

goetzpartners CFO Pulse Check

A Finance Organization for the Champions League – 5 Levers to Maximize the Contribution of the CFO to the Company's Success



November 2013

Management Summary – How CFOs Get into the Champions League

| | | |
|--|--|---|
| 1 Focus on core tasks | <ul style="list-style-type: none"> The majority of companies queried view the CFO organization as service provider for accounting and controlling only | <p>▶ Focus, focus, focus! Establish a comprehensive delivery model with clear accountability and linkage to business units and geographical setup</p> |
| 2 Reduce complexity | <ul style="list-style-type: none"> More than 30% of interviewed companies acknowledge to have a high degree of organizational complexity and double reporting lines | <p>▶ Follow the customer! Align the organizational structure to support the delivery model</p> |
| 3 Standardize processes & tasks | <ul style="list-style-type: none"> An insufficiently low degree of standardization and harmonization of IT systems (~50% of respondents) bind substantial capacities for low value adding processes | <p>▶ Get rid of the waste! Maximize the standardization of your processes and focus on value generating activities</p> |
| 4 Implement strong governance on data & processes | <ul style="list-style-type: none"> 40% of queried CFO organizations do not have a central data processing Only 4% of large organizations use automated reports for top management | <p>▶ There is only one captain! Maintain control on data sources and make them consistent and transparent to your business partners</p> |
| 5 Measure & steer | <ul style="list-style-type: none"> More than 50% of the companies have KPIs only lightly linked with the company strategy Cascading KPI systems are a missing element in many companies | <p>▶ Control the game! Link the KPIs to the strategy and show the impact of measures to the P&L to prepare the next move</p> |

Study Overview

The conducted survey includes a comprehensive set of companies of different industry sectors

Target of the study and examined topics

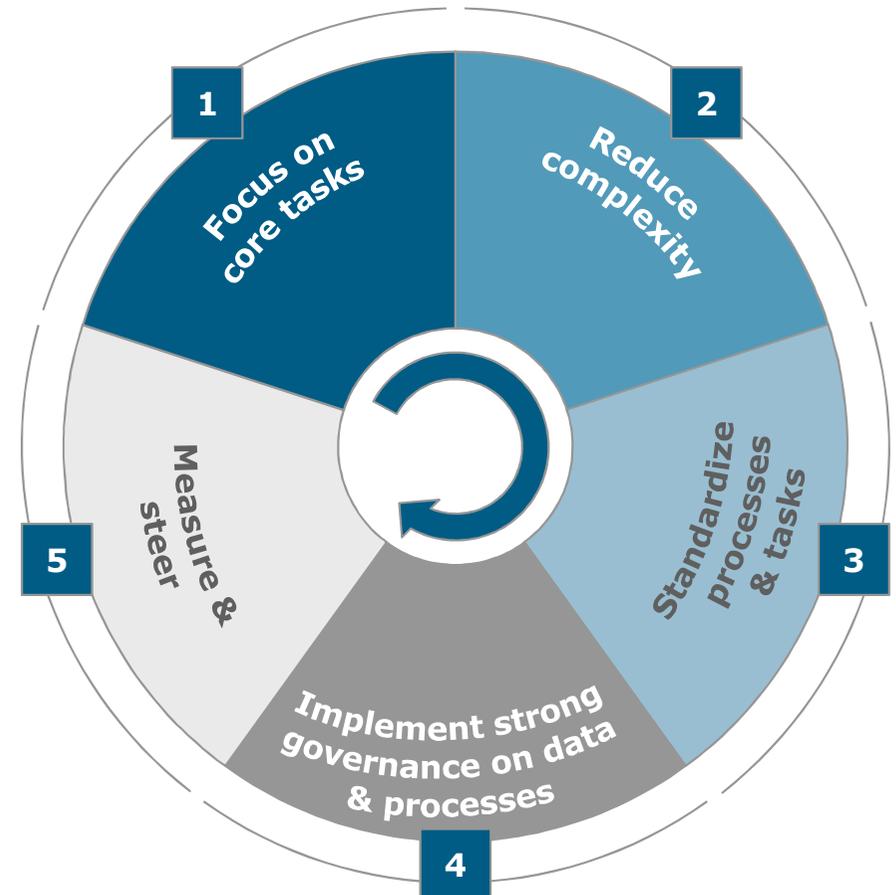
Targets of the study

- Evaluate the contribution of the CFO organization to the company's success
- Determine improvement levers to increase the value generation of the CFO organization for the entire company

Topics examined

- 5 aspects of the CFO organization that are key to create sustainable value for the company
 - Focus on core tasks
 - Reduce complexity
 - Standardize processes & tasks
 - Implement strong governance on data & processes
 - Measure & steer

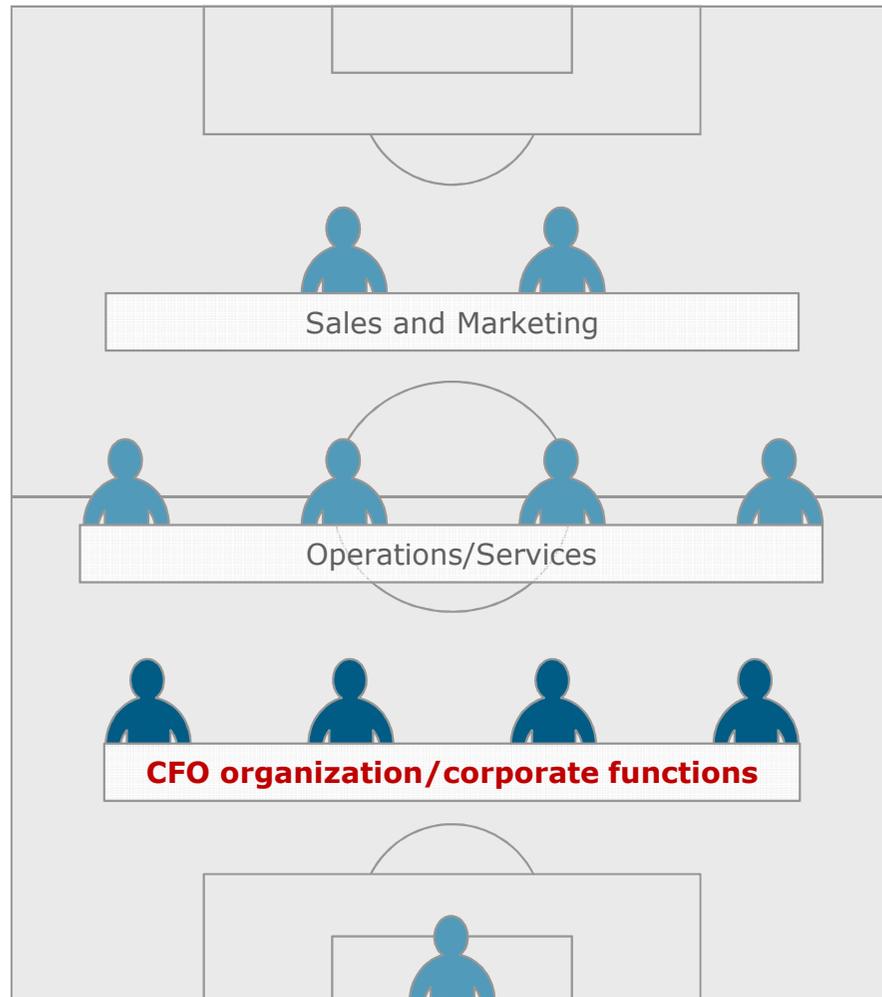
5 Levels to improve the CFO organization



