McKinsey&Company

McKinsey on Finance

Perspectives on Corporate Finance and Strategy

Number 66, May 2018

McKinsey on Finance is a quarterly publication written by corporate-finance experts and practitioners at McKinsey & Company. This publication offers readers insights into value-creating strategies and the translation of those strategies into company performance.

This and archived issues of *McKinsey on Finance* are available online at McKinsey .com, where selected articles are also available in audio format. A series of *McKinsey on Finance* podcasts is available on iTunes.

Editorial Contact: McKinsey_on_Finance@ McKinsey.com

To request permission to republish an article, send an email to Quarterly_Reprints@ McKinsey.com.

Cover photo © Caiaimage/Tom Merton/ Getty Images

Table of contents

Interested in reading *McKinsey on Finance* online? Email your name, title, and the name of your company to **McKinsey_on_Finance@McKinsey.com**, and we'll notify you as soon as new articles become available.

Are your strategy discussions stuck in an echo chamber?

Building a “market-momentum case”—based on external as well as internal data—can help executives allocate resources more effectively and identify new sources of value.

Werner Rehm and Anurag Srivastava

Sometimes, companies can inadvertently lose sight of the big picture when setting business strategies and targets. Line managers and senior executives hold overly optimistic views about projects and performance, and they use mostly internal data to develop plans around major product lines or individual customer segments or regions.[1]

As a result, they often end up with the familiar "hockey stick" plan—a projection that performance will sail upward after a brief early dip to account for up-front investment. This forecast does not reflect market realities, so the company consistently underperforms against the plan given market pressures, under-investment, or both.[2]

A multinational industrial company learned this the hard way. Analysts and investors questioned the company's ability to grow profitably in a market that was under significant price pressure from new entrants. Yet senior executives at the company continued to insist it was possible. They based their optimism on, among other things, market intelligence from line managers about customer preferences, and on a business plan that assumed efficiencies would compensate for decreased prices—and that margins would, therefore, not deteriorate.

Armed with this optimistic view, the company did not make big moves to capitalize on the advantages it held over new entrants. After several quarters in which the company missed its growth and margin targets, the share price dropped sharply. Senior management realized it had to revise both the company's strategy and its communication to investors about its strategic targets.

Clearly, there is no benefit to conducting strategy discussions in an echo chamber. Companies need to factor external perspectives into their resource-allocation conversations. And executives must be willing to challenge their own assumptions about whether the baselines and metrics they are using are the correct ones.

A full "market-momentum case" can help them do that. It provides a dispassionate forecast of where a company's economics are going rather than where they have been. It demonstrates how any changes in end markets, competitors, prices, and other external variables will affect a company's profits, cash flow, and valuation if no action is taken. The market-momentum case can serve as a solid starting point for strategy discussions; it can also serve as a useful benchmark against which to measure all business plans.

In our experience, when executives consider the market-momentum case alongside existing strategic plans, they typically end up in engaged conversations about how investments, targets for growth, and cost-reduction initiatives may complement one another and be successful—a far cry from the relative silence in the echo chamber.

Why the market-momentum case?

Consider the standard strategy-setting process: managers develop a "base case" that outlines financials and other targets over the next three to five years. To meet senior leaders' and the board's expectations, managers tell a hopeful story in the base case—demonstrating continual improvement in margins and financial impact, and minimizing inevitable obstacles to growth. After all, who ever got promoted by pushing a strategic plan that predicted declining margins and stagnation?

That is when the hockey sticks emerge. No one is explicitly discussing core questions, such as: Why do we believe the company can grow faster than the market in two years? Exactly which investments are supporting this optimistic outlook, and are these investments accurately reflected in the operating plan for the next 12 months? How might this base case be offset by pricing pressure? What's more, managers' biases toward overconfidence and overoptimism can affect not just strategic-planning discussions but also other complex business conversations about, for instance, acquisitions, cost transformations, and divestitures.[3] More forecasts, more hockey sticks.

A market-momentum case gives the company a holistic view of how profit and loss, the balance sheet, and corporate value will be affected if the company follows market growth, cost development, and pricing dynamics without taking any countervailing actions.

Executives often hesitate to present such an integrated economic case, fearing that it might result in a corporate valuation below the current market value of the company. This, however, is the point: if companies don't make explicit strategic investments to increase value or take direct actions to improve operations, they may drift with the market and deteriorate quickly. A discussion that starts with the market-momentum case can help to ensure that alternatives are being debated, actions are being supported by investment, and everyone is aware of the risks and challenges.

Building the market-momentum case

There is no one right way to build a market-momentum case; individual companies will have varying types of external data at their disposal and will be at different starting points in their strategy and resource-allocation discussions. It is critical, however, that the market-momentum case be built without advocacy from the parties involved. In this regard, the CFO or chief strategy officer (CSO) may be in the best position to lead the effort. Even in scenarios in which the business-unit leaders have deep market perspectives and insights, the CFO or CSO can provide a useful reality check, as these leaders are typically seen as relatively dispassionate arbitrators.

To successfully build a market-momentum case, companies and planning teams should take the following four steps:

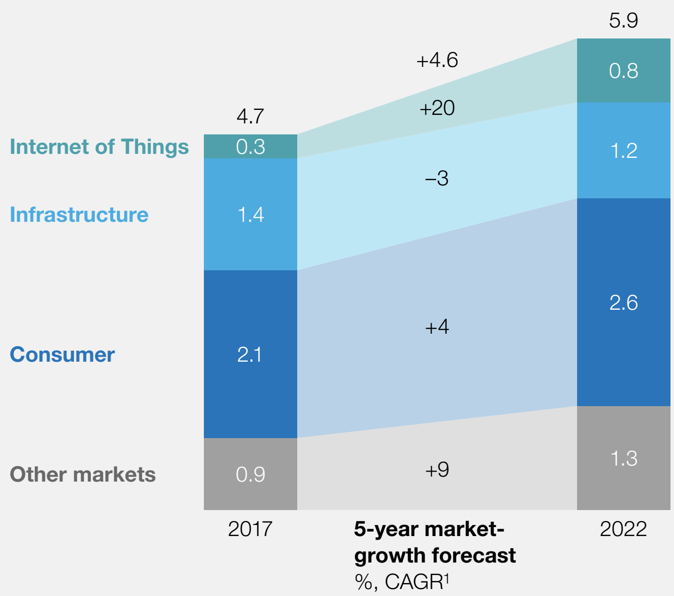
1. Take inventory

The first step is to consider the company's performance over the past five years. This step requires a thorough review of a range of corporate metrics—for example, organic growth, return on invested capital, capital injection for growth, and mergers and acquisitions. But these measures alone will not present the whole picture. Company performance must be evaluated against end-market performance over the same period; the latter can be assessed using variables such as market growth, market share, and average industry margins. The goal of this exercise is to give planning teams and executives an accurate understanding of the business context and the choices still available to them: What new product-development initiatives or acquisitions has the company pursued previously, how successful were they really, and what opportunities are still left in the pipeline?

If companies don't make explicit strategic investments to increase value or take direct actions to improve operations, they may drift with the market and deteriorate quickly.

Exhibit 1 **Taking the outside view helped a technology company better understand its opportunities for growth.**

Revenue by end market, $ billion



[1] Compound annual growth rate.

Source: Company filings; IDC; S&P Capital IQ; McKinsey analysis

2. Identify the end-market momentum

The next step is to map all of the company's products to their customer end markets. This process might be simple if the company is organized according to end markets; in today's global businesses, however, this is often not the case. To understand the issue, let's consider a company in the high-tech industry that designs and manufactures thousands of SKUs across many lines of businesses—for instance, power converters, digital and analog microchips, discrete semiconductor chips, and similar parts. The company's growth plans were informed by an aggregated look at all the segments, resulting in projections that seemed aggressive. Upon their review of products and end markets, however, executives realized that more than 80 percent of the high-tech company's products were going primarily to three major markets: a consumer-driven end market, an infrastructure market, and an Internet of Things (IoT) market.

