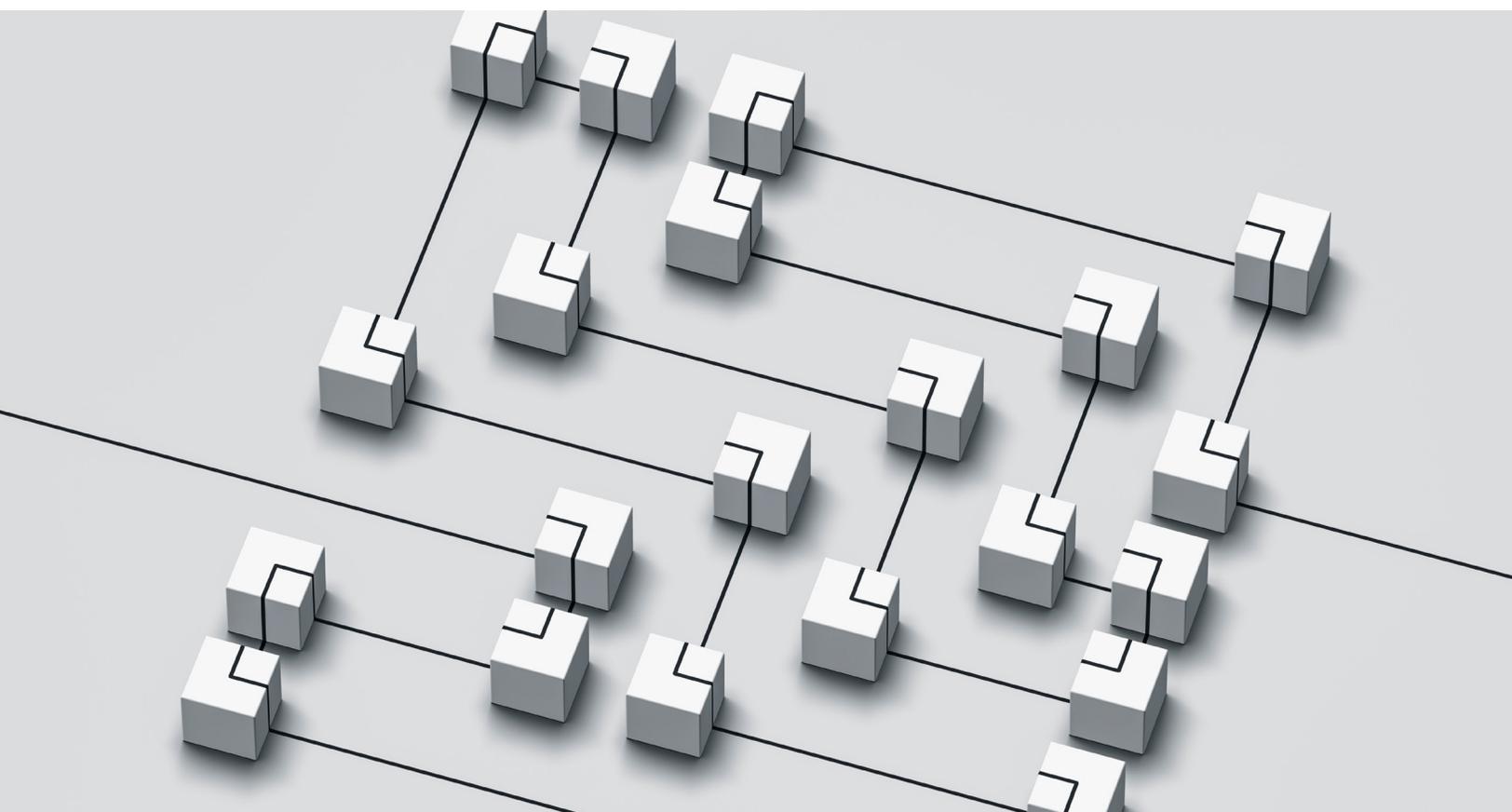


Strategy & Corporate Finance Practice

How the CFO enables the board's success—during COVID-19 and beyond

Two board experts explain how in times of crisis or transformation, the CFO can serve as a rock in the boardroom, a critical arbiter of difficult decisions, and a scout for the future.