The Importance of the CFO Organization Today

Offense wins matches, defense wins championships – A CFO "Champions League" level CFO organization strongly contributes to the company's success

Basic positioning of the CFO organization



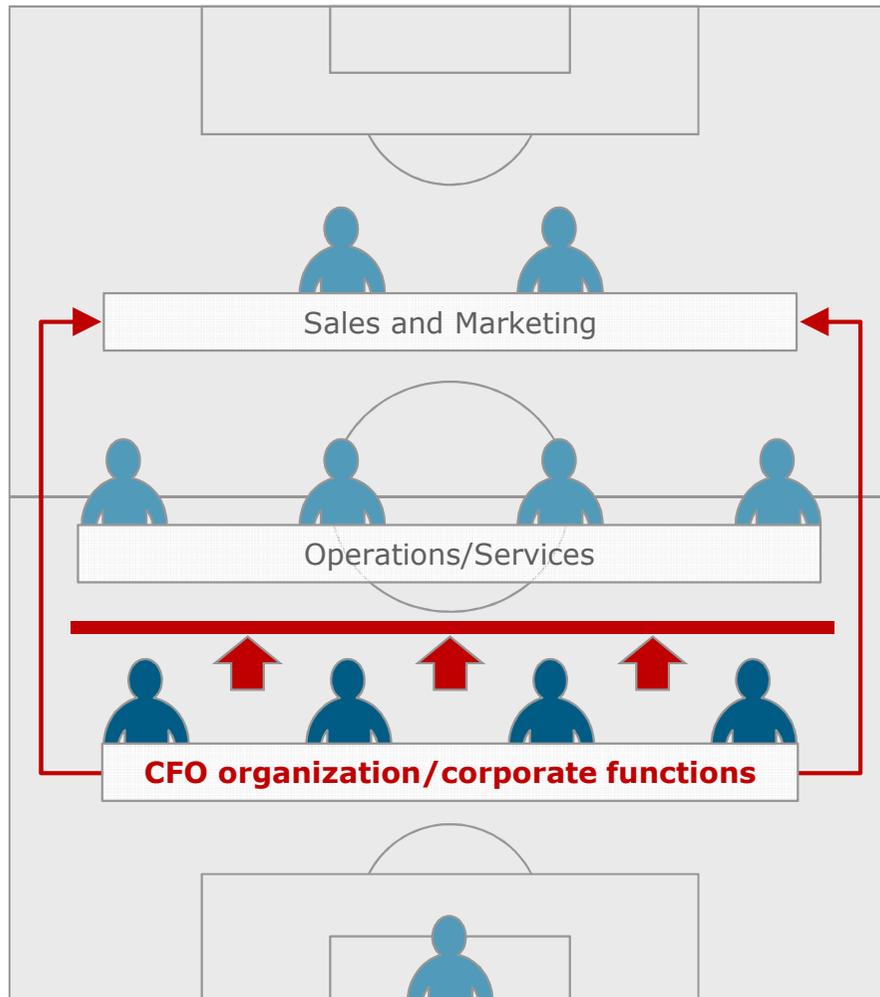
The CFO organization has to fulfill certain core tasks for the company like country specific accounting, providing liquidity and providing reports on financial data. In the past the perception of the CFO organization was rather simple: **"Keep the books clean!"** In the business units, hearing nothing from the CFO has always been a good sign that things are going the right way. Nobody was asking about the value contribution of the finance organization to the company's success.

But is this view still valid? Modern CFO organizations do a lot more than only statutory audits and checking invoices. In a soccer team you could compare the CFO organization to the defense. It is crucial to have them and the core task is to keep the own goal clean. Playing on **"Regional League"** level this might be sufficient. But coming from this core function it is now a question how **additional value** can be generated? In **"National League"** soccer teams defenders play an important role giving assists to the strikers. Going back to the company organization this would imply that for example the CFO organization actively supports the Sales & Marketing organization and that both are equal business partners. Following the saying **"offense wins matches, defense wins championships"**, goetzpartners identified **five levers to train the CFO organization** to play on **"Champions League"** level and give assists to increase the value contribution to the entire company.

1 Focus on Core Tasks: Build a Lean and Mean Delivery Model

The identification of core processes is the first step to increase the value generation by the CFO organization

Define the valuable core processes



At first sight there is no doubt that core **functions of the CFO** organization such as controlling, accounting, finance etc. **build the defense** a company needs in order to keep running. However, going one step further by asking what exactly is the key **value generating process** e.g. in controlling, the answer is often not as obvious as it should be. A common answer could be that reporting is of course a valuable process and supports value generation by providing the management with the necessary information to make the right decisions. But are you sure that all the reports in your company are really read? It becomes even more complicated outside the CFO organization when it comes to defining **responsibilities and accountabilities** e.g. in the budgeting process. Now the question is if the process of budgeting is core to the CFO organization or the business units and who is accountable for the numbers in the end? Without a clear definition of such processes there is a lot of value lost on the field while ending up in endless discussions throughout the year during budget reviews. To increase the efficiency and value generation it is therefore important to:

- **Establish a comprehensive delivery model with clear accountability and linkage to business units and geographical setup**
- **Provide decision support for (top) management**
- **Set focus for corporate functions**

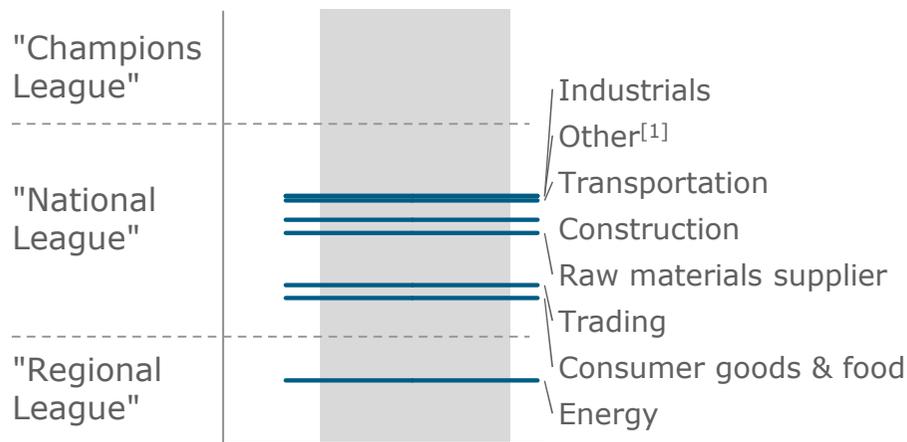
1 Focus on Core Tasks (Survey Results)

The industry and size benchmarking reveals an advanced focus on core tasks for all size clusters and for seven of eight industries – Only energy has a basic focus

Industry comparison [averages on questions]

Development level of CFO organization

[n=107]

