

Reinventing the CFO for the digital age

Digitization raises the demands on CFOs, along with the scale and influence of the role. How should finance chiefs reinvent?



In this episode of the *Inside the Strategy Room* podcast, McKinsey senior partner Kapil Chandra and associate partner Matt Stone speak with contributing editor Jonathan Turton about how the role of the CFO is evolving. (For more conversations on the strategy issues that matter, subscribe to the series on iTunes or Google Play.)

Podcast transcript

Sean Brown: From McKinsey's Strategy and Corporate Finance practice, I'm Sean Brown. Welcome to *Inside the Strategy Room*. Between M&A, digital transformation, and analytics, never before have CFOs been the center of so much disruptive innovation. The demands on CFOs are rising, along with the scale and influence of the role. Today's podcast was recorded at our 2019 CFO Forum, where the theme was "Reinventing the CFO." The Forum was hosted by Kapil Chandra, a senior partner in our London office, and Matt Stone, an associate partner also based in London. Jonathan Turton, a McKinsey contributor, sat down with Kapil and Matt after the forum to gather their reflections on the event and how the role of the CFO is evolving.

Jonathan Turton: Guys, congratulations. What a terrific event it's been. You just finished, just got off stage. How are you feeling, Kapil?

Kapil Chandra: Really energized. You know, my key takeaway from it was there is a huge set of opportunities that CFOs have in front of them. Yes, there are challenges and we can talk more about them as we go through, but I think the CFO is in a unique position to navigate a path through it for the company and for the shareholders. And I felt that the CFOs responded to the provocation with a really upbeat sense of optimism in terms not of why it's hard but what they can do to enable the organization. So, very uplifting.

Jonathan Turton: Matt, what was a big provocative moment for you? What stood out?

Matt Stone: The capability building that's required in the finance function, in terms of the new skills

that are required around data science, analytics, and so on.

One of the phrases used by one of our colleagues was, "The future of finance is finance quants hacking the business." What that means is not spending your time controlling the numbers, but rather being the one that can take all the different data sets and constantly look for new insights and really going toe to toe with the business and with the other parts of the organization to ask, "Where's your performance? Where could it be better?" and being a constructive challenger to the business.

Jonathan Turton: This year's theme was "Reinventing the CFO." What does that mean in practice?

Matt Stone: There's an enormous amount of change happening in the global economy right now. A lot of that is driven by technology, by digital analytics, and changes in society. Societal expectations of businesses are certainly much more pronounced now than they have ever been in the past. And you certainly see a lot of, let's say, rising geopolitical risk in the system.

Because of that kind of rapid change in the economy, businesses need to change very quickly and reinvent themselves. As Kapil was saying, CFOs, being at the center of all that, need to reinvent themselves to be able to enable that change.

Jonathan Turton: Kapil, in terms of the digital analytics framing that you put around this conference, how is that helping this reinvention that Matt's talked about?

Kapil Chandra: I think it is one of the drivers of the need for reinvention. We talked about how digital and analytics lead to very different economics from an industry perspective. You're seeing a lot more winner-takes-all models, and more value go to end consumers, while incumbents struggle capture the residual value. Understanding the dynamics of digital and analytics and what they do to the economics of your business, what it does to the economics of your industry, from a CFO perspective, is critical.

We talked about how CFOs can enable digital and analytics transformations within their organizations, whether they do it through thinking differently about budgeting, capital projects, or investment appraisal committees. These are pivotal processes within an organization for which the CFO can set the tone, which then drives the digital analytics agenda.

Jonathan Turton: You also talked at this conference about non-core finance topics, in addition to M&A and working capital. For example, you had a whole session on digital ecosystems. It's a very buzzy term, "ecosystems?" Matt, how do you see the CFO playing a role in driving that for an organization?

Matt Stone: Given the transformation of the broader economy and industries that we talked about earlier, it's very important for the requirements of the CFO to be much broader and also, frankly, deeper across a number of new content areas. One that we talked about was ecosystems, because as Kapil said, the way the economics of your sector change because of digital also leads to entirely new business models around platforms, and around finding your role in the ecosystem.

