LESSONS FROM BEST-IN-CLASS CFOs

By Alexander Roos, James Tucker, Marc Rodt, Sebastian Stange, Philipp Ego, Aissa Boudadi, and Hardik Sheth

Many finance functions seem to be stuck in a rut. The symptoms are often easy to see. Teams manually produce the same reports, year after year—long after they have stopped being useful to management. Experts spend too much time making sure their numbers are right and not enough time figuring out what the numbers mean or what to do about them. And CFOs are often too caught up in their function's highly specific challenges to understand what best-in-class performance looks like and how to achieve it.

How can CFOs help their function step up performance? An external perspective is the starting point. With such a perspective—across companies, industries, and regions—CFOs can compare their function's performance against benchmarks and learn from the success of the top performers. These insights into the art of the possible allow CFOs to recalibrate their ambitions and start the journey to best in class.

A recent BCG benchmarking study provides this much-needed external perspective. We analyzed data in our CFO Excellence Index database and studied the experiences of finance functions that have put best practices into action. (See the sidebar.) We found that only a few select CFOs lead functions that truly outperform in both efficiency and effectiveness. In this article, we distill the lessons learned from these high-performing functions into three key success factors.

Break the Compromise Between Efficiency and Effectiveness

Among the finance functions in the CFO Excellence Index, 15% are in the top quartile for both efficiency and effectiveness. (See Exhibit 1.) These top performers score 33% higher than other functions for efficiency and 46% higher for effectiveness. They also score 22% higher for satisfaction with the finance function's setup and processes.

The top performers avoid the trap of viewing efficiency and effectiveness as a zero-sum game. In many cases, they achieve ef-

BCG'S CFO EXCELLENCE INDEX

BCG's CFO Excellence Index database contains benchmarking data on several hundred finance functions, representing a broad set of industries globally. It covers all key CFO responsibilities from the perspectives of efficiency and effectiveness, including digital maturity.

We evaluate the performance of finance functions using the CFO Excellence Index score. The score is derived from a systematic assessment of a company's answers to quantitative and qualitative questions on how its finance function compares with best practices. Although we find relatively small performance differences among industries, we observe significant differences between the best- and worst-performing finance functions in each industry. Despite the varied performance, we have identified a set of common challenges and opportunities—indicating that a company can reap substantial benefits by learning from best practices across industries and companies.

ficiency by eliminating or automating non-value-adding activities. At the same time, they achieve effectiveness by ensuring that business partner functions focus on activities such as forecasting and analytics that help the business identify and pursue opportunities to create value.

For example, the finance function of a global health care company increased efficiency and effectiveness by employing agile organization principles. The company divided the function into two squads: one focused on end-to-end finance transactions and the other on business partnering. In the business-partnering squad, the function greatly expanded value-adding activities, such as analytics and scenario modeling, and focused on developing new skills. To free up resources for these activities, the finance leadership team carefully scrutinized each of more than 50 existing finance tasks. The assessment uncovered the opportunity to improve efficiency by 30% by eliminating duplicative work and introducing automation and robotic process automation.

As a member of finance leadership explained, "To generate impact for the business tomorrow, we must question what we do today." People in the finance function appreciated that the new setup created much more attractive work activities and new career and learning opportunities, resulting in strong buy-in.

