

CORPORATE PERFORMANCE

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Building a competitive finance function: **An executive roundtable**

By focusing on talent development, new roles for finance, and creative benchmarks, CFOs can deliver a competitive advantage to their companies.

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**Article
at a
glance**

This article presents a roundtable conversation among current and former finance executives at a recent McKinsey CFO forum in London.

The participants—Jesper Brandgaard, executive vice president and CFO of Novo Nordisk; John Connors, a partner at the venture capital firm Ignition Partners and former CFO of Microsoft; Jonathan Peacock, CFO and chief administrative officer of Novartis Pharmaceuticals; and Helen Weir, a group finance director of Lloyds TSB—joined our panel discussion about the changing demands on CFOs and finance organizations.

They exchanged opinions about how finance organizations can create value, the types of professionals the finance function needs to do so, and the challenges of recruiting, motivating, and retaining these employees.

CFOs and the finance organizations they head are under intense pressure from the capital markets and activist investors to keep pace with a rapidly changing global market—to go beyond merely crunching numbers and create value on their own. Although finance organizations have a reputation for resisting change, those at world-class companies have made some progress in promoting it.

McKinsey CFO Roundtable 2007



Jesper Brandgaard, executive vice president and CFO of Novo Nordisk (2000–present), joined the company in 1999 as vice president of corporate finance. He is chairman of the boards of NNE Pharmaplan and NNIT and serves as vice chairman on the board of SimCorp (all in Denmark).



John Connors is a partner at Ignition Partners (2005–present). Previously, John spent 16 years at Microsoft, in several roles, including senior vice president of finance and administration and CFO, vice president of the Worldwide Enterprise Group, and vice president and chief information officer. He serves on the board of trustees of the Nature Conservancy of Montana and on the national advisory board of University of Montana Athletics.



Jonathan Peacock is CFO and chief administrative officer of Novartis Pharmaceuticals (2005–present). Prior to joining Novartis, he was a partner at McKinsey (1998–2005).



Helen Weir is group finance director of Lloyds TSB (2004–present). Prior to joining Lloyds, she was group finance director of Kingfisher (2000–04), finance director of B&Q (1995–97), and a consultant at McKinsey (1990–95). She is a nonexecutive director of Royal Mail Holdings and a member of the Accounting Standards Board.

Such companies require finance professionals to be competitive as well as competent, to lead activities that the finance organization is uniquely suited to direct, and to assume responsibility even for activities that some find uncomfortable, because otherwise those things just won't get done. Such expectations mean companies must attract and retain the best finance professionals they can—which in turn perpetuates an environment where the finance organization can create more value and do higher-quality work.

These are among the perspectives of a panel of experts convened at McKinsey's 2007 CFO forum in London. The panelists were Jesper Brandgaard, executive vice president and CFO of Novo Nordisk; John Connors, a partner at the venture capital firm Ignition Partners and former CFO of Microsoft; Jonathan Peacock, CFO and chief administrative officer of Novartis Pharmaceuticals; and Helen Weir, group finance director of Lloyds TSB. Herbert Pohl, a partner in McKinsey's Dubai office, moderated the discussion. What follows is an edited and abridged version of it.

The Quarterly: Let's start the discussion by talking about how CFOs and the finance functions they head can go beyond measuring performance to create value as well. How does that happen, John?

John Connors: There are a number of areas where a CFO and the finance organization play a critical role in creating value. Some of them are widely understood, such as ensuring that the company has a highly effective capital structure, setting expectations for investors—and then not surprising them—and setting stretch goals for revenue and profitability that meet the company's long-term aspirations.

Other roles are less common. An important one is for the CFO to contribute to and orchestrate the relationship between the board and executive management—to set an effective rhythm to the business, in the planning processes and the review processes, for how things get done on a monthly and quarterly basis. That adds a lot of value when it's done well; if it's not done well, these things can be a huge drain on people's time.

Another role that the CFO is uniquely and personally well positioned for is to expose areas of underperformance and those that are a real drag on value. That's a very hard thing to do, and it takes a lot of political skill to do it right. But once it's done, the CFO can create an agenda for change, either to get those units to perform better or to figure out how to get rid of them.