This perspective on "where we play" was not reflected in the company's business structure, which was oriented according to product lines, not end markets. The findings prompted the CSO to analyze internal and external market research and to interview experts on growth in these end markets and the development of average sale prices. The CSO then used the data to develop a completely revised perspective on what the top line of the market-momentum case would be: slow growth in the consumer market, shrinkage in the infrastructure market, and high growth in the IoT market (Exhibit 1).

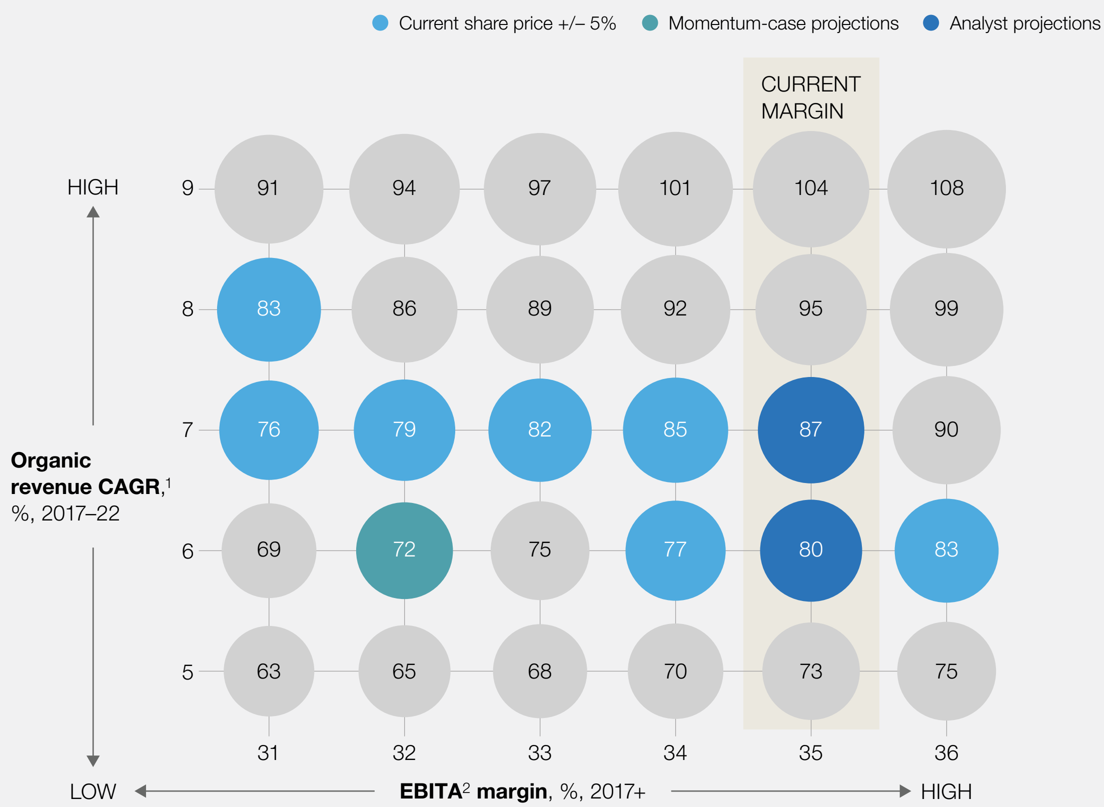
3. Analyze the margin momentum

In many companies, margins for the entire product portfolio will change as the product mix does. A market-momentum case will pressure-test whether the trajectory of margins for the portfolio is stable in the wake of these shifts. An explicit forecast of product- or segment-level margins is particularly warranted in the presence of certain inevitable industry trends—drugs coming off patent, for example, or inflation in the cost of product inputs.

The central strategy team in one healthcare-equipment company was reviewing the company's investment in a technology-driven-product market. Through external interviews and market research, the team learned that, within three to five years, Asian competitors were planning to

Exhibit 2 **Valuation based on market momentum will be lower than value implied by investors and analysts.**

Implied intrinsic value per share, $



[1] Compound annual growth rate.
[2] Earnings before interest, taxes, and amortization.

Source: Company filings; IDC; S&P Capital IQ; McKinsey analysis bring to that market a technology with functionality similar to the healthcare company's own. Margins in that product segment would be under significant pressure—a fact that was not reflected in the team's base-case projections. Under pressure to show an optimistic base case, the leader of that product segment simply assumed that the company could reduce costs to make up for any drop in price. There was no explicit discussion about whether such a move was possible or whether there were appropriate investments against this plan. The P&L in the market-momentum case, however, showed a different picture: product margins for the whole company would significantly deteriorate under this scenario. The strategy team used the market-momentum case to start a discussion about how much investment would be needed to counteract competitors' moves and whether strategic alternatives, like a sale, might be warranted.

4. Value the momentum case

A market-momentum case, once established, should be used to assess implied shareholder value. Many companies use a discounted-cash-flow model to determine the value of a business plan, which will often show a value per share that is 20 to 50 percent above the market. By contrast, a market-momentum case, when done right, may reveal a figure close to or even below current valuation or analysts' targets—a scenario that is not only acceptable but also likely in a company's life cycle. We also find that the market-momentum case often reflects the starting point of a typical investor's view of a company. Consequently, an explicit discussion of the value implied by the market-momentum case can help to educate board members; they begin to realize that investors do understand market trends and price the company relatively fairly (Exhibit 2). And the board and senior management can better explain to investors how they believe the company will overcome market momentum and outperform peers.

Implementing the market-momentum case

It often does not take much time to develop a market-momentum case; this was true even before the advent of digital tools and analytic methods. Teams generally spend most of their time trying to understand external market forecasts and competitive trends. Even so, modern digital tools (for instance, cloud-based analytics) can make the development and continuous refinement of a market-momentum case easier for planning teams to manage. Indeed, companies can integrate the tools and approaches that best fit within their existing strategic planning processes.

If the company has a top-down strategic planning process, the corporate center (CFO or CSO office) should centrally define the end markets to which the overall company is exposed and provide relevant data to the business units that deliver products to the markets—for instance, information about total-addressable-market (TAM) size and growth forecasts. This centralized approach will ensure a consistent application of market-momentum insights across a company in which multiple businesses may sell to the same end market. In practice, there would be some healthy back and forth among the business units and the corporate center, as the business units' proximity to customers may present opportunities to update the end-market perspective.

If the company has a bottom-up strategic planning process, the company could adopt a flexible, decentralized model in which the business units lead the development of a market-momentum case. The central corporate-planning team may find it challenging to reconcile the different data points and methodologies used by individual business units; some may weight TAM over growth forecasts, for example. But they can mitigate this problem by mandating that business units make important market assumptions transparent, which CFO- and CSO-led teams can reconcile or override, if needed.

So how should the CFO consider the market-momentum case amid all the plans, targets, aspirations, and goals within the typical complex organization? The short answer is, it depends. Executives at the corporate center, for instance, can use a market-momentum case to set targets and metrics that hold the business units accountable for key performance indicators that demonstrate outperformance. Alternately, executives can use a market-momentum case to identify potential gaps in the product portfolio, as well as the big strategic moves that can address those gaps. In the case of the healthcare-equipment company cited earlier—the one facing pressure associated with a core technology—the planning team was prompted to realistically assess whether the company should develop a lower-cost, replacement technology, or an exit strategy.

■ ■ ■

A strategic-planning process that systematically incorporates the "outside view" in near- and long-term planning can drive executives out of their echo chambers. Rather than being overoptimistic about company performance, they can use a market-momentum plan to increase internal transparency and boost the effectiveness of management planning. ■

[1] Daniel Kahneman and Dan Lovallo, "Delusions of success: How optimism undermines executives' decisions," *Harvard Business Review*, July 2003, hbr.org.

[2] Chris Bradley, Martin Hirt, and Sven Smit, "Strategy to beat the odds," *McKinsey Quarterly*, February 2018, McKinsey.com.

[3] Daniel Kahneman and Dan Lovallo, "Timid choices and bold forecasts: A cognitive perspective on risk taking," *Management Science*, Volume 39, Issue 1, January 1993, pp. 17–31.

