

“We have created at Henkel one common way worldwide how we work in finance.”

Interview with Carlo Mackrodt, formerly vice president for Global Financial Services at Henkel KGaA, about the transformation of Henkel finance into a transnational, process-oriented services organization.

by Juergen H. Daum



Carlo Mackrodt

In 2000, Henkel initiated a major project to reorganize its finance function. Beginning in Europe, it started the transition from a country-based organizational structure to a transnational, process-oriented shared services organization. The aim was to improve the efficiency and quality of finance and accounting (F&A) processes, i.e. of processes in General Accounting, Controlling, Purchase-to-Pay and Order-to-Cash, to reduce complexity, as well as implement a professional service culture in the F&A area. The new organization was accordingly named Henkel Financial Services. Henkel's approach was to bundle responsibility for processes regionally and globally and then to standardize, automate, and continuously optimize these processes in order to increase efficiency, reduce costs, and improve quality. Carlo Mackrodt, Henkel's vice president for financial services until 2006, was responsible for the finance transformation at Henkel. Since begin of 2007 he is vice president for Supply Chain Management EMEA in Henkel's Technologies business sector. In the interview with Jürgen H. Daum that follows, he explains the motivation for this ambitious change management project, how the company went about it, the results it achieved, and the experiences it gained.

Portrait Henkel: Henkel is organized into three globally operating business sectors. One sector is 'Laundry & Home Care': The company's success story started with a product from this business sector. Another one is 'Cosmetics / Toiletries: This sector develops, produces, and sells many name brands worldwide. The third sector is 'Adhesives Technologies': adhesives, sealants and surface treatments for consumers, craftsmen, and industrial applications. Henkel's products are sold in 125 countries worldwide. Henkel is headquartered in Düsseldorf, Germany. Over 80 percent of its 52,000 employees are employed outside of Germany, making Henkel one of the most internationally represented German companies.

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Starting situation at Henkel

Jürgen H. Daum: Mr. Mackrodt, what led you to initiate the project to reorganize finance and accounting at Henkel?

Carlo Mackrodt: Our business was previously organized according to countries. In 1999, we decided to adopt a new worldwide organization according to business sectors that had now to act across countries. As a service provider to the business, finance had to face to this challenge. Specifically, this meant that finance also needed to adopt a cross-country approach. We had to transform our various local, splintered finance organizations into one transnational finance organization.

Jürgen H. Daum: So the primarily reason for reorganizing finance at Henkel was not to increase efficiency and reduce costs?

Carlo Mackrodt: Of course this new structure and the changing alignment from local to national and transnational also revealed great potential for increasing efficiency. In the eight Western European countries that we started in, we had a total of 37 F&A units – one for each local company, each with its own process organization. You find a lot of potential for rationalization and efficiency increases when each local F&A unit in each country had its own way of doing things and everyone made their own little optimizations, and they then start to take a new united perspective. Our main aim, however, was to reduce complexity, establish flatter and more streamlined reporting lines, and enhance process quality – all of which also result in increased efficiency.

The procedure

Jürgen H. Daum: How did you go about implementing the project?

Carlo Mackrodt: We first looked at the general benchmark figures that were available for the market, which showed that companies with shared services have 25 percent lower costs on average than those without shared services. That discovery led us to our objective of achieving the world-class benchmark in F&A and to begin the implementation. That was in early 2003, when I joined the project.

We followed that up with our own Henkel-specific benchmark study. We found that the relationship between our F&A costs and our net external sales placed us in the fourth quartile. So our efficiency had a lot of room for improvement. This insight enabled us to define the details of our objective of world-class F&A:

- Move costs from the fourth quartile to the first quartile – while achieving a defined service level and quality
- Establish one worldwide Henkel Financial Services (HFS) organization for Finance & Accounting
- Clearly communicate all measures that we take
- Reduce transactions costs in Finance & Accounting by at least 20 percent

The second point, creating *one* Henkel Financial Services organization was pivotal. At the time, we were still operating with lots of local finance organizations, each with their own processes and needs. Each local organization did try to implement its own best practices, but as Henkel group, we were not really optimized. Each country had bits of best practices somewhere else, but not end-to-end in the entire process. This was also reflected in the cost structures, which at the time were not even fully transparent because we had no consistent data across all countries.

Jürgen H. Daum: The global approach with the Henkel Financial Services organization added transparency to these details?

