

# The new CFO mandate: Prioritize, transform, repeat

Amid a raft of new duties for CFOs, our survey suggests that finance leaders are well positioned to lead the C-suite agenda by championing transformations, digitization, and capability building.



If you wanted to validate the old adage that the only constant in life is change, the results from our newest McKinsey Global Survey suggest you need not look any further than the CFO role.<sup>1</sup> In the two years since our previous survey on the topic, CFOs say the number of functions reporting to them has risen from about four to more than six. What's more, the share of CFOs saying they oversee their companies' digital activities has doubled during that time. And many finance leaders say they are being asked to resolve issues in areas that are relatively new to them while continuing to mind traditional responsibilities, such as risk management, that remain business priorities.

Responses indicate that the opportunity for CFOs to establish the finance function as both a leading change agent and a source of competitive advantage has never been greater. Yet they also show a clear perception gap that must be bridged if CFOs are to break down silos and foster the collaboration necessary to succeed in a broader role. While CFOs believe they are beginning to create financial value through nontraditional tasks, they also say that a plurality of their time is still devoted to traditional tasks versus newer initiatives. Meanwhile, leaders outside the finance function believe their CFOs are still primarily focused on and create the most value through traditional finance tasks.

How can CFOs parlay their increasing responsibility and traditional finance expertise to resolve these differing points of view and lead substantive change for their companies? The survey results point to three ways that CFOs are uniquely positioned to do so: actively heading up transformations, leading the charge toward digitization, and building the talent and capabilities required to sustain complex transformations within and outside the finance function.

### Changing responsibilities, unchanged perceptions

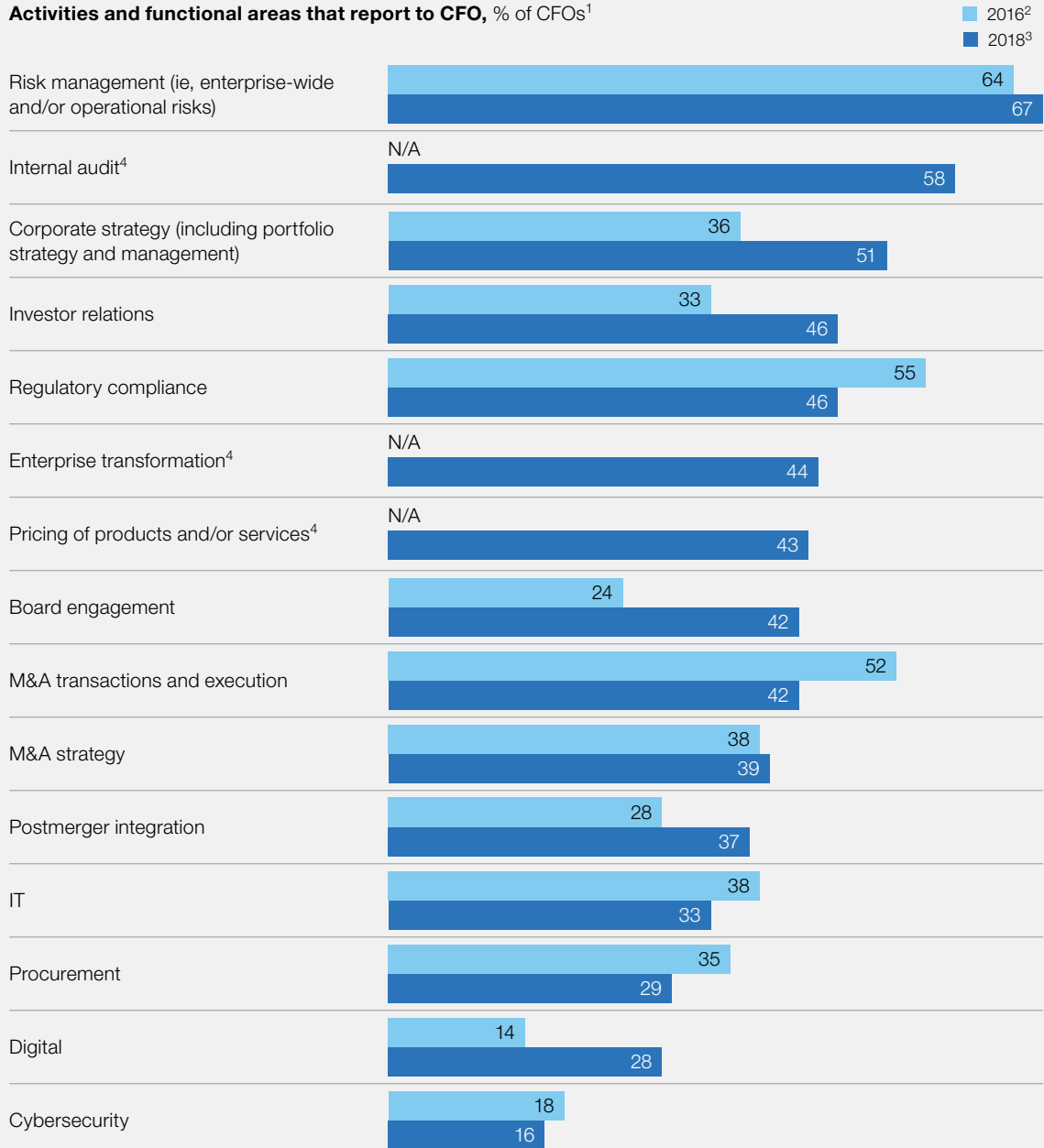
The latest survey results confirm that the CFO's role is broader and more complex than it was even two years ago. The number of functional areas reporting to CFOs has increased from 4.5 in 2016 to an average of 6.2 today. The most notable increases since the previous survey are changes in the CFO's responsibilities for board engagement and for digitization (that is, the enablement of business-process automation, cloud computing, data visualization, and advanced analytics).<sup>2</sup> The share of CFOs saying they are responsible for board-engagement activities has increased from 24 percent in 2016 to 42 percent today; for digital activities, the share has doubled (Exhibit 1).

