McKinsey&Company

McKinsey on

Finance

Perspectives on Corporate Finance and Strategy
Number 69, February 2019

2
The new CFO mandate: Prioritize, transform, repeat

10
Rolling with the changes

15
Solving the carve-out conundrum

21
Zero-based budgeting gets a second look

Bias Busters

26
Pruning projects proactively

29
Resisting the allure of ‘glamour’ projects

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: © Hero Images/Getty Images

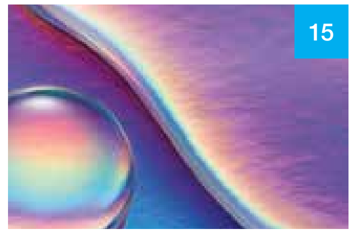
Table of contents

The new CFO mandate: Prioritize, transform, repeat — 2

Amid a raft of new duties, finance leaders have critical roles to play in leading digital initiatives, capability building, and other change-oriented programs in their companies.

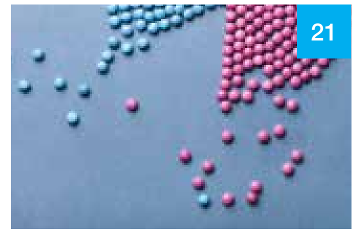
Rolling with the changes — 10

McDonald's CFO Kevin Ozan discusses the challenges of balancing traditional versus nontraditional aspects of his role.



Solving the carve-out conundrum — 15

Acquiring an asset that may remain entangled with its parent company poses a different level of complexity in assessing potential value. Due diligence on three critical challenges can help.

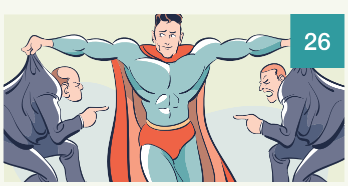


Zero-based budgeting gets a second look — 21

Digitization is breathing new life into a ground-up budgeting approach that debuted in the 1960s. Here's how CFOs and other business leaders can make it work in their own organizations.

BIAS BUSTERS

In this series for senior finance executives, we highlight the cognitive and organizational biases that get in the way of good decision making. We also offer effective ways to respond.



Pruning projects proactively — 26

Resisting the allure of 'glamour' projects — 29

Interested in reading *McKinsey on Finance* online? Email your name, your 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.

The new CFO mandate: Prioritize, transform, repeat

Amid a raft of new duties, finance leaders have critical roles to play in leading digital initiatives, capability building, and other change-oriented programs in their companies.

The CFO's underlying mandate arguably has been the same since the dawn of the corporation: manage the company's finances in a way that helps the company generate cash, achieve strategic objectives, comply with regulations, and ensure viability.

How finance leaders fulfill that mandate, however, has become more complicated over the years. The results from our newest McKinsey Global Survey on the role of the CFO[1] suggest that today's finance leaders are spread thinner than ever:

- They have more functions reporting to them now than they did even two years ago.

- They are being asked to resolve more issues in areas that are relatively new to them (such as digital) while continuing to mind traditional responsibilities (such as implementing financial controls and conducting risk due diligence) that remain business priorities.

- More and more, they are engaging in strategic discussions with other C-suite leaders—for instance, helping to justify investments in digital initiatives and business models.

- They are actively leading transformations, within finance and across the organization.

With this increased complexity has come increased opportunity—particularly in the area of corporate transformations. Our survey findings suggest that, because they sit at the nexus of strategic planning and financial controls, CFOs are uniquely positioned to lead the company's charge toward digital and other transformations and to develop the talent and capabilities required to sustain complex transformations within and outside the finance function (see sidebar, "The CFO's role in digital transformation").

Some CFOs are rising to the challenge. They are building deep partnerships with other members of the C-suite, providing the data and analyses required to set strategic objectives and the key performance indicators to measure results.[2] They are implementing different kinds of budgeting approaches, such as zero-based-budgeting programs.[3] A few tech-savvy CFOs are even incorporating advanced analytics, data visualization, and automation into their resource-allocation and strategy-planning processes and discussions.[4]

For more CFOs to do the same, they must understand just how much their roles have changed, as well as the actions they can take to empower their companies and themselves.

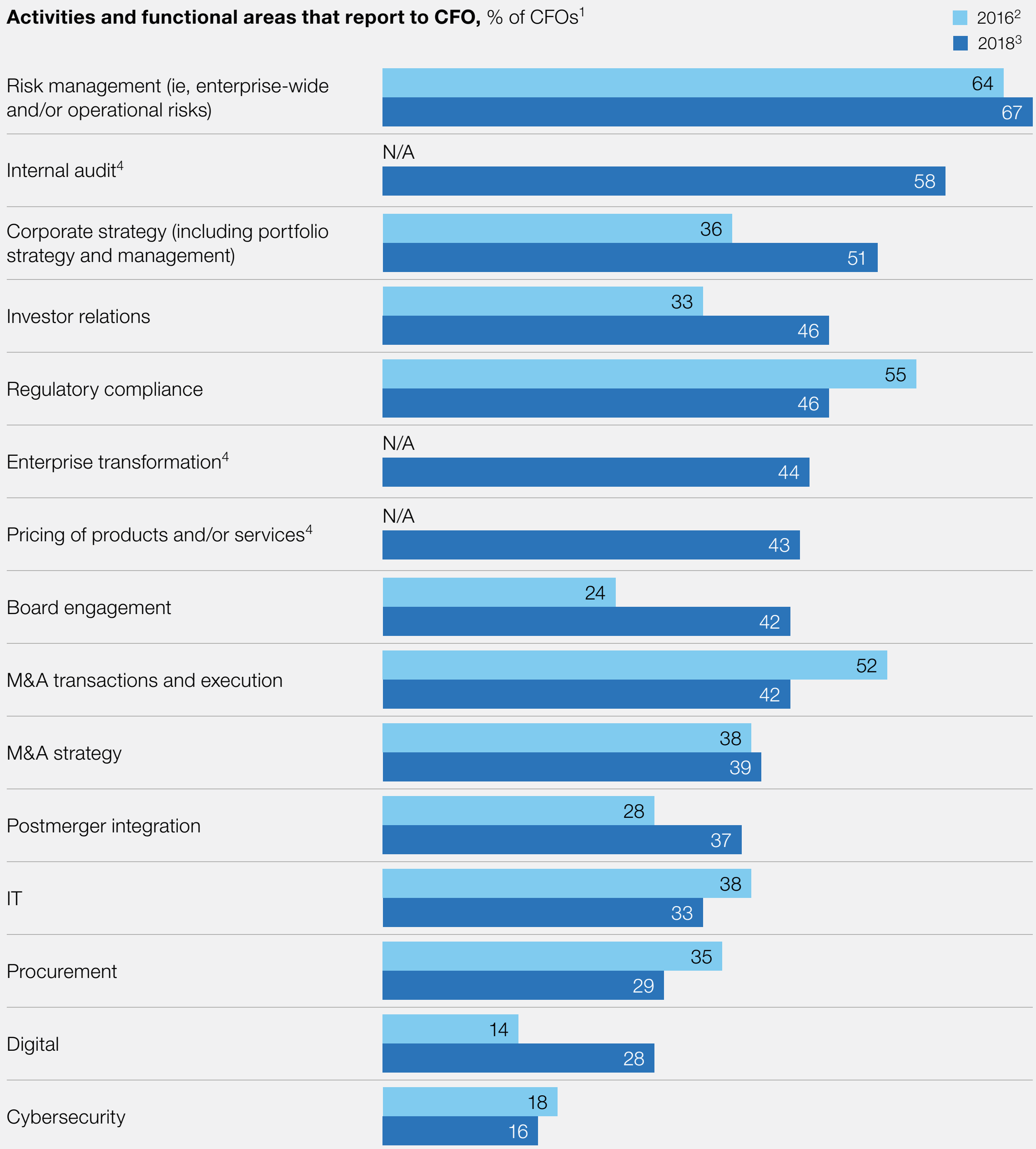
A change in responsibilities

The number of functional areas reporting to CFOs has increased from 4.5 in 2016 to an average of 6.2 in 2018. The most notable changes are in the CFO's responsibilities for board engagement and for digitization—that is, the enablement of business-process automation, cloud computing, data visualization, and advanced analytics (Exhibit 1).[5]