Werner Rehm (Werner_Rehm@McKinsey.com) is a partner in McKinsey's New Jersey office, and **Anurag Srivastava** (Anurag_Srivastava-NYO@McKinsey.com) is a consultant in the New York office.

From big talk to bold moves: Putting teeth into the strategy-planning process

There are several steps executives can take to be more objective about resource allocation, process changes, and long-term goals.

Chris Bradley, Martin Hirt, and Sven Smit

© Martin Barraud/Getty Images

The typical strategy-planning room is beset by mind-sets, biases, and behaviors that can prompt executives to act against their own best interests when setting performance goals. Business units jockey for resources; the CEO leads far-ranging, often unfocused discussions; and a strategy emerges that confidently projects future growth. Hockey sticks in hand, the strategy team sets the budget, the board approves, and then nothing much happens. All the boldness oozes away; plans for big moves that could significantly improve corporate performance give way to business as usual—which, according to our research, can actually increase the risk of underperformance.

It's been this way for a long time. But we believe there are practical steps business leaders can take to mitigate this dynamic and catalyze big, trajectory-bending moves in their companies. Our research and experience suggest there are eight shifts in both behavior and mind-set that business leaders can make to improve the quality of strategy dialogues, decision-making processes, and, ultimately, business outcomes (see sidebar, "Eight shifts for success in strategy planning").

All eight are focused on getting companies to move away from the status quo; they point to a need for different kinds of interactions and metrics in the strategy room. In this article, we focus on three shifts that may be of particular relevance to chief financial officers who are looking for new ways to think and talk about budgets and resource allocation, risk, and the company's ability to achieve long-range objectives.

A shift from budget inertia to liquid resources

The handover between strategy and execution happens when teams get the resources they need to follow through on the big moves they have planned. To mobilize resources and budgets most effectively, a company needs to maintain a certain level of resource liquidity. And it has to start early—the date the fiscal year begins. That's when serious initiatives to improve productivity should be under way to free up resources for when allocations are decided later in the year. Business leaders must then hold on to those freed-up resources so they will actually be available for reallocation. That requires determination, because as soon as an engineer has time, the R&D organization will have creative new product ideas, and as soon as a productivity program has freed up part of the sales force, the sales organization will identify attractive new business opportunities. Strategy teams, CFOs, and other business heads will need to be incredibly clear about separating the initiatives that free up resources from those that require reinvesting resources, if they hope to be successful in making the big moves they have planned.

US conglomerate Danaher strongly emphasizes resource liquidity and reallocation. Originally a real-estate investment trust, the company now manages a portfolio of science, technology, and manufacturing companies across the life sciences, diagnostics, environmental and applied solutions, and dental industries. To avoid budget inertia, senior management at the company spends half its time reviewing and recutting the portfolio—much like private-equity firms do. The company even has a name for its approach: the Danaher Business System. Under this approach, which is based on the kaizen philosophy of continuous improvement, Danaher has institutionalized the resource liquidity required to chase the best opportunities at any point in time. It systematically identifies investment opportunities, makes operational improvements to free up resources, and builds new capabilities in the businesses it acquires. Over the past decade, the company has dynamically pursued a range of M&A opportunities, organic investments, and divestments—big moves that have helped the company increase economic profits and total returns to shareholders.

To make strides against sandbagging, business leaders need to manage risk and investments at the corporate level.

Other ways to ensure liquidity in resource reallocation include creating an "80 percent–based" budget and placing an opportunity cost on resources that seem, but are not, free. The former is a variant on zero-based budgets, in which you make a certain sliver (say, 20 percent) of the budget contestable every year, so money is forced into a pot that is available for reallocation when the time comes. The latter involves identifying scarce resources—such as shelf space for retailers—and making sure they are measured and managed with the same rigor as conventional financial metrics (such as the sales and gross margins that many retail managers are held accountable for). This can be as simple as shifting to ratios (such as sales per square foot and returns on inventory for a retailer) that encourage managers to cut back on lower-value uses for those resources, thereby freeing them up for other opportunities.

A shift from sandbagging to open risk portfolios

When business units develop strategic plans, they often set targets they can be sure of reaching or exceeding. As senior management aggregates these plans at a corporate level, all these buffers add up to one pretty big sandbag. The mechanism of aggregating business-unit strategies also explains why we see so few big moves proposed at the corporate level: many M&A initiatives and other bold programs are viewed as too risky by individual business-unit heads, so they never make the final list brought into the strategy room.

To make strides against sandbagging, business leaders need to manage risk and investments at the corporate level. In our experience, a key to doing this is replacing one integrated strategy review with three sequential conversations that focus on the core aspects of strategy: first, an improvement plan that frees up resources; second, a growth plan that consumes resources; and third, a risk-management plan that governs the portfolio.

Structuring the discussion in this way triggers a number of changes. People can lay out their growth plans without always having to add caveats about eventualities that could hamper them. The CEO or CFO could ask everyone for growth or improvement plans, possibly insisting on certain levels to make sure everyone is appropriately imaginative and aggressive. Only after managers put their best ideas on the table does the team even begin to discuss risk. By letting business leaders make risk an explicit part of the discussion, you change their perception that their heads alone will be on the block if volatility can't be mitigated. They will share what they know about the risks they may incur rather than hiding them in their plans—or not sharing an initiative at all because they deem the personal risk to be too high.

It can derail even the best strategy when CEOs, CFOs, and other senior executives fail to adjust incentives and metrics to reflect the risks that managers need to take. An Asian telecommunications company tried to make two big moves—emphasize midmarket clients and shift to a more standardized product approach—only to find the effort stalled because of resistance from managers and frontline workers. A subsequent review helped the company understand the kinds of activities that might have helped: changing salespeople's goals, resetting the overall budget to acknowledge the transition from

Eight shifts for success in strategy planning

From annual planning . . . to strategy as a journey
Hold regular, incisive strategy conversations with your team, perhaps as a fixed part of your monthly management-team meeting. Maintain a "live" list of the most important strategic issues, a list of your planned big moves, and a pipeline of initiatives for executing them.

From getting to yes . . . to debating real alternatives
Reframe the strategy discussion as an exercise in making choices rather than making plans. Bring outside perspectives into the strategy-planning room to uncover alternative plans with different risk and investment profiles, and improve conversations about these plans.

From peanut butter . . . to picking your one-in-tens
It is nearly impossible to make big moves if resources are spread thin, like peanut butter, across all businesses and operations. As early as possible, identify those one or two businesses that are poised to break out and feed them the resources they need. Adjust incentives so the team supports the likely winners.

From approving budgets . . . to making big moves
Build a "momentum case" rather than a base case—that is, a holistic view of how profit and loss, the balance sheet, and corporate value will be affected if the company follows market growth, cost development, and pricing dynamics without taking countervailing actions (see "Are your strategy discussions stuck in an echo chamber?," on page 2). In this way, teams can more accurately see just how far they need to go to change the business's trajectory.

From budget inertia . . . to liquid resources
Start freeing up resources as much as a year before your strategy dictates you will need to deploy them. Move to 80 percent–based budgeting and charge managers an opportunity cost for their resources, so they have incentives to free them up.

From sandbagging . . . to open risk portfolios
Rather than conducting an integrated strategy review, hold separate conversations focused on the improvements, growth, and risks inherent in the strategic plan. Make risk-versus-growth decisions at the portfolio level rather than within business units, and adjust incentives and measures to more accurately reflect the risk people are taking.

From "you are your numbers" . . . to a holistic portfolio review
Foster a sense of shared ownership in the company's fortunes: encourage noble failures, and focus on quality of effort. Reflect probabilities of a strategy's success in your incentive structures. In riskier contexts, use team incentives over longer time periods.

From long-range planning . . . to forcing the first step
After identifying big moves, focus on the first steps required and break big moves down into steps that are realistically achievable within a meaningful time frame—for instance, six-month increments. Identify clear operational metrics. Match and mobilize the required resources immediately.

one customer segment to another, and using the reallocated funding to generate a new product-development road map. Business leaders can avoid such stumbles by forcing early, sequential conversations about resources, growth, risk, and their implications for the company's strategy.

