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Corporate Finance Practice

Bringing a healthy dose of pragmatism to strategy

Two experienced senior finance executives discuss their changing roles.

Martin Hirt

It's been some time since the core role of a company's chief of finance was to be its chief accountant and controller. Fallout from the 2008 financial crisis, the pace of technological change, and the shift of global economic activity from developed to emerging markets have continued to add to the CFO's responsibilities—and have confirmed the executive's role as a business partner who is very much involved in the strategic direction of a company.

McKinsey's Martin Hirt explored some of the practical implications for finance chiefs with Iain Mackay, group finance director for HSBC, and Marina Wyatt, CFO of Dutch location- and navigation-services company TomTom, at McKinsey's annual CFO Forum in London in June. The two agreed on a role for CFOs that brings the insights of finance to bear on strategy—communicating value and pressuring all those involved in strategy to define their vision with respect to value creation.

McKinsey: *One board member I know described the change in the CFO's role by saying, "The chief financial officer today is expected to be a little more chief and a little less financial." How do you balance a broader, more strategic role with the one as lead controller?*

Marina Wyatt: With a healthy dose of pragmatism. One way CFOs add value is to create transparency

Iain Mackay

Education
Holds an MA in business studies and accounting from the University of Aberdeen

Career highlights
HSBC
(2007–present)

Group finance director, HSBC Holdings (2010–present)

CFO, HSBC Asia Pacific Holdings (2009–10)

CFO, HSBC North American Holdings (2007–09)

GE
(1996–2007)

CFO, GE Diagnostic Imaging (2004–07)

CFO, GE Money (2002–04)

Vice president, capital-audit staff (2000–02)

Fast facts
Is a chartered accountant with accreditation from the Institute of Chartered Accountants of Scotland

Serves as a board member for HSBC Holdings

where investments are being made—often translating jargon into language and goals that people understand. This is important both internally and externally, so that people know how we're doing and where we're going.

But communicating that message can be challenging, even internally. For example, when the CFO of a technology company is responsible for its business-intelligence systems, the technology developers always want to move the entire company to the cutting edge. That's not what a CFO wants for the core financial systems and core financial information, since being on the edge comes with some degree of unreliability. So there's a natural dissonance between incredibly high expectations about what management information can deliver and how it should be delivered. I've learned from experience that the CFO has to steer through such differences—in this case, to take a steady, pragmatic approach and leave the cutting-edge technology to the products and not to the supporting information systems.

McKinsey: *Iain, you've been in finance in both industrial and banking companies. What's your experience been like?*

Iain Mackay: You can define a finance professional or CFO role in a hundred different ways in terms of how the job is done. I worked at GE for 11 years, and part of the culture at GE at that time was that nothing really happened unless the finance guys felt good about the business case. The CFO was very much a business partner. You have to understand the business or you won't be effective in that regard.

In banks, at HSBC, I've found the role of finance to be more about keeping the books and records, meeting the demands of reporting requirements and regulatory change (much of which has been necessary in the wake of the financial crisis), and external reporting, talking to shareholders. Although that's a significant part of the role for finance, it's by no means the entire picture. When I see the performance of a business not aligning to strategy, not achieving its goals and objectives, then part of the role is to ask why. That challenge and support process is enormously interesting—especially in an industry where incredible numeracy is stock in trade. This is where we spend increasingly more time as a finance function.

Marina Wyatt

Education
Holds an MA in geography from Cambridge University

Career highlights
TomTom
(2005–present)

CFO (2005–present)

Member of the board (2008–present)

Colt Telecom
(2002–05)
CFO

Psion
(1994–2002)

Group finance director (1996–2002)

Group controller (1994–96)

Arthur Andersen
(1985–94)
Senior manager

Fast facts
Serves as a nonexecutive director of Shanks Group, where she is a member of the audit, remuneration, and nomination committees and chair of the audit committee

Previously served as a nonexecutive director of Blackwell Publishing and Symbian

Is a chartered accountant and a fellow of the Institute of Chartered Accountants in England and Wales

