Want to Be a More Effective CFO?

BY THOMAS WUNDER AND JEFF THOMSON

A, B, C, or D? On a frosty December morning in a Frankfurt hotel, 80 men and women reached for their tiny black answering devices in a scene reminiscent of the "ask the audience" option for contestants on the hit show, "Who Wants to Be a Millionaire?" But this time the "audience" was a group of senior finance and management accounting professionals taking part in an interactive poll about topics of interest in their everyday work.

Joachim Esser is the Regis Philbin of this forum. The 34-year-old, who heads the Berlin office of German management consultancy Horváth & Partners, manages the "CFO-Panel" in Europe and has now moderated four of these meetings. "Two years ago in Berlin is where it all began—when there were just 12 of us," Esser says. Since then, the forum has grown to more than 160 corporate members representing both German blue-chip companies and so-called "hidden champions."

Benchmarking

Ask the Audience!

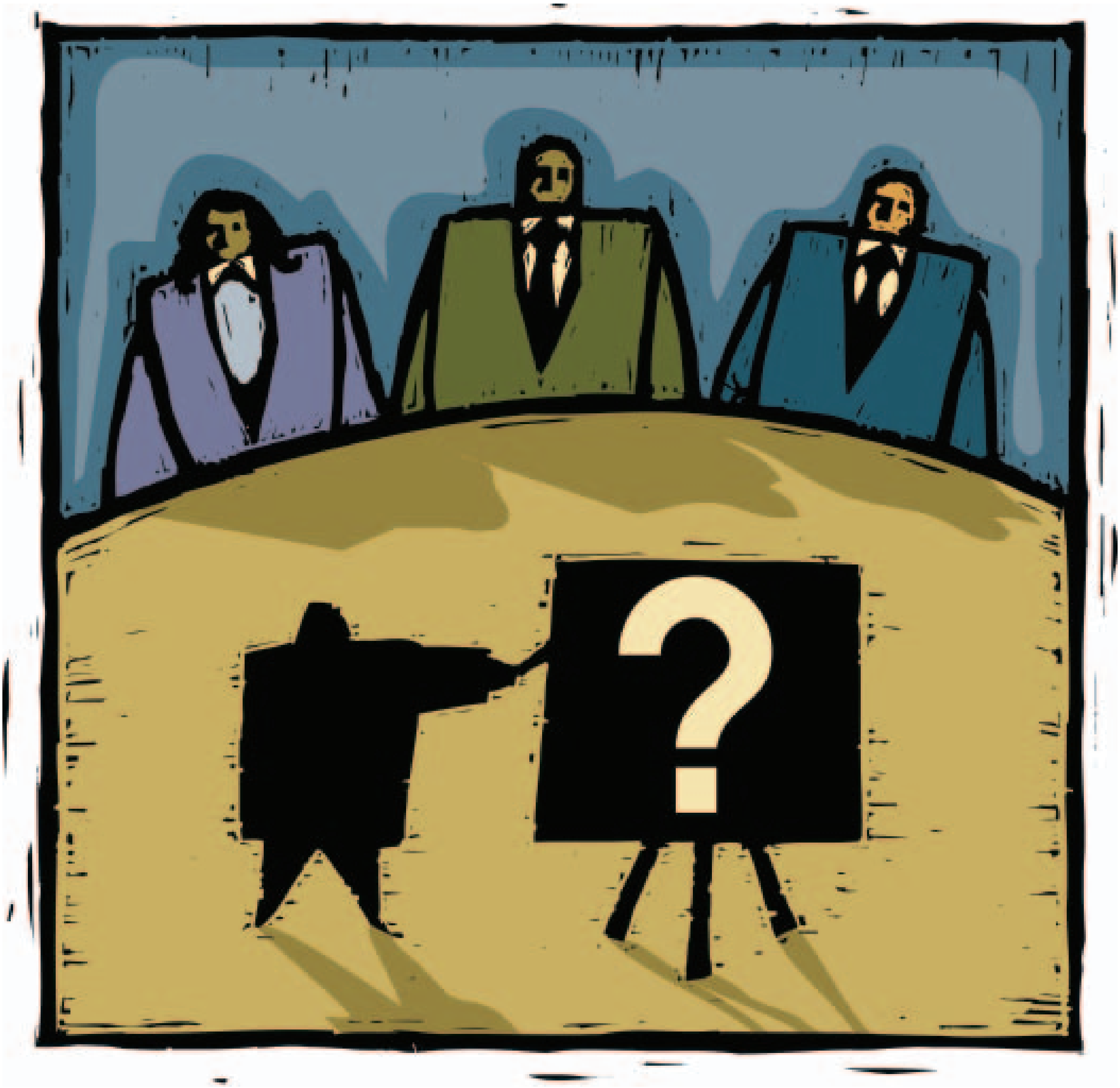


ILLUSTRATION: JEFF DEWEERD/IMAGEZOO

The Horváth & Partners CFO-Panel is a facilitated network of companies interested in developing best practices by comparing their finance, management accounting, and controlling activities based on results compiled from an online questionnaire. The panel's objectives are to identify success factors, encourage further development of best practices, and create new knowledge with and for its members. In short, the panel seeks to answer the question: What makes a CFO's organization effective and innovative?

The CFO-Panel achieves this in two main ways:

1. Ongoing benchmarking of all aspects of finance, management accounting, and controlling.
2. Regular meetings with peers in facilitated forums to share experiences and drive innovation.

Despite the huge challenges facing multinational corporations (Sarbanes-Oxley (SOX) compliance, globalization and outsourcing, competitive and socio-economic pressures, etc.), there are no widely available sources for facilitated benchmarking focused equally on the efficiency *and* effectiveness of the CFO's areas of responsibility. This is where the CFO-Panel comes in: The facilitated forum provides the opportunity for an interactive exchange and systematic knowledge development among CFOs, senior finance staff, and management accountants from different companies based on a commonly shared framework of the benchmarking survey. The idea is to show *what is missing* and to jointly develop ideas of *what can be done immediately* to improve results. Panel members are asked to update their data annually, which provides for continuous benchmarking and performance improvement in finance, management accounting, and controlling.

Table 1: The CFO Agenda

STRATEGIC PLANNING
OPERATIONAL PLANNING & BUDGETING
MANAGEMENT REPORTING