A shift from long-range planning to forcing the first step

We see it all the time: big plans that excite leaders with grand visions of outcomes and industry leadership. The problem is that there is no discussion of the actual big moves required to achieve the vision—and, in particular, no discussion of the first step to get the strategy under way. Most managers will listen to the visions, then develop incremental plans that they deem doable. Often, those plans get the company onto a path—but not one that reaches the vision or the full potential of the business.

Planning for that first step is crucial. After identifying big moves, business leaders must break them down into what strategy professor Richard Rumelt calls "proximate objectives"[1]: missions that are realistically achievable within a meaningful time frame—say, six to 12 months. Work back from the destination and set milestones at six-month increments. Then test the plan: Is what you need to do in the first six months actually possible? If the first step isn't doable, the rest of the plan is bunk. One insurance CEO worked on a vision with his team that concluded there would be no paper in the insurance business in ten years. But when he asked for the annual plan, paper consumption in the next year was set to increase. So he asked: "To connect to our vision, would it be viable to be flat in paper next year, and go down in the next?" Of course, the team could not say no. By framing a first-step question, the CEO forced the strategy.

■ ■ ■

Making these shifts will not be easy; it will take some intervention to jolt the organization into new ways of thinking. One possibility is to create a strategy process that reserves ten days a year for top-team conversations, and then introduce the shifts one meeting at a time. If things go wrong in a meeting, the damage is contained, and business leaders can course-correct for the next conversation. And if they discover, at the end of the ten days, that they have not been able to free up all the resources required, that's OK. They can take the resources they were able to free up by the end of this first planning cycle and allocate them to the highest priorities that emerged from it. Business leaders will have made progress and, more important, their teams will now understand what this new process is all about. That is a first step in its own right—and if a company wants to boost the odds of creating a market-beating strategy, it is probably the most valuable one to take. ■

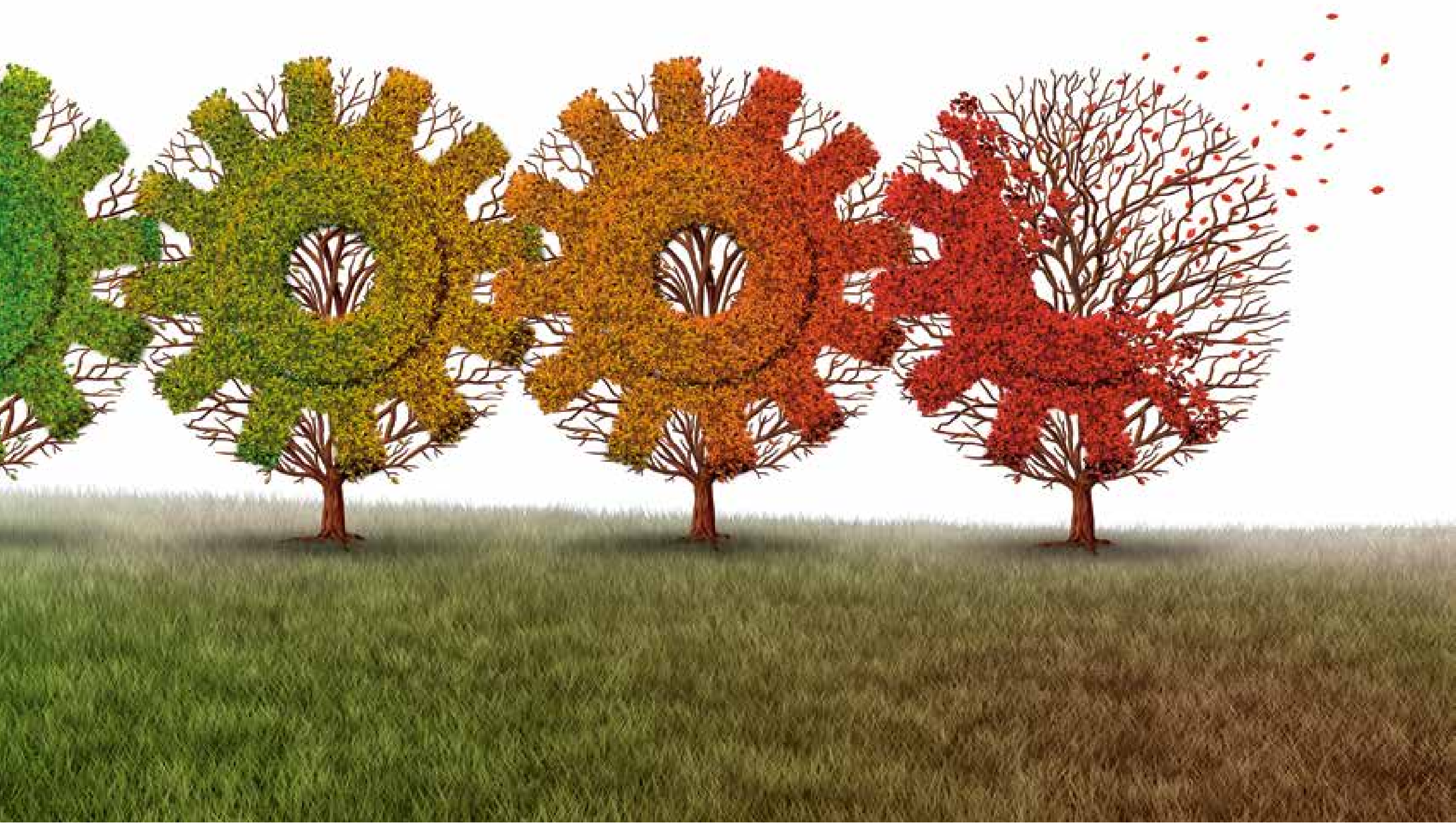
[1] See Richard Rumelt, *Good Strategy/Bad Strategy: The Difference and Why It Matters*, first edition, New York, NY: Crown Business, 2011.

Chris Bradley (Chris_Bradley@McKinsey.com) is a partner in McKinsey's Sydney office, **Martin Hirt** (Martin_Hirt@McKinsey.com) is a senior partner in Greater China, and **Sven Smit** (Sven_Smit@McKinsey.com) is a senior partner in the Amsterdam office. This article is adapted from their book *Strategy Beyond the Hockey Stick: People, Probabilities, and Big Moves to Beat the Odds* (Wiley, February 2018).

Understanding how US tax reform will affect divestitures

Lower rates will motivate companies to consider selling assets that lack scale for spinning off, and will make some complex deal structures less attractive.

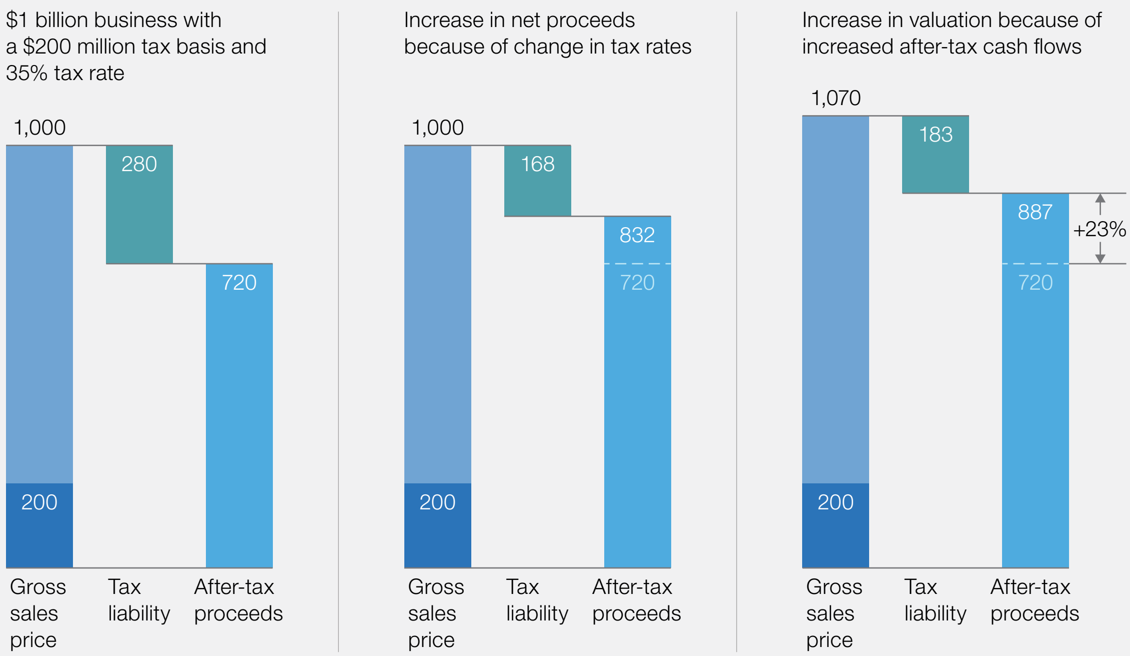
Obi Ezekoye, Jannick Thomsen, and Andy West



Exhibit

In the sale of a business, after-tax proceeds will increase, due to the changed tax rate and increased valuation.

