

CFO



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**>> Peter Ragauss,
CFO, Baker Hughes**

A Well-Oiled Machine

How oil giant Baker Hughes integrated its far-flung finance operations. **BY RUSS BANHAM**

➤ When Baker Hughes asked Peter Ragauss to become its chief financial officer in 2006, the company's audit committee warned him that internal controls at the oil-field-services company were haphazard at best. In fact, a few years earlier, the Department of Justice had come knocking about bribery and other violations of the Foreign Corrupt Practices Act (FCPA). But the former BP division controller was primed for the challenge of fixing the mess. "I felt if anybody could do it, I could," he says.

Fast-forward seven years, and Ragauss has strengthened Baker Hughes's controls. (The DoJ charges were settled in 2007.) But that's only the beginning. The CFO and his team have consolidated legacy systems and operating processes, reduced transaction costs, enhanced data insight for decision-making purposes, and beefed up planning and forecasting. In the process, finance has become a strategic partner with the broader business.

These vital improvements seemed far-fetched when Ragauss came to Baker Hughes. The company was formed in 1987 after the merger of Hughes Tool and Baker International, each of which was the combination of countless organizations over more than a century that had developed crucial technologies serving the petroleum sector. (Hughes Tool, for instance, was founded not by aviation pioneer Howard Hughes but by his father.)

These various legacy companies developed into autonomous divisions that defied integration—not an uncommon situation with many other large companies in the oil patch. In fact, Baker Hughes's board initially told Ragauss that it preferred maintaining the status quo of separate divisions when he was recruited. What it didn't want was seven different finance organizations.

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Each of the company's seven divisions was a separate organization, with a division finance leader who reported to a division president, not to the central CFO. "Hughes Christensen Drill Bits, for example, had a big factory at The Woodlands [in Houston] that sold drill bits worldwide, and had its own brand, sales team, and distribution,"



recalls Ragauss. “The division’s finance executive could be sitting right next to the finance executive of the Baker Atlas Wireline division at a meeting in Houston, Nigeria, or other parts of the world where we operate, and they wouldn’t know each other.”

This lack of familiarity exacted a price. Without interdivision affiliations, the company was squandering cost synergies, internal controls depended on each division’s separate audit group, and the processes for closing the books across the 80 countries in which Baker Hughes did business at the time varied dramatically.

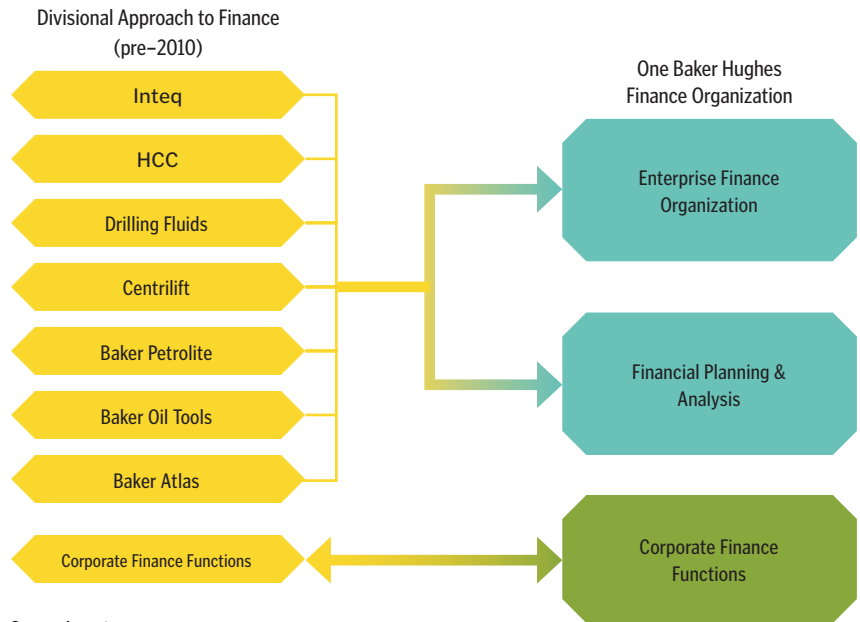
Meanwhile, effective data insight was nearly impossible. Five divisions had their own variant of the same SAP enterprise accounting system, and two were still operating on legacy systems. Even the invoices were different, as was the format for the quarterly planning reviews. “Although we had global standards for our accounting policies, in practice they were tailored to the interests of each division,” Ragauss confides. “We were a holding company with seven fiercely different ways of doing things, yet nearly all the divisions had the same customers.”

Sobering Findings

Among the new CFO’s first decisions was retaining consulting firm The Hackett Group to benchmark the finance organization against peer groups. Needless to say, the results were discouraging: Baker Hughes ranked in the bottom quartile. Among the study’s sobering findings was that finance needed to make much more meaningful contributions to strategic business decisions via data management and analytics—the way things were done at other oil companies, like BP, where Ragauss previously served as the controller of downstream refining and marketing.

No sooner was the ink dry on the benchmarking study than the CFO showed it to Paul Boulanger, senior managing director in Accenture’s manage-

Finance at Baker Hughes: Before and After



ment consulting group. “He showed me some of the findings and said, ‘What would you do if you were me?’” Boulanger recalls. “I told him to come back in a couple weeks and I’d give him an answer.”

