GREENSPIRE ADVISORS LIMITED

GLOBAL INVESTMENT MANAGEMENT SERVICES LIMITED

THE ROLE OF DATA IN BUILDING A RESILIENT BUSINESS

What is the connection between resilience and data? Data is important. Recent corporate crashes that we have seen remind us of a bank manager's adage from 20 years ago "I'm always surprised how bankers find new ways to make the same old mistakes". Current events show that business managers are living up to this adage! They allow their businesses to run out of cash..

The financial statements show the results of all of the business transactions. It is very basic and probably obvious but clearly it is sometimes forgotten that the ultimate result of all business transactions is the generation of cash. As we have seen over the last few months, no cash = no business. We are now seeing, sadly, the results of failed financial policies, and this is particularly noticeable in the retail sector (Debenhams, Arcadia, etc). Many believe that it is the result of markets changing rapidly, and that is true. But more than that, there is a failure of the financial functions in these businesses because the managements did not link the changes in the markets with the effect on the firm's financial statements, and left acting until it was too late to enable a recovery. Take an example like Aston Martin under Andrew Palmer: management put together a brilliant strategic plan to develop the brand to equal Ferrari, with a long-term plan for a whole series of new models, together with brand expansion into the design of boats, apartments and motorcycles. The only problem was that they did not have the cash and had to be rescued. This rescue required many millions of pounds to get Aston Martin back on track and it also had to relinquish some of its plans. Its plans were not resilient.

CFOs spend much of their time polishing the annual report, often with photographs and charts and with many pages of disclosure required by various standards setting bodies. They have no choice about this. Think how much better their businesses would be if they were to be spending that much time on looking forward.

There is nothing you can do to change the past, but with a little bit of foresight you can at least influence the future. Business resilience ultimately comes down to a business being able to continue in business whatever the external business environment.

So the CFO needs to spend time to ensure he has a relatively simple but robust forward modelling tool with KPIs and financial projections. It is key when designing and operating this tool, that it should be very easy to update as events unfold. An ounce of information today is worth a pound of information tomorrow, so have a workmanlike tool: it does not need to be accurate to the last $! With robust forward-looking information it is possible for the business to change course. That cannot be done just using historic financial statements.

Until recently, a single scenario would have been adequate to plan for the future, but the COVID-19 crisis has taught us that a more dynamic approach is required, so scenario planning is much more important to ensure that all the variables that affect cash flow are properly understood and evaluated.

It is clearly important that these future forecasts, particularly of cash, are reviewed by the governing body of the organisation and used as a basis for decision-making in order make the business resilient. Many organisations suffer from 'group think' at the top level and this should not be a surprise given the similarity of background and experience that senior management tend to have. And yet future projections need to be tested for their robustness by people who are not in the day-to-day line management. Many companies have a board with one or more non-executive directors who would be perfectly capable of providing that challenge, but if the company is small and possibly unquoted, and doesn't have any non-executive directors, then in that case (and at relatively low-cost) it should seek external advice from, for example, auditors or other advisors.

Cash is key to maintaining a business and as we have seen unexpected things can be expected to happen on the regular basis which is why the key focus of the governing bodies of organisations today must be ensuring that they are resilient in the face of much greater future uncertainty. In this context "black swans" tend to be more common than "white swans". **If you don't have a way of robustly forecasting cash, you don't have a resilient business!**

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