Theoretical sale of a business, $ million



Research shows that companies that actively and regularly reevaluate their assets and portfolios can end up being worth twice as much as their less agile counterparts.[1] Yet for years some US companies resisted dynamically reshaping their portfolios—in part because of the tax consequences of active divestitures.

US tax reform—specifically, the reduction of the top corporate federal income tax rate from 35 percent to 21 percent—will change companies' portfolio agility and boost their willingness to pursue separation and divestitures.[2]

Companies have traditionally hesitated to sell non-core assets because the gains and losses on divestitures are taxable as ordinary income. The consequences of selling off assets can be significant—even in those cases where the business no longer seems to be the best owner of an asset, or when an asset no longer fits the company's strategic portfolio.

As new tax laws take effect, however, valuations are likely to go up in most industries, as lower taxes have a positive effect on cash flows, resulting in greater returns for sellers.[3] Moreover, the tax liability associated with the sale of an asset will likely be about 40 percent lower. For instance, in the theoretical sale of a $1 billion business with a $200 million tax basis, after-tax proceeds would increase by 23 percent, given the changed tax rate and increased valuation (exhibit).

Once the decision to initiate a divestiture is made—whether to improve the balance sheet, refocus senior management, return cash to shareholders, or otherwise benefit the organization—businesses must still consider how precisely to let go. The revised tax law will affect the way companies execute this separation. Complex deal structures—for instance, joint ventures, master limited partnerships, and real-estate investment trusts—may be used less often if, as many expect, the tax benefits from these deal types become less attractive.

Changes to the US tax code are ushering in a period of increased divestiture activity and more dynamic resource reallocation. Companies that were previously hesitant to reallocate resources with greater frequency will have an opportunity to capitalize on this trend. Specifically, they will have more incentive to sell noncore assets or businesses that distract senior management and that do not have the scale to be considered for a tax-free spin-off into a publicly listed entity. Additionally, companies will have more flexibility to divest large businesses and use the proceeds to invest in new businesses that are more in line with the company's strategy and core capabilities.

What shouldn't change, however, are some fundamentals of good portfolio management. Companies should aim to evaluate their portfolios on a rolling basis, not just once or twice a year. They should develop a systematic process for deciding who the best owner of assets or businesses should be (without bias or false inferences). And they should not be afraid to make both big and small moves to continually reshape their portfolios. ■

[1] Yuval Atsmon, "How nimble resource allocation can double your company's value," August 2016, McKinsey.com.

[2] The benefits will be conferred to US companies as well as the US operations of non-US companies.

[3] Note that this also depends on how much is passed on to consumers, which will vary from industry to industry.

Obi Ezekoye (Obi_Ezekoye@McKinsey.com) is a partner in McKinsey's Minneapolis office, **Jannick Thomsen** (Jannick_Thomsen@McKinsey.com) is a partner in the New York office, and **Andy West** (Andy_West@McKinsey.com) is a senior partner in the Boston office.

The authors wish to thank Rajeev Varma for his contributions to this article.

Transforming the culture of managing working capital

A thousand everyday decisions can dramatically increase the cash needed to run a large business. Taking advantage requires a cultural shift.

Michael Birshan, Michael Park, and Matt Stone

© JamesBrey/Getty Images

They are the day-to-day business occurrences that are so routine as to seem inconsequential. Perhaps it's the energy-company plant manager who decided to order more spare parts than usual—several months' worth—to avoid worrying so often about running out but forgot that this would tie up cash. Or the employees at a consumer-packaged-goods company who were three days late issuing an invoice for a shipment of shampoo, missing a customer's monthly invoice deadline and ultimately delaying payment by a full month. Or the procurement manager at a financial institution who overlooked the payment terms deep in a new supplier contract and inadvertently agreed to pay the supplier's invoices within ten days—instead of the conventional 45 or 60 days.

Stories like these happen every day by the hundreds, or even thousands, in large companies, at all levels and across business units and geographies. And combined, they can significantly undermine performance. Value may be a function of cash generation, yet managers often focus so intently on profitability that they give scant consideration to the cash-conversion cycle—the time that passes between paying cash out to suppliers and taking it in from customers. Why? Managing inventory, payables, and receivables can be exceptionally difficult. Many variables are in play, and responsibility is spread unevenly across finance, operations, supply chain, marketing and sales, and procurement.

Given this complexity, sustainably running the business with less working capital requires a new way of working. The analytical tool kit of the finance function[1] is only part of the answer; the methods of organizational transformation are just as important. In our experience, this includes nurturing awareness and conviction, reinforcing mind-sets and behaviors with formal mechanisms, and deploying the right talent and skills. The return on that effort can be surprisingly high, reducing the amount of cash needed to run a business by 20 to 30 percent—often considerably more. One natural-resources company, for example, recently reduced its working capital by more than 40 percent in the space of a year. That was worth almost $1.5 billion, three times its initial target.

Of course, the effort to improve working capital should be mindful of not tipping over into increasing risks to quality, fulfillment, or speed, such as by cutting inventory so low that it impinges on operations or setting such strict payment terms that customers flee to other suppliers. Yet the reality is that in modern corporations there are buffers at every level; hyperconservatism often reigns. Companies that can achieve the right balance of attention to detail and operating discipline can demonstrate a broader and stronger stewardship over their business.

We find a handful of approaches particularly helpful in advancing an initiative to improve working capital.

Motivate through conviction

Day-to-day routines and behaviors are hard to change. People can't just be told what to change; they have to understand why they are changing. In the absence of understanding and conviction, some of the bad habits that a program seeks to expunge could quickly return. And since shareholder value captures only a small portion of what motivates employees—research shows that meaning at work is an amalgam of understanding one's contribution to the company, to society, and to others, including colleagues—the usual emphasis on cash generation and shareholder returns often falls short.

Given the large number of people who need to buy into a program to improve working capital, we've found that defining working-capital improvements with respect to being great at one's job, or achiev-

A working-capital transformation effort can reduce the amount of cash needed to run a business by 20 to 30 percent—often considerably more.

ing functional excellence, is more personal and persuasive. For example, the executives of a major manufacturing company would talk about "running a tight shop" as the focus of their working-capital program—with a happy by-product of more cash and stronger shareholder returns. Cash conversion, then, became an indication of operating discipline: how well the company manages suppliers and customers, cycle-time speed, and even tasks such as sending out invoices on time. And in practice, any improvement goes both ways. The behaviors that support better working-capital management, such as analyzing often-ignored data sets, can also help improve performance.

As with any transformational improvement, changing a company's culture around working capital requires strong CEO support and involvement. Only the CEO has the clout to set the vision, assign accountabilities, and get different functions running in the same direction. In one recent working-capital transformation, a CEO personally announced performance targets, made it clear to his executive team that their careers depended on delivery, and consistently talked about the importance of working capital in communications to employees. That doesn't mean a CEO needs to run the entire program; many will instead delegate day-to-day oversight to another executive. At one global industrial company, for example, the chief executive appointed a business-unit CFO to oversee the program as the groupwide "cash leader"—though the CEO continued to reinforce the program's importance in all his internal communications.