Four in ten CFOs told us that in the past year, they had created the most value for their companies through strategic leadership and performance-management tasks, such as setting incentives linked to the company's strategy. CFOs also said they were involved in a range of strategy-related activities, such as setting overall corporate strategy, pricing a company's products and services, and collaborating with others to devise strategies for digitization, analytics, and talent-management initiatives. By contrast, nonfinance survey respondents tended to believe their CFOs had created the most value by spending time on traditional finance activities, such as accounting and controlling, and on cost and productivity management across the organization.

Exhibit 1

The number of functional areas reporting to CFOs has grown since 2016, with notable increases in areas such as board engagement and digital.



[1] This question was asked only of CFOs.
[2] Respondents who answered “physical security,” “other,” and “don’t know” are not shown; n = 193.
[3] Respondents who answered “other” are not shown; n = 212.
[4] This option was only included in 2018.

An opportunity in digital

Digitization and strategy making are becoming important responsibilities for the CFO; most finance chiefs are involved in informing and guiding the development of corporate strategy when it comes to digitization and automation, according to our survey. However, respondents did tell us that 25 percent or less of their functions' work has been digitized or automated and that the adoption of technology tools is low overall (Exhibit 2).[6]

Only one-third of respondents say they are using advanced analytics for finance tasks, and just 14 percent report the use of robotics and artificial-intelligence tools, such as robotic process automation.[7] When asked about the biggest obstacles to digitizing or automating finance work, finance respondents most often cite a lack of understanding about where the opportunities are, followed by a lack of financial resources to implement changes and a need for a clear vision for using new technologies. Only 3 percent say they face no challenges.

A role in transformations

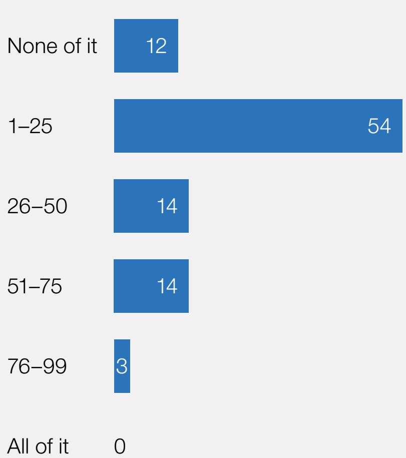
Large-scale organizational change is ubiquitous: 91 percent of respondents say their organizations have undergone at least one transformation in the past three years.[8] Our research suggests CFOs are already playing active roles in transformations.

The CFO is the second-most common leader, after the CEO, identified as initiating a transformation. More than 40 percent of CFO respondents say the leaders of a transformation, whether it takes place within finance or across the organization, report directly to them, and more than half of

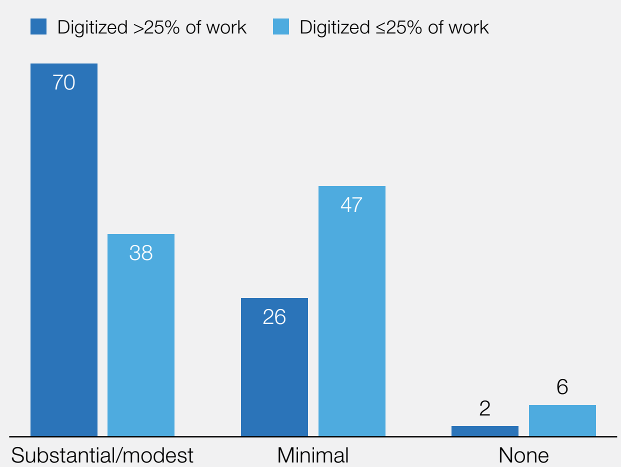
Exhibit 2

Few finance organizations have digitized more than 25 percent of work, but respondents from highly digitized organizations report notable returns from the effort.

% of finance organizations' work that has been digitized and/or automated, past 12 months, % of respondents[1]



Return on investment generated from finance organizations' digitization and/or automation, past 12 months, % of respondents[1]



[1] These questions were asked only of CFOs and those in the finance organization; n = 262. Respondents who said "don't know" are not shown.

all respondents say the CFO has been actively involved in developing transformation strategy. During these transformations, the CFO's most common responsibilities are measuring the performance of change initiatives, overseeing margin and cash-flow improvements, and establishing key performance indicators and a performance baseline before the transformation begins.

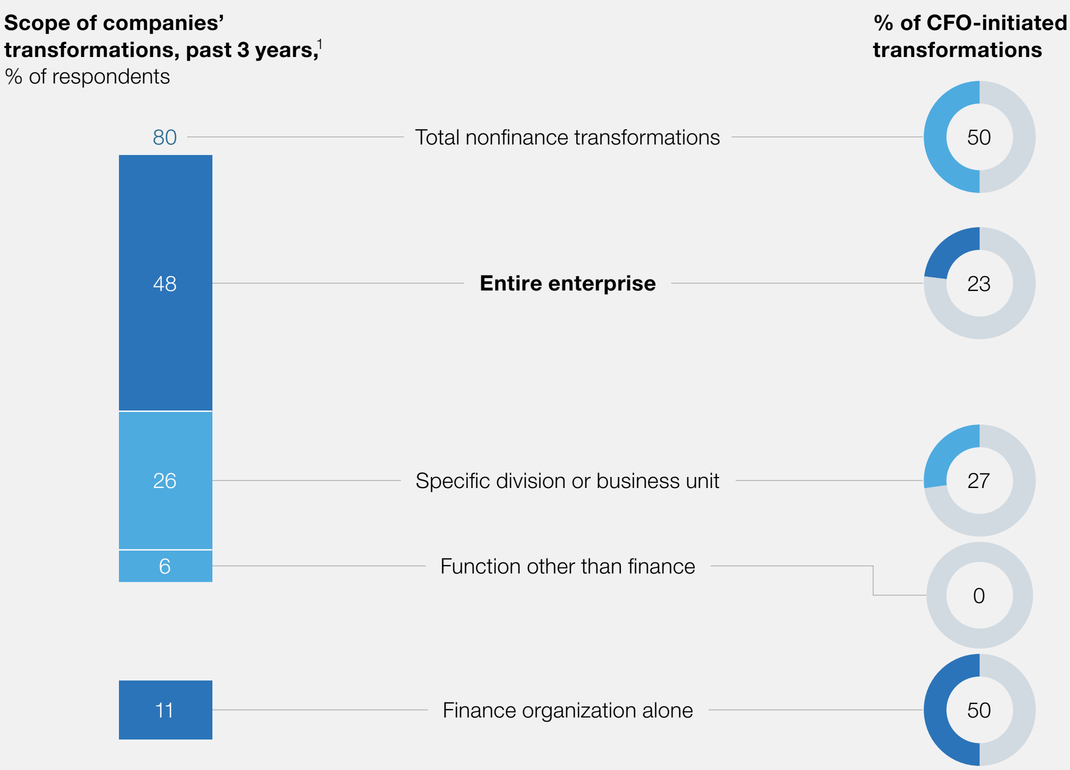
The data also confirm that finance chiefs have substantial room to grow as change leaders: half of the transformations initiated by CFOs in recent years were within the finance function, while fewer than one-quarter of respondents say their companies' CFOs kicked off enterprise-wide transformations (Exhibit 3).