As CFO, you're also a barometer of company performance for everybody who's around you, colleagues and investors alike. The more exposed you are to them, the more they will try to read something about the company through your mood. For example, I spent three mornings this week in investor meetings, answering the same three questions probably 30 times over: "How do you grow revenues? Where does capital in the banking industry end up? What's the risk on exposure to conduct, fines, and penalties?" It's repetitive, but you still need to do it and keep the right tone and mood because it's new to the people you're talking to. It's the same with colleagues and the teams you work with. There is so much change, driven both by the industry and by regulation—as I mentioned, much of it merited—and that creates stress and anxiety for people. I find it actually helps my own frame of mind as well if I can remain reasonably positive and balanced.

McKinsey: *Marina, one of the characteristics of your business is that growth comes through partnership, shaping the ecosystem, and being proactive with business partners. What's your role in all that?*

Marina Wyatt: We operate a number of different businesses in a very dynamic industry. Some of those businesses rely on partnerships to grow, some grow organically, and some grow through M&A. The strategic plan for each of our businesses starts almost with a single sheet of paper that sets out goals, a short list of the actions each needs to take to achieve its goals, and performance milestones along the way. Some of those strategic goals can only be done through partnership—which we typically use to get into new areas of industry.

I'm involved in shaping that up-front plan and how we're going to achieve our strategic goals, and then we go from there and set out where those partnerships are going to be. For example, the GPS sport watches that we've brought out in our consumer division are a new area for us. We believed our brand could extend there, but to establish credibility, we needed to line up with somebody else—in this case, with Nike. In the automotive industry, where we are putting our navigation and our traffic systems and our maps into built-in dashboard systems, it's also critical to build partnerships with top-tier suppliers to automotive original-equipment manufacturers. I have a hands-on role in all of this.

McKinsey: *Iain, what about the role of investors? How should CFOs think about their voice in value creation?*

Iain Mackay: If you look at the valuation of a lot of banks around the world today, many are traded way below book value. Investors in those companies should be activists, I would argue, and challenge management teams about what it is they need to do to get the valuation at least back to book and the creation of value.

That's what it comes back to, the creation of value. In any industry, but perhaps especially in banking, value creation has to be developed on the basis of financial strength and sustainability. In that context, the questions we should be asking ourselves are, what are we good at? Where can we serve effectively in the world? If there are places in the world that we ought to be, because that's where the economic opportunity is but we aren't, what do we do, or is the economic benefit actually worth the investment? Could we succeed? What's the competition like? At HSBC, we have spent three years getting rid of things that didn't make sense from a value-creation perspective or, if they did, were better in somebody else's hands because they were better able to manage them. We've narrowed down the range of things we focus on from day to day, month to month, to what we do best.

All of this needs to fit into the day-to-day challenges of the world around us, so then I start worrying about what I don't know, and I worry about what matters for achieving the goals and objectives we've set out for shareholders. A simple reference point I use to inform my worries—which isn't foolproof—is a weekly scan of the *Economist*, asking myself whether there's something going on in the world that I'm not focused on that maybe I should be. But the focus has to be on the things that matter to create value for the shareholder. And you have to validate that with your investors: "Do you think what we're doing is right? Does it make sense for the future? And if so, here's a matrix by which you can measure us—do you think we're doing a decent job of it?"

McKinsey: *Marina, you have a different investor structure, with the founders still owning a large part of the company. How do you split your time?*

Marina Wyatt: Yes, there is a founder shareholding, and the founders are very involved in the business. However, we also have a significant free float, and we have quite a strong retail investor base that is vocal, as well as institutional investors. I focus very much on the external ones, so I'm focusing on the institutions, telling the story, and also talking a lot with retail investors in the annual general meeting. Some institutional investors do have a fixed view on what we should be doing, and while I agree the management team needs listen, it also needs to set the direction and execute against it and not get too distracted. You just keep explaining it and reinforcing it and saying, "These are the things you need to look at and measure us by." That's what we do.

Martin Hirt is a director in McKinsey's Taipei office.