure results. Therefore, consultants now appear more willing - not eager, but willing - to link part of their remuneration to the achievement of measurable performance goals.

In fact, observers say any corporate manager who's considering hiring a consultancy needs to consider whether a fee-for-service arrangement is the best

approach. It may be, experts say, particularly with shorter projects and some straightforward IT roll-outs. But a number of CFOs in Asia are now looking for more than the typical customer/client parking-meter relationship with consultants. "I think there is a need to differentiate between an 'assignment' and a 'service,'" says BP Asia's Norman. "I define assignment as being more about selling hours. Service is more about selling valuable solutions. It requires risk-sharing, but offers the consultant the potential for higher returns."

Of course, some consultants like to give the impression that the decision to share risks with a client is a huge concession on their part. CFOs should avoid feeling sorry for these consultants. The fact is, outside advisors and third-party specialists still make big bucks. And privately, many consultants acknowledge that their commercial relationships with their clients need to change. They see performance-related compensation, risk-sharing and, in some cases, equity participation, as new ways of providing superior service to their clients. And in the long run, service is what separates the good consultancy from the merely average - or worse.

And make no mistake, there are some bad consultants out there. Some concentrate on profits, rather than customers. Some are undermanned, particularly in Asia. Some are just plain incompetent. Even the best consulting houses employ a few less-than-stellar workers. Most companies do. Still, several recent books have testified vividly to the dangers of hiring the wrong consultant, or failing to control them once they've been brought on board. In the latest, *Dangerous Company*, journalists James O'Shea and Charles Madigan recount a litany of botched projects and over-budget consulting disasters.

Of course, CFOs don't need a book to tell them about the perils of contracting a

consulting firm. Few things inspire more impassioned responses from finance managers than a discussion of their consultants. The complaints? A number of CFOs point out that consultants always seem to be flogging a latest-and-greatest product - the flavor-of-the-month syndrome. Others finance managers say some consultants have a tendency to simply reflect the client's own views ("Give me your watch and I'll tell you the time"). Still others say some consultants have a habit of prescribing a whizbang solution, but leave the actual execution to the client. In the industry, this is known as "the blue-binder approach." Finance managers have another name for it.

You Know You Don't Know

But the biggest complaint coming from CFOs is that consultants don't do a whole lot of original thinking. And in truth, some consulting companies appear to operate on the basis that they can learn from leaders in the industry or their clients, but seem to have little interest in developing their own ideas.

"We had a bad experience with a big international firm who was sent by head-office to conduct a very expensive two day workshop on business growth strategies in Southeast Asian markets," says Paul Gracie, director of Mobil Oil and former CFO of the company's Hong Kong and China operations. "They took copious notes, tied up a large number of senior people for two days - then made a report which was completely generic and off-the-shelf."

Of course, the best consultancies usually do provide thought-leadership. Typically, the Big Five professional services firms, plus a handful of leading boutique consultancies, invest up to 5 percent of revenues in developing new - and sometimes visionary - products.

What's more, most consulting houses have a vast storehouse of knowledge gleaned from scores of engagements with thousands of companies. This often gives them a perspective that most line managers and senior executives simply do not have. "There are the things you know, the things you know you don't know, and the things you don't know you don't know," explains Norman. "A good consultant can normally add value in the last two areas."

Take the case of Mobil. Gracie says the oil company was recently looking for some big-picture insight into the China market. "We saw an opportunity to achieve market leadership in China," recalls Gracie. "But we needed to understand where customers would pay a premium and how we could organize ourselves to benefit." To help with the organizing, Mobil hired Mercer Consulting.

Mercer conducted direct research in China, examining consumer trends in different regions in the PRC. So far, Gracie seems pleased with the results. "Mercer helped us understand which segments have value today. This process told us where to allocate our marketing budget and how to align our sales force."

"In the consulting industry, a good idea tends to get adopted by rivals at light speed"

Then again, it's hard to blame some consultants for not wanting to invest too much time and capital in developing out-of-the-box ideas. The fact is, in the consulting industry, a good idea tends to get adopted by rivals at light speed. Take Stern Stewart, for instance. It's hard to dispute that G. Bennett Stewart III, one of the firm's co-founders, did groundbreaking work on shareholder value in the early

1980s, and that he, in fact, coined the term "economic value added" (EVA). Riding Stewart's work, Stern Stewart rose to consultancy stardom in the late 1980s, including making the cover of Fortune magazine. Even today, the firm reportedly enjoys the greatest profitability per employee of any consulting firm. Stern Stewart's sudden success was not lost on other consultancies, however.

These days, virtually every major professional services and advisory firm vigorously promotes its own "value-based management" product. In fact, Stern Stewart and its former auditor, Big Five firm KPMG, have been involved in litigation for several years. Stern Stewart filed suit against KPMG in 1996, alleging the firm had made off with some of Stern Stewart's employees in order to build their own value-based management practice. The judge in the case ruled in favor of KPMG, but did find that the accounting firm had violated its fiduciary duty. KPMG eventually countersued, but withdrew that suit last year.

Disappearing Act

Still, most consultants can tell long tales of having products picked up and modified by competitors. And in reality, just because a consultancy develops a product does not mean that the consultancy is necessarily the best choice for implementing the product. Of course, some cynics argue that finance managers get caught in the middle of all this.

They point out that the business model for some consultancies seems to be based solely on customizing other people's products, then sending out their best, most experienced specialists to beguile the client and sell large assignments.

Once the contract is signed, critics say a project is often carried out by junior staff, not the experienced specialists. Such a disappearing act can cause huge

headaches for corporate managers.