Carlo Mackrodt: Yes, and this detailed data then enabled us to set out consistent, specific targets, which we had been unable to do previously. I think this was the turning point in the project. Being able to define detailed improvement targets for each subprocess area, and tracking our progress with regular actual/plan comparisons, was the key to achieving the improvements to the process and thus our efficiency targets.

Jürgen H. Daum: What foundations did you have to lay in order to achieve the project objectives?

Carlo Mackrodt: Creating a common IT platform based on a centralized, standardized SAP ERP system was important. Before doing so, we had 26 different IT platforms in Western Europe alone. We needed to standardize and consolidate them – not just from the perspective of standardizing processes, but also to facilitate the integration of acquisitions.

We wanted to be able to easily integrate any new acquisitions within a period of one year. To do that, we needed a standardized IT platform because that is the only way that you can establish a *single* process standard into which we can roll-in any company.

Jürgen H. Daum: What was the next step in the project?

Carlo Mackrodt: In September 2003, I called together all of my employees who had process management responsibilities in what we decided to call “Work-Out!” sessions. We ran breakout sessions and brainstorming sessions where we collected all the negative points people had noticed in our daily business, especially any areas where we were wasting money by repeating work without adding value. Essentially, we were removing redundant work from our organization, hence the name “Work-Out!” sessions. The question I wanted everyone to think about was: If you had the power and authorization to change anything, what would it be?

Jürgen H. Daum: And what was the result of the Work-Out!s?

Carlo Mackrodt: We identified 138 specific measures and quantified the cost-saving potential of each of them – that was the real dirty work. In this first phase, all of the measures applied only to Western Europe. They were all integrated in a master plan that defined who was responsible for which tasks and when they had to be finished. We then broke the master plan down according to countries and tasked the process managers in the respective countries with assessing which measures were relevant to their countries and how they could be implemented locally. That brought on board the employees from all affected countries. In addition, we already had our heads of process, who were in charge of the cross-national processes in General Accounting, Controlling, Purchase-to-Pay (PTP), and Order-to-Cash (OTC).

Global process organization

Jürgen H. Daum: You entrusted the heads of process with overall responsibility for processes worldwide, including the local process execution in the countries. How did that come about?

Carlo Mackrodt: The decision was the result of another WorkOut! session. We thought about what would happen if we gave the heads of process more responsibility and the employees in the countries reported along a fixed line to the cross-country heads of process, rather than to the local CFOs. We discussed the idea with HR and the reporting lines and played through the pros and cons of various scenarios. Ultimately, the team agreed: All employees involved in a process in the country subsidiaries needed to report in a fixed line to the respective heads of process.

Jürgen H. Daum: Why did you make this decision at that point in time? Why not earlier?

Carlo Mackrodt: The timing for switching to a truly process-oriented organization was decisively influenced by our SAP implementation program with which we created a standardized IT platform. We had decided that the local organizations would be switched over whenever a major roll-in to the standardized IT platform was being carried out. That way, we made the heads of process responsible for switching the processes to the new system and the new global process standard. This approach also ensured that we did not bite off more than we could chew. You have to keep in mind how much preparatory work was involved. For example, we had to build and assess employee competencies and carry out training in the countries. That was done centrally for all of Europe and was managed by the heads of process. These topics were addressed in close cooperation with the personnel department and were agreed with the works council.

Jürgen H. Daum: Did the global heads of process approach ultimately succeed?

Carlo Mackrodt: Yes, the head of process approach was a complete success:

We appointed heads of finance as spokespersons for the local finance teams. The aim was to get people to accept the title “head of finance” in place of the more senior-sounding title “country CFO.” The underlying goal was to empower the heads of process so that we could really standardize processes across all countries and effectively implement the results of the WorkOut!s. It created a whole new understanding of processes.

But, after 4 years and given the increased responsibility of the process owners due to the shift from responsibility for Western Europe to responsibility on a global scale, we faced the question whether one head of process could really manage all employees for a process worldwide. Therefore, near the end of my time in Henkel Financial Services, we started to look at how we could ensure that the head of process’ primary focus is on the process and not on personnel administration. Our solution was to leave cost responsibility with the head of process and to shift headcount responsibility – that is, all personnel issues such as leave requests and so on – back to the local level. At the local level, we did not create CFO positions anymore, but we did create local heads of finance who could handle these tasks. At the end of the process, when the standard processes have firmly taken root, it will be also possible to hand cost responsibility back to the local countries again.

Jürgen H. Daum: I believe the heads of process always have a local role as well. Why is that?