The most commonly cited activity that reports to the CFO this year is risk management, as it was in 2016. In addition, more than half of respondents say their companies' CFOs oversee internal-audit processes and corporate strategy. Yet CFOs report that they have spent most of their time—about 60 percent of it, in the past year—on traditional and specialty finance roles, which was also true in the 2016 survey.

**Exhibit 1**

**The number of functional areas reporting to CFOs has grown since 2016, with notable increases in areas such as board engagement and digital.**

**Activities and functional areas that report to CFO, % of CFOs<sup>1</sup>**



<sup>1</sup> This question was asked only of CFOs.

<sup>2</sup> Respondents who answered “physical security,” “other,” and “don’t know” are not shown; n = 193.

<sup>3</sup> Respondents who answered “other” are not shown; n = 212.

<sup>4</sup> This option was only included in 2018.

Also unchanged are the diverging views, between CFOs and their peers, about where finance leaders create the most value for their companies (Exhibit 2). Four in ten CFOs say that in the past year, they have created the most value through strategic leadership and performance management—for example, setting incentives linked to the company’s strategy. By contrast, all other respondents tend to believe their CFOs have created the most value by spending time on traditional finance activities (for example, accounting and controlling) and on cost and productivity management across the organization.

Finance leaders also disagree with nonfinance respondents about the CFO’s involvement in strategy decisions. CFOs are more likely than their peers to say they have been involved in a range of strategy-related activities—for instance, setting overall corporate strategy, pricing a company’s products and services, or collaborating with others to devise strategies for digitization, analytics, and talent-management initiatives.

### Guiding and sustaining change

Our latest survey, along with previous McKinsey research,<sup>3</sup> confirms that large-scale organizational change is ubiquitous: 91 percent of respondents say their organizations have undergone at least one transformation in the past three years.<sup>4</sup> The results also suggest that CFOs are already playing an active role in transformations. The CFO is the second-most-common leader, after the CEO, identified as initiating a transformation. Furthermore, 44 percent of CFO respondents say that the leaders of a transformation, whether it takes place within finance or across the organization, report directly to them—and more than half of all respondents say the CFO has been actively involved in developing transformation strategy.