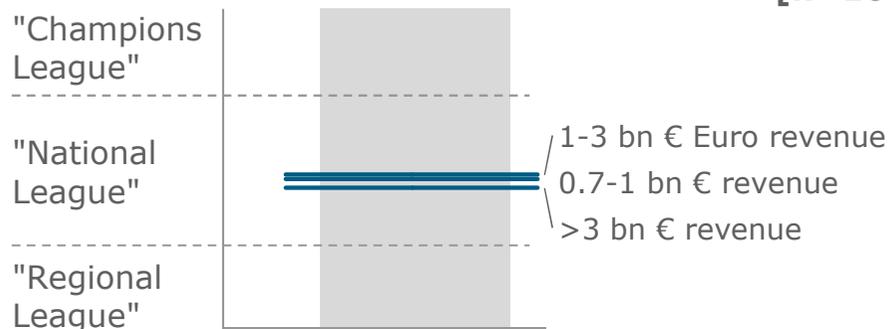


Key findings

- In comparison, industrials, other, and transportation perform highest in focusing on core tasks
- Construction, raw material supplier and trading have an advanced focus on core tasks
- Companies in the energy sector are only performing on "Regional League" level and the distance to the other sectors is substantial

Company size comparison [averages on questions]

[n=107]



Key findings

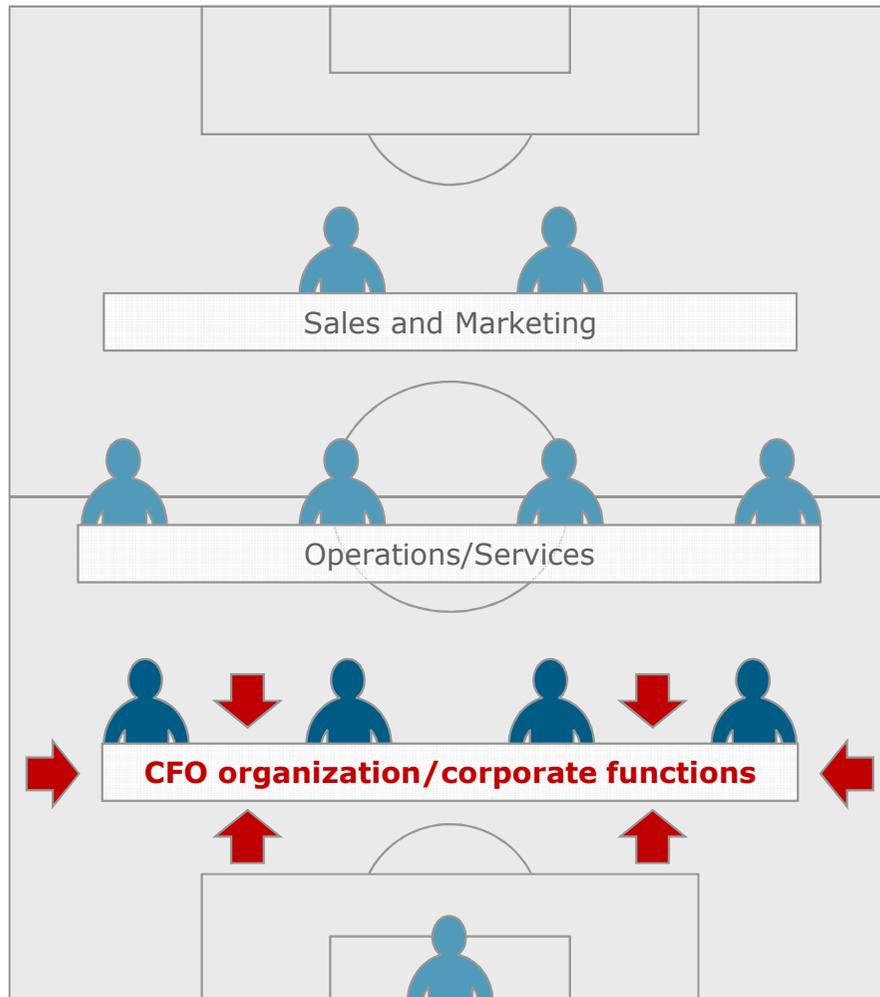
- All size cluster perform on a similar level in the benchmarking somewhere in the mediocrity of the "National League"
- Regardless of the size of the company there seems to be room for improvement to play in the "Champions League"

[1] Other includes e.g. agriculture, telecommunication and commercial services
Source: goetzpartners

2 Reduce Complexity: Eliminate Processes & Organizational Layers

After identifying and standardizing the core processes, the remainder should be eliminated and the organizational structure aligned accordingly

Play the system you can play



All processes that show little or **no value should be eliminated** in any case. The good thing is that in most cases nobody will miss them – neither the processes nor the results. Going through this process of focusing on the core tasks it is often impressive how many processes can be eliminated. Most of them have been established a long time ago for a special purpose and have never been questioned again.

The next consequent step is then to look at the **organizational structure** and question if the chosen setup does **support the value generating processes**. Especially, in large regional organizations with many countries to be controlled the setup of the organization should be assessed carefully.

Last but not least, it is important to **enforce the internal controls** when eliminating processes to identify risks early on and to allow for counter measures.

To increase the efficiency and value generation it is therefore important to:

- **Eliminate processes with little or no value**
- **Right size organizational layers and regional/geographical setup**
- **Enforce rigorous internal controls to reflect risks and the impact of potential errors**

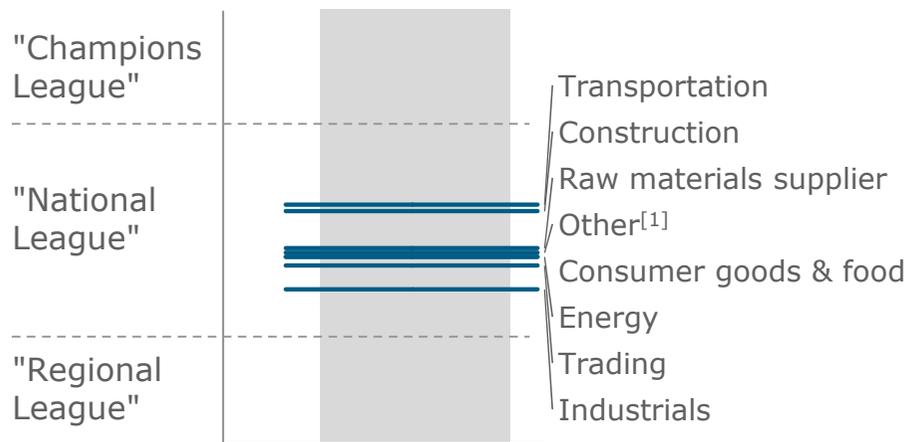
2 Reduce Complexity (Survey Results)

The industry and size benchmarking shows that all size cluster and industries deal with complexity on an advanced level, only transportation and construction are handling complexity more efficiently

Industry comparison [averages on questions]

Development level of CFO organization

[n=107]

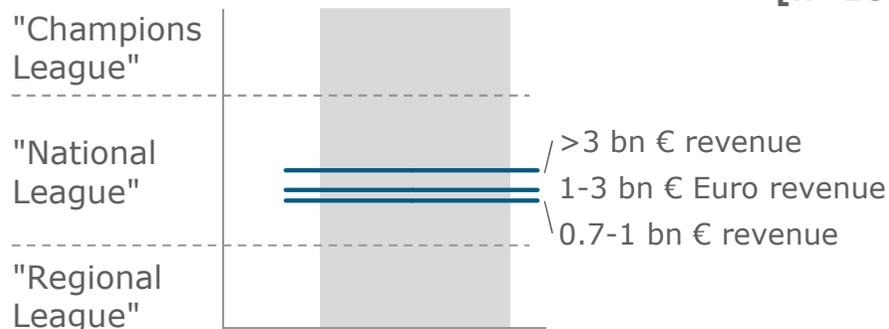


Key findings

- Compared to other industries, transportation and construction are best at reducing complexity
- Other and raw material suppliers are mediocre players in the of the "National League"
- Relative to the other industry sectors energy, industrials and trading are falling back to the lower end of the table