Set reality-based targets

Individual conviction is hard to maintain in the absence of formal mechanisms, such as performance targets, that reinforce the priorities of the company. In an organization that hasn't tackled working capital before, managers will anchor their expectations of what is possible to their current experience—much as they do with setting other performance targets. This innate conservatism handicaps a company's ability to make step-change improvements in working-capital efficiency.

Consider the experience of one North American company, where executives pushed inventory managers to reduce working capital. There, a single target across units became a nuisance to the company's one service business. Although the service business held no inventory, its managers still had to do all the paperwork. Similar caveats apply to businesses in different countries with different business practices, where managers may not be able to achieve company-wide targets for the timing of accounts receivable or collections.

As with any performance-improvement effort, targets need to be tailored to the circumstances of specific units. A clean-sheet approach can help. It allows managers to calculate working-capital goals at the level of individual operational activities that drive working-capital balances, while also considering other parameters of the business, such as risk appetite. The approach forces a reexamination of basic assumptions around even well-established structural norms, such as standard supplier-payment terms or common reordering points. And the result usually points to an opportunity that significantly exceeds the instincts of the front line. For example, an upstream oil and gas company that uses many different valves could optimize its inventory for each type of valve; the structural solution would instead be to standardize and use one type of valve in order to enjoy a step-change reduction in the amount of safety stock it would have to carry.

Performance targets should also be designed to encourage sustainable changes, not simply game month-end balance-sheet numbers. We prefer focusing on both working-capital balances—normalized for uncontrollable factors such as currency exchange rates, major input prices, and inflation—as well as working-capital days. A rolling average of working-capital days is best to mitigate seasonality. While not perfect, working-capital days are the closest thing to a measure of working-capital efficiency that can be easily understood across a large organization.

To change behaviors, targets should be promulgated company-wide and be reflected in team and individual performance measures. For example, a company targeting a structurally lower receivables balance (and days sales outstanding) might change its sales incentives to reward the actual amount of cash brought in rather than the mere signing of contracts. One North American manufacturer did just this by changing its primary measure of performance from earnings to cash flow from operations. That prompted one business-unit CFO to stop pushing the sales staff to sign contracts before the end of a quarter in order to show a growing backlog regardless of the payment terms. Instead, she started to push for advantageous receivable terms to ensure a faster time to cash.

Promote a steady drumbeat of success

With the right targets and accountabilities in place, frontline employees, middle managers, and those with intimate knowledge of practices in, say, warehousing or collections will be best placed to point out opportunities. That can produce hundreds of ideas for initiatives that build momentum with a steady drumbeat of success stories.

Yet identifying the most inspirational success stories can happen only if all those initiatives are centrally tracked. We've found that a standard initiative-pipeline methodology works well, including simple, principles-based valuation, stage gates, a regular cadence of initiative review meetings, and a user-friendly digital platform. In one recent transformation, managers tracked more than a thousand initiatives. Each week, they sent an email to the entire company celebrating the most successful stories and the people behind them—and inspiring others to tackle similar challenges.

Finally, working-capital performance rarely improves uniformly across every business unit and region, or across inventory, receivables, and payables. Performance dashboards can allow managers to review a significant degree of detail, identify pockets of success, and quickly address problem areas. Performance metrics can also be shared widely to foster constructive competition among units or regions. Managers at one software company, for example, started measuring the frequency of invoicing in each country. Since invoicing is a leading indicator of receivables, that enabled them to rectify problem areas before they hit the balance sheet. Managers at an auto-parts company monitored exceptions to new standard supplier-payment terms, and the results delighted executives. More suppliers were willing to accept the new terms than initially expected, shifting the internal debate from why strategic suppliers should be exempted to why they shouldn't be.

Keep the center lean

Even though frontline managers and employees are accountable for delivering a change in day-to-day behaviors, they can't do it alone. To help accelerate their work, they need support from a central team that can manage the program and provide specialized expertise. Yet in our experience, too large a central team can make the rest of the organization feel like the transformation is being done to them, not something that they should own and deliver themselves.

Instead, a lean central team that focuses on tracking performance, reporting overall progress to management, and putting in place enablers, such as policies and training, can catalyze the organization to deliver. The central team can also manage a handful of initiatives that don't otherwise have a natural owner in the business. This does not require excessive bureaucracy: at one company of 50,000 people, the central team included fewer than ten.

Despite its size and focus, however, the central team should be headed by a seasoned business leader. For instance, the CEO of one natural-resources company tapped the chief operating officer of one of its business units to lead its global working-capital program. The CEO's expectation was that the COO's operations experience would carry weight with other parts of the business and allow the central team to challenge any innate conservatism on the part of other business leaders.

Specialized expertise will sometimes sit centrally as well, especially when initiatives require capabilities beyond those available in the business. There, lean rapid-response teams can help companies tackle the hardest bits. For example, advanced analytics using machine-learning algorithms are well suited to modeling safety stock or optimizing customer collections. Such specialized skill sets are not common in most companies. In one case, an IT-equipment manufacturer deployed a team of data scientists to the commercial departments of its business units to help uncover patterns in customers' payment behaviors. The analytics-driven recommendation engine flagged accounts likely to require escalations, such as collection calls and sales stops—resulting in a 7 percent reduction in the accounts-receivable balance by increasing the speed and targeting of collections.

■ ■ ■

Better working-capital management can deliver surprisingly strong returns. But more than the analytical tool kit of the finance function is needed to succeed. The techniques of organizational transformation—nurturing awareness and conviction, establishing formal mechanisms, and deploying the right talent and skills—can help. ■

[1] Ryan Davies and David Merin, "Uncovering cash and insights from working capital," July 2014, McKinsey.com.

Michael Birshan (Michael_Birshan@McKinsey.com) is a senior partner in McKinsey's London office, where **Matt Stone** (Matt_Stone@McKinsey.com) is an associate partner; **Michael Park** (Michael_Park@McKinsey.com) is a senior partner in the New York office.

The authors wish to thank Hugues Lavandier, Jakob Rüden, and Ken Schwartz for their contributions to this article.

How CFOs can better support board directors—and vice versa

Governing boards face increasing pressure and greater scrutiny from investors. Here is how CFOs can reinforce their stewardship.

Frithjof Lund, Justin Sanders, and Ishaan Seth

Has there ever been a time when boards of directors were more in need of the sharp, fact-based counsel of a value-savvy CFO? With market forces intensifying, technology creating broad-scale digital disruption, and systemic threats looming in the form of cyber and geopolitical shifts, even the best-positioned board directors can benefit from a strong relationship with the head of finance. That is even truer for directors selected more for their industry, product, or technical expertise, for example, than their financial acumen.

Fortunately, CFOs at most large companies are more than up to the task and go well beyond the traditional role of helping boards ensure regulatory compliance. Yet we still see CFOs—typically those who are new to the role—who are unpracticed at engaging their board directors effectively. While our experience in the United States is the primary basis for this finding, the differences between companies in any given country can be just as substantial as the differences between countries. It all comes down to the individual CFO, CEO, and board.

Regardless of where they sit, many CFOs should spend more time helping board directors understand a company's strategy and defining value creation in the context of both the financial outcomes of the past and forecasts of future performance. The lessons go both ways: CFOs can benefit from effective relationships with board directors—particularly with the chair of the audit committee, who can share external perspectives and act as a thought leader and sparring partner. CFOs should be more assertive in anticipating questions from the board and providing the needed information to connect data to strategic and operating decisions. And CFOs should more actively collaborate with the CEO and other executives to present a unified perspective to the board. As our research suggests, improved board effectiveness can also result in better financial performance (see sidebar, "Understanding the link between board effectiveness and financial performance").

Define value creation in context

The traditional role of the CFO is to go through the results with the board, explain what happened, and look at the variances versus the prior period. It takes a very historical view on what the company just did, which in and of itself does not add a lot of insight with respect to potential future value creation. This inward-looking view focuses on the company and its results without comparisons to the market and how peers and competitors are performing, and it does not help the board understand what is good or bad. A board might celebrate organically growing 8 percent in a given year, for example, and then watch in dismay as the share price drops because the company's peers all grew at 20 percent.