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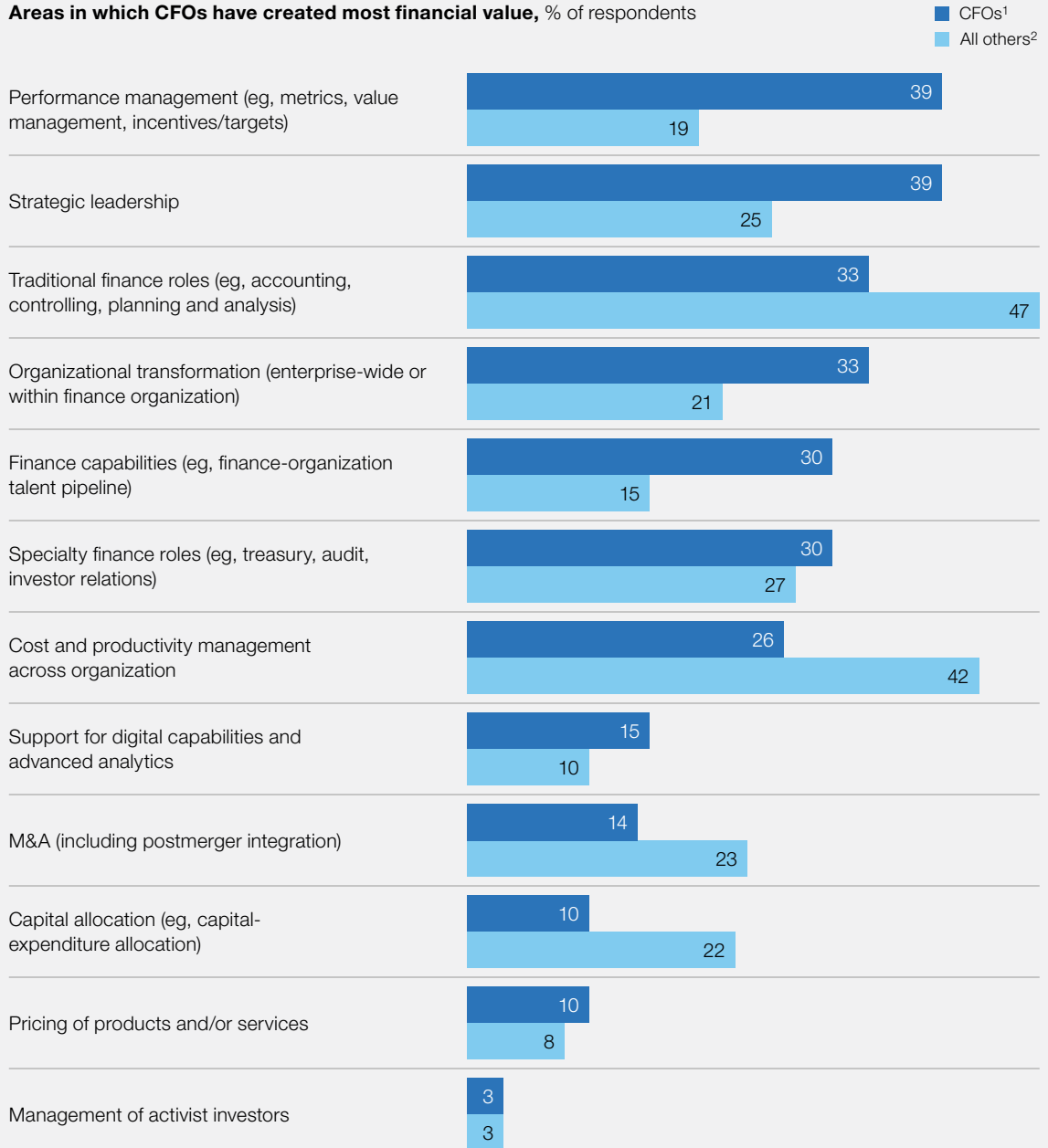
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**Exhibit 2**

**CFOs and their peers have diverging views about where CFOs create the most value; non-CFOs most often note the value generated in traditional areas.**