Company size comparison [averages on questions]

[n=107]



Key findings

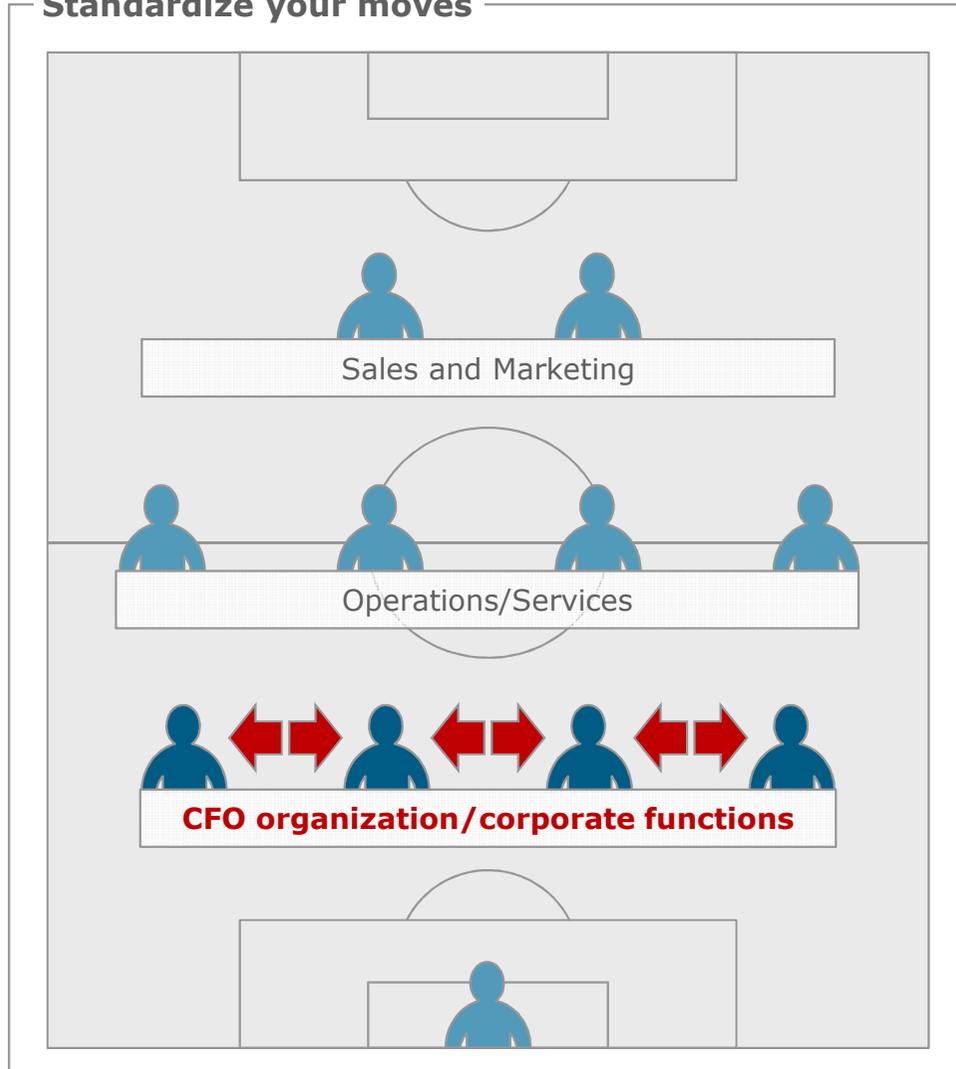
- The size benchmarking shows an mediocre dealing with complexity reduction for all clusters
- Compared to the other size clusters, companies with more than 3bn € revenue seem to have a slight advantage in reducing complexity of their CFO organization

[1] Other includes e.g. agriculture, telecommunication and commercial services

3 Standardize Processes & Tasks: Make Use of IT & Shared Service C.

Once the value generating processes have been identified the next step is to standardize them and use automated systems to increase efficiency

Standardize your moves



Once the core processes have been identified and the basic organizational structure has been aligned it is important that in a next step as many of the **core processes** as possible **can be standardized**.

Those that can not be standardized should be questioned again if they are really core processes or if they can be eliminated. This sounds quite easy but can be rather complicated when it comes to details. In reporting for example it highly depends on your data systems and **IT-system landscape** to what extent reporting can be automated.

The next point is that highly **qualified employees** in the CFO organization should use their time for **valuable analysis and processes**.

The use of **service centers** is one potential that should be considered to increase both efficiency and value generation within the CFO organization.

To increase the efficiency and value generation it is therefore important to:

- Identify value creating core processes that can be standardized
- ▶ Align IT infrastructure to automate standardized core processes effectively
- Use (outsourced) shared service centers

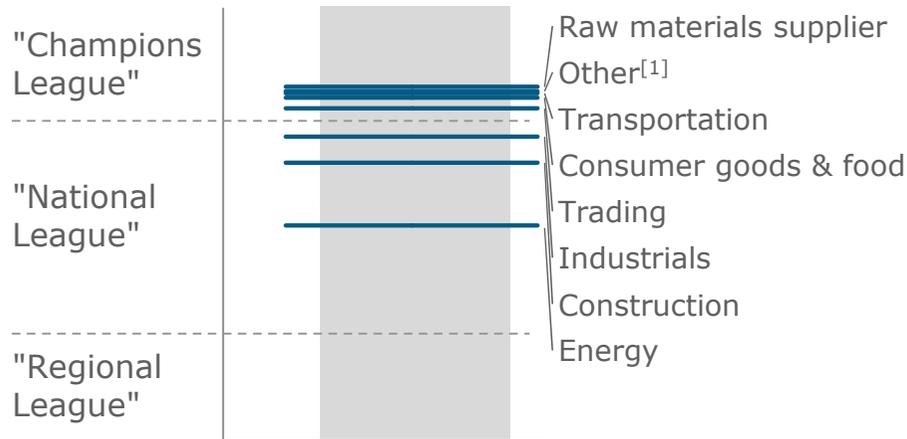
3 Standardize Processes & Tasks (Survey Results)

The size benchmarking reveals well advanced performance for all size clusters – The industry comparison shows well advanced and advanced performances

Industry comparison [averages on questions]

Development level of CFO organization

[n=107]

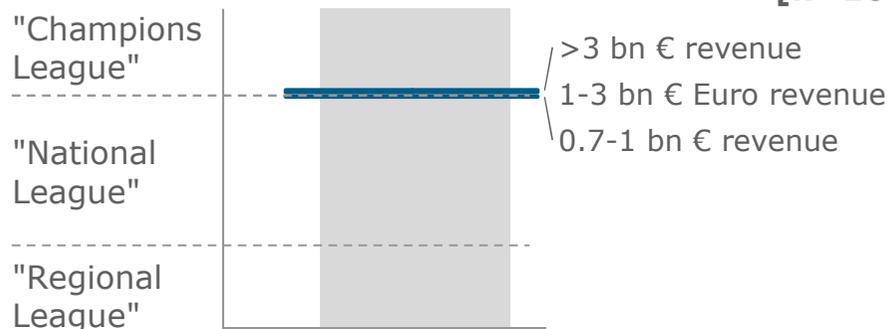


Key findings

- Raw materials suppliers, transportation, Consumer goods & food and Trading manage process standardization on a "Champions League" level
- For the majority of industries standardization of processes is a "Standard" and well trained
- Energy companies seem to have some training deficit