Carlo Mackrodt: I think that was a very important factor in the success of the cross-country process organization: Every head of process is also the head of finance in his or her country. For example, the current head of finance in Spain is also the global head of process for PTP, and the head of finance in Germany is the global head of process for OTC. This gives them both perspectives: They understand the local issues and ins-and-outs of daily business on the one hand, and they have the global overview on the other. This was crucial to making the new process organization such a success.

Henkel’s shared services approach

Jürgen H. Daum: At Henkel you took a very different approach to shared services compared to many other companies, many of which moved their services operations to Eastern Europe first to save on personnel costs, but without doing much to the process before. Why did Henkel do things differently?

Carlo Mackrodt: That was a fundamental decision that was taken before I joined Henkel. Henkel decided to standardize processes first and then relocate them to a shared services center. We also followed a step-by-step approach for that latter phase, starting by centralizing within each country.

In the UK, for example, we set up a headquarters for finance in Hatfield, not far from London, for our subsidiaries in England and Ireland. We set one up in France for the five French subsidiaries, one in Scandinavia for our 21 Northern European subsidiaries, and one in Germany for the eight German subsidiaries. This was an important step for our heads of process. Beforehand, they had little influence over what people in subsidiary offices such as in Hanover or at Teroson in Heidelberg were doing. It enabled the cross-country standardization and the increase of the degree of automation, thus the achievement of our cost reduction targets.

Jürgen H. Daum: But now you are making the move to Eastern Europe, with a shared services center in Bratislava.

Carlo Mackrodt: Yes, but our approach is fundamentally different to the usual procedure. We first completely dedicated our efforts to the individual countries in Europe, integrating them into our process standardization and improvement program. We invested several years of

intensive work in that. We increased efficiency, reduced costs, improved quality, and reduced complexity. Not until the end of that roll-in process in 2006 did we decide to go for a shared services center in Eastern Europe. As you can imagine, we had extensive discussions within Henkel, involving the works council, management, and the owners. We analyzed every possible aspect that could affect employees. I am convinced that this focus on our employees was crucial to the successful transition, because it ensured that we had the employees' and organization's full backing.

Do not underestimate the potential for cost saving that the standardization of processes offers. We already reduced the financial costs in Europe from 1.6 percent of net external sales to 1.1 percent. The shared service center will further increase these savings.

Jürgen H. Daum: Did you really achieve full process standardization across all countries, or were there exceptions?

Carlo Mackrodt: We clearly set out the principle: Despite the many differences in local business, the financial process – how you process an invoice and post it in accounting, how you process a payment, and how you manage a receivable – should always be fundamentally the same. Our uniform IT platform, based on an SAP system, is our vehicle for enabling the standardization and ensuring that it is maintained. Anyone who wanted to deviate from the standard had to present their case to our IT council. There are of course certain circumstances when you have to deviate from the standard, such as legal requirements and specific customer needs. I tried to keep these cases to a minimum, however.

Jürgen H. Daum: How did you handle cost allocation to the business? Do you use this instrument to control the business' behavior in order to improve the process? Take for instance the classic example of an invoice that is received without a purchase order number or purchase request number. Processing such invoices is significantly more time consuming, so as an incentive to optimize the process, you could charge more for processing them.

Carlo Mackrodt: Transparency was our primary focus. We made it transparent that an invoice without a purchase request number costs approximately 10 times more to process than an electronic invoice with self-invoicing. Making that clear to the employees is what really enabled us to make progress. We can now rely on employees to consider how their actions can improve the process.

With regards to cost allocation, we took a pragmatic approach. We identified the key cost drivers in each process area. We allocate the overall process costs to the various business areas based on these cost drivers. For example, deductions are a major cost driver in receivables management. The system can tell you the number of deductions and of the other cost drivers. At the end of a period, we allocate the total cost for receivables management to the various business areas based on the four main cost drivers.

We used this same instrument to improve efficiency and reduce costs by making agreements with the business. We looked at the total costs at a particular time and worked out what proportion of those was down to processing deductions. We agreed that if the business improved its negotiations so that the number of deductions was reduced by one half, we could commit to reducing the number of employees who process deductions by one half.

That is why we need clear, unambiguous process definitions for both processes and subprocesses. That was one of the first things we set out to do when I joined Henkel. With the process definitions in place, we were able to see how many full-time equivalent employees were involved in each subprocess. That enabled us to determine what each process actually cost us at the time and what the potential savings were. After identifying and quantifying the necessary measures to achieve these savings, we ultimately reduced the costs for finance and accounting in Europe from 1.6 percent of net external sales to 1.1 percent.