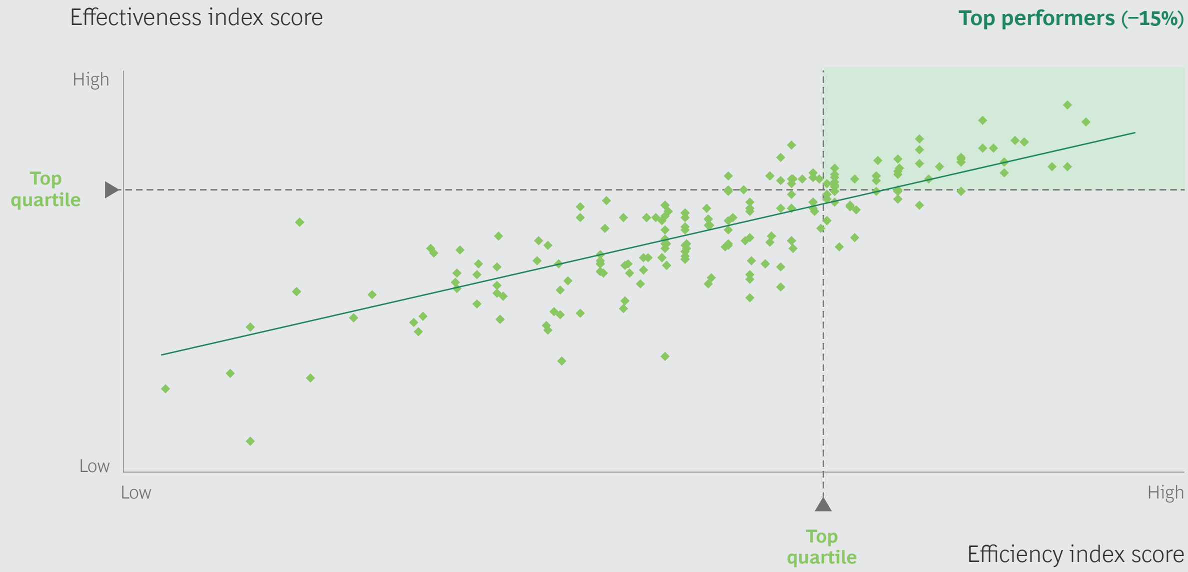
Aim Higher for Efficiency

Some finance functions demonstrate that big efficiency gains are possible. Their finance costs (related to personnel, material, and outsourcing of finance in the center and the business units) are as low as 0.3% of sales. This is more than 60% below the often-discussed aspiration of 1% of sales (which was also the median figure in our overall sample). The most efficient finance functions are able to serve their business with nearly two-thirds fewer corporate-center FTEs than the typical function. Finance functions in the top quartile of performance have 30 FTEs per $1 billion of revenue, compared with the median figure of 80.

Although high levels of efficiency are possible, a company must set an ambition tailored to its circumstances. Its industry, of course, plays an important role. (Financial institutions, in particular, need to apply a distinctive set of FTE benchmarks.)

To determine a tailored and realistic ambition for the level of FTE efficiency, we ran a multivariate regression analysis using data in the CFO Excellence Index. The analysis found that the major contextual

EXHIBIT 1 | Top Performers Break the Compromise Between Efficiency and Effectiveness



Source: BCG CFO Excellence Index database.
Note: The diamonds in the scatter plot denote finance functions. R^2=82%.

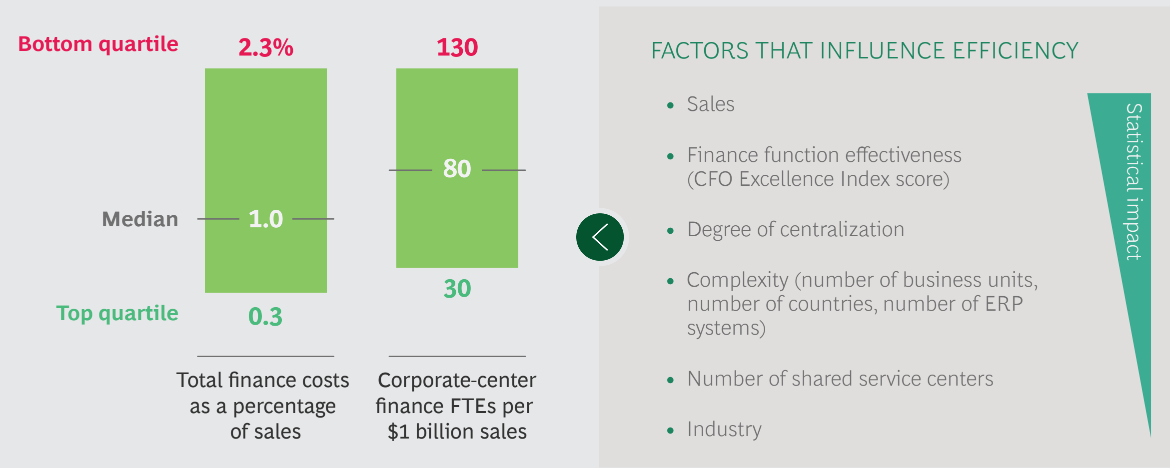
factors influencing efficiency levels are a company's sales, the finance function's effectiveness (as measured by the CFO Excellence Index), and a company's degree of centralization. (See Exhibit 2.) A smaller role is played by a company's complexity (for example, the number of business units, the number of countries where it has a significant presence, and the number of enterprise resource planning systems). Neither the number of legal entities nor the number of employees has a statistically significant impact.

A finance function can achieve best-in-class efficiency by systematically reviewing potential savings levers and questioning whether its existing legacy setup is still fit for purpose. The function can make significant improvements by applying nonstructural improvement levers, such as service level optimization, process simplification, or next-generation digitization. It can reap further benefits by revisiting its overall operating model and shared-services setup. The function can then promote improvement over the medium term by addressing complexity, such as by reducing the number of profit and cost centers and simplifying its IT infrastructure. In our experience, the relevance of specific levers and the right sequencing ultimately depend on the finance function's starting point and the company's business priorities.