When they next met, Boulanger spoke frankly. “I bluntly explained that I had never seen a high-performance finance organization with such a messy back office,” he says. “Peter concurred. His vision was to clean up the accounting, develop standard processes for closing the books and making statutory filings, consolidate various finance activities to generate cost efficiencies, and focus on ways to add value to the business through analytics.” The company retained Accenture to help Ragauss launch what would be dubbed the One Baker Hughes Finance Transformation Program.

The CFO assembled 30 finance managers from across the enterprise for a three-day, no-holds-barred assessment of what was broken and how it could be fixed. Among the key decisions was to consolidate the internal audit functions in the seven divisions into a single central audit function.

“I remember someone came up to me after the meeting and said, ‘This all sounds great, but the audit committee will never let it fly,’” Ragauss says. “Yet, when we made the proposal to the board, they said go for it. That told

me I had the support and endorsement to change things all the way up to the board level. It was liberating.”

Subsequent ideas for change, such as standardizing key accounting activities and migrating to one instance of SAP across the enterprise, also got the green light. Accenture was tasked to assess the consolidation of each division’s back-office payables, receivables, and general-ledger transaction processing. It determined that an outsourcing arrangement involving four shared-services centers in Latin America, the Philippines, and other major locations would be cost-effective and consistent, and improve transactional work. Another green light was given.

Key Decision

Then, in 2009, Baker Hughes’s then-CEO made a key decision to reorganize the company from a product-line configuration to a “geomarket” structure, in which markets in different countries like Brazil or Nigeria separately report their profits and losses. Gone were the seven separate divisions. Finance now had the opportunity to move much more rapidly to execute the transformation program, Ragauss says.

“Rather than report a P&L on a product like drill bits or wire, each of the 22 geographic markets reports on its

overall P&L,” he says. “Each geomarket is led by a managing director and finance head, the latter reporting directly to me.” Now, when the Eastern Hemisphere president of Baker Hughes makes a visit to Nigeria, for instance, he receives the same type of P&L that he does in Norway.

With the removal of divisional barriers, the pace of change accelerated. By 2010, Ragauss had separated the finance and accounting functions into the enterprise finance organization (EFO) and financial planning and analysis (FP&A), respectively. Gerald Crader, who later became vice president of the enterprise finance organization, was charged with developing the EFO for maximum effectiveness. Today, the group is the company’s accounting and reporting backbone, with about 1,300 employees operating from six regional internal accounting centers and smaller country accounting

centers, and manages the offshore work done by Accenture. The FP&A organization of around 250 professionals provides dedicated business analysis to the company’s business operations, as well as financial-planning and budgeting-and-forecasting expertise.

Over the past seven years, the hard

to around 1,800. “We’re saving on the order of \$50 million in labor costs alone each year,” Ragauss says.

Strategically, the CFO says he can now “see around the corners of the business,” thanks to improved data analysis on where to invest capital resources. New programs are under way

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work has paid off. With the new regional accounting centers and with back-office processes run by Accenture, closing the books has been pared from a 12-day exercise to 7 days, with a target of a 5-day, paperless close on the horizon. Since launching the transformation project in 2007, finance has slimmed down from more than 3,000 employees

to transition any future acquisitions to the SAP system within 12 months. By the end of 2013, finance hopes to generate an analysis of product-line and customer profitability down to the transaction level, which will certainly enhance planning going forward.

Following the acquisition of BJ Services in 2010 (see “A New Challenge”), Baker Hughes now operates in 90 countries, and it reported almost \$21 billion in 2012 revenues (an 8% year-over-year increase). Ragauss continues to benchmark the finance organization, which has moved up to Hackett’s third quartile and is expected to attain second-quartile status by year-end.

Meanwhile, internal controls are up to snuff. “We did everything we could, from computerizing expense reports and approvals to eliminating checks and petty cash, so everything can be tracked now,” says Ragauss. “We’re pretty comfortable nothing will slip through the cracks.”

Today, finance has become a strong partner with Baker Hughes’s business leadership. “We’re setting goals that transcend the delivery of traditional high-performance finance services,” Ragauss says, “and we’re not resting on our laurels.” **CFO**

▶ RUSS BANHAM IS A CONTRIBUTING EDITOR OF CFO.

A NEW CHALLENGE

A \$6.9 billion acquisition upped the ante for Baker Hughes’s reengineering.

▶ As if Peter Ragauss didn’t have enough on his plate already with Baker Hughes’s ongoing finance transformation, the company acquired BJ Services in 2010, for \$6.9 billion. BJ Services, a provider of pressure pumping services, came with 23 legacy IT systems and employed more than 800 people in finance alone. But the CFO and his team integrated the company’s finance group into Baker Hughes’s finance structure in a scant 18 months, with no increase in selling, general, and administrative expenses for the combined enterprise.

How did they do it? Essentially by treating the integration of BJ Services as if it were an extension of the overall finance transformation itself. The new acquisition was quickly moved to Baker Hughes’s SAP platform, in order to realize transaction synergies as soon as possible, says Ragauss. Baker Hughes’s accounting organization, comprising regional accounting operations supported by a global back-office hub, was well positioned to assimilate BJ’s operations, the CFO says. Thus Baker Hughes was able to handle the additional business volume without additional resources for its accounting operations. **▶ R.B.**