Results and achievements

Jürgen H. Daum: In general terms, what did Henkel's approach achieve through its transformation of its finance function using the process-oriented approach that you describe? What do you think were your main successes?

Carlo Mackrodt: I'll start with our most important achievement: We established common perspectives and definitions that led to standardized working methods in Europe. That formed the basis for doing the same in America, where we have since also implemented our standardized SAP-based IT platform and have now the same potential as in Europe. Another important point is that we learned from each other: When selecting a process, we cherry-picked the best one. We did not have a lead country that all other countries had to follow. We picked the best process and defined and implemented it as the standard. Our project team was like a successful soccer team in which each of the 11 players has his or her specific role. Everyone knew where the goal was. That was very important. We had clear objectives, clear activities, and a clear implementation.

Furthermore, the process-oriented approach enabled us to define clear responsibilities and determine the necessary resource capacities, which had not been possible previously. Only then was everything measurable so that we could take action accordingly. We measured everything very precisely and that is how we were able to demonstrate our success so effectively. In turn, that gave our employees the confidence that brought such great momentum to the whole project.

What did we ultimately achieve? We significantly reduced the number for F&A units. In Europe, we went from 37 to 8 units. We reduced the legal entities. We implemented new cross-country standardized processes, thereby improving efficiency and reducing complexity. We also structured the interaction with the businesses based on clearly defined rules. Financials used to be a workhorse for the business, now we are an equal partner.

By the end, it was real proactive collaboration with the businesses. For example, regarding net working capital, we made recommendations about how the businesses could improve their receivables management when they negotiate new contracts. We gave them helpful guidelines and everyone realized that they were part of one big team that was really achieving something. Everyone was involved from the word go, so nobody jumped on the bandwagon – they were all helping to push it right from the start.

Factors for successful change management

Jürgen H. Daum: This project was clearly an ambitious change management project that required a strong performance from everyone involved. How did you create the positive momentum among the employees that ultimately led the project to a successful close?

Carlo Mackrodt: There were two components that I think played a part:

Firstly, there is the corporate culture at Henkel, which is very open and focused on the company. Everybody knows that no matter how many changes there are, it will always remain a family-owned company. They feel safe in the knowledge that the family and the management will always pay attention to each individual employee, taking his or her interests into account despite the scale of changes taking place around them. That feeling of security was the fundamental component.

The second component was that I involved the employees in every step and decision, always emphasizing that Rome was not built in a day and that we need clear common goals. In 2003, when we identified that our financial costs of 1.6 percent of net external sales were well above the worldclass benchmark of 1 percent, I first asked my own employees and later the local CFOs: Do we really want to become worldclass and achieve 1 percent? Everyone agreed with the goal and wanted to make the changes.

The success that we achieved would not have been possible without the special circumstances at Henkel and the support from the executive board. The executive board showed great trust in my efforts and in those of the team.

We all saw that we really had no option other than to be successful. But the employees also knew that I really cared about the people who were affected – I promised it to them regularly and did my utmost to prove it through my actions. I believe that anyone who lost their original function through the transformation found a very interesting new role. Nevertheless, I always communicated that employees' rewards would always reflect their performance.

Advice for companies with similar plans

Jürgen H. Daum: What advice do you have for other companies who are looking at similar projects?

Carlo Mackrodt: Before you even start the project itself, the first point is to check whether such an ambitious project is even suited to the corporate culture of the company. For the project to be successful, all employees need to see what is in it for them. You need a win-win situation. Employees need to be sure that their jobs are not on the line. After all, they know as well as anyone that personnel accounts for a lion's share of costs in finance.

The second aspect is that you need to create transparency and a common understanding. You must not rush anything and you must always communicate proactively. Set clear goals, take on a long-term perspective and break it down into small steps and milestones. That way, everyone in every process – no matter how small – will know what to do. By following that method, you break the work down into bite-sized pieces that you will not choke on and are easy to digest.

Jürgen H. Daum: Dr. Mackrodt, thank you for the interesting discussion.

Carlo Mackrodt graduated from Munich Technical University and began his career as a project manager in industrial casting technologies. After holding several positions as project manager in IT and system integration, he moved to top management consulting firm A.T. Kearney in 1992. In 2000, he joined DCI AG as executive board member for operations. Since 2002, Carlo Mackrodt has worked at Henkel, where he was vice president for Global Financial Services until the end of 2006. He has been vice president for Supply Chain Management EMEA for the industrial adhesives sector since 2007.

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