A focus on capability building

Capability building is another area in which CFOs have substantial opportunities to grow. Since the previous survey was conducted, the share of respondents saying CFOs spend most of their time on finance capabilities (that is, building the finance-talent pipeline and developing financial literacy throughout the organization) has doubled. Still, relative to CFOs' other responsibilities,

Exhibit 3

CFOs have substantial room to grow as change leaders: Most have not initiated an enterprise-wide transformation.



1 Respondents were asked to describe scope of transformation with which they were most familiar. Respondents who answered "not applicable; my company has not undergone a transformation in the past 3 years" are not shown; n = 436.

The CFO's role in digital transformation

Corporate transformations come in many flavors. Some are defensive, undertaken to stem trouble. Others are progressive, launched to boost growth or make step changes in internal processes or performance.[1] In a recent McKinsey podcast,[2] senior partner Michael Bender opined on a type of change effort that has the potential to be both: digital transformation—specifically, the use of advanced technologies and data analytics to reshape companies and industries.

He explained why digitization has been and remains an imperative for companies in all sectors and the CFO's critical role in digital transformations. CFOs often sit at the center of the operating committee or the leadership teams of their companies. They are often the keepers of the strategic-planning process and financial disciplines, Bender pointed out. Digital transformations can go nowhere without some combination of both these areas of expertise, he said, and thus, the CFO has to make sure the corporate strategy is heavily infused with the digital-analytics strategy and vice versa.

That is the first, most critical action CFOs can take to support digital transformation in their companies. Bender outlined five more:

1. Assess the real value of digital analytics. CFOs need a full understanding of the opportunities and risks associated with implementing digital analytics across the company—looking three to five years out. Project teams and senior leaders may suspect there is money in predictive maintenance, or in launching a direct-to-consumer business model, but the CFO can be definitive and put those proposals into proper context.

2. Introduce agile funding mechanisms. Companies' strict adherence to yearly planning cycles won't work in a digital environment; investment decisions must be made more dynamically, or initiatives will wither on the vine. The CFO can help senior leaders think about resource allocation in a more sophisticated way—for instance, funding digital projects in stages or setting aside incubator funds for new initiatives.

3. Collaborate your way to success. The use of digital analytics and other advanced technologies is becoming increasingly important to the future of most organizations. For this reason, it can't be just the chief information officer keeping track of projects and just the CFO keeping track of the dollars. The digital-analytics-transformation plan must be owned by the full executive team.

4. Get the investor story right. At investor days or during quarterly earnings reports, C-suite leaders tend to talk about the digital-analytics journey in broad terms—for instance, how it is going to change the industry, how the company is going to work with customers differently, or how digitization is going to affect the financials. What is missing is the impact for investors; CFOs will need to supply that.

5. Lead by example. CFOs need to think about how digital analytics will change the way they work—and then lead by example by digitizing the finance function. That might mean automating the generation of business reports or providing self-service finance options to business units, with data accessible by tablet or smartphone rather than PowerPoint. The CFOs on the cutting edge are positioning themselves as not just forward-thinking finance leaders but also valued business partners to other leaders in their companies.

[1] Josep Isern, Mary C. Meaney, and Sarah Wilson, "Corporate transformation under pressure," April 2009, McKinsey.com.

[2] "Digital transformation: The CFO's role," January 2019, McKinsey.com.

> It is clear from the numbers that CFOs face increased workloads and expectations, but they also face increased opportunities—particularly as key drivers of corporate transformation.

talent and capabilities don't rank especially high. Just 16 percent of all respondents (and only 22 percent of CFOs themselves) describe their finance leaders' role as including developing top talent across the company, as opposed to developing talent within business units or helping with talent-related decision making. And only one-quarter of respondents say CFOs have been responsible for capability building during a recent transformation.

Looking ahead

It is clear from the numbers that CFOs face increased workloads and expectations, but they also face increased opportunities—particularly as key leaders of corporate transformation. They, along with the chief information officer, the COO, other C-suite leaders, and individual business heads, must ensure that transformation programs and the underlying initiatives are being executed well. A focus on two core principles can help CFOs take advantage of these opportunities and strike the right balance between time spent on traditional versus nontraditional tasks:

- *Put talent front and center.* The share of CFOs who spend meaningful, valuable time on building talent and capabilities remains small, and the opportunity for further impact is significant. Finance leaders can do more, for instance, by coaching nonfinance managers on finance topics to help foster a culture of transparency and self-sufficiency (see "Rolling with the changes," on page 10).

- *Embrace digital technologies.* Finance organizations are increasingly becoming critical owners of company data—sometimes referred to as the "single source of truth" for their organizations—and, therefore, important enablers of organizational transformations. Finance leaders need to take better advantage and ownership of digital technology and the benefits it can bring to their functions and their overall organizations. But they cannot do so in a vacuum. Making even incremental improvements in efficiency using digital technologies (business intelligence and data-visualization tools, among many others) requires organizational will, a significant investment of time and resources, and collaboration among business leaders. So, to start, CFOs should prioritize quick wins while developing long-term plans for how digitization can transform their organizations. They may need to prioritize value-adding activities explicitly and delegate or automate other tasks. But they should always actively promote the successes of the finance organization, with help from senior leadership. ■

[1] The survey was conducted online (from April 18, 2018, to April 30, 2018), garnering responses from 414 C-level executives and senior managers, and via phone interviews (from June 20, 2018, to July 2, 2018), garnering responses from 34 CFOs. In total, 212 CFOs at the company, functional, or business-unit level responded to the survey. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

[2] Kevin Laczkowski, Werner Rehm, and Blair Warner, "Seeing your way to better strategy," November 2018, McKinsey.com.

[3] "Zero-based budgeting gets a second look," January 2019, McKinsey.com.

[4] Kapil Chandra, Frank Plaschke, and Ishaan Seth, "Memo to the CFO: Get in front of digital finance—or get left back," July 2018, McKinsey.com.

[5] "Are today's CFOs ready for tomorrow's demands on finance?" December 2016, McKinsey.com.

[6] The survey asked about four digital technologies for the finance function: advanced analytics for finance operations, advanced analytics for overall business operations, data visualization (for instance, to generate user-friendly dynamic dashboards and graphics tailored to internal customer needs), and automation and robotics (for example, to enable planning and budgeting platforms in cloud-based solutions).

[7] For more, see "The automation imperative," September 2018, McKinsey.com.

[8] See "The people power of transformations," February 2017, McKinsey.com, and "How to beat the transformation odds," April 2015, McKinsey.com.