COST ACCOUNTING & ANALYSIS
PROJECTS & CAPITAL EXPENDITURES
GROUP PORTFOLIO MANAGEMENT
CORPORATE PLANNING & CONTROL
FUNCTIONAL & SPECIAL AREA MANAGEMENT
FINANCE MANAGEMENT
METHOD IMPROVEMENT
ACCOUNTS RECEIVABLE
PAYROLL & TRAVEL EXPENSE ACCOUNTING
ASSET ACCOUNTING
ACCOUNTING, CLOSES, & EXTERNAL REPORTING
TREASURY, CASH MANAGEMENT, & BANKING
TAX
RISK MANAGEMENT & INSURANCE
SARBANES-OXLEY

©2005 by Péter Horváth & Partners Inc.

THE BENCHMARKING SURVEY

The scope of the CFO-Panel survey spans nearly all processes or functions within the CFO's realm of responsibility (see Table 1). Participants usually focus on those parts of the survey in which they're interested and where they have their most severe "pain points," which means they will receive only the data needed to effect sustainable improvements. On average, survey participants complete 60%-70% of the more than 500 questions, which is notable when you consider that not all CFO-area processes are relevant to all companies (e.g., R&D expenditures aren't usually a major focus for retailers). Also, since participants can start and stop at any point in the survey process, the online survey can be split up among several finance executives within a company, each taking the portion that pertains to their area.

"This survey and the kind of questions we ask took us a long time to develop," Esser explains. "They represent a consolidation of specialized knowledge from more than 25 years of consulting experience with top companies in these areas. Our questions are designed around 'best practice' concepts and provide a kind of self-assessment in themselves." To ensure comparability with results from previous years, the existing set of questions remains fairly stable but is periodically supplemented with additional topics, such as a new series on Sarbanes-Oxley compliance.

The first section of the CFO-Panel survey contains questions related to the organization and resources under the CFO umbrella. For example, participants can calculate relevant finance and management accounting costs here, including personnel, asset, and system costs. Such an analysis makes it possible for all participants to compare their cost structures and identify possible efficiency improvements.

The second section of the survey contains questions related to managerial and support processes within the CFO area as well as SOX-related issues. Process-oriented questions about finance, management accounting, and controlling are asked in the third and fourth sections. The survey contains questions on objectives and purposes (effectiveness), participants (as categorized by responsibility and organization), processes and efficiency, and tools and IT solutions. Responses to these questions are designed to highlight best practices and trends as well as provide single benchmarks (e.g., partial process costs).