The Quarterly: Jonathan, what happens in your organization?

Jonathan Peacock: Our finance organization creates value by pulling together cross-functional teams to really think about how we can drive productivity and efficiency, how we can allocate resources, and where we can find more value in the business. Function by function, we work with the businesses to identify areas that can be centralized to improve efficiency and opportunities to offshore. Is a specific skill something that we need in house? If we're going to offshore it, could we also outsource it?

And because our business is organized around a fairly decentralized commercial business, a fairly centralized manufacturing group, and a centralized research and development organization, we find that unless we, as a broader finance group, drive these efforts, they become fragmented. They just don't happen. And while this is a role that some finance people find uncomfortable, for others it's a great opportunity to bring significant value to the business in a very tangible way.

The Quarterly: That requires the finance organization to be more than competent—that it be competitive in the marketplace and close to the business as well. How do you create that competitive edge within the finance organization?

Jesper Brandgaard: With benchmarks—particularly in industries where companies may historically have been complacent about tracking their performance very explicitly. In our case, we're benchmarking the costs of managing and financing our business so that we can demonstrate improvement year on year. That makes us more credible in asking our colleagues in the rest of the organization to raise their own performance levels.

CFOs need to look externally for performance benchmarks, and maybe they won't be ideal, but even reasonable benchmarks suffice. There are some external institutions and consultancies that do pretty good ratings—providing benchmarks on performance, on delivering adequate financial returns, and so forth. As an example you can find relevant performance measures on working-capital levels and related process efficiency and set ambitious goals for them. And if you can't find one comprehensive measure, you can still find measures for individual areas.

John Connors: As Jesper suggests, benchmarking performance in the finance organization can be difficult because there are few metrics you can use to measure quality and competitiveness. At Microsoft we settled on four. The first was obviously people, and one way of assessing the quality of your people is to look at whether you've hired people others would like to hire, either outside of the company or internally. And if you have people who are in demand, you probably have a good starting point.

Second, we liked to push our groups to win awards. We expected our investor

relations group every year to be the top-rated investor relations group by *Institutional Investor*. We expected our treasury organization to win awards in the Alexander Hamilton Award process in the United States for the best in treasury in a number of classes.

We also set concrete goals for how much cost we wanted to take out, for how quickly we should have the books closed at the end of every month, and for Sarbanes-Oxley compliance processes, for example. And the overarching goal was to have the best financial-information systems in the world, such that other companies would come to Microsoft to see the tools we'd built for the use of businesspeople as well as operations people worldwide.

The Quarterly: How, specifically, do you drive talent management?

Jesper Brandgaard: One of the ways I do it is to set the very concrete goal of being a net exporter of management talent to the rest of the group. You can really instill discipline within the rest of the organization by taking finance people with very solid and systematic skills and positioning them elsewhere in the business. The most recent example I've had is reassigning the head of investor relations in our finance group to become the executive assistant of our chief science officer and responsible for strategic planning in research and development. That allows us to extend the discipline and reporting culture of the finance organization into the most challenging part of the value creation process in pharma: the research and development area. I am certain this will drive tremendous value.

Helen Weir: As Jesper says, a lot of organizations, including my own, are trying to move people around much more—to bring people who do not necessarily have accountancy training into the finance organization and to make sure that finance people go outside. But this issue also goes back further than that, to the kind of people we bring into the finance organization in the first place.

And attracting good people can be a chicken-and-egg problem because one of the key things needed to draw them is good development opportunities. If all you can offer is a very basic finance role, you're not going to be able to attract good people. So what you need to do is make sure you've got the right tools and systems to take away a lot of the more mundane activity. Then people can spend their time focusing on helping the business add value. If you give them good career development and the opportunity to progress, both within the finance area and outside, and they have interesting people to work with and learn from, you'll be able to attract really good people.

Furthermore, one of the key issues is that there are a lot of very good finance people but not as many good leaders. And that's something that we have to develop. Many

people who work in finance are good technically but not necessarily the best people to lead and influence. So we have to be smarter at attracting the right kind of people, either from the beginning or through the finance career path, and enabling them to move the function forward. It's a whole package that goes together, to my mind.