**Areas in which CFOs have created most financial value, % of respondents**



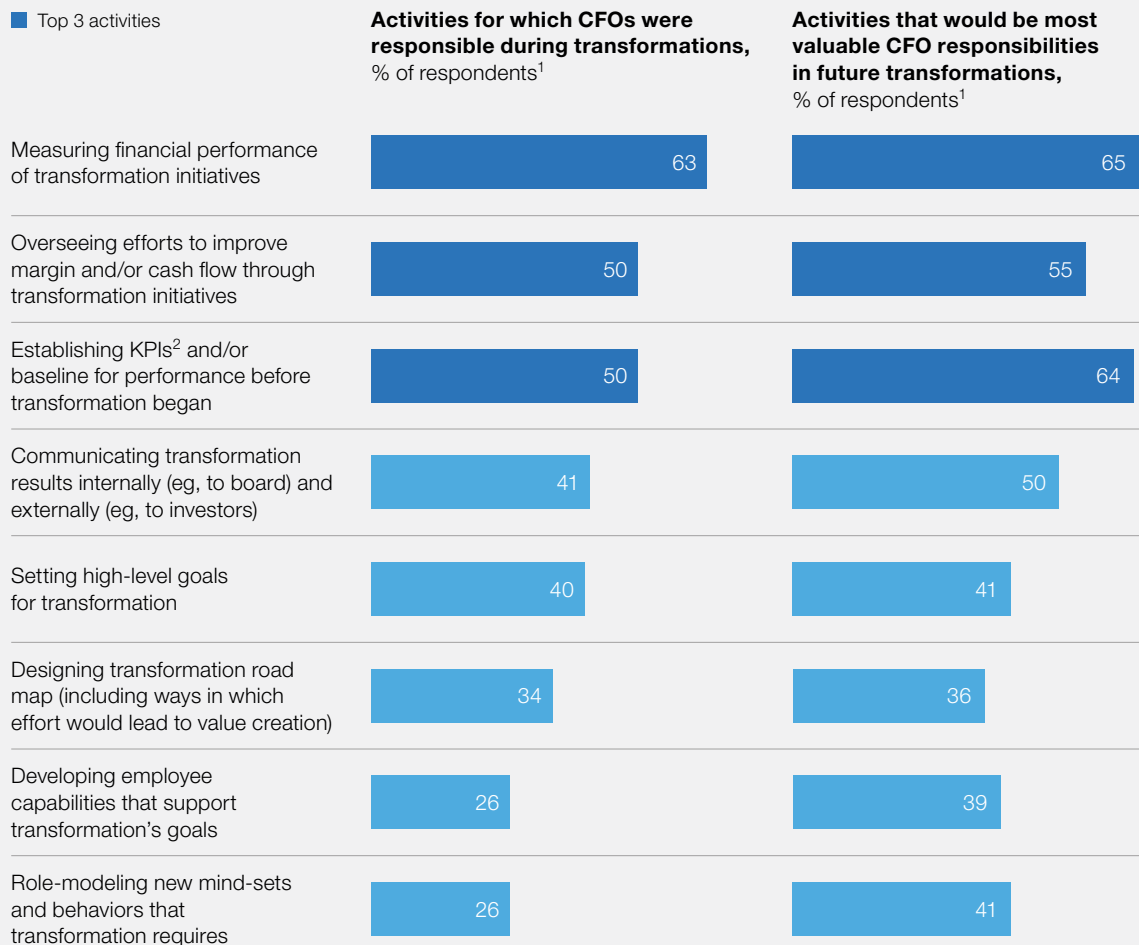
<sup>1</sup> Respondents who answered “other” are not shown; n = 212.

<sup>2</sup> Respondents who answered “other” or “don’t know” are not shown; n = 224.

Respondents agree that, during transformations, the CFO's most common responsibilities are measuring the performance of change initiatives, overseeing margin and cash-flow improvements, and establishing key performance indicators and a performance baseline before the transformation begins. These are the same three activities that respondents identify as being the most valuable actions that CFOs could take in future transformations (Exhibit 3).

