

Message of Secretary Purisima at the 44th IAFEI World Congress, 16 October 2014

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Global recovery cannot happen without reforms. We live in interesting times. We live in an age of transition because a lot of changes are going on right now.

Transition, in terms of generations, from us baby boomers to the millenials. Transition, in terms of wealth and power, from the west back to the east.

The re-emergence of China from over 500 years of hibernation because 500 years ago China was the leading economy in the world.

Transition in terms of growth models. Many years ago when we were much younger, countries were focused on exports.

The challenge really is to shift from that model to one that is more consumption-led.

Transition in terms of technology. We have seen in our very short lifetime the birth of the computer, the main frame, the move from the micro to personal computing, and now to cloud computing.

Transition in terms of value models – how you create value.

Transition in terms of ideas and how ideas are born from highly individualistic in the past to one that is more crowd-sourced.

If you look across, not just in our own environment- across geographic boundaries which are blurring, you will see that transition is going on. The challenge for countries and companies is to make sure that we're able to adapt to these transitions because amidst these is either an opportunity or an abyss.

And CFOs like you play a very important role in guiding our respective organizations through these transitions. Amidst these transitions are also certain constants – that will always be true; that will always be needed.

For example, the importance of financial fundamentals whether you're a company or a country. The importance of good governance. It's important of being able to execute strategy; being able to mobilize your organization towards a common goal. That is as true now as it was in the past. The importance of adapting to changes; evolving and challenging the status quo. It's important now but was also important in the past. More important now because the speed of change is faster.

I read something that said 90% of the body of knowledge that we have right now was created in the past two years. For us who graduated in the 70s and the 80s, if we have not been keeping up with the times, we can probably be classified as not well-educated. You really have to keep pace. It's like a treadmill that keeps going faster and faster.

There are many constants. So our challenge, as a CFO, is to make sure that we are able to adapt to the changing environment without forgetting these constant truths and making sure that we're able to play a role in an evolving manner.

There had been many studies about the role of a CFO. In fact, they classify CFOs into various categories. IBM did a study that showed there are basically four types of CFOs: a value integrator, a disciplined operator, a constrainer adviser and a score keeper.

In the 50s and the 60s, the CFO was basically a score keeper. If that CFO did not evolve, he would be useless right now. In the study, a CFO who is a value integrator is the one that performs the best, able to create value for the whole organization and is in fact trusted as an integral part. An example of a CFO who has done this is the CFO of Oracle, Safra Catz. Recently she was named co-CEO of Oracle, responsible for financial performance but her title of CFO was removed.

In that same study, seven companies in the US with revenues of over \$5 billion do not have a CFO title in their organization. If you take an inventory of your respective roles, you will realize that some of these roles are going to be commoditized and distributed. With the availability of technology, new systems and with the goal of empowering the members of your organization or citizens – your role that used to be an integral part of the CFO role many years ago will be expected by each employee and that is why as the CFO of today and hopefully of the future, you remove the CFO mindset from yourself and really just focus on what are the roles that you need to play so you can help your company, your organization, or even a country in adapting to this rapidly changing environment. That can include the role of being a strategist, a risk manager, an agent for change, an advocate for good governance.

It has been said that the role of a CFO is only limited by the person occupying the position. It's only limited by the traditions you believe in. Traditions have very short shelf lives. We need to refresh it. You have the opportunity to create your own role, your own value and your own place in an organization. This is in recognition of the importance of finance discipline, one of the constants.

In government organizations, a lot of prime ministers, for example, are finance ministers. And many prime ministers are now finance ministers. They keep that concurrent role. Finance is the lifeblood of an organization. Without the ability to raise revenue, we don't have a right to exist. The same is true for your own corporation.

When we translate this to what President Aquino has been doing- his agenda of course if good governance is a basis for good economy – he has actually empowered all his appointees and demanded of them to be agents of good governance, agents of change. The goal is to distribute it. That is, I think, one of the key mindset changes that CFOs of the future will have to accept that part of the role will not be their sole responsibility but actually distributed to the rest of the organization. When you do so, you will realize that become a more effective official or officer in the sphere. Just like what people have realized through crowd-sourcing, crowd-funding and all of these new uses of technology.