Critical business decisions cannot be made unless management teams and boards of directors are on the same page. Transparency, fair and balanced dialogue, and well-structured processes for gaining agreement on strategic plans—these dynamics must be present in every boardroom, in good times and, especially, in bad.¹

The CFO plays an important role in ensuring that they are.

In crises, such as the global spread of the novel coronavirus,² the CFO is best-positioned to provide the most relevant and up-to-date facts and figures, which can help boards find clarity amid chaos. In corporate transformations, the pragmatic, data-focused finance leader is the only one who can prompt the board to actively consider all the short- and long-term consequences of proposed strategy decisions.

Barbara Kux and Rick Haythornthwaite, longtime board directors for multiple global organizations, shared these and other board-related insights with McKinsey senior partner Vivian Hunt in a conversation that spanned two occasions: a gathering of CFOs in London some months ago and, more recently, follow-up phone conversations about the COVID-19 pandemic.

These interviews, which have been condensed and edited here, explained the importance of finance leaders in serving both as scouts for the future and as trusted translators of critical market information.

Shaping the COVID-19 crisis response and recovery

Rick Haythornthwaite: The board's most important functions in the wake of COVID-19 are threefold: one is making sure that employees are being treated decently and that the company is taking all the precautions it can. Second is obtaining an objective,

insightful understanding of the business and trends. And third is anticipating and preparing for recovery. The key in all three areas is having high-quality data to inform the board's decisions and to share with employees. Of course, getting data from a market in freefall is never easy. This is where you need CFOs to be absolutely on top of their game.

The board needs to know what is *really* happening to the top line, what short-term measures can be taken to preserve and boost cash, and all the actions you have to take during the early stage of such events to buy time. But the board must also have a handle on long-term issues.³ And now that we're months into this crisis, people are starting to draw lessons from previous ones and bringing some historical data into board discussions. The CFO can use these data to construct hard-edge scenarios that prompt good conversations in the boardroom.

Barbara Kux: An important difference in the role of CFOs today, as compared with their role during the financial crisis in 2008, is that they need to simultaneously manage both short-term responsiveness and future recovery. The CFO must keep the ship floating through rough waters—safeguarding employees' health, securing liquidity, monitoring cash flow and payment terms, ensuring the functioning of the supply chain, assessing effects on P&L and the balance sheet, reviewing customers' and suppliers' situations, and initiating cost-reduction programs. That is all very challenging indeed. But then the CFO must also serve as the ship's scout—watching for key trends that are emerging or that have accelerated as a result of COVID-19, such as digitization and changes in consumer behavior.

The balance between opportunity and risk is being altered substantially for most companies. The CEO could be tempted to profit from immediate demands—"let's make ventilators, let's make disinfectants." The CFO's job, by contrast, is to

¹ Robyn Bew, Linda Liu, and Friso van der Oord, "Building board-management dynamics to withstand a crisis: Addressing the fault lines," September 2019, McKinsey.com.

² See "Coronavirus: Leading through the crisis: Insights on how organizations can respond, and what happens next," McKinsey.com.

³ See Martin Hirt, Celia Huber, Frithjof Lund, and Nina Spielmann, "Boards of directors in the tunnel of the coronavirus crisis," April 2020, McKinsey.com.