**Exhibit 3**

**The activities CFOs most often oversee during transformations are the same as those identified as most valuable for the future.**



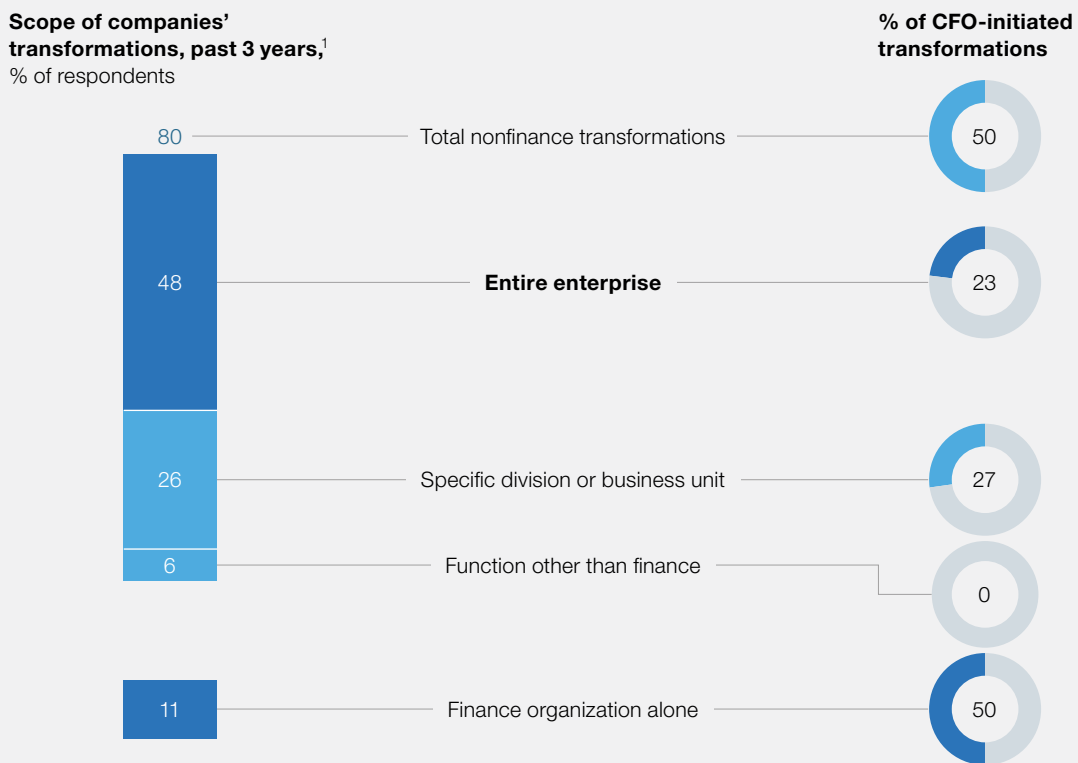
<sup>1</sup> Respondents who said "other," "none of the above," or "don't know" are not shown; n = 389.

<sup>2</sup> Key performance indicators.

Beyond these three activities, though, respondents are split on the finance chief’s most critical responsibilities in a change effort. CFOs are more likely than peers to say they play a strategic role in transformations: nearly half say they are responsible for setting high-level goals, while only one-third of non-CFOs say their CFOs were involved in objective setting. Additionally, finance leaders are nearly twice as likely as others are to say that CFOs helped design a transformation’s road map.

Other results confirm that finance chiefs have substantial room to grow as change leaders—not only within the finance function but also across their companies. For instance, the responses indicate that half of the transformations initiated by CFOs in recent years were within the finance function, while fewer than one-quarter of respondents say their companies’ CFOs kicked off enterprise-wide transformations (Exhibit 4).

**Exhibit 4 CFOs have substantial room to grow as change leaders: Most have not initiated an enterprise-wide transformation.**

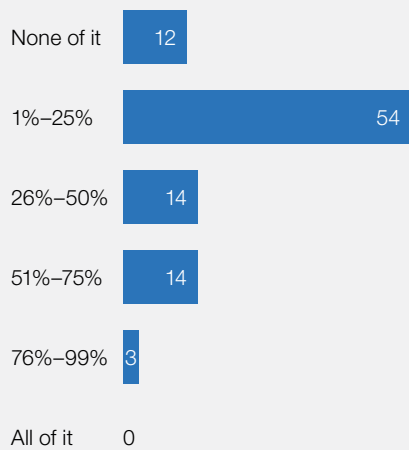


<sup>1</sup> Respondents were asked to describe scope of transformation with which they were most familiar. Respondents who answered “not applicable; my company has not undergone a transformation in the past 3 years” are not shown; n = 436.