The past four years has seen subtle change that the Philippines resulted to substantial improvement in its performance. In the 60s and the 50s, the Philippines then was second only to Japan. In fact, Singapore, Thailand and many of our neighbours sent their very best government workers and student in the country to learn from us. In 1965, the total exports of the Philippines was worth more than the

combined exports of Taiwan and Korea. From that period to the early 21st century, the country slid down despite the fact that you have a country that's quite blessed being the 5th most mineralized country in world and located right in the center of the most dynamic region in the world for many years. People speak English and people who actually perform well outside of the Philippines.

The issue really has been governance. When President Aquino came into office with the largest mandate ever of a Philippine president, with the right agenda he was able to generate confidence. Confidence is the most important commodity for CFOs of countries and companies.

We generated confidence in the financial markets allowing us to borrow at lower costs. We generated confidence from corporates allowing them to look further into the future and to become bolder and invest more into the country. Invest in new areas beyond their traditional field of operation because they're more comfortable about the future of the country and their cost of borrowing is lower and the required rates of return are lower. But more importantly, the agenda has resulted to more confidence in us, in the Filipinos themselves – allowing them again to be aggressive in their own lives- buying cars, houses and committing to longer term purchases spurring economic growth and allowing the country to get deeper into a virtuous cycle.

That's why your former president, Ed Francisco, keeps laughing all the way to the bank with deal after deal in this country. Now you have confidence in the country. That is why governance, which is an integral part of the CFO function, in the Philippines was taken on by our chief executive. He's become the chief governance officer because he realized it cannot be just one person or a couple of people pushing governance. It has to be everyone in the organization. In fact, it has to be every Filipino stepping up to the plate.

I heard our president mention concerns in 2016. I don't know what those concerns are because if we take on the responsibility of governance and moving this country forward, there should be no concern. I think that's a change of mindset that we don't depend on the traditional CFO, the traditional mode of governance – we should depend on our own selves taking hold and control of our future. If we do so, there should be no issue about growth. After all, the country has had 62 straight quarters of growth after the Asian crisis.

We have better governance and more confidence at a higher level. We can even bring this to an even higher level by accepting the fact that we live in an imperfect world and that we cannot search for perfection; that we cannot focus on what is wrong. If we do that, we make baby steps but steps in the right direction. We're building the foundation for a better future.

If you focus on that, you will gain confidence and this confidence will snowball. It becomes a self-fulfilling prophecy. That is what's crucial in our role as CFO – to make sure that a constant such as mobilizing people to a common goal, such as empowering them and holding them accountable, and accepting their responsibilities will allow you to manage successfully despite the very challenging environment we find ourselves operating in right now.

That is why when I am asked, "Are you concerned about 2016?"

I tell them I am concerned about tomorrow, next week and next month. A lot of things are beyond my control. So I would like to focus my concern on things that I can control. And the things that I can control are the things that I do and the things that I influence. If we do that, then we put ourselves in a stronger position to deal with the challenges in our way because we cannot deal with the future. We can never have a perfect strategy. We can never have a perfect environment to operate in. But we can have perfect control over ourselves and make the most of the assets that we have.

Changing environments. Changing roles. Changing mindsets. It's a really difficult world to operate in if you get confused as to what your role is. But as they say, just go back to the basics. And when I look at the basics for a country like the Philippines, the future is bright. We are the youngest population in Asia, with an average age of about 23. Economies in the future are about people. It is people who consume, invest and plan. We build economies for people. The young have more of a future than the old, obviously. That is why we're in a good situation. We are blessed with natural resources and the right geographic location. We're going to be a part of an integrated ASEAN.

And for those who are not from this region, I think you have to look into ASEAN because ASEAN as a single economic community is the 3rd largest population among the top ten GDP. But if you look at the specific sectors, we are the world leader in electronics, garments, tourism and medical tourism. It's as young as India with rapidly increasing per-capita income. In fact, Ernst and Young made a study that said two-thirds of the world's middle-class will come from this region. And it is the middle class that is the consumption engine of the world. In the Philippines, we'll have a major part of that middle class. We're starting to see it.