The contributors to the development and analysis of this survey include **Ankur Agrawal** (Ankur_Agrawal@McKinsey.com), **Priyanka Prakash** (Priyanka_Chandanassery_Prakash@McKinsey.com), and **Ishaan Seth** (Ishaan_Seth@McKinsey.com), a partner, consultant, and senior partner, respectively, in McKinsey's New York office, and **Kapil Chandra** (Kapil_Chandra@McKinsey.com), a senior partner in the London office.

They wish to thank Matthew Maloney, Vanessa Palmer, and Frank Plaschke for their contributions to this work.

Rolling with the changes

McDonald's CFO Kevin Ozan discusses the challenges of balancing traditional versus nontraditional aspects of his role.

All photos © Doug McGoldrick

Change has been the only constant in the four years that Kevin Ozan has been CFO and executive vice president at McDonald's.

The global fast-food chain's once-slumping sales were revived in 2016 thanks to a turnaround plan Ozan helped devise that put the emphasis on bringing customers back to the "golden arches" and keeping them there. As revenues increased—now exceeding $20 billion annually—leadership's attention naturally turned to developing a growth strategy, and Ozan worked with the CEO and other senior leaders to identify three accelerators: delivery, digital, and store remodels.

Swapping strategy concerns for financial ones, and vice versa, is just one of the challenges for today's CFOs. In an interview with McKinsey's Greg Kelly, Ozan describes how he has steered a large financial organization through a period of acute transformation and how he balances different aspects of the CFO role.

McKinsey: *As CFO of a large, fast-changing organization, how do you decide where to channel your energies?*

Kevin Ozan: That is one of the biggest challenges. As CFO, everybody wants some of your time, whether that's the board, the CEO, employees, franchisees, or suppliers. You've got to spend your time where you can have the biggest impact. When I became CFO, we were in turnaround mode, so my time was spent determining the right cost structure, the right capital structure, how and where to franchise more—in other words, deep financial analyses. As we've transitioned into growth, I'm now spending more of my time on strategy, innovation, IT, and digital initiatives. I enjoy that. Finance people, just like everyone else, want to use their creative side; we want to be strategic business partners rather than work purely on financial issues.

McKinsey: *Can you share an example of this creativity in action?*

Kevin Ozan: Delivery is a great example because it was a new business model for us. We understood the profitability of a front-counter and a drive-through sale, but with delivery, all of a sudden, the customer has to pay a delivery fee, and there's a commission to the delivery provider. It's a whole new way of thinking. We've had to educate ourselves and our franchisees that the percentage of profitability may not be as high as a front-counter sale, but as long as that business is sufficiently incremental, it will earn incremental dollars. So our finance staff has been figuring out the right financial model for delivery. Are there different models we can work with our providers on? What's the sensitivity

"Finance people, just like everyone else, want to use their creative side; we want to be strategic business partners rather than work purely on financial issues."

of customers to the delivery fee? Does it matter if we change the split between the commission and the delivery fee? And so on.

McKinsey: *What leadership traits do you look for in your staff? What traits have been important in your own success?*

Kevin Ozan: I think CFOs and finance people need exceptional communication skills. That may not be the first thing that you'd associate with finance people, but in my role, I always have to adapt my communication style and messages to different constituencies—whether it's the board of directors, our leadership team, employees, or franchisees.

Kevin Ozan

Vital statistics
Born 1963, in Cleveland, Ohio

Education
Holds an MBA from the Kellogg School of Management at Northwestern University and a bachelor's degree in business administration from the University of Michigan

Career highlights

McDonald's

(2015–present)
CFO and executive vice president

(2008–15)
Senior vice president and corporate controller

(2007–08)
Vice president and assistant controller

(2006–07)
Senior director, investor relations

(2004–06)
Senior director, Chicago region finance

(2002–04)
Senior director, corporate controller group

(1997–2002)
Director, financial reporting

Ernst & Young

(1985–97)
Accountant

Fast facts
Chairman of the Ronald McDonald House Charities of Chicagoland & Northwest Indiana

Avid fan of the University of Michigan Wolverines football and basketball teams

Hobbies include hiking, reading thrillers and murder mysteries, and listening to pop, alternative, and new country music

Finance leaders need to be able to explain financial concepts to nonfinancial people. You have to be able to bring complex ideas down to a level so that everyone is nodding their head and saying, "I understand what you're talking about." That's how you get things done in a large organization.

As a finance team, one of our most important roles is to produce facts and data, analyze the data, provide insights to tell a story about what's happening and why, and then propose solutions and influence decisions to help grow the business. I need to ensure that members of my finance team are focused on that, because it's not exactly the way you learn in business school.

McKinsey: *How do you think you became good at communication? Did you have to learn it? Or do you think it was innate?*

Kevin Ozan: I learned writing skills in my first job out of college. I had a mentor who was a strong writer, and she taught me how to convey my ideas in a logical, thoughtful manner so that people can easily understand what I'm saying, whether I'm writing just a short email or a long memo. Developing those writing skills also helped me become a better speaker. Also, my career at McDonald's has exposed me to many different perspectives. That has helped me communicate better with a wide range of people. I started out in financial reporting, where I gained a good global perspective of the business from the corporate side. I then had the opportunity to work in Sweden, which gave me an international perspective. I spent some time out in the field working with franchisees, which was another new perspective, because franchisees view the business very differently from the way we did at headquarters. I came back and went into investor relations, which gave me an investor and analyst perspective. Gaining all these different perspectives has been incredibly valuable in my current job.

McKinsey: *Do you spend a lot of your time on people issues?*

Kevin Ozan: Absolutely, and it's something I really enjoy. I spend more time on recruiting, talent development, and employee engagement than one might expect. Top talent is scarce and provides a competitive advantage. Right now we're in a war for talent; many of the people we're trying to hire have several job offers on the table. That's true not just at the corporate office but also in our restaurants. With unemployment low in many countries, I expect that talent and labor issues will continue to be a challenge.

We're investing a lot in upskilling our employees. Our Archways to Opportunity program, for example, helps our non-English-speaking restaurant employees learn English and provides tuition assistance so that employees can get high-school and college diplomas. We've recently launched a program providing free career-advising services and tools. We're investing $150 million over five years in building the capabilities of our restaurant employees, so that they can have great careers whether they choose to stay at McDonald's long term or not.

McKinsey: *Do you think it makes your job harder or easier that your CEO has an accounting background?*

Kevin Ozan: I've found it extremely helpful. I can share information with him, and he gets it immediately. Because he has that finance background, he can make constructive pushes in certain areas, which I appreciate. We have good rapport, a real dialogue, that I think comes across well on earnings calls. ■

Greg Kelly (Greg_Kelly@McKinsey.com) is a senior partner in McKinsey's Atlanta office.

This article is adapted from the interview, "'Fast action' in fast food: McDonald's CFO on why the company is growing again." To listen to audio clips and read the full interview, visit McKinsey.com.

Solving the carve-out conundrum

Acquiring an asset that may remain entangled with its parent company poses a different level of complexity in assessing potential value. Due diligence on three critical challenges can help.

Anthony Luu and Jannick Thomsen

You've found the perfect acquisition target—a complementary business with positive cash flow, a strong brand, and access to emerging markets that would take you years to develop on your own. But as you review the details, you find that the business comes with relatively few people and assets. You would acquire the brand, a few production sites, some sourcing contracts, and a general manager with sales teams scattered across various regions. IT and other shared services are part of corporate centers that the parent company would retain. The seller offers to provide limited transition services but not everything that would be needed to launch a fully functioning company at the deal's close.