CFOs need to understand how that works to be able to do some of the investment committee and budgeting processes that enable that transition as a company. We also had a session on ESG investors.

Jonathan Turton: And ESG is?

Matt Stone: ESG is environmental, social, and governance investors. About \$30 trillion of assets currently under management are being invested with these strategies in mind. It is huge. Investor relations is a traditional CFO subject, however, when you have an ESG investor push coming to your board and through to the executive team, it means that the CFO has to play a role in the sustainability strategy of the company. It's not just something for the chief sustainability officer anymore. The CFO has to play a critical role there as well.

We also had a session on resilience. It's typically something that's talked about from the chief risk officer point of view. But we really feel that to be resilient through whenever the next downturn comes, the CFO has to prep the organization now to make the right moves when the time comes.

Kapil Chandra: We made ten predictions about what the future CFO role could look like. And prediction number one was that it's not one job, it's ten jobs. It goes all the way from the traditional performance and what you would associate with the finance function and extends into M&A activities, thinking about digital ecosystems, thinking about risk, resilience, and integration. That's why the theme, while it was underpinned by digital and analytics, was a very broad set of topics, as you say, Jonathan, which extend far beyond the traditional finance mandate. It reflects the reality of where most of our CFO clients need to play.

Jonathan Turton: One of your colleagues talked about CFOs being the angel on the shoulder of the board. Can you expand how that advisory role, if you like, has changed over the years or is changing, and how that's part of this reinvention process that's going on?

Kapil Chandra: The CFO has always been a critical advisor to the board. They've always been almost the conscience. They've always had this role of saying, "Do we believe the integrity of the plans? Do we really believe that what we're communicating to our external stakeholders and internal stakeholders is value creating?" That role remains critical. But the expectations from boards on CFOs, if anything, have increased. In an age of uncertainty where many of the investment decisions that you're taking and many of the strategic responses that you are having to make have much higher risk associated with them, then I think the CFO's role in being able to play that point and counterpoint, the balance and the counterbalance to the business, becomes incredibly important. Boards' expectations of CFOs are rising as a result of that.

Jonathan Turton: Matt, you presented on working capital management. What were some of the key insights? What were some of the CFOs in the room talking to you about when it came to managing all their cash?

Matt Stone: On working capital, in particular, we talked about how if you look at the S&P 500 right now and all the 10K and 10Q reports that are with the SEC, the number of mentions of just the word “cash” has been rising at something like a 15 percent compound annual growth rate over the past six or seven years.

And there was this long debate around, “Well, if cash is king and it’s always been king, why is it that we’re talking about it more now? And why is it that we’re talking about it more, even in an up economy?” And so there was a long debate around, “Well, our investors are expecting a lot more from us than they did even back in year 2012, 2013, where it was much more just about, ‘Let’s get back on the growth path,’ and so on.’ Now it’s about, ‘Where are the returns,’ and are we bringing that?”

The fascinating debate in that session in particular was when it comes to things that sound like a finance topic, such as working capital—the levers that you control as a CFO on a topic like that are not necessarily very many right? Actually the levers sit in procurement or supply chain or operations. Or they sit in commercial, across that entire cash conversion cycle. And so what is the CFO’s role to catalyze the organization to change its behaviors, its ways of working, and processes to unlock a significant amount a cash?

And across all of these topics, the CFO can only do so much despite the importance of the role. The CFO really needs to execute through a personal leadership style by getting the rest of the executive committee and the rest of the organization to deliver against these mandates.

Jonathan Turton: Kapil, you were in one of the sessions on “CFO superpowers.” Can you explain what that means?

Kapil Chandra: This was a session where we zoomed into the finance function and talked about, “What really is the potential for digital and analytics to enable CFOs and their finance functions?” The superpowers, as we referred to them, ranged from robotics and automation—which most finance functions have at the very least started a set a proof of concepts for—to visualization techniques, and then on to using analytics, first within finance and then outside finance, to enable business processes.

