Two-thirds of all executives agree that the best way for CFOs to ensure their company’s success would be to spend more time on strategy.\(^1\) Indeed, it is increasingly common for CFOs to be taking on more strategic decision making. Companies value the hard data and empirical mind-set that a finance chief can lend to strategic planning, especially around forecasting trends, building strategic capabilities, or managing government and regulatory relationships.\(^2\)

Yet as CFOs map out what can be a wide range of strategic responsibilities, they may encounter challenges and even turf wars from some traditional strategy leaders, such as chief strategy officers (CSOs) and business-unit heads. These seldom boil over into public view, but we often see signs of tension where the two roles increasingly overlap. Such friction is destructive—and a missed opportunity. Working together, CFOs and CSOs have the stature to challenge biases and influence how the top team makes decisions to improve a company’s performance. In many cases, a CSO may be better placed to take on certain roles typically managed by the CFO, such as owning the resource-allocation map or the M&A process. Many CFOs are the first among equals on a company’s board of directors and can assist CSOs at improving board productivity on strategy. Having explicit conversations about expectations and the division of such roles will improve the dynamics of strategic
decision making—by ensuring a better link between a company’s capital allocation and its strategic priorities, by better informing a search for growth, and by better balancing a company’s strategy for long-term growth with its short-term strategy for earnings and investors.

**Better linking capital allocation to strategic priorities**

Research by our colleagues finds that, on average, companies allocate 90 percent or more of their resources to the same projects and activities year after year, regardless of changes in the environment or their strategies. Dynamic companies that reallocate resources more actively deliver better, less volatile annual returns to shareholders, on average, than their more dormant counterparts—particularly during economic downturns.

CSOs and CFOs each bring insights to create a better link between resource allocation and strategy in the corporate-strategy-development process. This means, among other things, creating a distinct corporate- or portfolio-strategy process (rather than just aggregating business-unit plans); encouraging more frequent conversations among small groups of senior leaders on an ongoing basis, rather than annually or every three to five years; and ensuring that the corporate-strategy and budgeting processes are fully integrated with capital-allocation processes (including M&A and divestment). This integrated view of strategic direction and resulting allocation of corporate resources demands close collaboration between finance and strategy.

In the case of one North American healthcare company, the CSO set up a planning council that included the CFO to discuss strategic issues, growth opportunities, and funding needs. For each of the promising opportunities—which carried the imprimatur of both the CFO and the CSO—the council appointed a strategic leader. Each leader was tasked with creating a deliberate dialogue with existing business leaders and cultivating their support for more than a dozen related initiatives well in advance of the annual allocation process. As a result, the council was able to aggressively challenge the expenses attributed to running the business and set aside a defined amount for growing the business instead. This result clearly was achieved due to the foresight and trusted collaboration of the CFO, the CSO, and their teams.

CSOs can also track how critical resources such as growth investments and talented R&D teams are used. This allows managers to assess whether resources are allocated to support strategy—or whether each year’s capital allocations unduly influence the next.

Finally, CSOs can pay close attention to the way strategic decisions are made, for example, by managing the executive team’s strategic agenda and prompting debate on competing options and scenarios to account for inherent sources of bias. Often this means bringing external data into the room to help reanchor discussions away from assumptions based on prior decisions. The CSO at a consumer-products company, for example,

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used this approach to good effect when managers found themselves facing a major disruption in a core market. The CSO shepherded the executive team through a series of strategic decisions that allocated resources away from traditional cash cows. Instead, she shifted attention and resources into a disruptive technology identified by the company’s widely accepted strategy review as the future of the business. To guide the discussion, she clearly laid out the level of resources needed to fund the agreed-upon strategy, reminded the executive team of the rationale for the change of direction, and carefully positioned each decision to reduce the likelihood of bias.

**Looking outside the company for insights into growth**

CFOs agree that companies need to step up their game in a wide range of growth-related activities, particularly driving organic growth, expanding into new markets, and pursuing M&A. Recent McKinsey research shows that more than 60 percent of growth comes from riding on favorable tailwinds—that is, doing business in markets that are growing well and where companies enjoy a competitive advantage. However, a 2010 survey found that less than 15 percent of executives consider such macroeconomic trends when they develop strategy, and only 5 percent take their competitors’ strategies into account. Moreover, less than a quarter even look at their own internal financial projections and portfolio performance. Little wonder that companies and their CFOs struggle to find growth; they’re looking at a mirror and not a window.

CSOs are well placed to help correct this. Many CSOs own the organization’s trend-forecasting and competitor-analysis function. Good trend forecasting involves creating proprietary insight into trends, discontinuities, and potential shocks to find growth opportunities and manage business risk. Similarly, good competitor analysis involves gathering competitive intelligence, closely tracking the behavior of competitors, monitoring their potential responses to a company’s strategic moves, and evaluating their sources of competitive advantage. All are necessary to understand how a company creates value—the foundation of the strategic decisions that best balance a corporate portfolio for risk and return. Armed with such insights, CFOs and CSOs together are better placed to go beyond a CFO’s traditional strengths in managing the portfolio, navigating it toward growth opportunities, setting objectives for organic growth, and planning a strategy for M&A.

The experience of a CFO and CSO at one industrial conglomerate is illustrative. The newly appointed CSO developed a proprietary view of what contributed to each business’s growth and injected that insight into corporate-strategy discussions. Underlying factors included, for example, projections down to the level of how much new commercial floor space would be built in Latin American cities—a central variable in forecasting demand for the company’s most advantaged products, such as electrical wiring. The CFO, in turn, provided data and analytical rigor in assessing the business case for each product. In particular, the CFO created a database that empirically evaluated pricing relative to demand and the number of competitors in each submarket. With information at this level of detail, the executive team could see which businesses in the company’s portfolio were the best positioned to capture pockets of growth. Not only were they better able to set targets for organic growth, which the CFO now uses to manage performance, but they also used the information to develop a clear acquisition and divestment strategy.

**Taking a long-term strategic view to offset short-termism**

A key challenge at any company is balancing the long-term growth strategy against the demands of
increasingly vocal short-term investors. Working together, a strategist’s deep understanding of regulation, innovation, and microeconomic industry trends complements a CFO’s understanding of cost and revenue, capital allocation, and stakeholder issues. Together, they can put forth options that improve both a company’s short-term earnings and its longer-term growth in a way that is compelling to management, boards, and investors.

To facilitate collaboration, one company explicitly rotates strategy and finance professionals between the two teams. Formal structures, such as the strategic-planning team, include people from both—strategic planning has two from each—so that they start the budgeting process hand in hand. That enables both sides to see how resources align with the long- and short-term strategies as they make long-term resource allocations, evaluate make-or-buy decisions, and challenge the business case.

Working together, finance chiefs and strategy leaders can complement each other, helping the CEO, the board, and the rest of the executive team face the challenges of creating growth over the long term in the face of so many short-term challenges.

1 Ankur Agrawal, Kaustubh Joshi, and Ishaan Seth, “The CFO’s role in the pursuit of growth,” June 2013, mckinsey.com.