Company size comparison [averages on questions]

[n=107]



Key findings

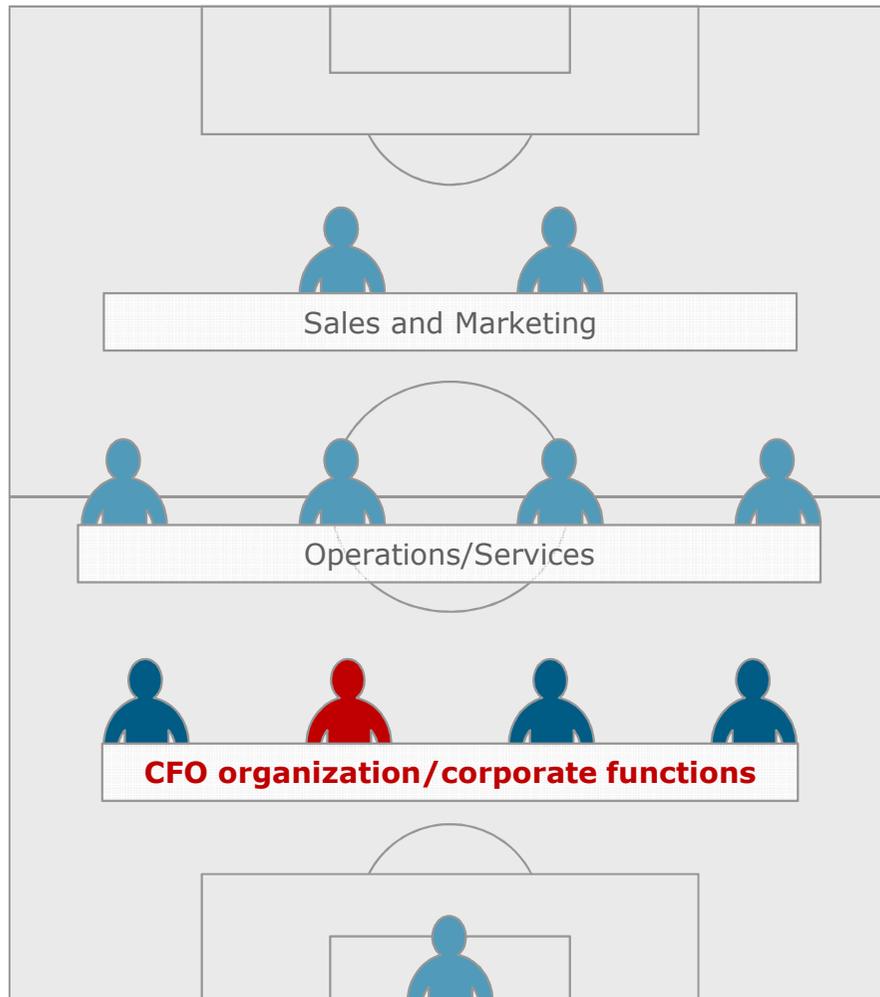
- In relative terms, companies with over 3 bn € revenue perform best in this benchmarking
- In absolute terms, all size clusters perform on a very high level at the edge of the "Champions League"

[1] Other includes e.g. agriculture, telecommunication and commercial services

4 Implement Strong Governance on Data & Processes

A strong central governance is required to ensure that eliminated processes will not be replaced by other low value adding processes

Stick to your system



While eliminating non-core processes it is important to ensure that **no new low value adding processes** are mushrooming in parallel. This **lack of control and discipline** are one of the most important reasons why efficiency programs fail. Therefore, a **strong central governance body is required**. Many tasks in a CFO organization are time consuming but when it comes **to data inconsistencies between different reports** or data sources this is definitely one of the tasks with the lowest value. Consistent and transparent data sets are a key element in increasing efficiency and value generation in the CFO organization. Unfortunately, the **IT landscape** of many companies is **not harmonized** (e.g. after an acquisition) and there are often different data systems that have to be aligned manually. Another example is the reconciliation of data from different regions/ business units with each other that often leads to questionable results due to different definitions, data sources etc.

To increase the efficiency and value generation it is therefore important to:

- **Establish central process governance**
- **Use consistent data from defined sources throughout the company**
- **Align data assets with business partners and corporate strategy**

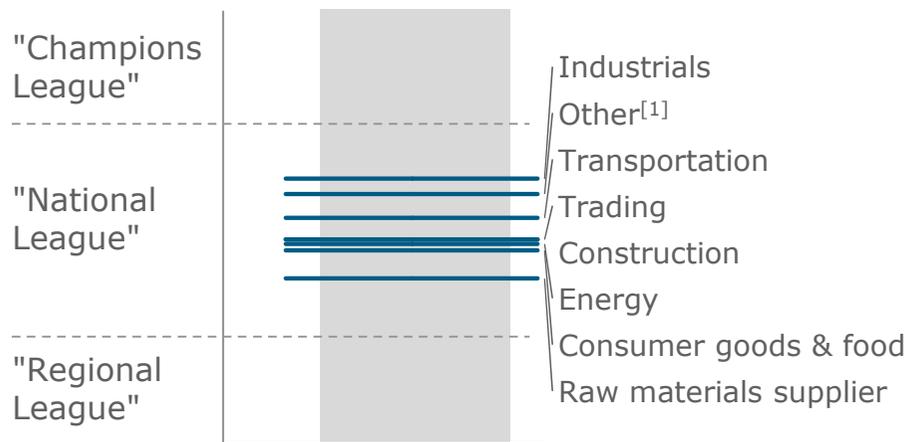
4 Implement Strong Governance on Data & Processes (Survey Results)

The industry and size benchmarking indicates that all size cluster and the majority of industries implement data governance on an advanced level

Industry comparison [averages on questions]

Development level of CFO organization

[n=107]

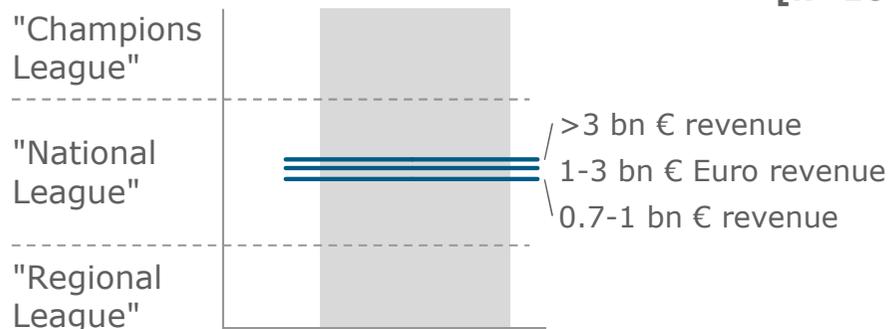


Key findings

- Other and industrials have implemented governance on data and processes on an advanced level
- The remaining industries deviate around the mediocrity – indicating an awareness of data governance
- Raw material supplier perform weakest and are located in the lower third of the "National League" table

Company size comparison [averages on questions]

[n=107]