It was very rich discussion. Most CFOs that I spoke to see the value of digitization and have started on a journey. The issue most of them are grappling with right now is, “How do I scale this so that I have significant impact not just in one part of finance but across finance?”

The response on the analytics side was really interesting. I think there are some CFOs who feel there is value to being a data custodian for the entire organization, but others who wanted to stretch that much further and say, “Well, we do think that we could use data and analytics to be much better at forecasting, whether it’s sales forecasting, cash-flow forecasting, revenue forecasting, or looking for pockets of growth.” And that’s quite exciting, because it uncovers opportunity areas that finance is uniquely positioned to identify. And then with that capability, and the fact that finance teams own roughly half an organization’s data, complementing and enabling the business to drive forward on their plans came across as another superpower to develop.

Jonathan Turton: Do you think CFOs recognize they are to some extent a poster child for digital and analytics in the whole organization? Matt, from your experience of working with clients and the conversations you’ve had today, is that how they see themselves?

Matt Stone: I think CFOs want to be a role model on digital and analytics. There are some challenges in terms of getting to scale and deployments around digital and analytics. There’s a lot of talent and capability gaps that are quite hard to rectify as well. The traditional finance

function is not the place where it's easy to recruit a data scientist.

The potential is there for CFOs to provide real deep insights about the business to the rest of the executive team and to others in the business. CFOs aspire to do that and at scale, but I think there's still some execution challenges that are being worked through.

Jonathan Turton: Kapil, at the end of the day as you were closing, you talked very enthusiastically about how the CFO's role was still fun, and it strikes me that there's so much pressure on CFOs at the moment. They're being disrupted. They've got to deal with all the talent issues that Matt just referred to. I have to ask you, in what ways is it fun? How do you think that CFOs can maintain a sense of engagement and enthusiasm when they're facing so many challenges?

Kapil Chandra: I concluded with that because it is certainly my reflection after speaking to many CFOs, and this is also what I heard from the CFOs over the course of our event. I think you're totally right. It is easy to default into this mode of, "It's a really hard, challenging job." I don't think that there is any getting away from that. The expectations are increasing, the stakes are higher, and the risk is higher. And so of course it's a harder job. But I think it's a really fun job, because CFOs have a platform to be able to deal with all of these issues. They have an ability, really, to be the connecting glue that enables the entire business to move forward on these issues. As a business executive, that sounds like a really fun opportunity. It's hard, but the stakes are high and you have the ability to really influence it, and people are looking at you to help influence it.

Jonathan Turton: The last session today with your colleagues talked a lot about mind-sets. And it seems to me that if you're reinventing yourself that's at least as much about mind-sets as it is

about skills and knowledge. So, the question is how do CFOs change their mind-set and I guess, crucially, what will happen if they don't?

Matt Stone: The mind-set shift is vital. There are a couple of ways to think about this. Number one is, "Who are the stakeholders that I really have an obligation to?" It's the board, it's the shareholders, it's the employees in my finance function, it's the other executives, right? "And what do they need from me to do their jobs really well?" It's almost this concept of leading from behind. This idea that to be a great leader, you need to make everybody around you better at their jobs. How does the CFO start from a place like that, where you're there to provide the insight, the constructive challenge that enables you to have those conversations and that make people push a bit harder and get better at what they do?

The second bit of it is this idea of the breadth of your knowledge base. If you are simply somebody who is going to take the numbers from the previous quarter, talk about variances versus the budget, what's driving that and so on, I mean, that's core, that needs to happen. But there's so much else that's being asked of you. And so it's absolutely vital to be fluent in things like digital ecosystems, the sustainability strategy of the business, and so on. It goes back to your question, Jonathan, about the role of the CFO to the board and being the angel on the shoulder. That is a mind-set shift in and of itself, and being somebody who can have those conversations across the entire strategy of the business with the board and with the other executives.

Jonathan Turton: Guys, thank you very much for your time.

Kapil Chandra: Thank you.

Matt Stone: Thank you, Jonathan.

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