A German industrial conglomerate employed an innovative approach—a zero-based organizational redesign. It categorized finance activities as governance, service, or advice and applied a zero-based mindset to determine which ones were truly required. For governance, it considered what type of minimum governance and control was really needed and effective. For service activities, it asked the business units to define the type and level of support services they actually required. For advice activities, it considered what central entrepreneurial guidance and recommendations were needed from a business perspective and what would be the most effective way for finance to provide that support.

The exercise helped the organization fundamentally question the value of finance activities and align those activities with business needs and central-board priorities. The impact on efficiency was significant. In controlling, for example, the function was able to reduce the number of FTEs by 25%. An additional 20% of FTEs from the central controlling unit were moved to the business

EXHIBIT 2 | Top Performers Have Highly Efficient Finance Functions



Source: BCG CFO Excellence Index database.

units in order to provide support that was better tailored to actual business needs.

Focus on Business Impact, Not Finance Expertise

What does it mean for a finance function to be effective? In short, it means aggressively focusing on activities that help the business create value—such as by improving margins or return on capital, growing revenue, or reducing working capital. In this way, the function becomes "self-financing."

Top performers are set apart by their emphasis on business-oriented performance management activities, such as forecasting, ad hoc analysis, and business intelligence, rather than on the classic areas of finance expertise, such as treasury, investor relations, or M&A. (See Exhibit 3.)

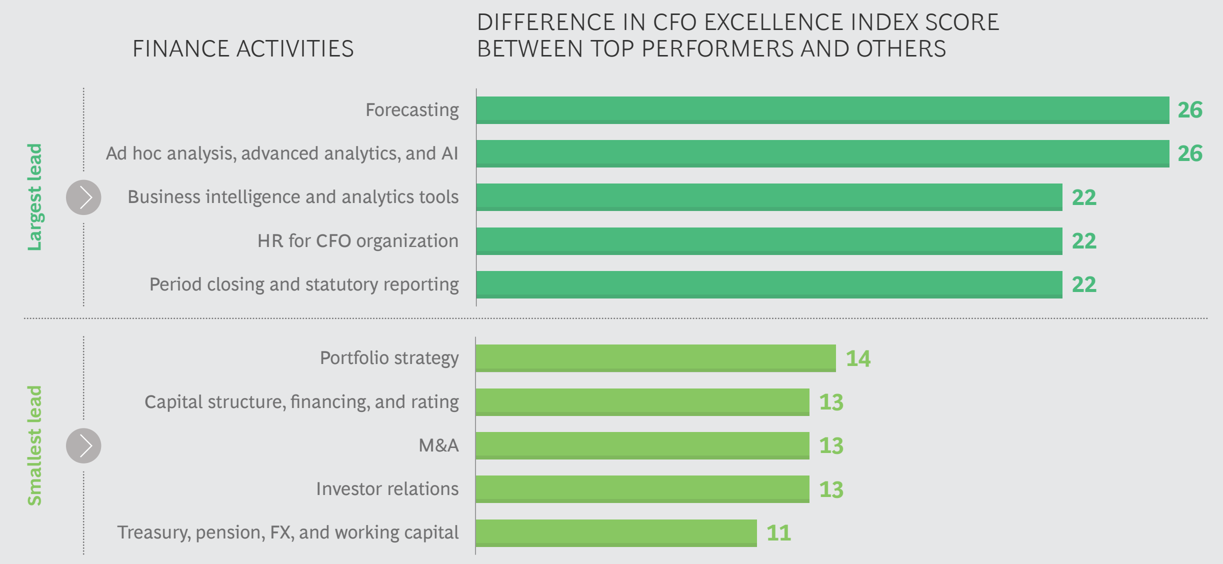
The most effective functions are also distinguished by a dedicated “HR for the CFO organization”; its activities include hiring and fostering talent, systematically managing capabilities, and upskilling. Our benchmarking study found that such HR capabilities are also by far the number-one driver of satisfaction with the finance function’s setup and processes.

Surprisingly, top performers are not distinguished by their finance IT systems. In our experience, IT systems and architecture need improvement at most companies. The key to success is having a clear IT target picture and a roadmap that is focused on creating incremental business impact over time. It also requires establishing central governance of the enterprise resource planning system. Central governance is essential to enable the ERP system to strike the right balance between customization and harmonization. Although customization is often required, it is costly and promotes complexity.