An evaluation of the CFO area's data output by its internal customers is the last part of the survey questionnaire. This satisfaction survey can be completed by multiple internal customers, which offers the CFO's area the opportunity to compare the external and internal evaluations of data quality. A management accountant from the ZF Group, a $12 billion international automotive supplier based in Germany, described his experience with the CFO-Panel: "The detailed benchmark reports, as well as the opportunity to meet with the other participants, have provided me with a baseline to achieve an outstanding internal acceptance for the changes we intend to make."

PANEL MEETINGS

"For us, benchmarking is just a starting point for discussions," Joachim Esser says. "Our goal is not to merely point out differences between companies' results, but also to explain them and evaluate their effects." In regular panel meetings, participating companies have an opportunity to exchange their ideas, experiences, and best practices. Panel meetings also have created informal networks and facilitated the exchange of information about the latest developments in finance, management accounting, and controlling. Participants say they frequently use these networks to discuss potential solutions to real-world problems.

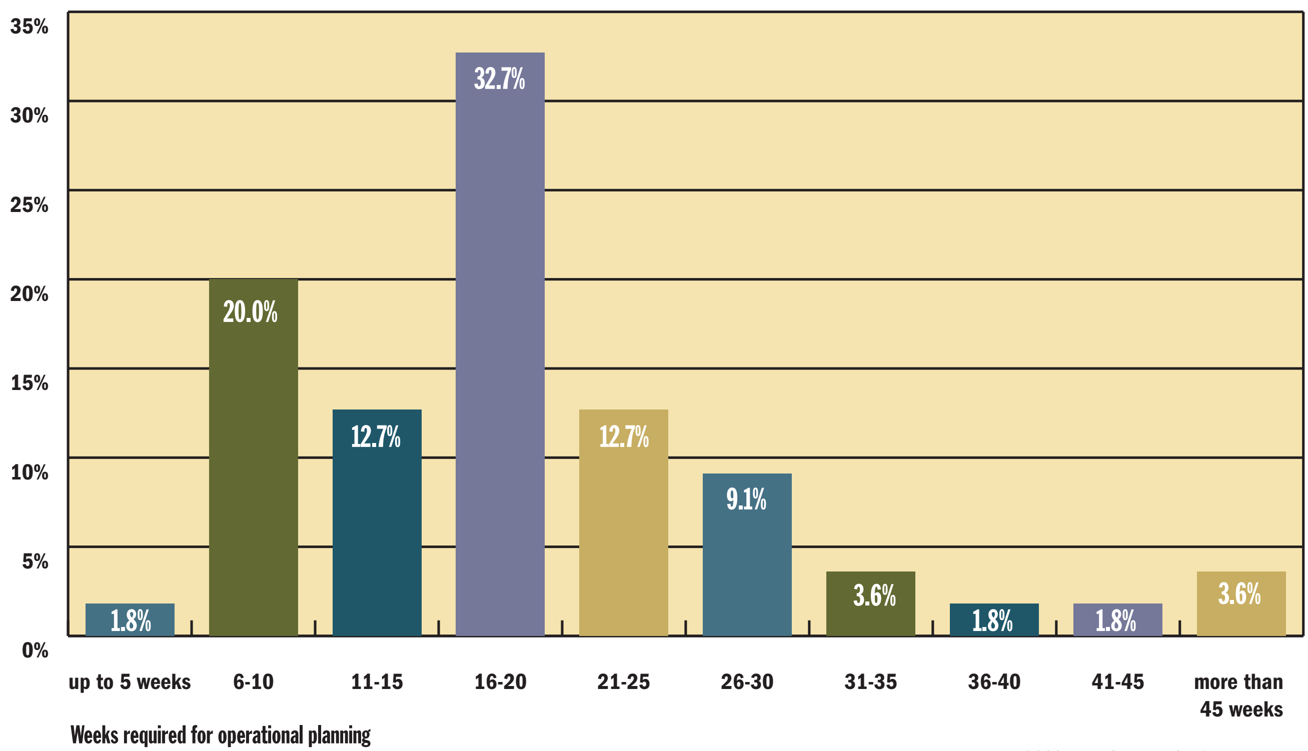
As one example, participants in a recent CFO-Panel meeting discussed operational planning, which frequently ties up a significant number of resources throughout the fiscal year. Selected findings that were presented in the meeting highlighted these issues:

- 43% of survey respondents stated that their operational planning is not reasonably linked to strategy.
- 67% of the companies noted that their operational planning is too detailed.
- 49% of respondents said that operational planning takes too long.