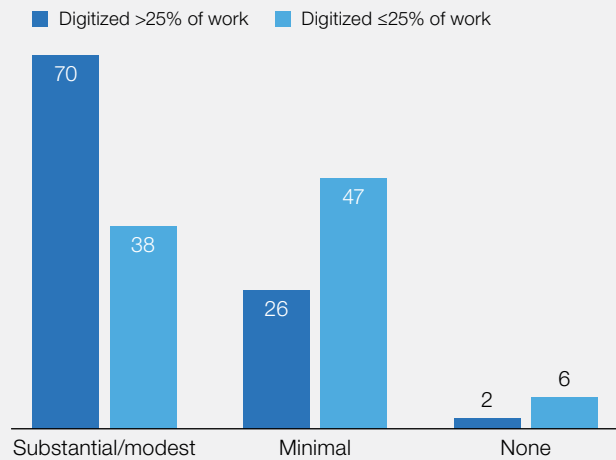
**Exhibit 5**

**Few finance organizations have digitized more than 25 percent of work, but respondents from highly digitized organizations report notable returns from the effort.**

**% of finance organizations' work that has been digitized and/or automated, past 12 months, % of respondents<sup>1</sup>**



**Return on investment generated from finance organizations' digitization and/or automation, past 12 months, % of respondents<sup>1</sup>**



<sup>1</sup> These questions were asked only of CFOs and those in the finance organization; n = 262. Respondents who said “don’t know” are not shown.

**Leading the charge toward digitization and automation**

The results indicate that digitization and strategy making are increasingly important responsibilities for the CFO and that most finance chiefs are involved in informing and guiding the development of corporate strategy. All of this suggests that CFOs are well positioned to lead the way—within their finance functions and even at the organization level—toward greater digitization and automation of processes.

Currently, though, few finance organizations are taking advantage of digitization and automation. Two-thirds of finance respondents say 25 percent or less of their functions’ work has been digitized or automated in the past year (Exhibit 5),<sup>5</sup> and the adoption of technology tools is low overall. The survey asked about four digital technologies for the finance function: advanced analytics for finance operations,<sup>6</sup> advanced analytics for overall business operations,<sup>7</sup> data visualization (used, for instance, to generate user-friendly dynamic dashboards and graphics tailored to internal customer needs), and automation and robotics (for example, to enable planning and budgeting platforms in cloud-based solutions).<sup>8</sup> Yet only one-third of finance respondents say they are using advanced analytics for finance tasks, and just 14 percent report the use of robotics and artificial-intelligence tools, such as robotic process automation (RPA).<sup>9</sup> This may be because of what respondents describe as considerable challenges of implementing new technologies. When asked about the biggest obstacles to digitizing or automating finance work, finance respondents most often cite a lack of understanding about where the opportunities are, followed by a lack of financial resources to implement changes and a need for a clear vision for using new technologies; only 3 percent say they face no challenges.



At the finance organizations that *have* digitized more than one-quarter of their work, respondents report notable gains from the effort. Of these respondents, 70 percent say their organizations have realized modest or substantial returns on investment—much higher than the 38 percent of their peers whose finance functions have digitized less than one-quarter of the work.

### Unlocking the power of talent

The survey results also suggest that CFOs have important roles to play in their companies' talent strategy and capability building.<sup>10</sup> Since the previous survey, the share of respondents saying CFOs spend most of their time on finance capabilities (that is, building the finance talent pipeline and developing financial literacy throughout the organization) has doubled. Respondents are also much more likely than in 2016 to cite capability building as one of the CFO's most value-adding activities (Exhibit 6).

Still, relative to their other responsibilities, talent and capabilities don't rank especially high—and there are opportunities for CFOs to do much more at the company level. Just 16 percent of all respondents (and only 22 percent of CFOs themselves) describe their finance leaders' role as developing top talent across the company, as opposed to developing talent within business units or helping with talent-related decision making. And only one-quarter of respondents say CFOs have been responsible for capability building during a recent transformation.