Key findings

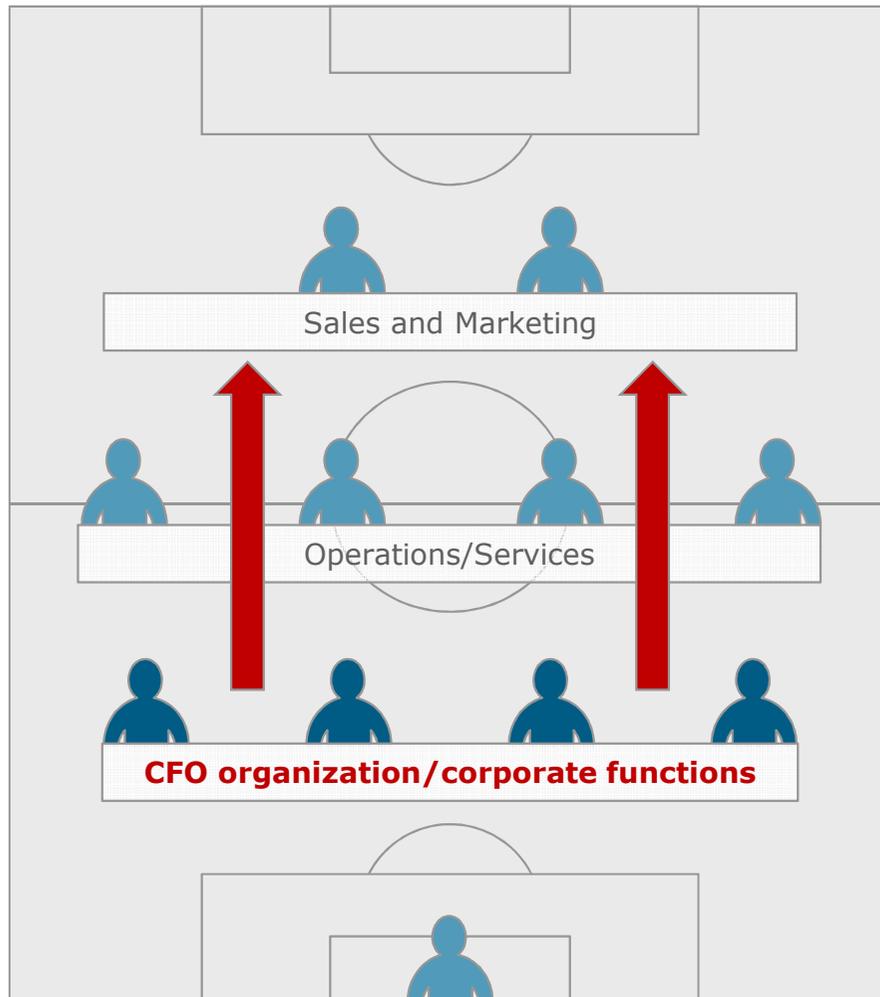
- All size cluster implement data governance to a similar extent
- The benchmarking shows that independent from the size, all companies are on solid "National League" level but far from reaching the "Champions League"

[1] Other includes e.g. agriculture, telecommunication and commercial services
Source: goetzpartners

5 Measure & Steer: Define the Right KPI and Track Them

Define KPIs that reflect the company's strategy and establish a steering model to make the value increase transparent

Use your overview to drive the game



After going through the entire organization and focusing on value generating processes and trimming the organization on efficiency it comes to **make the success visible**.

To do so it is necessary to review the current company KPIs and make sure that **the KPIs are related to the company's strategy**. Now business metrics have to be defined and agreed that are transparent for all involved organizational parts of the company. This is also important for measuring the **P&L impact of special projects**. In a CFO organization on "Champions League" level a **P&L link** for project reporting should be established in order to track the running projects by their **impact on the overall company success**.

The last step is to implement a **comprehensive steering** model that allows to track the success of the company's strategy not only on top level but also on lower levels and **throughout the entire company**.

To increase the efficiency and value generation it is therefore important to:

- Define KPIs that support the corporate strategy
- Use agreed business metrics to track execution success of the finance organization and the business partners
- Introduce individual scorecard and drill down functions for top and middle management

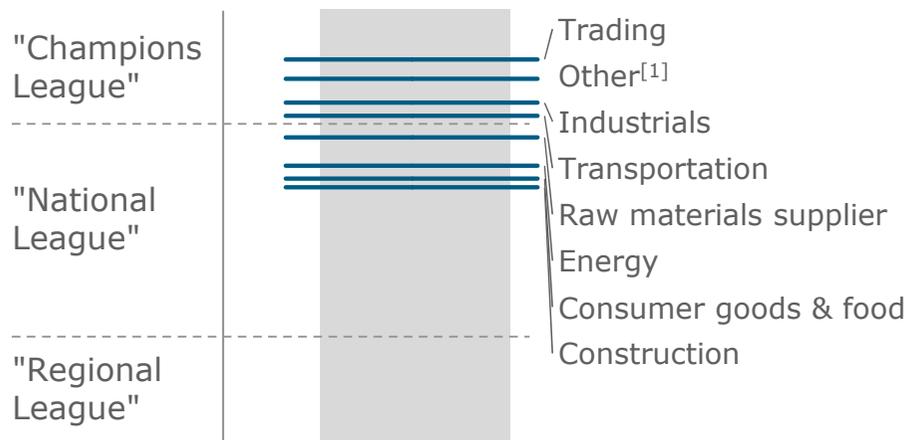
5 Measure & Steer (Survey Results)

The industry and size benchmarking shows performances on a well advanced level for all sizes and the majority of industries

Industry comparison [averages on questions]

Development level of CFO organization

[n=107]

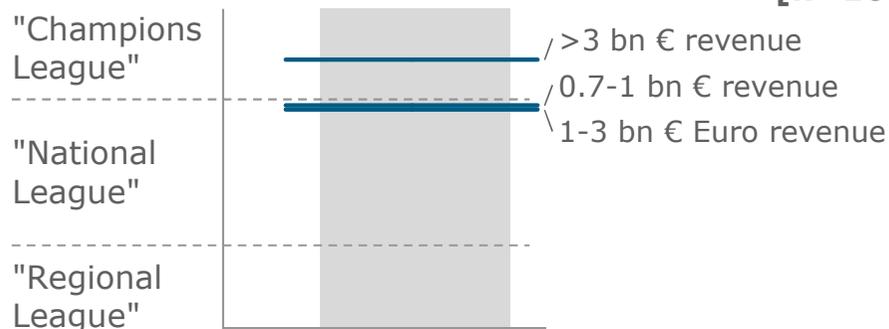


Key findings

- Trading, Others, and Industrials have well advanced skills and play on high "Champions League" level
- All industries manage measuring and steering on a high level leading to positions in the top third of the "National League"
- Construction is ranked lowest but is positioned in the top quarter of the "National League"

Company size comparison [averages on questions]

[n=107]