Next, certain aspects of the findings were broken down for additional discussion. For example, nearly half the finance executives were dissatisfied with the *duration* of their operational planning, so we asked how long planning actually takes. The range of answers was surprisingly wide: Some companies reported more than 300 days per year, while others limited their planning to just 30 days (see Figure 1). Then these results were sorted with respect to different planning approaches for further analysis:

- 25% of the companies use top-down planning, which

Figure 1: Operational Planning Time



©2005 by Péter Horváth & Partners Inc.

takes an average of 18.2 weeks per year.

- 33% of the companies plan bottom-up and need 19 weeks per year on average.
- 42% of the companies surveyed use a combination of top-down and bottom-up for their operational planning and require 21.1 weeks per year on average with this planning method.

Many companies are looking for ways to reduce their planning time and to produce plans that are strategically and operationally linked to create alignment "from workroom to boardroom." As a result, breakthrough and somewhat provocative new approaches such as "beyond budgeting" or "strategic change portfolio" budgeting are quickly moving to the forefront. This trend was addressed in the final portion of the panel meeting where several possibilities to improve the operational planning process were discussed and prioritized via handset voting. The potential "solutions" came from the survey—where corresponding questions are asked—and from known best practices. Of the eight solutions presented, panel members voted *decreasing the level of detail, linking operational planning to balanced scorecards,* and *establishing rolling forecasts and planning* as having the greatest potential to effectively reduce operational planning time.

Next, these results were discussed openly in the panel meeting as well as in informal side conversations among participants. A finance executive from Siemens Switzerland offered his opinion of a recent panel meeting: "The panelists' conference satisfied my organization's information needs and delivered unexpected value. We left the conference hall with a clear idea of the steps we need to take and how to take them and a vast support network to help us with questions as we begin to reform our internal processes."

Roundtable discussions also take place during a panel meeting. In these smaller group settings, specific benchmarks and best practices related to particular function- or industry-specific topics are examined. Also, an e-mail-based panel community has been created to encourage a free exchange of ideas between panel meetings and to provide additional networking opportunities. Furthermore, special-topic surveys and panel meetings are already being planned for 2006, with capital expenditures as one expected focus area.