Barbara Kux

Education

Holds an MBA with distinction from INSEAD

Career highlights

Grosvenor Group
(2019–present)

Nonexecutive director, member of the audit committee

Coaching4Vision
(2017–present)

Leadership coach

Pargesa Holding
(2014–present)

Member of the supervisory board and the audit and remuneration committee

Firmenich SA
(2013–present)

Vice chairman, lead director, and member of the audit committee

Henkel
(2013–present)

Member of the supervisory board

Total
(2011–17)

Member of the board of directors and the governance and strategy committee

Siemens AG
(2008–13)

Member of the management board

Royal Philips
(2003–08)

Member of the group management committee

Ford Motor Company
(1999–2003)

Executive director

Fast facts

Served as a member of the managing board of Siemens, the first woman in the company's 160-year history to hold this position

Appointed director of corporate governance at INSEAD, adviser to the EU Commission, and lecturer at University of St. Gallen

Former McKinsey consultant



Rick Haythornthwaite

Education

Holds a bachelor's degree in geology from the Queen's College, Oxford, and a master's degree from MIT Sloan School of Management.

Career highlights

Mastercard
(2006–present)

Global chairman

Globant
(2019–present)

Independent director

Moelis & Co.
(2018–present)

Advisory partner

QIO Technologies
(2014–present)

Cofounder and chairman

Centrica
(2014–19)

Chairman

Invensys
(2001–05)

CEO

Blue Circle Industries
(1999–2001)

CEO

Fast facts

Served on the boards of Cookson, Imperial Chemical Industries, Lafarge, Land Securities, and Premier Oil.

Chair of the Creative Industries Federation and former chair of Network Rail, the Southbank Centre, and Almeida Theatre.

“The word ‘crisis’ has two meanings, one being ‘danger’ and the other being ‘chance.’ Today’s CFO must consider both.”

point out the differences between quick-to-market options and long-term post-COVID-19 options. These post-COVID-19 options can be an important factor in motivating and engaging employees during these challenging times.

It is also important for the CFO to present the board with reports and pre-reads that paint the entire picture in an objective way, including potential scenarios for the future. That is the only way boards and senior management can take thoughtful and well-founded decisions—first for the recovery and then for a sustainable future for all stakeholders. The word “crisis” has two meanings, one being “danger” and the other being “chance.” Today’s CFO must consider both.

Shaping the general transformation agenda

Barbara Kux: Outside of crisis periods, studies by INSEAD and McKinsey show, boards spend more than two-thirds of their time on “housekeeping”—financial reporting, compliance, environment, health and safety issues, regulatory issues, and the like.⁴ Only about 20 percent is spent on strategy. It is very important for boards to get out of this “compliance cage,” as I call it, and really focus on sustainable value creation. I’m thinking of the board of a leading oil and gas company that did just that. It recognized

the importance of sustainable business development early on. The company gained first-mover advantages by diversifying toward a green business, including investing in solar and battery technologies.

At the end of the day, the board is ultimately responsible for the strategy, and the CFO is best-positioned to support strategy discussions. The finance leader can serve as a neutral party among the members of the C-suite, synthesizing their transformation ideas, supplementing them with comprehensive quantitative and qualitative data, and then working with the CEO to bring it all back to the board. This is even more important today to respond to COVID-19-related challenges early on.

Rick Haythornthwaite: The biggest challenge for any CEO, CFO, or other senior leader is to institutionalize new ideas without sucking the life out of them. Each C-suite leader plays a different but important role in this regard. The CFO needs to give transformation initiatives structure and rigor, while the CEO is probably better suited to take on the motivational aspects—for instance, the context for change and definitions of success. The whole team creates the strategy map—the markets and products affected, changes in pricing, the execution plan. But the CFO needs to ensure that the financial and operational underpinnings are there. Even if they are not visible to every single part of the organization, the board can see them through the CFO.

⁴ See “A time for boards to act: McKinsey Global Survey,” March 2018 McKinsey.com.

‘Scouting for the future’

Barbara Kux: To serve as an effective scout, the CFO should establish nonfinancial KPIs, like net promoter and employee-engagement scores, that are critical for the future health and performance of the organization. CFOs should review the strategy process to see that risks and opportunities are being well-assessed. And they can raise the political antennae of the board—accessing global think tanks, for instance, to understand what’s going on in Washington, China, and other important regions or in the medical community. The CEO often is not the most long-term-focused person in the organization; we know this because our financial markets are still very much short-term oriented. The board *has* to be long-term oriented. The CFO, therefore, must maintain a good balance of both. That might mean introducing a lean-transformation program with a focus on short-term results while, at the same time, contributing to the definition and implementation of a sustainable strategy for the company to emerge strong from the COVID-19 pandemic.