The biggest opportunity for a CFO's relationship with the board often hinges on being able to put together an objective view on what a business's performance has been, how it compares with the market and other businesses in a company's portfolio, and what the board should expect of future performance. The CFO's input is especially important for creating clarity on resource allocation to higher-growth businesses within the portfolio, the value potential of increasing the drive toward digital transformation, the value from M&A (and other big-ticket investments), and the impact of broad-based performance transformations.

That input need not reflect the most-sophisticated analyses. In some cases, qualitative observations can suffice. Often, CFOs have the best read on what investors care about and should therefore influence how companies frame, measure, and communicate their value-creation plans. CFOs spend more time than most other executives on investor road shows and facing questions from analysts, and they know which issues can complicate or derail an investor story. They have also seen firsthand which metrics resonate best with investors and how investors will react. For example, after meeting with multiple investors, the CFO at one financial-

Understanding the link between board effectiveness and financial performance

Findings from McKinsey's global board survey point to benefits from good dynamics between directors and C-suite executives.

It has always been one of the more tantalizing questions in corporate governance: What effect does the board of directors have on financial performance? In a survey of more than 1,100 directors,[1] we attempted to test the link between the quality of board operations and boards' effectiveness at core activities with self-reported financial performance relative to peers.[2]

We considered three core variables of board operations: dynamics within the board, dynamics between directors and C-suite executives, and board processes. The results suggest that boards with better overall operations, as well as those that execute core activities more effectively, report stronger financial performance at the companies they serve.

For instance, at boards with top-quartile operations, 59 percent of directors report financial outperformance relative to their industry peers—compared with 43 percent who say the same at bottom-quartile boards.[3] Further, the bottom-quartile directors are nearly twice as likely to report weaker relative financial performance. According to the results, the operational practices that contribute most to outperformance are when the board has a long-term succession plan for itself, sufficient induction training for new directors, and an appropriate mix of skills and backgrounds.

The results suggest an equally strong connection between directors' effectiveness at core board activities and financial performance relative to peers: nearly 60 percent of directors at boards in the top-quartile for effectiveness say their respective organizations have significantly outperformed peers. In contrast, just 32 percent of those at the bottom-quartile boards say the same. Among the activities linked most closely with outperformance are setting a comprehensive strategy framework for the organization, assessing management's understanding of value creation in the organization and the industry, and debating strategic alternatives within the board and with the CEO.[4]

These findings emerge at a time when, across the corporate landscape, board responsibilities are growing. Directors are expected to go beyond traditional oversight and get involved with critical issues such as strategy, digitization, talent and succession planning, and risk.[5] CFOs, CEOs, and other C-suite leaders have a big role to play in ensuring that directors can manage these growing expectations. They could, for instance, support induction training programs by supplying relevant insights and materials that new directors can use to acquire a foundational understanding of the organization and the industry. Additionally, they could engage in regular, formal dialogues with board directors. By preparing concise reports on key issues and establishing clear operational processes with the board, CFOs and other executives in the C-suite can help directors meet their oversight responsibilities and create greater value for their organizations.

The contributors to the development and analysis of the survey include **Martin Hirt**, a senior partner in Greater China; **Frithjof Lund**, a partner in McKinsey's Oslo office; and **Nina Spielmann**, a specialist in the Zurich office.

---

[1] The online survey was in the field from April 18 to April 28, 2017, and garnered responses from 1,126 board directors representing the full range of regions, industries, company sizes, and board roles; 31 percent of respondents are either board chairs or lead independent directors, and we asked respondents to answer all questions with respect to the single board with which they are most familiar. We excluded responses from directors on not-for-profit boards, since the financial-performance results are more relevant to private-sector boards. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

[2] Financial performance is measured as self-reported organic revenue growth, profitability, and change in market share relative to industry peers in the past three years. To control for potential biases (for example, board chairs tending to report better financial performance than other respondents do), we defined two control variables: the respondent's job title and his or her role on the board—for example chair, vice chair, or lead independent director. Before running the financial-performance analysis, we confirmed that the best- and worst-performing companies have an equal distribution of job titles and board roles across all quartiles. The outperformers are those companies that, according to respondents, reported to perform on average across all three reported performance measures—profitability, organic revenue growth, and growth in market share—higher or much higher than their industry peers in the past three years.

[3] With respect to dynamics and processes, the "top-quartile boards" are those where respondents agree with eight or more of the 14 statements we asked about, and respondents at the "bottom-quartile boards" agree with only three or fewer.

[4] The survey asked about 42 different board activities related to strategy, performance management, investments and M&A, risk management, shareholder and stakeholder management, and organizational structure, culture, and talent management. With respect to board activities, the "top-quartile boards" are those where respondents are effective or very effective at 26 or more of the 42 activities we asked about, and respondents at the "bottom-quartile boards" are effective or very effective at 13 or fewer activities.

[5] "The CEO guide to boards," *McKinsey Quarterly*, September 2016, McKinsey.com.

services company realized that the market was demanding a different way of dealing with and reporting on the company's major investments in growth. As the CFO discussed this dynamic with the board, they all recognized they had communicated up-front investments in growth in a manner that appeared more like separate, one-off restructuring charges. This board-level engagement by the CFO helped push the company to separate its communication of growth investments from cost-focused restructuring charges. More important, the dialogue helped the board better appreciate that the nature of the company's growth objectives would require material investment in data architecture, analytics, and automation.

In other cases, strategic assessment of a company's performance relative to peers can be helpful, whether it involves simple metrics such as share-price performance or more-nuanced metrics such as organic growth or margin expansion. Those types of contextual insights—the result of close collaboration with the rest of the executive team—can tee up the questions that the board needs to ask regarding value creation and strategy. They can help board directors understand the areas they should watch to reveal the company's potential advantages or weak spots. The impact can be striking.

Consider, for example, how the CFO of a natural-resources company helped the board understand its returns relative to peers. The overall benchmarks were all similar-size companies, but they lacked specifics on the individual businesses with different exposures to energy and commodity cycles. Without that detail, board directors were concerned that the company's performance had been relatively poor. Coordinating with the CEO, the CFO reminded the board that an underperforming business in the down side of a cycle will also benefit when the market recovers. Instead of presenting a current snapshot of performance, he led board directors in a discussion about what performance in two years might look like—and provided a set of historical financial analyses to gauge how much of the company's future returns would likely come from a recovery. The dialogue changed the board's focus from a question of whether the company should restructure or shut down to one defined by performance: Given a certain measure of performance, when should it start investing again to make the most of the market's recovery?

That example is not the CFO presenting a business case for operational restructuring or recommending specific strategic actions. It is a case of the CFO going beyond pure financial reporting to put the company's performance in the context of its strategic direction and peers with the right level of detail so that board directors could see for themselves what they needed to do.

Proactively engage with the board

The more CFOs engage with boards, the better they can anticipate boards' questions—and the better they can keep boards informed ahead of potential surprises. CFOs can also expect to receive valuable support and advice in return. These relationships are most effective when CFOs have active roles in making presentations in every board meeting and are present for most of the discussion. Such involvement allows a CFO to understand board dynamics (and therefore engage more productively with board directors), answer follow-up questions, and track the context from prior meetings. This practice, of course, also requires the CEO to be open to the CFO's more inclusive participation.

When the board of a multi-industrial business was weighing its acquisition priorities, for example, the discussion eventually came back to a question of how the company created the most value. Would the company do better to trade off assets through M&A deals or grow its business organically? Having joined that board meeting, the CFO was better able to follow up in subsequent board meetings by adding several analyses to his reports to the board. Those included an overview of the company's organic growth relevant to its markets, some pre- and post-acquisition data on some of its businesses, and highlights of the company's strengths and weaknesses with respect to organic growth.

That input led the board into a more nuanced discussion. Instead of an "either/or" focus on deal making or organic growth, it considered the businesses in which it would or would not want to pursue acquisitions, whether the company had established the right assets and capabilities to execute those acquisitions, and whether it should pursue certain operational priorities before jumping into an active set of acquisition choices.