But among the highest-performing finance functions, the CFO has a much greater impact. Respondents who rate their finance organization as somewhat or very effective are nearly twice as likely as all others to say their CFOs develop top talent organization-wide (20 percent, compared with 11 percent). Among those reporting a very effective finance function, 38 percent say so.

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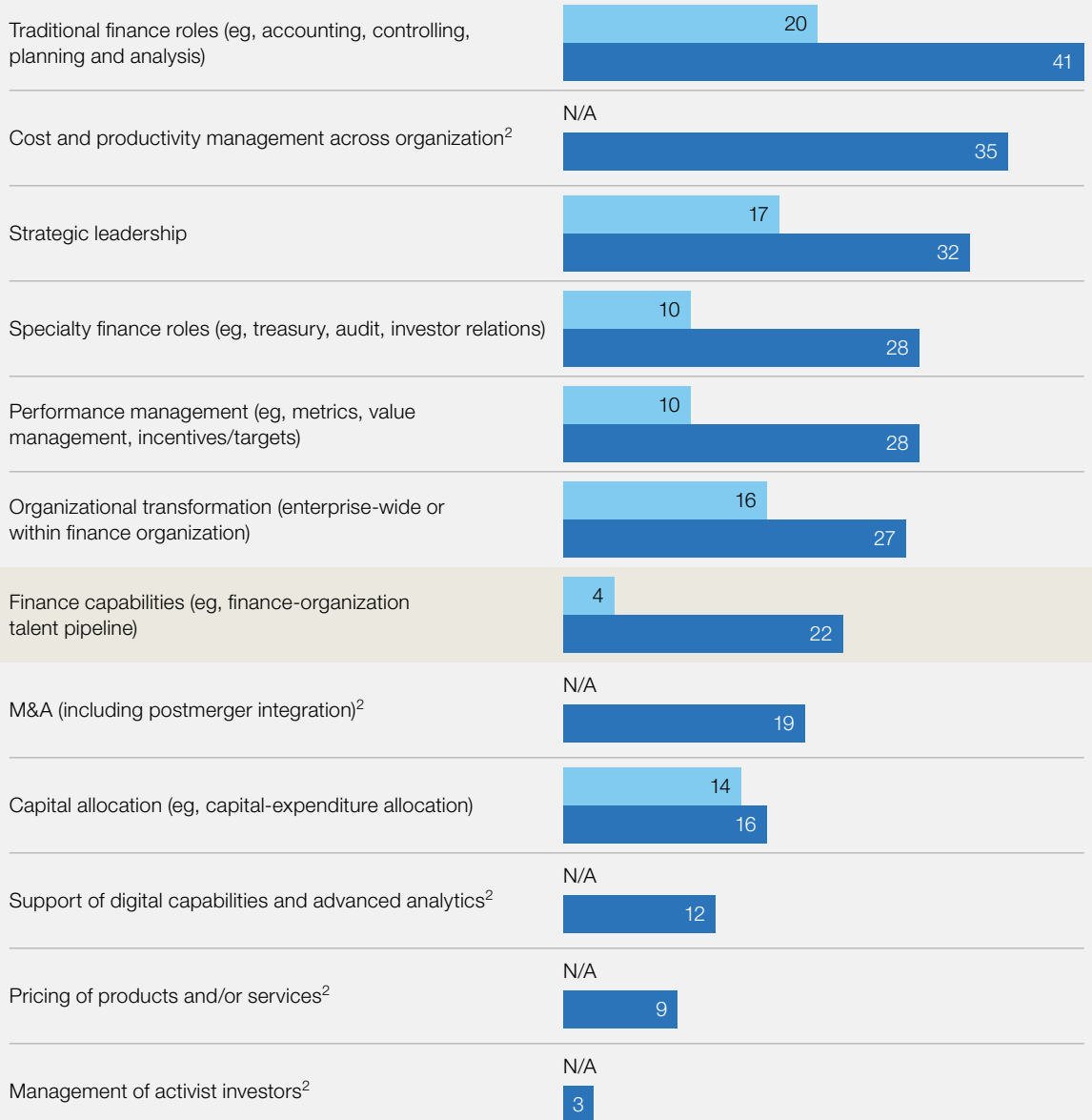
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**Exhibit 6**

**Respondents are increasingly likely to cite capability building as one of the CFO's most value-adding activities.**

**Areas in which CFOs create most financial value for companies, % of respondents<sup>1</sup>**

2016  
2018



<sup>1</sup> Respondents who said “other” or “don’t know” are not shown. In 2016, n = 526. In 2018, n = 436.