But veteran users of consultancy services say finance managers often only have themselves to blame when they end up with inexperienced - or worse, incompetent - implementers on a project. They note, as with any other business arrangement, companies must be downright rigorous when it comes to selecting their consulting partners. Then they must be prepared to manage them effectively.

Paul Faulkner knows all about it. Faulkner, regional vice-president for the Asia Pacific region at the AXA Group, the French insurance giant, says AXA recently began looking at developing the company's information technology capability for direct marketing in Asia. To help choose the right consultant for the project, Faulkner says AXA invited five pre-selected consultants to make proposals. Price was not the overriding concern. "Although we were surprised by the differences in prices, which was considerable with all five, price as an issue was very much secondary to capability," Faulkner explains. "We wanted an investment, not an expense."

Faulkner notes that AXA not only considered each firm's proposal, but how the consultants conducted themselves in making their bids. "Although we outlined our concerns and set time parameters for the bids, we left it very much to them to show us what they had to contribute," he says. "Even before we received the tenders we had already mentally discounted three purely as a result of the way they conducted themselves during the diagnosis period."

Eventually, AXA narrowed the choice down to two consultancies. Both were good. Ultimately, Faulkner says the insurance company opted for the personal touch rather than sheer brainpower. "The one we chose impressed us because they

sent the people who were going to do the work, as opposed to guys who were smart as hell but whom we reckoned we might never see again."

Get Them Talking

Some CFOs say they wouldn't mind not seeing certain consultants again. A number of finance managers complain that they get pitched by some consultants on a regular basis - to the point of distraction. The distracting only gets worse when a company actually begins the diagnosis phase of a project and a finance manager is faced with reams of information provided by prospective hires. Says one Singapore-based CFO: "I get too much stuff from consultants. I don't have time to go through it as carefully as I'd like."

"The trick is to shop around"

Unfortunately, buyers of professional services say going through a number of proposals before settling on a consultant is crucial to selecting the right advisor. "You're likely to find best value if you solicit at least three proposals and go through a proper competitive evaluation process," says Chris Williams, CFO for the great China region for Eastman Kodak. "The trick is to shop around." Kodak recently hired consulting firm Mercer Management Consulting to help with the company's sizeable, ongoing investments in China (see cover story). Williams says Mercer also helped arrange a risk/reward sharing arrangement between Kodak and a general contractor for a large construction project in China. "They helped structure a contract which involved gain-sharing," he explains. "If the project is completed ahead of schedule and below budget then the contractor benefits."

Managers at companies that are smaller than Eastman Kodak may have

more difficulty getting such agreements. Not surprisingly, consultants are more willing to offer concessions to large multinational corporations - corporations that regularly sign off on million-dollar projects - than small local companies that do one US\$20,000 project every five years.

Nevertheless, there are ways finance managers at small-to-medium-sized companies can get a sense of whether a consultancy will deliver on its promises. Experts say corporate managers should always ask any potential consultant to rate the success of their own assignments. While this may sound fairly obvious, experts say the mere act of getting the consultants to talk about themselves - rather than the client - can prove remarkably enlightening.

In addition, most professional services firms and consultancies ask clients to fill out questionnaires at the end of an assignment. Industry insiders say managers should insist on seeing some of these completed questionnaires. Further, it's entirely appropriate to ask a consultant to arrange a meeting with a former client. Admittedly, the consultant - unless they're idiots - will put the prospective customers in touch with a satisfied client. Still, talking to a consultant's client may be the single best indicator of what a company can expect from that consultant.

If a consultant agrees to set up such a meeting, it's crucial that managers ask the right questions. Did the project come in on time and on budget? Did the consultant provide good follow-up and after-care? How would you rate the consultant's level of expertise and professionalism? Was the consultancy receptive to bringing in other specialists to look at a particular problem?

Some finance managers say this willingness to bring outside resources onto a project often means the difference between a good roll-out and a disaster.

Elizabeth Seah-Law, finance manager at Singapore Tobacco Company, says this capability was a key factor in the company's decision to hire Accenture to help implement its SAP enterprise resource planning software. After a lengthy search, Singapore Tobacco had narrowed its choices down to Accenture and one other Big Five firm. "We chose Accenture because they were borderless," she says. "They could pull anyone from anywhere so we had access to a wider pool of talent."

Beyond borders, it's crucial that companies understand the reason they're bringing a consultant on board in the first place. Managers must have a clear understanding of their business models - and how consultants can help improve it - before letting pitchmen past the company gates. This is particularly true for information technology and network systems. "This is an area where you need to develop processes and user specifications based upon a customer-focused business model before you even think about selecting a system and a provider," says AXA's Faulkner. "If you select a system solution without focussing on defining the business model you will have problems."

Of course, the easiest way to avoid problems with consultants is not to hire them. And sometimes, that may be the right decision. "Too often consultants are used as a way of handing over responsibility," says Faulkner. To make certain that consultants are actually needed for a project, Faulkner uses gap-analysis principles to establish what can be done in-house and what must be brought in. "We look for skill sets we do not have, and the ability to transfer these to our own people."

That sort of self-analysis can go a long way in making sure a consultant is

actually needed, and if so, which consultant should be hired. And despite the complaints, most CFOs say hiring a good consultant can make a world of difference. Says Norman about BP Asia's decision to bring in a consultant, "Our intention is to identify what will get us on to the leading edge rather than the bleeding edge more quickly."



Asia Now Pte Ltd

The Lean Growth Company™

Singapore

6 Battery Road
Level 31
Singapore 049909

Phone: +65 6322 8557
eMail: info@asia-now.com
Web: www.asia-now.com

Shanghai

Level 21, HSBC Tower
101 Yin Cheng East Road
Shanghai 200120, P.R. China

Phone: +86 21 2890-3260
eMail: shanghai@asia-now.com
Web: www.asia-now.com

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