Should you buy, or not? That's the classic conundrum for acquirers of so-called carved-out businesses, which may be formally divested but remain highly entangled with the corporate infrastructure of a parent company. Such deals are common among companies in pharmaceuticals and advanced industries, where R&D and the trade of intellectual property (IP) are primary sources of value creation. Other sectors are exploring such deals more frequently, given slow growth in their own industries, increased tax incentives, and the desire to quickly transform their portfolios.[1]

Carve-outs come in a variety of shapes and sizes—specific assets, a portfolio of assets, or an entire business unit. The seller's goal is typically to release assets for which the company may no longer be the best owner or to capitalize on a business segment that may be outside of its core operations. Unlike stand-alone companies, carve-outs are characterized by the divested business unit's need for continued support from its parent to maintain operations. The complexity and costs associated with the transition can pose problems for both sellers and acquirers.

To accurately assess a carved-out business and succeed with an acquisition, prospective buyers need to effectively address three fundamental challenges:

1. *Knowing the scope.* The acquirer must understand the nature of the carved-out business, the extent of corporate shared services that will be included as part of the transaction, and capabilities not included that may be critical to the long-term success of the acquired business.

2. *Understanding the numbers.* The acquirer must put into context the financial information associated with the deal, which may not accurately represent either historical performance or the extent to which there might be additional costs for a buyer once a transfer is made.

3. *Cutting the cord.* The acquirer must assess all entanglements between the carved-out business unit and other aspects of the parent company's operations. It must ensure that the parent can provide sufficient services to fill any operational gaps as the acquirer transitions the carved-out business unit to its own infrastructure.

These factors may seem obvious. What's striking is that many acquirers we see—particularly those for whom carve-outs are still a relatively new strategic option—tend to neglect one, two, or all three of them. Both sides in the deal can fall victim to inertia and default to status quo planning initiatives; as a result, they may underestimate the cost and effort that will be required to draw clear boundaries around the assets or business units in question.

Our experience and research suggest that to gain the most value from such deals, companies need to tackle all three of these challenges. It's not enough just to understand the potential scope of the deal or the financials without simultaneously considering the impact of disentangling the asset in question from the parent company. Having a comprehensive view of the carve-out is the only way to ensure that the deal delivers on its promise.

Exhibit

When assessing value and deal synergies, buyers must consider the type of carve-out they are pursuing.

Type of carve-out	Variable contribution	Operational	Stand-alone
What's included in the deal (P&L view)	Revenue Cost of goods sold Selling costs	Revenue Cost of goods sold Selling costs Operating costs	Revenue Cost of goods sold Selling costs Operating costs Corporate costs
Likely buyer	**Strategic motivation (some overlap)** Buying sources of variable contribution for integration into an existing operator	**Strategic motivation (no overlap)** Buying assets to optimize or fill gaps in product portfolio or operational footprint	**Financial or strategic motivation** Investing in new corporate infrastructure or strategy to realize corporate and operational synergies
Implications for valuation	Low — High	Low — High	Low — High
Implications for synergies	Few — Many	Few — Many	Few — Many

Knowing the scope

No surprise, knowing what you are getting—and not getting—in a carved-out business is a fundamental pillar of success (exhibit).

This is often easier said than done. For instance, a pharmaceutical company buying a carved-out business from another industry player determined that the seller would not be including in the transfer of the business its right to use a third party's IP that was essential for producing a specific drug. So the acquirer engaged in extensive negotiations to attain that right from the IP owner. But the pharma company overlooked an important detail: the carved-out business was going to continue to operate in the same location, and the buyer never negotiated with the pharmaceutical company about access to the parking lot outside the main building. As a result, hundreds of employees of the carved-out business were left with nowhere to park on the day of the business's relaunch.

Carved-out assets or businesses often remain tethered to the parent company because of shared customers, suppliers, production processes, corporate functions, and technology infrastructure. Transactions often end up being structured as a mix of both shared and distinct legal entities, with employees and operating assets spread out in various countries and jurisdictions.

The best acquirers perform thorough *business due diligence* to assess the nature of the carved-out business they're targeting and the scope of the proposed transaction. They look at the carve-out using four lenses: people, processes, platforms (such as systems and vendors), and places. Specifically, who are the people needed to run the acquired business unit and deliver the numbers projected in a valuation model? What processes will create revenue and support operations, and where do gaps exist? What platforms are needed to deliver the products or services in the volumes upon which the business plan is predicated, and are these included in the transaction's scope? And finally, where does the acquired business operate, and will those locales be supported at closing to ensure business continuity? Such business due diligence allows companies to ensure that they understand what they are getting and figure out how to obtain what they need.

One industrial manufacturer analyzed its acquisition of one of its main suppliers in this way. Because talent was a critical component in the deal, the buyer closely examined employee transfers in and out of the supplier's business in the 12 months preceding negotiations. The examination revealed that the parent company had systematically cherry-picked the best people from the organization and kept them for itself while transferring hundreds of underperformers to the carved-out business. The carve-out was gaining a reputation as the place where the company sent employees with limited potential. The buyer responded to these findings by proposing clauses in its contract with the parent company regulating internal transfers of employees of a certain tenure.

Understanding the numbers

Naturally, a comprehensive understanding of the financials of the carved-out business is critical for calculating deal valuation and synergies. Furthermore, companies need to account for the lack of synergies or for stranded costs. The new, combined company may have lower purchasing power, for instance, or fewer economies of scale than when the carved-out business was still a part of the parent company. In other cases, people, processes, and platforms may no longer be needed to support a leaner, more streamlined business, leading to stranded costs.

Understanding these financials poses challenges for acquirers. Because carve-outs may never have been reported separately, parent companies may not be able to provide audited historical financial statements for them beyond specially prepared pro forma statements. Even in instances where historical financial statements exist, they may be difficult to properly evaluate: the parent company's business model and operating footprint may not be the same as that of the carved-out business unit. Moreover, given the high stakes of divestitures and separations, there may be incentive for the parent to embellish the carve-out business with glowing historical and future performance measures.

Even so-called audited carve-out financials tend to present the carve-out as an integrated part of a corporation. Such numbers are based on historical figures and say little about what the costs might

---

Carved-out assets or businesses often remain tethered to the parent company because of shared customers, suppliers, production processes, corporate functions, and technology infrastructure.

---

be in a stand-alone situation or if the carved-out business were to be integrated within a corporation with a different operational footprint, and what the impact of separation might be on future revenue streams.

The best acquirers perform thorough *financial due diligence* to understand the numbers, how they have been prepared, and what they actually represent. In this way, they can assure themselves they are getting the best value from the deal—and if they are not, they have recourse for negotiation. They assess both historical quality of earnings and the potential financial performance of the carved-out business as a stand-alone entity.

In one transaction between pharmaceutical companies, the buyer's financial-due-diligence process revealed that a significant portion of the income of the target business unit came from patent licensing royalties. But many of the patents in question were common to other products in the parent company's portfolio. This prompted a discussion about whether the buyers would be paying royalties to the parent for continued use of the patents, and at what cost. This led to the creation of a separate licensing agreement ensuring the buyer's long-term access to the patents. In another deal, the purchasers realized that the parent company had restated its allocations to the carved-out business, which reduced allocated costs by tens of millions of dollars, thereby significantly increasing the theoretical value of the carve-out.