Key findings

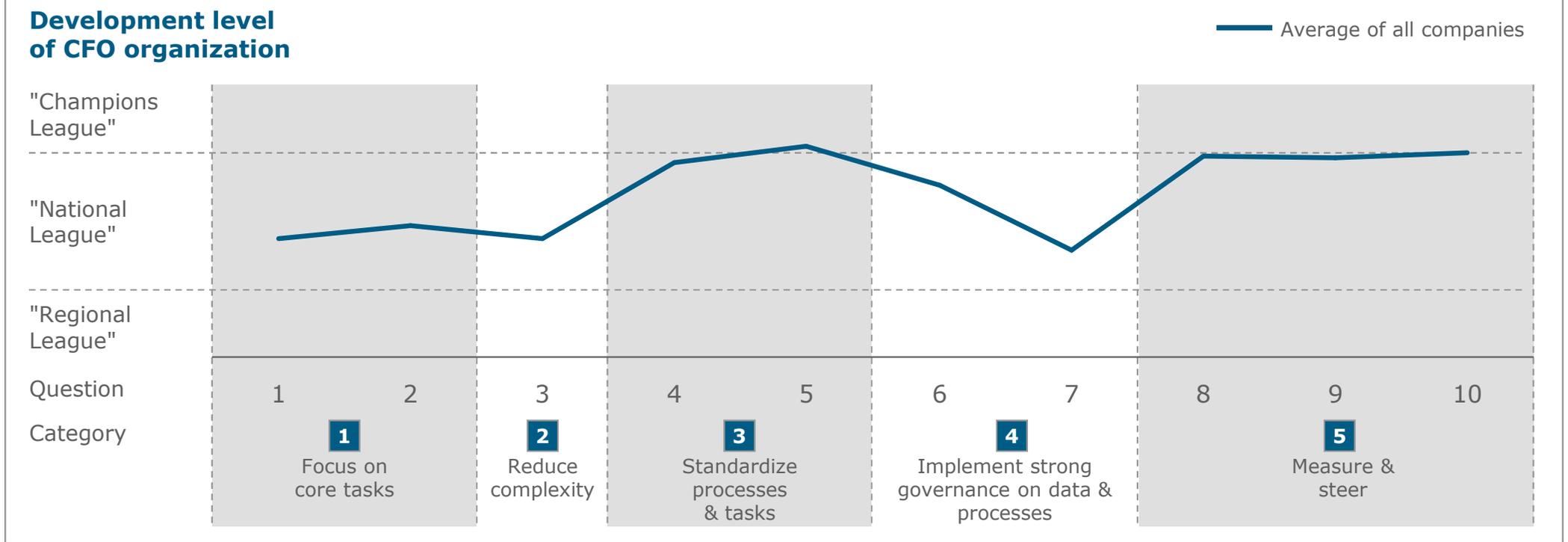
- All size cluster perform strongly, leading to top positions in the "National League"
- Companies with revenues >3bn € are ranked highest in this benchmark with significant distance to smaller companies

[1]Other includes e.g. agriculture, telecommunication and commercial services

Survey Results | Overall Positioning of CFO Organizations

On average the CFO organizations show a solid performance that is sufficient for the "National League" but it is not enough to play constantly in the "Champions League"

Performance of CFO organization per category [average of all companies]



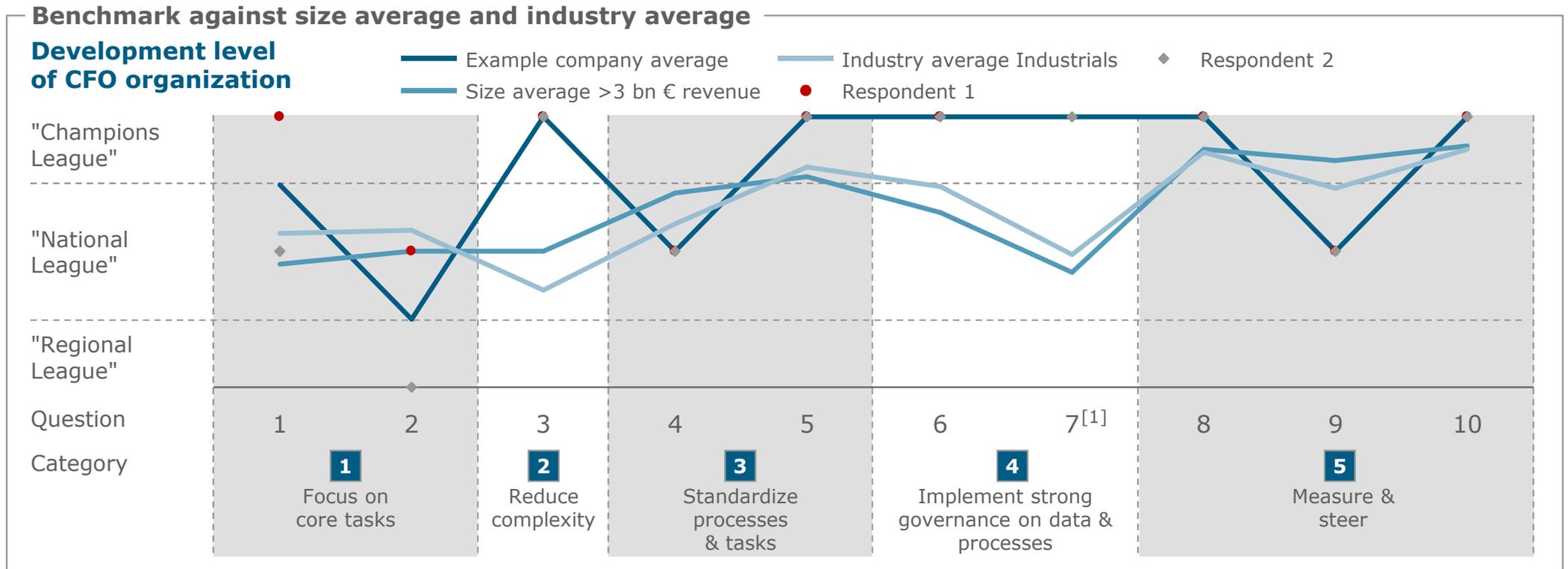
Conclusion

- On average the performance level of the CFO organizations is good enough for a position somewhere in the upper midfield of the "National League" but there is potential to improve the performance to play constantly in the champions league
- Especially the focus on core valuable tasks and the processing of financial data appear to be the weaknesses in the CFO organizations

Survey Results | Detailed Company Benchmarking

EXAMPLE DETAIL SLIDE

Example company



Key findings

- *Example company's* CFO organization performs above industry and size average on a well advanced ("Champions League") level in the majority of categories excluding question 2, 4 and 9
- Ratings of respondents match in all categories except for category 1
- *Example company* shows a significantly higher EBIT increase 2010-12 (+12%) compared to peer group (-25%) – correlation with above industry average rating of CFO organization to be evaluated^[2]

[1] Question 7 was answered by one respondent only [2] Peer group based on SIC-Code (Standard Industrial Classification)

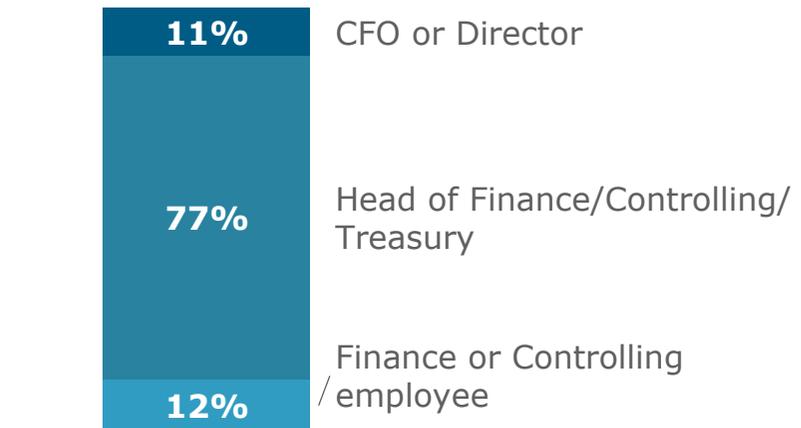
General Statistics

107 qualitative interviews were conducted whereof ~90% were directed at high level executives

