



Lucilius Interim
Dr. Dietmar Scheja

Climbing Cold Mountain

A Lucilius Interim Memo to Mittelstand CFOs

In a stimulating article¹, McKinsey proposes four **Finance Imperatives for the Next Decade**. I believe their thinking on what it takes to reach the highest of operational heights holds extremely **troubling implications for the Finance teams of Mittelstand firms**, i.e. up to a revenue of, say, 3bn Euros. My Memo² goes into these implications & risks and offers advice to Finance leaders on how you can ensure you return safely from your climb of what could be a very cold mountain.

For me, three aspects of McKinsey's view of today's **state-of-the-art Finance** stand out:

1. Finance today operates from a “a leaner core, with ... new data management practices, enhanced automation, and integration with a wide range of related digital technologies.”

¹ A Agrawal, S Eklund, J Waite, E Woodcock, Finance 2030: Four imperatives for the next decade, www.mckinsey.com/business-functions/operations/our-insights/finance-2030-four-imperatives-for-the-next-decade

² Picture Credits: Alex Lange (p1), Tabea Damm (p3), Cat Bassano (p4), all at unsplash.com

2. Finance departments in “hundreds of companies” have reduced their operating expense from 1% of revenue (median) or .77% (best) down to .75% (median) and .57% (best).³

This means that despite building capabilities similar to those under 1, for these firms Finance operating cost has gone down, rather than up. And so:

3. No dilemma. State-of-the-art Finance has revealed the trade-off between cost reduction and higher effectiveness of the Finance function to be non-existent, a product of under-performing imaginations.

New heights in the next decade

But as mentioned, this is only the base camp. According to McKinsey, successful Finance leaders will work from here towards “achieving even higher levels of effectiveness”. They offer four calls to action for the next decade (for details, have a look at the Finance 2030 paper):

1. To drive further efficiency, look beyond transactions and tackle more strategic activities, such as FP&A, tax planning or internal audit, via e.g. advanced automation.
2. Boost Finance’s role in managing corporate data to ensure that transactional and control activities are optimized.
3. Strengthen business decision-making through data-visualization, advanced analytics etc.
4. Redesign the Finance operating model so that it fosters, uses and rewards new skills, such as analytical, digital and business skills.

Relaxed? Or left behind?

What do you think? It does seem that these recommendations have a system-heavy, large-corporate, high-complexity flavor about them, and you may conclude that they were never intended for more modestly sized organizations like yours and relax.

This conclusion however, would miss an important point.

If McKinsey’s higher-end recommendations don’t rank at the top of the agenda of most Mittelstand firms, so be it, but what concerns me is the starting point. Let’s re-read their sketch of state-of-the-art Finance. How many of us possess ‘a lean core’ like the one described? How many have achieved comparable operating cost levels, let alone comparable cost reductions? Efficiency vs effectiveness not a dilemma? For most of us, I think, it’s a very real dilemma - it certainly was for me the last times I looked. It seems safe to claim that for the majority of our

³ We’re not told about the sample the McKinsey research is based on. Likely, it consists mainly of large US-headquartered corporates.

Mittelstand firms not one of the elements in McKinsey's state-of-the-art is a given. And while the leaders are setting out to scale new peaks, the question for many of us seems to be: how can we make it to base camp?

Looking into the crevice

A fundamental gap seems to have opened between companies willing and able to acquire, orchestrate and refine state-of-the-art capabilities and those not so gifted. If not tackled, this gap will widen, and in the end may make it impossible for stragglers to (a) acquire the qualified personnel they need, (b) be considered attractive partners by their counterparts in Sales, Marketing, Production etc., (c) steer decision making for the well-being of their companies and (d) fulfill their mission. A fate sadder than Hope Sandoval's voice, and a fate to be averted no matter what. Under intense competition, Mittelstand firms are constantly upgrading their commercial and technological capabilities. Their Finance functions must co-evolve to stay not only viable, but sexy and to sharpen, rather than blunt, their companies' competitive edge. So, what can you do?



Per aspera...

The first step for Mittelstand Finance leaders is to think about - not a glide path, that would obviously be the wrong metaphor - but a climbing pattern that will allow you to increase business relevance and people engagement, starting from where you are. You may want to employ outside help, while avoiding ready meals. Go for someone who listens and asks the questions and helps you and your team to develop a route that fit your needs.

It will have to be your individual climbing pattern, but here are some elements likely to play a role in any such effort; they're not really high-cost, high-tech, but can be tough to pull-off:

1. Master data governance, automated, fast and comprehensive (in terms of the data and the org units it covers). This is not for free, but still cheaper than bad master data.

2. Simplicity. Do absolutely not tolerate unnecessary complication. Be less tolerant still of employees who create complications only to prove that they excel at their management.
3. De-couple commercial localness from administrative standardization. Impose the latter ruthlessly. But your standards have to be good ones. And you should be nice about it.
4. Plan ahead for your digital landscape. Robust Next Steps will get you out of a crisis, but not into the world of seamlessness and no-touch 100% quality. Even in a small business you need a comprehensive plan how you want to digitize which processes. A good starting point is a mapping of the actual data flows through your IT systems.
5. Don't believe in third-party magical solutions. It takes hard work, motivated, intelligent people and partners who are in tune with what you need.

... ad astra

As a final thought: which kind of employees do you want in your team? Some might actually be content in a non-Digital, low-ambition, low-change environment. But the ones who are more energetic, more ambitious and harder to manage, but better to have will challenge you to take the future into your hands. And they have a choice. They can leave for racier pastures, if you don't create the environment that helps them and your company prosper. But if you take up the challenge and lead ahead, I'm sure they will work like hell to get to the top of this Cold Mountain and enjoy the sun and the view together with you.

Frankfurt, November 2020

Lucilius Interim Dr. Dietmar Scheja

Financial Leadership – Restructuring – Finance Upgrade & Transformation