Savvy acquirers realize that costs allocated to the target business don't represent the market cost of replacing the services in question. Nor do they accurately reflect the actual burden of maintaining corporate shared services after transitioning the target company to the buyer. We've observed cases in which the allocation replacement costs were as high as 200 percent of current allocations and represented a material impact on the ongoing cost structure for the carved-out business.

Cutting the cord

Typically, when a company acquires another business outright, the acquirer can choose to operate the target company in much the same way it did before the deal closed. There may be minor disturbances related to transitioning employees or customers, but people generally keep to their work routines, systems continue to function, and supply and distribution operations keep on rolling. The business remains viable.

This is not necessarily true when acquiring a carved-out business unit. The acquirer is not necessarily getting everything it needs to keep the business going on its own. For instance, some critical roles may be vacant, certain products may be manufactured or stored in facilities that are out of the scope of the acquisition, important IT capabilities may remain with the parent company, and some legal entities and regulatory permits may not transfer to the acquirer.

The best acquirers of carved-out businesses understand there is no substitute for early and meticulous *operational due diligence* on entanglements. Even in situations where the target business appears to be independent of the parent company, there are usually codependencies to address. In one acquisition involving two consumer-product companies, both parties paid little attention to the shared order-to-cash process, and at the close of the deal, both faced issues with botched product deliveries and invoicing errors. In another example involving a carve-out in the oil and gas industry, the buyer had to pay new employees with physical checks shortly after the close of the deal because a third-party payroll provider had missed a critical deadline in moving employee data to the new owners.

Savvy acquirers emphasize comprehensive planning: they identify codependencies and capability gaps early, define and prioritize solutions, and track their progress in disentangling target businesses from their parent. Armed with this information, acquirers can pursue any number of options to address capability gaps—among them, the acquirer and the parent company can jointly develop a new capability to fill the gap, the acquirer can procure services required from third-party providers, or the acquirer and the parent company can adjust the scope of the deal.

A common solution is for the parent company to provide transition services or supply agreements to ease the transfer of assets; it is advantageous for them to do so, after all, to make the carve-out more attractive to buyers. But while such services and agreements can be vital for facilitating a deal, they may also be a source of contention and dispute. For instance, a healthcare company refused to provide an acquirer with a transition-services agreement (TSA) for human-resources information systems because it didn't want to be held liable for potential data breaches during the transition. As a result, the acquirer needed to rapidly develop a costly data-migration plan in time for close. In another deal, two retail companies disagreed on the maximum length of time that transition services would be provided. The acquirer was forced to accelerate its planned spending on new IT platforms and new hires.

TSAs typically last between three and 18 months. They may include, for instance, access to business systems, use of office space, or continued use of corporate shared services. In more complicated setups, parent companies will often need to temporarily import, distribute, or sell products on behalf of the acquirer after the close of the carve-out transaction. Supply agreements can last even longer, particularly in industries like biopharmaceuticals, where the transfer of IP and market authorizations is a long, complex process requiring approvals from multiple regulatory bodies.

It is incumbent upon parent companies to ensure that they and the acquirers agree on a comprehensive set of transition services when the deal is signed, not during the period between signing and closing. In this way, all parties can reduce the potential for surprises in determining the scope, cost, and effort required to implement services before deal closing. Additionally, acquirers and parent companies will need to jointly estimate the time it will take for the acquirer to fully take over the business activities covered under transition services and build those time frames into the agreement. For their part, acquirers may want to negotiate TSAs with provisions to add services later in case aspects of the transition are inadvertently overlooked.

■ ■ ■

Acquiring a carved-out business unit or asset can be a fantastic opportunity for creating value, but unique risks accompany any deal. Due diligence across the scope, financials, and transfer of the business or asset can improve chances for success. ■

---

[1] See Obi Ezekoye, Jannick Thomsen, and Andy West, "Understanding how US tax reform will affect divestitures," April 2018, McKinsey.com; and Obi Ezekoye and Jannick Thomsen, "Going, going, gone: A quicker way to divest assets," August 2018, McKinsey.com.

Anthony Luu (Anthony_Luu@McKinsey.com) is an associate partner in McKinsey's Dallas office, and **Jannick Thomsen** (Jannick_Thomsen@McKinsey.com) is a partner in the New York office.

Zero-based budgeting gets a second look

Digitization is breathing new life into a ground-up budgeting approach that debuted in the 1960s. Here's how CFOs and other business leaders can make it work in their own organizations.

With a new lease on life[1] powered in part by digitization, zero-based budgeting (ZBB) is getting a hard look from companies that see its extremely detailed approach to budgeting as an opportunity to capture operational efficiencies,[2] stimulate growth, and boost performance.[3] Exactly how does ZBB work, and how should a company implement it? How should CFOs assess and apply it? McKinsey partner Wigbert Böhm sat down with the editorial board of *McKinsey on Finance* to discuss just these questions. Here, he outlines the digital and organizational enablers required to implement ZBB.

McKinsey: *What exactly is zero-based budgeting?*

Wigbert Böhm: It is a budgeting process where, on a very granular level, you go through a company's spending and determine what resources various business units require. That means looking at individual cost categories across all business units. The process puts the burden of proof on the manager who is asking for resources: he or she must demonstrate, on a continual basis, that the resources are in fact still required to achieve business objectives—as much in year three as they were in year one—and that those resources are being managed responsibly. The concept itself was invented in the 1960s, but ZBB was slow to gain traction, in part because, until relatively recently, budgeting processes have been primarily paper based. Just imagine all the extra paperwork ZBB would have generated in large organizations years ago. The emergence of digital budgeting tools has made ZBB a more realistic option these days.

McKinsey: *How does it work?*

Wigbert Böhm: Teams break down the ZBB process into several discrete stages. The first is creating a sense of transparency. This means using data and digital tools to analyze spending in a business unit, or across business units, according to cost center, cost category, and sometimes vendor. Through this exercise, budget owners for the business units often find that quite a bit of company spending, about 15 or 20 percent, is misclassified. This information is taken into account during the second stage—identifying opportunities for process or operational improvements and redefining spending levels to reflect those initiatives. In this critical step, business leaders jointly think through targets and benchmarks and what reasonable budget aspirations should be. The third stage is actually bringing all this information to bear and budgeting from zero, and the final stage is essentially measuring outcomes and ensuring that the ZBB process is institutionalized within the company.

McKinsey: *What kinds of systems and people do companies need to do zero-based budgeting?*

Wigbert Böhm: As I mentioned, digital is now the biggest enabler of ZBB. Some companies have developed centralized repositories of finance data that allow for transparency in budgeting discussions. Budget owners in the various business units normally keep their own finance cheat sheets with breakdowns of the projects in their portfolios and the resources they are looking for. Now all the budget owners need to do is enter those figures in a template in a digital budgeting tool. The data are fed into this central repository, where they can be sliced and diced, and then inform resource-allocation discussions.

But another big change is that the budget owners themselves should be supported by a cost-category owner [CCO] who vets budget requests associated with particular spending categories for an entire business unit or organization. There might be a CCO for facilities management, for instance—someone who monitors rents, security spending, and so on for all business units—and there would be a separate CCO for, say, HR or logistics expenditures. The CCO holds frequent formal discussions with everyone

> “ZBB forces everyone to engage in a structured consideration of the resources business units and managers actually need to fulfill the task at hand.”

in the company who has this type of spending in their budgets.