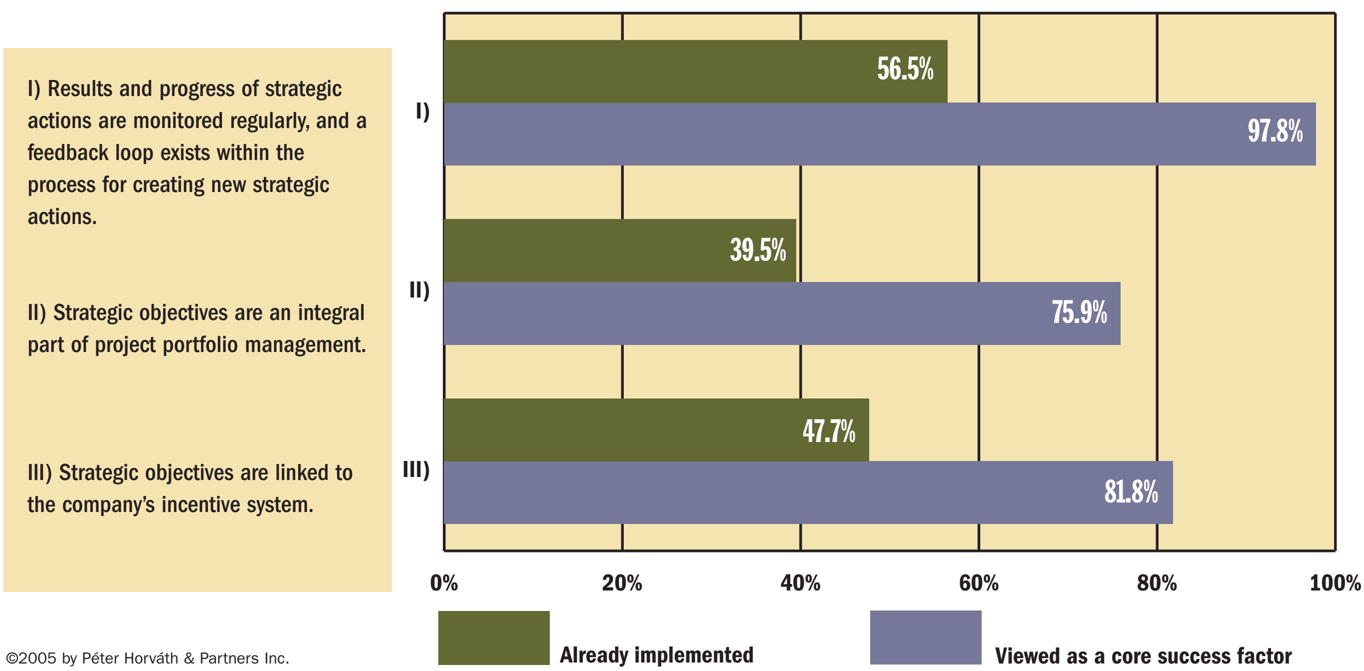
SELECTED RESULTS

Here are some highlights from benchmarking data published in 2004 and 2005:

Finance and Management Accounting Resources

One of the most crucial issues for benchmarking finance, management accounting, and controlling is the quantity of personnel employed in those functions. The survey revealed that, for every 1,000 employees in the company, an average of 9.9 are utilized for these functions, and

Figure 2: Shortcomings in Strategy Execution



©2005 by Péter Horváth & Partners Inc.

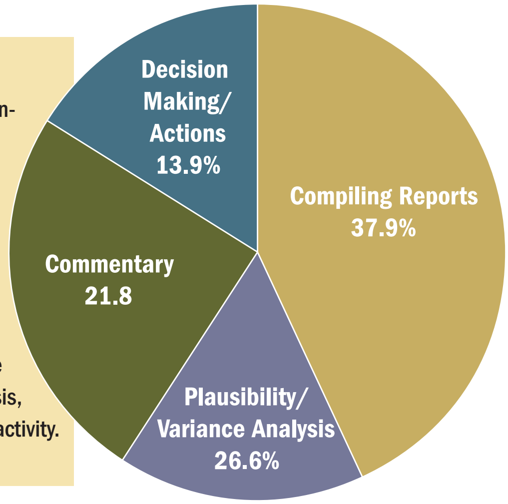
34.9% of the companies indicated that they employ between five and 10 finance/accounting/controlling staff per 1,000 employees. Also, companies average three full-time equivalent personnel (FTEs) in finance, management accounting, and controlling per $100 million in revenue, and average personnel expenses in these areas amount to 0.029% of revenue.

Figure 3: Time Spent on Reports

Only 1/5 of the total time is available for writing commentary on the reports!

Too much time is being spent on merely preparing the reports for analysis.

Conclusion: Finance/controlling staff do not have enough time for data analysis, which should be their core activity.



©2005 by Péter Horváth & Partners Inc.

Education and Experience Level

Continuous human resource development is pursued by nearly all the companies surveyed. In fact, 40% of the companies spend five to seven days per year on development for their staff, familiarizing them with new topics such as international accounting standards (IAS) and international financial reporting standards (IFRS) or strategic management tools like the balanced scorecard. As for learning forums, 90% of the companies use external seminars, 80% use internal seminars, 53% use internal independent-study programs, and 40% send their staff to conferences and conventions.

Strategic Planning

Routine strategic planning takes place in nearly all the companies participating in the CFO-Panel survey. More than 80% incorporate nonfinancial metrics into their strategic planning, and upcoming panel surveys will reveal whether that number is growing. This could possibly validate an often-reported trend in internal reporting: decreasing emphasis on financial targets and increasing focus on qualitative metrics. One very interesting question is which key nonfinancial metrics are commonly used within strategic planning. For example, while nearly all companies set customer and market objectives, only 49% of survey participants consider learning and development objectives. Yet there seemed to be a gap between the perceived importance of continually tracking strategic objectives and the actual translation of strategic plans into action. Though nearly all respondents regarded it a highly important core success factor in the strategy process, only 57% regularly monitor the results and progress of their *strategic action programs* and have a feedback loop within the process for designing new actions (see Figure 2).