Jonathan Peacock: And building on that, it's important to bring a more diverse talent base into the finance organization and for the finance community to build a broader base of experience early on. So in our organization, while we bring people without finance experience into finance, we also encourage people to move out of finance for two years to get operational experience so that they can be better CFOs in the future. For example, we brought into our finance organization somebody with a science background who's spent two years in strategic planning. So he has the science background, he has the structure of the strategic-planning background, and now he's moving into the performance-management area.

The Quarterly: Helen, you spoke of a chicken-and-egg problem: you want to attract the right people but you don't have the opportunities for them. How did you change this?

Helen Weir: When I joined Lloyds TSB we had quite a traditional finance organization—typical of what you'd find in many banks. There had always been an emphasis on the technical side because accounting in finance and banking does tend to be quite technical and quite complex. And typically what you don't find is a lot of people with more commercial skills. So one of the things I did was to set out what I saw as the core values of finance, which were objectivity and simplicity and, above all, commerciality. We spent a lot of time thinking about what being commercial meant within the finance area.

And then change involved bringing some key people together—some like-minded people who understood what I was talking about, who knew what the finance function could be in terms of being a commercial business partner. Some of them were in the organization already; others had to be brought in. But the task was finding those people, bringing them through, and giving them the opportunity to set the overall direction and tone of the finance function.

One aspect was high-potential development programs—picking out key individuals, who may be at the middle-management level but who've got the potential to become leaders of the organization. It's about finding people who are really commercial and making sure they get the right development opportunities.

Jonathan Peacock: We shouldn't underplay the technical side of the accounting function either, because it's very easy to end up with middle-of-the-road finance people who are good at running the basic numbers, but you need people who are

technically very strong as well—on both accounting and systems. It's that diversity of skills you need so you have real spikes in the technical side of finance as well as the more commercial side of it.

John Connors: The starting point for recruiting and retaining good people, really, is that the CFO has to be well regarded. These are intensely scrutinized roles. The board scrutinizes you, the CEO scrutinizes you, the line-of-business people scrutinize you, as well as regulators and people in the industry. It matters what people think of the CFO and the management team and whether people aspire to have those jobs. If you have good, respected leadership, good things happen to the talent pool of the entire organization.

The second important thing for managing talent is that you have the very best people you can have, given the circumstances at the time, in each of the key roles: the controller, the treasurer, the internal auditor. That doesn't mean having the very best in the world—it means having the best you can get. The thing that I've always found in every job is that the troops all know when a manager or a leader isn't very good, and they underperform if that leader or manager isn't as good as he or she could be.

At Microsoft we had a big program to get the very best people we could in each of the key leadership roles. Then we developed a talent-development program for managers. We had a big emphasis on ensuring that the diverse character of the business was heavily represented. We had a two-year program where we would try to build these people up with technical skills, with speaking skills, with job rotation assignments. And then, finally, we instituted a university-recruitment program with the idea that we wanted to get the very best students out of universities as our incoming group of employees.


The Quarterly. How does that emphasis on recruiting good talent translate into improving quality?

Jonathan Peacock: Just raising the bar each year can be a good start—to expect more of the people in the finance group in terms of financial management and business support. Specifically, our finance organization measures quality around five themes: *high integrity*, which is about strong compliance, controls, and speaking up; *no surprises* in performance management, which is about being close to the business, anticipating issues before they arise, and forecasting accuracy; and *productivity and value creation*, where we set some pretty high bars for the finance organization to define and run cross-functional programs to bring productivity benefits to the bottom line. Then there's *talent*, where we ensure that 20 percent of everyone's annual objectives are set on people leadership and talent development and tailoring individual objectives to the roles they play. Finally, there's *global community*, where we expect everyone in finance to be active contributors to the

global finance community, as well as good local partners to our business.

About the Author

Herbert Pohl is a principal in McKinsey's Dubai office.

Jesper Brandgaard: We also had an approach to improving quality by trying to measure the mistakes we made. That turned out to be tricky because getting anyone to admit the mistakes that they make is difficult. But we found out it could be a really significant improvement opportunity if we rewarded people for learning from their mistakes, bringing forward excellent learning examples, and discussing them. And we saw real improvement. 

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