McKinsey: *How many cost-category owners do you need in a typical company?*

Wigbert Böhm: There is no one-size-fits-all approach to assigning CCOs, because it very much depends on the scope of savings being targeted. One global manufacturer had about a dozen CCOs for a ZBB program that was trying to optimize indirect expenditures. Somewhere between 12 and 15 CCOs seems to be the average, but the number must be one that works best for the corporation.

The very existence of this role can change the tenor and content of budgeting discussions. Traditional budgeting discussions are more focused on incremental increases or decreases to existing budgets—“will we cut it by 2 percent this year or increase it by 3 percent?” ZBB forces everyone to engage in a structured consideration of the resources business units and managers actually need to fulfill the task at hand. Rather than assume that funding levels should remain the same, the CCO asks the budget owners from the business units, “Why is this the case, and does it need to be this way?”

McKinsey: *Is cost-category owner a permanent full-time job?*

Wigbert Böhm: CCOs are typically senior leaders who take on these responsibilities alongside their day jobs. The time commitment is roughly half a day per week. CCOs usually sit with a small team that supports the ZBB process across business units and regions, with maybe a few data analysts and a few IT specialists to maintain the digital budgeting tool. They can be rotated in and out of budget domains, although many find themselves content with building up valuable expertise in the areas they support.

McKinsey: *What does it look like when companies implement zero-based budgeting?*

Wigbert Böhm: A large European utility used ZBB to find savings of $150 million from its baseline spending of about $900 million, which included all direct and indirect costs. The company went through a rigorous process of building up its data sets, using existing systems to collect and assess financial and process information from across the company. It massaged these data using new digital tools. Through this exercise, executives found duplicate spending in some areas—primarily in misaligned talent. It found opportunities to redeploy some of its HR experts, for instance, and some of its experts in digital to parts of the company where they could better serve as business partners. The discussions between budget owners and CCOs and the broader assessment process, from start to finish, took about eight months. The utility reinvested some of the $150 million savings in the company and shared some of it with stakeholders. Now that the groundwork has been done, the European utility should be able to follow the same ZBB process in subsequent years within the normal budgeting time frame.

You could imagine that a smaller company, like a business in a private-equity portfolio, might follow a similar approach, albeit at a more limited scale—eight weeks, maybe, instead of eight months.

McKinsey: *Do all companies perform zero-based budgeting every year? For every division?*

Wigbert Böhm: Many of the companies we've seen are doing it every year and across multiple divisions. Again, digitization is the key here—an annual ZBB process becomes much more tenable when you use digital budgeting tools and build organizational capabilities, such as training all budget owners in the new approach or enabling automated reporting for the CCOs. The digital budgeting tool is primarily used to physically construct budgets and inform annual funding discussions, but CCOs can also use it as a tracking tool to follow up on and address any deviations from plan.

McKinsey: *Even using digital tools, ZBB seems like increased work for budget owners and cost-category owners. When does it make sense to follow the ZBB process every year, and when not? And under which scenarios does it make sense to deploy ZBB company-wide versus in individual business units or regions?*

Wigbert Böhm: If a company is targeting one-time savings, it could get by without using ZBB, perhaps—or at least it wouldn't require a digital tool to go through the exercise. But if you want to do ZBB annually and you want to succeed in this effort, you need to invest in a digital budgeting tool for the sake of efficiency and to gain deeper insights.

The decision about whether to roll ZBB out company-wide versus in individual business units or regions is mostly driven by specific business needs. One global food producer did a country-by-country rollout because it had four or five different business units, with a lot of synergies, that had never really been integrated or captured. This was part of the company's objective in using ZBB—making sure that the different business units in each country cooperate more, reduce duplicate spending, and exploit basic cost-savings opportunities, such as merging their logistics networks or rationalizing their supplier base. Another firm might find that deploying ZBB in only one region or one business unit suits its needs. What usually ends up happening, however, is that companies that start with a limited scope see great impact from ZBB and often decide to use it more broadly.

McKinsey: *How does zero-based budgeting work with traditional budgeting processes?*

Wigbert Böhm: In many companies, ZBB becomes the new way of budgeting and ends up replacing existing budgeting processes. When supported by the right tools and the right team, this process can be faster and less resource intensive over the long term. Obviously, a lot depends on the company's starting point.

McKinsey: *What is the CFO's role in the zero-based-budgeting process?*

Wigbert Böhm: Depending on executives' appetites, some CFOs may choose to take on cost-category ownership themselves. It doesn't happen a lot, but it does happen. More important, you need a strong mandate from the top to run this kind of program and support all the discussions that must happen. Budget conversations are fraught most of the time. A budget owner may call the CFO and complain about the CCO's proposal. If the CFO doesn't support the process, the whole thing is over. The CFO must be the evangelist for ZBB. And it's not just a matter of getting the CFO's support—the CEO and other C-suite leaders also need to get on board. One way to win them over is to share tangible examples of success—showing how people have been able to work more efficiently because of smarter resource utilization, for instance. This whole process, after all, is about improving resource allocation and ensuring that money is being spent in a meaningful way, not in a wasteful way. ■

[1] Matt Fitzpatrick and Kyle Hawke, "The return of zero-base budgeting," August 2015, McKinsey.com.

[2] Kyle Hawke, Matt Jochim, Carey Mignerey, and Allison Watson, "Five new truths about zero-based budgeting," August 2017, McKinsey.com.

[3] Ronald Falcon, Kyle Hawke, Matthew Maloney, and Mita Sen, "How absolute zero (-based budgeting) can heat up growth," January 2018, McKinsey.com.

Wigbert Böhm (Wigbert_Boehm@McKinsey.com) is a partner in McKinsey's Munich office.

BIAS BUSTERS

Despite their best intentions, executives fall prey to cognitive and organizational biases that get in the way of good decision making. In this series, we highlight some of them and offer a few effective ways to address them.

Our topic this time?

Pruning projects proactively

Tim Koller, Dan Lovallo, and Zane Williams

The dilemma

You've seen it too many times: your company has a number of projects that are underperforming or business units that just won't die. Much of the time, they linger because of emotional or legacy attachments that executives have toward specific projects or parts of the business. Rather than pull back when there are signs of significant financial or operational weakness, individuals and teams are inclined to escalate their commitment to losing courses of action. For these executives, hope springs eternal.[1]

The research

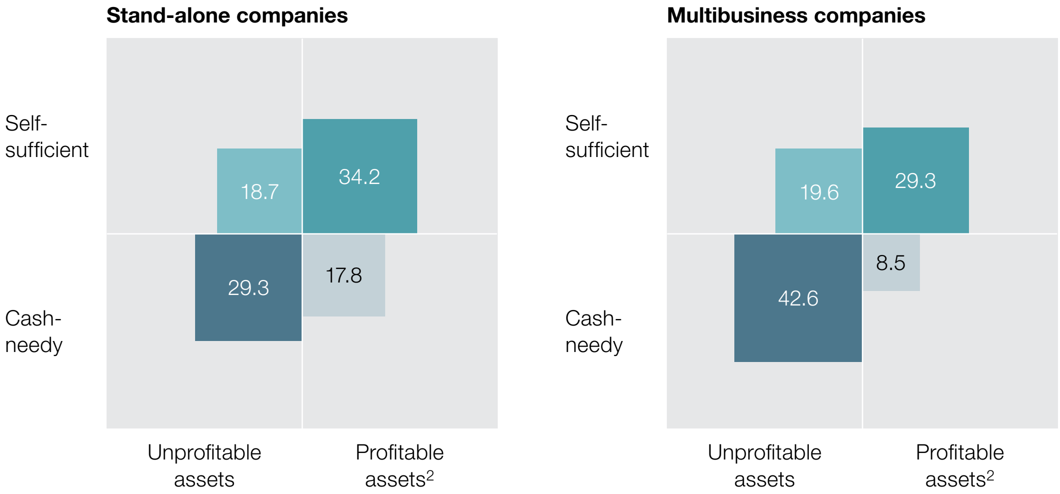
The tendency to hang on too long is a common phenomenon. A range of studies reveals that senior executives are more willing to invest in divisions they previously led than in emerging opportunities; and both individuals and teams tend to overinvest in the founding business within a multibusiness company.[2] Additionally, a close examination of asset distribution and performance in both cash-needy and self-sufficient multibusiness and stand-alone US companies is illustrative: a significant percentage of assets in both types of companies is underperforming (exhibit).[3]