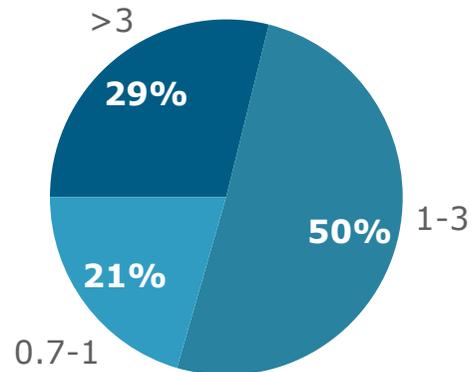
Summary

- **107 qualitative interviews** were conducted (**n=107**)
- **57 companies** participated, whereof in 50 companies two experts were interviewed (63% Germany, 11% Austria, 26% Switzerland)
- Nearly **90%** of all interviews were directed at **high level executives**
- Almost half of the companies have **revenues** in the range of **1-3 bn €** in 2012
- Participants are from more than **eight industries**

Level of respondents



Respondents segmented by revenue [bn €]



Respondents segmented by industry



[1]Other includes e.g. agriculture, telecommunication and commercial services

Questions and Specified Answer Possibilities per Category (1/2)

| Questions | Development level of CFO organization (answer possibilities) | | |
|--|--|---|---|
| <p>1 Focus on core tasks</p> <ol style="list-style-type: none"> 1. What is the most valuable business support of the finance organization of the respective region of your organization? 2. Who is accountable for budget planning and deviations in the particular regions of your organization? | <p>Regional League</p> <p>Invoice checking for the finance and accounting organization and ad hoc reporting to support management decisions for the controlling department</p> <p>Accountability lies within the business only and the finance organization is an information provider only</p> | <p>National League</p> <p>Country specific accounting for the finance/accounting organization as well as planning and monthly reporting for the controlling department</p> <p>The business head and his financial counterpart share the accountability for budget planning and deviations have to be explained by both parties</p> | <p>Champions League</p> <p>Working capital management for the finance/accounting organization and target setting as well as execution tracking for the controlling department</p> <p>The finance organization provides data and possesses a veto right for the budget planning, but the accountability lies within the business only</p> |
| <p>2 Reduce complexity</p> <ol style="list-style-type: none"> 3. What setup does apply to your CFO organization? | <p>Regional League</p> <p>Controlling and accounting are clearly distinguished with a separate reporting line in each segment and sales controlling is in place in regions and business units</p> | <p>National League</p> <p>Controlling and accounting is done within the same organization in the regions and business unit controlling and operations are clearly separated</p> | <p>Champions League</p> <p>There is one controlling organization covering the regional and the business unit view and accounting is done on subordinated layers in the regions where one CFO person is responsible per region</p> |
| <p>3 Standardize processes and tasks</p> <ol style="list-style-type: none"> 4. In general, how would you rate the reporting effort in your company? 5. Do existing IT systems allow easy handling of reporting retrieval and preparation in your organization? | <p>Regional League</p> <p>High reporting effort massively detain employees from necessary day to day work</p> <p>The existing IT systems barely allow automated reporting retrieval and most of the report preparation has to be done manually</p> | <p>National League</p> <p>Reporting effort is reasonable, however, a distinct part of reports is dispensable</p> <p>The existing IT systems allow automated reporting retrieval however a large work package has to be done manually</p> | <p>Champions League</p> <p>Reporting effort clearly meets reporting needs and unnecessary reporting is avoided</p> <p>The existing IT systems allow easy handling of reporting retrieval and preparation (little time is spend on manual data gathering)</p> |

Questions and Specified Answer Possibilities per Category (2/2)

Questions

4 Implement strong governance on data & processes

6. How many data sources for management reporting does your company have?
7. How do you handle/process your financial data for top management reports in your organization?

5 Measure & steer

8. Do reports follow a hierarchical KPI logic which is based on the strategy and controlling model of your company?
9. Does the key KPI reflect your company's strategy?
10. Is the key KPI applicable throughout the organization (regions/units)?

Development level of CFO organization (answer possibilities)

Regional League

Management reporting is a combination of various sources that are inconsistent and exist independently next to each other

Source data is taken from several individual databases and combined in excel sheets to produce financial reports

Regional League

Reports do not follow a hierarchical KPI logic and are not connected to the company's strategy and controlling model

The key KPI does not reflect our company's strategy since just generic KPIs are used

No, KPIs are specific to each unit/region and no standardization effort is taken to date

National League

A few but independent sources are used for management reporting

All relevant management reporting data is transferred to one reporting system and all relevant data for management reporting can be obtained from this single database

National League

Reports follow a hierarchical KPI logic, but they are not based on and linked to the strategy and controlling model of the company

The company's strategy is lightly connected to the used KPIs

Some effort is taken and key KPI are already applicable for several regions/units

Champions League

A clearly defined set of (ideally only one) sources is used that is consistent

One web-based tool with iPod interface and defined Excel/PPT exports is used to process data for top management reports

Champions League

Reports follow a hierarchical KPI logic which is based on and linked to the strategy and controlling model of the company

Clearly defined KPI targets are derived from the company's strategy

Yes, the key KPI is applicable throughout the whole organization and can be broken down respectively

The Way to the Top: How goetzpartners Can Coach the CFO

Three steps to optimize efficiency and effectiveness of the CFO organization

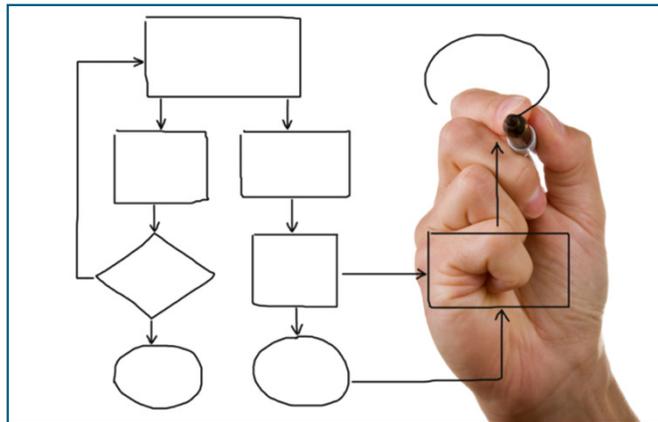
I. Plan



Activity Survey and Baseline

- Gain transparency and visualize activities across units
- Identify full efficiency potential through benchmarking
- Develop simplification of processes to refocus and options for reorganization

II. Do



CFO Workshop

- 2 day leadership team workshop
- Common understanding of change requirements
- Set expectations and targets

III. Act



Road Map of Initiatives

- Setup and define the right initiatives to bring the organization to the Champions League
- Involve the whole leadership team in the key projects

About goetzpartners

goetzpartners is a leading independent European consulting company that combines M&A (mergers & acquisitions) advisory and management consulting under one roof. With this unique service offering goetzpartners advises companies along their whole value chain, thus creating sustainable value for them. The Group is represented with offices in Munich, Düsseldorf, Frankfurt, London, Madrid, Moscow, Paris, Prague, Shanghai and Zurich, and maintains international cooperation ventures.

goetzpartners Management Consultants concentrates mainly on the fields of strategy, operational excellence, and business transformation. goetzpartners Corporate Finance focuses on M&A advisory services. goetzpartners is "hidden champion" in the consulting discipline corporate finance and management consulting (result of the "Hidden Champions-Studie" conducted by Prof. Fink in cooperation with the business magazin "Capital").

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