We all complain about the traffic. When asked about our congested airport, the Tourism secretary said it's his role to create congestion in the airports. If there is no congestion, then it means they are not doing their job right. As with traffic, car sales are up 41% in September. When you have more cars, there is more traffic. Obviously, we need to create more roads. But these are not problems, these are opportunities. It's how we look at it. If you like to focus on traffic, then we are going to be sad people. But if we see it as an opportunity to find solutions and create solutions and be a part of the solution, then we have successfully navigated our corporations and ourselves to this transition to an opportunity rather than to an abyss.

That is our role. We are going to be a part of this integrated ASEAN. We are getting our acts together at the right time.

In the 90s under President Ramos, we've had this few years of success also. But there is one big difference between the 90s and now. That's internet. Access to information. This has empowered our people. They now know immediately what's going on. In fact, they create the news themselves. So with this, they are not starting to realize that better governance is aligned to better media online. With that connection, when alignment is established, people will demand that we continue along this path.

That's why I'm not worried about 2016 because the Philippines is more than one person.

When I was in Japan last week, they gave me an insight. Philippines is one oku already. Oku is a hundred million, a unit of measure. If you're one oku, you're now substantial.

There is such a thing as a national psyche. Our government, our corporations, our people to believe in the fact that we're heading to the right direction. We're doing the right steps and that there are many, many more things that need to be improved. But having the confidence and letting that confidence snowball similar to what they call the Pygmalion concept – then it will become a reality.

It's easy to focus on what is wrong. To find what is wrong. No one has become a billionaire focusing on what's wrong. If you look at the other side of it and look at the opportunity then they become what they are today.

So ASEAN, demography, our natural endowments, empowering people, good governance, the right location- will lead us to conclude that the future of the Philippines is bright. But as they say, no man is an island. We cannot be an island in prosperity amidst a sea of turmoil. There has to be mutual prosperity. As I've said earlier, geographic boundaries are blurring. We cannot compromise a compromise. Since we have open up economies, we'll have to open it up all the way. We have to accept the fact that opening up lifts all of us. There might be losers but the losers we can help by helping them adjust to the new realities.

Another reform that's close to my heart that for me would make global recovery more sustainable and would make the Philippines' own financial sustainability more of a reality for a longer time is what we refer to as the creation for a Passport for Funds.

When people started moving across their own national boundaries, they created passports so there is an orderly movement of people. When we open up our financial markets, we did not create the passport. So what is the passport for funds? The first part of that is a convention of tax ID numbers.

Right now when you travel, you have a mobile number. You don't apply for a mobile phone line. 63 is for the Philippines, 1 is for the US, 81 is for Japan. The same should be true for tax ID numbers. I don't have to apply for a tax ID anywhere else in the world, I just bring my Philippine tax ID and automatically they know I'm from the Philippines, from this city and I am this person.

Second, its mutual recognition and mutual acceptance. It's useless to have a number that is recognized unless your mobile carrier doesn't have an agreement with other mobile carriers.

Third is data sharing. Sharing information. If I use Docomo's services in Japan, the information has to be shared with my home carrier so I can be properly billed. If we do so, we open up. If we have a passport for funds- money laundering, tax evasion, smuggling can be a thing of the past.

The same in the Philippines. I am an advocate for lower taxes or lowering tax rates. The problem with the Philippines is that we have high tax rates and low tax to GDP. Why? Because we have difficulty administering taxes. It's okay to lower taxes so long as we lift bank securities. So long as they require a tax account number of every Filipino. So long as they limit the ability of courts to intervene in taxation. We empower them so long as they remove BIR and BOC from civil service protection and allow us to pay them properly and hold them accountable. And create a meritocracy similar to what your organizations have in your respective countries.

Clearly, I started with the idea that we live in an age of transition. There is tremendous opportunity. We just have to embrace these challenges and make sure we navigate ourselves to opportunities.

And for CFOs, we need to realize that we have our roles and part of those roles can be commoditized. If we stick to that part that's commoditized, we become obsolete. But if we evolve and take advantage to create your own role similar to the business CFO of Oracle then you become a value creator, an important part of the system and of any organization you belong to whether in private or public.

When you believe that your role is not an individual's role but that of the whole organization's, then you're even more powerful, empowering people and holding them accountable amidst a changing environment and growth can be really sustainable.

We realize that without reforms and accepting change, without allowing losses so that we can have wins; without accepting the fact that geographic boundaries are becoming irrelevant, this concept of global growth