A primer in resilience: A conversation with Kevin Carmody

Having a resilience plan in place can set a company apart from its competitors while simultaneously improving cash flow and strengthening the balance sheet.

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What does it mean to be resilient? In this video, McKinsey senior partner Kevin Carmody shares three ways organizations can build resilience and maximize value beyond earnings. An edited version of his remarks follows.

When I've spoken with clients, whether they be CEOs, CFOs, or other members of the management team, there's a new mantra that seems to be resonating in the C-suite about resilience. We took a step back and asked the question, "What does it mean to be a resilient company?"

McKinsey did a study of approximately 1,100 publicly traded companies and found that only 10 percent of those companies fared materially better than the rest in the last economic downturn. When we dug into that 10 percent, there were three themes in the finance organization that continued to pop up.

Pressure-testing against a wide range of risks

The first theme was that the finance organization had a good balance of historic analysis—what you would typically think of from an accountant, from a GAAP [generally accepted accounting principles] perspective—and they also had a very good view into the future. They consider the headwinds that could disrupt a company and how to address them in a constructive way to help the broader management team prepare for those events.

They also identify risk factors that the broader organizations can use to plan the way that they execute that business. That's a fundamentally different way to think about a CFO and the finance organization, relative to how we may typically view them.

Empowering the finance organization

The second component takes the finance organization to a new level. Best-in-class finance organizations embed finance managers throughout the organizations. They look for what data exists at the company that can be used by different functional leaders and business-unit leaders to drive performance.

For example, I was having a conversation recently with a client in a plant—a vice president of manufacturing. His concern was that the finance data in that company were old, stale, and historic. He was looking for different metrics to run the business that were forward looking.

We've found that challenging the finance organization to look for those elements could affect business performance on a go-forward basis. Pushing that different perspective into the plants in a way that would resonate with plant personnel would give them better information and equip them to make better decisions. That's the difference between being a passive scorekeeper—looking in the past and telling folks what happened—versus using that data to shape the strategic direction of the company.

Harvesting value from the balance sheet

The third point was looking at the balance sheet across every line item and trying to unlock the full potential of the company. We found that there was a ton of cash that gets hung up on the balance sheet.

A lot of folks will talk about working capital: "How do I improve accounts receivable? How do I deal with my vendors and accounts payable?" That's a big part of it, but there are a whole host of levers that strong companies looked at to take that cash off the balance sheet and protect the enterprise. That includes, for example, things like letters of credit, dollars that are hung up on surety bonds, stranded assets that are no longer in use, and cash that goes into those assets. If you scrub the entire balance sheet, you can generate substantial value that will help drive a business and, frankly, protect the downside of a company.

So where does this take us? While no one can predict where the next disruptive force might occur, you certainly can prepare for it. Resilient companies have done certain things that have set them ahead, relative to their peers.

If we focus on the CFO and the finance organization, these companies have elevated the role of the CFO and empowered them to be equal partners in the business. It's all about looking forward, identifying those disruptive forces, and planning accordingly. The folks that have done that—by focusing not just on the income statement but also on strengthening the balance sheet, improving cash flow, and managing risk—package all of that into a robust resilience plan. That could be the difference between succeeding and failing.

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