<sup>2</sup> Not asked in 2016.

## Looking ahead

It's clear from the numbers that CFOs face increased workloads and expectations, but they also face increased opportunities. In our experience, a focus on several core principles can help CFOs take advantage of these opportunities and strike the right balance:

- ***Make a fundamental shift in how to spend time.*** To be more effective in their new, ever-expanding roles, CFOs must carefully consider where to spend their time and energy. They should explore new technologies, methodologies, and management approaches that can help them decide how and where to make necessary trade-offs. It's not enough for them to become only marginally more effective in traditional areas of finance; they must ensure that the finance organization is contributing more and more to the company's most value-adding activities. It's especially important, therefore, that CFOs are proactive in looking for ways to enhance processes and operations rather than waiting for turnaround situations or for their IT or marketing colleagues to take the lead.
- ***Embrace digital technologies.*** The results indicate that the CFO's responsibilities for digital are quickly increasing. We also know from experience that finance organizations are increasingly becoming critical owners of company data—sometimes referred to as the “single source of truth” for their organizations—and, therefore, important enablers of organizational transformations. Finance leaders thus need to take better advantage and ownership of digital technology and the benefits it can bring to their functions and their overall organizations. But they cannot do so in a vacuum. Making even incremental improvements in efficiency using digital technologies (business intelligence and data-visualization tools, among many others) requires organizational will, a significant investment of time and resources, and collaboration with fellow business leaders. So, to start, CFOs should prioritize quick wins while developing long-term plans for how digitization can transform their organizations. They may need to prioritize value-adding activities explicitly and delegate or automate other tasks. But they should always actively promote the successes of the finance organization, with help from senior leadership.
- ***Put talent front and center.*** Since the previous survey, CFOs have already begun to expand their roles and increase their value through capability building and talent development. But the share of CFOs who spend meaningful, valuable time on building capabilities remains small, and the opportunity for further impact is significant. Finance leaders can do more, for instance, by coaching nonfinance managers on finance topics to help foster a culture of transparency, self-sufficiency, and value creation. ■

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<sup>1</sup> The survey was conducted online (from April 18 to April 30, 2018), garnering responses from 414 C-level executives and senior managers, and via phone interviews (from June 20 to July 2, 2018), garnering responses from 34 CFOs. In total, 212 CFOs at the company, functional, or business-unit level responded to the survey. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

<sup>2</sup> “Are today's CFOs ready for tomorrow's demands on finance?” December 2016, McKinsey.com.

<sup>3</sup> See “The people power of transformations,” February 2017, McKinsey.com, and “How to beat the transformation odds,” April 2015, McKinsey.com.

<sup>4</sup> Respondents were asked to identify the scope of the transformation with which they were most familiar from the past three years: of the entire organization, of a specific division or business unit, of the finance organization, or of a function other than finance.

<sup>5</sup> Includes respondents who say none of their finance function's work has been digitized or automated in the past year.

<sup>6</sup> For example, analytics for predictive maintenance and pricing.

<sup>7</sup> For example, analytics for working-capital management and automated forecasting.

<sup>8</sup> For more on emerging use cases, see Kapil Chandra, Frank Plaschke, and Ishaan Seth, “Memo to the CFO: Get in front of digital finance—or get left back,” July 2018, McKinsey.com.

<sup>9</sup> Similarly, in other McKinsey research in automation, 36 percent of all respondents (those in all functions and levels of tenure) whose companies have automated finance processes report the use of RPA. For more, see “The automation imperative,” September 2018, McKinsey.com.

<sup>10</sup> For more on the CFO’s role in talent development, see Dominic Barton, Dennis Carey, and Ram Charan, “An agenda for the talent-first CEO,” *McKinsey Quarterly*, March 2018, McKinsey.com.

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