The importance of proactive behavior in a CFO's board interactions spans industries. The mechanisms for capital reallocation at banks or other financial institutions do look different from those at an industrial company. But a CFO's role looks nearly identical when it comes to identifying where to shift resources to create more value. In one instance, the CFO of a financial-services company observed that the company had allocated so much capital to high-priority growth areas that it had underinvested in lower-growth businesses with higher, faster returns. That is the same growth-versus-returns dilemma that industrial companies face and leads to the same predictably lower returns. Proactively raising the issue with the board enabled the company to adjust its capital-allocation rules and make relatively small adjustments that would improve returns without sacrificing new growth opportunities.

Manage board interactions as a team

Taking a more proactive role is not something a CFO can do alone; the CEO formally governs the CFO's relationship with the board. As head of the management team, CEOs are in the best position to judge how—and how often—their senior managers interact with boards. In our experience, reshaping the interaction typically happens only when a new CEO either redefines the current CFO's role or brings on a new CFO explicitly tasked with developing a refreshed level of engagement with the board.

From there, managing interactions between the senior-management team and the board is generally most effective when it is some form of a team effort. The CEO, often in consultation with the board chair, leads the effort. But the CEO's success comes not just from knowing the facts and sharing perspectives but also from understanding the questions on board directors' minds, the context in which they are asking those questions, their own personal histories as board directors and executives, and the interactions among board directors. Who among the directors in the room will ask questions? Who will hold back? Who will be the doubters? And who will be open to providing support and advice to the CFO?

As a trusted source of facts and data as well as a strategic adviser, often alongside a chief of strategy or operations, the CFO is usually a lieutenant to the CEO in making successful board interactions happen. The team's efforts can allow the CEO to focus more mental energy on managing the discussion, understanding the way the board engages, and ensuring that the board is heading to the right outcome.

At a minimum, CFOs should think of their role as improving the way boards and senior-management teams work together by identifying, surfacing, and answering questions about different decisions well in advance of the formal meetings during which votes will occur. That effort helps avoid putting board directors on the spot and asking them to vote with limited information. It also helps ensure that if there are points of contention, there are facts on the table when boards engage in a formal setting.

A CFO should be especially mindful of his or her relationship with the audit-committee chair. Audit-committee chairs are often the board's biggest advocates for value creation, cash protection, and the board's fiduciary responsibility. Here, too, the relationship varies from company to company. But the one constant is that the audit-committee chair is typically very engaged and often asks ques-

Managing interactions between the senior-management team and the board is generally most effective when it is some form of a team effort.

tions regarding value creation, the company's use of cash, payments back to shareholders, and the investors' perspectives.

The CFO's relationship with the audit-committee chair can also be an important driver of talent development and succession planning. For instance, the CFO and audit-committee chair may schedule private sessions to identify strong candidates for senior finance positions. We have seen several instances in which the audit-committee chair has offered coaching and mentoring to members of the finance team—particularly those in line for the CFO role. These high-potentials may be invited to audit-committee meetings to make presentations on special projects and initiatives, giving them some exposure to board directors. We have also seen CFOs invite audit-committee chairs to meetings of the finance function to help inform important discussions—for instance, changes required as a result of new accounting standards.

The way that CFOs should communicate with audit-committee chairs will depend on the governance within a given board. In some situations, it might be most effective to establish a continuous dialogue between the CFO and the audit-committee chair so they can jointly prepare for board meetings: the audit-committee chair would have ample opportunity to review the issues at hand and provide relevant information ahead of full board discussions. Indeed, the audit-committee chair can serve as a powerful ally for the CFO—holding board directors to task on financial discussions, translating complex concepts for the group, and reinforcing points that the CFO had previously been unable to make on his or her own.

■ ■ ■

As demands on board directors grow, CFOs will be increasingly important as resources to support them. Our experience suggests that the CFOs who can define value creation in context and proactively anticipate boards' needs will excel. Those CFOs can also accelerate their own development by working more closely with board directors and taking in their insights and experiences. Defining their relationships with the board in the context of the rest of senior management is critical. ■

Frithjof Lund (Frithjof_Lund@McKinsey.com) is a partner in McKinsey's Oslo office; **Justin Sanders** (Justin_Sanders@McKinsey.com) is a partner in the New York office, where **Ishaan Seth** (Ishaan_Seth@McKinsey.com) is a senior partner.

The authors wish to thank Kurt Kuehn and Nina Spielmann for their contributions to this article.

Podcasts

Learn more about these and other topics on the *McKinsey on Finance* podcast, available on iTunes or McKinsey.com. Check back frequently for new content.

Reflections on digital M&A
What exactly is digital M&A, and how does it compare with garden-variety deal making?
Robert Uhlaner, with Werner Rehm

How CFOs can help companies navigate the growing influence of activist investors
How is the shifting landscape toward passive investing contributing to the influence of activists, and what can CFOs do about it?
Snezhana Otto and Justin Sanders, with Dennis Swinford

M&A 2016: Bullish on M&A
M&A activity declined sharply over the prior year. So why are we optimistic?
Michael Park, with Werner Rehm

How activist investors are changing public-company boards
Rotman professor and experienced board director David Beatty considers several profound changes.
David Beatty, with Tim Koller

The CFO's role in war gaming
With an emphasis on analytics, CFOs are uniquely positioned to lead a war-gaming exercise.
Tom Meakin and Jay Scanlan, with Werner Rehm

A closer look at the growth of M&A in China
What's behind the uptick in China M&A—and what does it mean for companies elsewhere?
David Cogman, with Werner Rehm

When should companies sell off their accounts receivable?
It's a form of borrowing known as factoring, but it isn't always necessary or even possible.
Tim Koller and Emily Yueh, with Werner Rehm

What's changing in board governance
How has board governance changed—and how can CEOs and CFOs work together to improve a company's performance?
Bill Huyett, with Werner Rehm

Getting better at resource reallocation
Although managers understand the value of shifting resources into more productive investments, obstacles stand in the way. These can be overcome.
Yuval Atsmon, with Werner Rehm

M&A 2015: A conversation with Andy West
M&A surged again in 2015, led by activity in the United States and by large deals. What happened and why?
Andy West, with Werner Rehm

Why do some projects have higher internal rates of return?
Internal rates of return are not all created equal—and the differences between projects or funds can be material.
Marc Goedhart and Chip Hughes, with Werner Rehm

How do share buybacks affect investment in growth?
What's driving the recent increase in share buybacks and dividends, and does that affect investment in growth?
Marc Goedhart and Tim Koller, with Werner Rehm

What managers need to know about hedging currency risk
Which currency risks should be hedged—and which would be better left alone?
Marc Goedhart and Tim Koller, with Werner Rehm

Divestitures: How to invest for success
When it comes to creating value, divestitures are critical—but a positive outcome is not automatic. Some up-front investment can improve the odds of success.
Sean O'Connell, Michael Park, and Jannick Thomsen

Getting a better handle on currency risk
When exchange rates are volatile, companies rush to stem potential losses. What risks should they hedge—and how?
Marc Goedhart, Tim Koller, and Werner Rehm

Overcoming obstacles to effective scenario planning
Using scenarios to plan for uncertainty can broaden the mind but can fall prey to the mind's inner workings. Here's how to get more out of planning efforts.
Drew Erdmann, Bernardo Sichel, and Luk Yeung

Why capital expenditures need more CFO attention
Companies in capital-intensive industries need to get more out of their capital budgets. CFOs can play a critical role.
Ashish Chandarana, Ryan Davies, and Niels Phaf

A hidden roadblock to public-infrastructure projects
Misplaced assumptions that governments always enjoy a cost-of-capital advantage over private players can kill projects on the drawing board. Reexamining the economics could move more deals ahead.
Alastair Green, Tim Koller, and Robert Palter

May 2018
Designed by Global Editorial Services

This McKinsey Practice Publication meets the Forest Stewardship Council® (FSC®) chain-of-custody standards. The paper used in this publication is certified as being produced in an environmentally responsible, socially beneficial, and economically viable way.

Printed in the United States of America.