Feedback from the business is essential to delivering effective support. Unfortunately, few finance functions have regular, systematic, and candid discussions with the business on what they do well, where they should improve, and how finance could better support the business. Our projects consistently uncover a fundamental discrepancy between how the finance function and business units perceive the function’s performance.

At a European machinery company, for example, feedback from nearly all business units was loud and clear: central finance did not produce useful reports. Many regularly issued reports had initially been produced in response to ad hoc requests. Nobody from finance had checked with the business units to find out whether recipi-

Exhibit 3 | Top Performers Focus on Activities that Create Business Impact



Source: BCG CFO Excellence Index database.

ents still found these reports useful for triggering action and what information and insights they actually required to support business decisions.

For many finance functions, digital technology offers new opportunities to make quantum leap improvements in effectiveness. For example, a services company uses algorithmically derived forecasts to enable forward-looking financial steering. The company has developed a calculation engine that applies machine learning to generate a fully data-driven, unbiased forecast faster and with less effort than forecasts developed by experts. Instead of analyzing deviations between plan targets and actual performance, the company compares past forecasts with actual forecasts. Armed with rapidly produced forecasts of how conditions will change, the company can take action to preempt unfavorable outcomes and promote competitive advantage.

Action Steps to Make It Happen

To drive sustained high performance, CFOs are taking several steps. First, they craft a compelling vision, purpose, and target picture for their finance function to motivate and inspire their people. Next, they define clear performance KPIs for their finance functions. This includes not only the number of FTEs but also process and effectiveness KPIs (such as planning quality and business satisfaction scores), especially in those areas that are critical to business success. Third, they use regular performance dialogues with their own function, review performance along the KPIs, and derive and execute actions to improve further.

Recognizing that transformative changes are both possible and necessary, many CFOs have set up a finance transformation office to manage continuous improvement. The office leads the transformation program and prioritizes and coordinates initiatives. It also provides relevant tools (such as agile, lean, and project management) and has dedicated project execution capacity. As an additional benefit, the office can serve as a platform to develop next-generation finance leadership talent.

HIGH-PERFORMING FINANCE FUNCTIONS have shown that it is possible to achieve transformative leaps in efficiency and effectiveness. By aiming high for efficiency, they are able to invest more in value-adding activities and step up performance management. And by improving collaboration with the business, they identify the best ways to generate more value. Those CFOs who act soon and decisively to emulate the top performers will be well prepared for future challenges.

About the Authors

Alexander Roos is a managing director and senior partner in the Berlin office of Boston Consulting Group and a global leader of the Center for CFO Excellence. You may contact him by email at roos.alexander@bcg.com.

James Tucker is a managing director and partner in the firm's Toronto office and a global leader of the Center for CFO Excellence. You may contact him by email at tucker.james@bcg.com.

Marc Rodt is a partner and director in BCG's Munich office and a key member of the Center for CFO Excellence. You may contact him by email at rodt.marc@bcg.com.

Sebastian Stange is a partner and associate director in the firm's Munich office and a key member of the Center for CFO Excellence. You may contact him by email at stange.sebastian@bcg.com.

Philipp Ego is a senior knowledge analyst in BCG's ValueScience Center in Munich and a key member of the Center for CFO Excellence. You may contact him by email at ego.philipp@bcg.com.

Aissa Boudadi is an associate director in the firm's Miami office and a key member of the Center for CFO Excellence. You may contact him by email at boudadi.aissa@bcg.com.

Hardik Sheth is a partner and associate director in BCG's Philadelphia office and a key member of the Center for CFO Excellence. You may contact him by email at sheth.hardik@bcg.com.

About BCG's Center for CFO Excellence

The Center for CFO Excellence (CFOx) is the hub of BCG's know-how and global expertise on the CFO domain. CFOx supports CFOs, helping them deal effectively with today's most pressing finance-related challenges. Our experts work with CFOs worldwide to support their efforts in transforming the finance function's operating model to achieve higher efficiency and effectiveness. They achieve this by capitalizing on the digital disruption to unleash the power of advanced analytics and artificial intelligence, also advancing corporate performance management to the next level and enhancing the value of the finance function. They focus on improving capital allocation to ensure a productive return on investments and outperform competitors. Aiming to orchestrate company-wide transformations, BCG helps drive the corporate value agenda, identifying the best strategy for renewing the organization's finance systems and increasing transparency and insight. If you would like to learn more about CFOx or about the application of the CFO Excellence Index, please contact one of the authors or visit cfox.bcg.com.