Internal Reporting

Another hot topic in many companies is internal reporting. In one CFO-Panel survey, respondents said only one-fifth of the total time they spend in the reporting process is used to write analyses of the reports. Too much time is being spent on report preparation: On average, 38% of reporting process time is devoted just to compiling the reports. These figures seem to indicate that finance, management accounting, and controlling staff don't have enough time for data analysis, which is normally regarded as their core activity (see Figure 3). Furthermore, all of the companies surveyed said that their reporting system should highlight future-oriented information and early indicators in addition to providing historical data (i.e., a reasonable balance of financial and operational leading and lagging indicators). But only 57% said that they have already implemented this forward-looking function in their reporting systems. Finally, nearly 60% of the respondents reported that the effect of actions they adopted based on the variances shown through the reporting system is *not* analyzed and highlighted in the next report.

Capital Expenditures

Interesting results can also be seen in the area of capital expenditure management: Nearly 80% of companies don't spend their full budgets in this area, and almost half *fall short* by more than 10%. A surprisingly low 2% of companies *exceed* their budgets by more than 10%. The most obvious explanation would be that budgets are spent rather conservatively during the fiscal year because of cost-savings programs. During discussions with panel members, however, it was discovered that some managers deliberately "padded" their budgets in order to secure their own capital expenditures in the event of budget reductions.

Significant changes occur during the year regarding planned capital expenditures. In more than 50% of the companies, ad hoc capital expenditures have the same chance of being approved as planned expenditures. Despite plan guidelines, companies seem to pay close attention to meeting current capital expenditure needs during the year.

Project Management

For strategic coordination of their projects, most companies create a project portfolio. Project documentation, however, is somewhat less common, with 55% monitoring the number of completed projects and just 29% showing cancelled projects in project statistics. This begs the question: How do cancelled projects play a role in "lessons learned" for planning, approval, and implementation of new projects? In many companies, more effective project management could lead to greater project success.

THE PANEL'S FUTURE

What's next for the CFO-Panel?

Rollout in North America

Many existing panel members are multinational corporations, and the management accounting profession is increasingly driven by global trends, so expanding the regional scope of the CFO-Panel is critical to driving performance excellence globally. Accordingly, the panel is being introduced in North America through a joint initiative of Horváth & Partners USA and the Institute of Management Accountants. IMA President & CEO Paul Sharman explains why: "In today's environment, there are huge challenges facing corporations and their finance staffs who serve as strategic business partners: SOX compliance costs, which have now exceeded $35 billion; globalization and outsourcing challenges; and even unforeseen natural disasters. We believe this benchmarking process aligns perfectly with the very 'heart and soul' of the management accountant, whose job is to drive performance excellence through value-adding operations. Performance excellence starts within the CFO function and should be a balance of efficiency, such as unit costs, and effectiveness, which means asking, "How do I improve? What are other members of my panel community doing?'"

Tailored BPS within Multinationals

An increasing number of multinational corporations are considering the CFO-Panel concept and framework for global best practice sharing (BPS) within their international network of subsidiaries and business units. Continuous improvement in finance, management accounting, and controlling is increasingly seen as an important driver of competitive advantage. Many companies identify best practices internally and broadcast them to all of their business units worldwide through the corporate intranet and internal BPS conferences/retreats, and some even reward outstanding performance in this area with finance excellence awards. Other companies have taken a different approach and use the CFO-Panel framework for a one-time audit of finance, management accounting, and controlling activities of a specific business unit or subsidiary. Based on a gap analysis, they identify areas for improvement and systematically tackle these issues to drive performance in finance, management accounting, and controlling.

On that December morning in Frankfurt, the 80 finance executives in the room couldn't "phone a friend" for help with choosing A, B, C, or D—but they could "ask the audience." What ultimately distinguishes the CFO-Panel meeting from "Millionaire" is that participants can ask the audience not only for their opinion, but also for the reasons behind their vote. Quite often, there isn't just one correct answer, and participants may vote differently after the discussions. The ultimate purpose of such panel meetings is to collaboratively drive new knowledge and innovation, not just highlight state-of-the-art concepts and share existing knowledge. In a way, it means cooperatively "inventing" the global future of finance, management accounting, and controlling. ■

Dr. Thomas Wunder is president of Boston-based Péter Horváth & Partners Inc. and is in charge of the North American Horváth & Partners CFO-Panel. You can reach Thomas at (781) 402-1232 or twunder@horvath-partners.com.

Jeff Thomson is vice president of research and applications development at IMA and has more than 20 years of industry experience in management accounting, most recently as a CFO in the telecommunications industry. You can reach Jeff at (201) 474-1586 or jthomson@imanet.org.

For more information on the CFO-Panel, visit www.cfo-panel.us.