The remedies

There are two effective techniques for understanding when to hold on to an asset and when to let it go.[4]

Exhibit **A significant percentage of assets in both stand-alone and multibusiness companies is underperforming.**

Company assets[1] **and cash flow compared,** %



[1] We looked at asset investments by multibusiness companies from 1989 to 2004 and compared those figures with investments made by stand-alone companies. We reviewed more than 40,000 data points over that 16-year period. "Investment" was measured as a ratio of business-unit capital expenditures to business-unit assets.
[2] Profitable assets have returns greater than the cost of capital. Self-sufficient businesses have returns that exceed the growth rate, thus they can fund themselves.

Change the burden of proof. One energy company counterbalanced executives' natural desire to hang on to underperforming assets with a systematic process for continually upgrading the company's portfolio. Every year, the CEO asked the company's corporate-planning team to identify between 3 and 5 percent of the company's assets that could be divested. The divisions could retain any assets placed in this group, but only if they could demonstrate a compelling turnaround program for them. The burden of proof was on the business units to prove that an asset should be retained rather than just assume that it should.[5]

Categorize business investments. Some companies have taken a ranking approach: they assign existing businesses to one of three groups—grow, maintain, or dispose—and follow clearly differentiated investment rules for each group. Depending on the company and industry, the rules might involve thresholds for growth or profitability or a reexamination of the businesses' competitive position. The rules should come from the corporate center, and they should be transparent to all in the organization, so that resource-allocation decisions are based on business realities rather than corporate politics. Even in this scenario, executives need to explain why existing businesses should be grown or maintained rather than disposed of.

By deploying both techniques, companies can more easily—and more objectively—cull underperforming assets and business units from their portfolios. ■

---

[1] Bill Javetski and Tim Koller, "Debiasing the corporation: An interview with Nobel Laureate Richard Thaler," *McKinsey Quarterly*, May 2018, McKinsey.com.

[2] David Bardolet, Dan Lovallo, Richard Rumelt, "The hand of corporate management in capital allocations: Patterns of investment in multi- and single-business firms," *Industrial and Corporate Change*, April 1, 2010, Volume 19, Issue 2, pp. 591–612.

[3] Profitable assets have returns greater than the cost of capital. Self-sufficient businesses have returns that exceed the growth rate, thus they can fund themselves.

[4] Obi Ezekoye and Jannick Thomsen, "Going, going, gone: A quicker way to divest assets," August 2018, McKinsey.com.

[5] Stephen Hall, Dan Lovallo, and Reinier Musters, "How to put your money where your strategy is," *McKinsey Quarterly*, March 2012, McKinsey.com.

Tim Koller (Tim_Koller@McKinsey.com) is a partner in McKinsey's New York office, where **Zane Williams** (Zane_Williams@McKinsey.com) is a senior expert; **Dan Lovallo**, a senior adviser to McKinsey, is a professor of business strategy at the University of Sydney.

BIAS BUSTERS

Despite their best intentions, executives fall prey to cognitive and organizational biases that get in the way of good decision making. In this series, we highlight some of them and offer a few effective ways to address them.

Our topic this time?

Resisting the allure of 'glamour' projects

Iskandar Aminov, Aaron De Smet, and Dan Lovallo

The dilemma

Imagine you're a "rock star" manager in a telecommunications company. You have a choice to make: you can oversee the systematic repair of cell towers and other equipment in a particular region, or you can manage the company's launch of a next-generation smartphone, cobranded with an up-and-coming technology company. Chances are pretty good you'd jump at the chance to lead the sexy new launch. The personal and professional challenges and rewards of such an assignment would be appealing, and in most organizations such "hero" projects attract outsize attention and investment from leaders.[1]

Just be careful that the allure of the shiny new initiative doesn't distract you from paying attention to other good but mundane projects and investments. Indeed, many companies struggle to find the balance between investing in projects designed to grow the business versus those required to run the business. As a result, they tend to underinvest in so-called unremarkable projects.

The research

This occurs rather naturally for three reasons. First, new discoveries are inherently more exciting than maintaining existing infrastructure, and innovations add to the company's bottom line. Second, when it comes to continuing projects, the only news is typically bad news—products are overtaken by newer brands, for instance, or equipment gets outdated and the cost of replacing parts or systems is significant.[2] And third, because most companies convene separate funding committees for hero projects and maintenance projects, there is no overlap—and therefore no one with detailed knowledge who can encourage balanced investments in both the old and the new. When cash is limited, and sometimes even when it isn't, new projects often win the argument, even though both types of projects can create significant value for organizations.

The remedy

One oil and gas company recognized that maintenance was getting short shrift with respect to funding and attention, for many of the reasons cited earlier. Its solution? The company assigned two executives who were sitting on the extraction committee to serve on the maintenance committee as well. These executives balanced the demands of both types of committees and interacted directly with the head of the entire field to ensure that maintenance projects received the resources and attention they deserved.

This approach doesn't apply only to oil and gas: in most companies in capital-intensive industries like chemicals, consumer goods, power, and telecommunications, the groups that review operating expenditures are distinct from those that examine capital expenditures. By creating overlapping committees, which convene regularly and give voting rights to members from different parts of the organization, companies can overcome bureaucracy, break down siloes, and, in many cases, reduce unnecessary overhead. Such committees are an elegant and painless way to have a broader view of corporate expenditures and ensure that less-glamorous but still necessary investments are not starved for funds or people. ■

---

[1] Michael Birshan, Ishaan Nangia, and Felix Wenger, "Preparing to make big-ticket investment decisions," July 2014, McKinsey.com.

[2] Matt Gentzel, Bill Lacivita, Alan Osan, and John Parsons, "The upside of downtime," May 2016, McKinsey.com.

Iskandar Aminov (Iskandar_Aminov@McKinsey.com) is an associate partner in McKinsey's Perth office, **Aaron De Smet** (Aaron_De_Smet@McKinsey.com) is a senior partner in the Houston office, and **Dan Lovallo**, a senior adviser to McKinsey, is a professor of business strategy at the University of Sydney.

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.

Toward faster separations

Successful divestors "move slow to move fast": they carefully think through all the strategic and operational considerations before making a public announcement. Then they systematically assess what and when to divest, as well as how to manage the task most efficiently.
Obi Ezekoye and Andy West

Starting from zero

Zero-based budgeting (ZBB) is experiencing a resurgence. But why this—and why now? An expert in the field helps us understand how digitization has given new life to ZBB, the benefits it offers, and how to implement it in both large and small organizations.
Wigbert Böhm

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.
Thomas 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

February 2019
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.

FSC Logo here
63% BLACK