Rick Haythornthwaite: Boards need CEOs who can handle multiple truths, who can be expansive in thinking, and who can live comfortably in the future and bring the company along for the ride. The CFO also needs to be a protagonist in the boardroom, but from a different base: you can’t move to the future until you are anchored in the present. The CFO provides that anchor. Having a balance between future and present, between CEO and CFO, is

important. The board wants to feel that there is strategic momentum—but also that the company is not just heading off on a journey of delusion.

Daring to dissent

Barbara Kux: It is important for the CEO and CFO to get on well, but their relationship should not be too close. It is better for the CFO to be objective, even if that sometimes leads to constructive conflicts. At times the CEO defaults to presenting only the positive in the boardroom, which makes it harder for the CFO to play back a more objective story. But that is very much the role of CFOs. They need to raise those early warnings. As a board director, I feel better if the CFO sometimes states, “by the way, we are losing market share here.” It takes a great deal of self-assurance for the CFO to come into the boardroom and say something like that. An independent-minded CFO will always be transparent with the board. A good CEO will always strive to establish an open relationship with the CFO. It is important for the board to motivate this constructive behavior from both executives so it can truly understand what is going well or not so well.

Leading constructive dialogues

Rick Haythornthwaite: The senior-management team should not be delivering full solutions to the board at the outset; there should be a period of questions and discussion. The boardroom should

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be the place for CFOs and boards to engage in the cut and thrust of examination and exploration, with thoughtful planning and framing of dialogues to ensure that decision making is of the highest possible quality.

I'll give you an example. CFOs used to be able to put traditional capital cases in front of the board about things like investments in plant and equipment, and there was typically a well-grooved dialogue. The kinds of actions they are talking about have changed, though. Think about companies' investments in platform technologies, which can involve large sums being paid for targets with very low EBITDA—the idea being that value will ultimately come from the combination of entities rather than from a singular target.

Boards may be unfamiliar with such investment cases, so rather than jumping into quick, instinctive type-one decisions forced by the imposition of inappropriate and probably unnecessary time constraints, they will need an education. The board must take time to understand what, in practice, the acquisition of a platform would look like—how it might be scaled under new ownership, how that scaling would affect the bottom line, any risks involved, and so on. This is fundamentally a type-two decision, requiring time and deliberation. The CFO has an important role to play in making sure that this process happens, that it plays out over several board sessions rather than being squeezed into one meeting, and that conversations are grounded in hard numbers.

In the wake of COVID-19, of course, these dialogues may need to happen virtually; the quality of the conversation will still be good, as people are

becoming accustomed to virtual meetings.⁵ They are fine for certain pro-forma tasks, where the issues are well-understood and processes are well-established. But when you're trying to bring in new voices and new ideas, that's when you need to be together in the same room.

Growing into the role of change agent

Barbara Kux: The role of the CFO is so much more expansive than it was even five years ago, including additional responsibility for cyber and digital transformations and for IT initiatives. To get your arms around the role and grow in it, take a step back and look at the company objectively. "What other roles could I play in the company, and how does that overlap with what I am doing now?" "Which initiatives would make the most impact in the company, and how could I realize quick wins in those areas?" Maybe it's a focus on digital or compliance or export control or political intelligence. The CFO's professional response to COVID-19 crisis management could be a springboard for future development. Whatever it is, I would identify it and just start. Take any kind of training you can get; read as many business publications as you can. Train yourself in how to deal with activist investors. Step by step, your hat will become bigger.

Rick Haythornthwaite: Whether you are talking about COVID-19 or digital disruption or any other impact on the business, please remember that the board still wants to sleep at night, and when the details are lost, the board will be much less forgiving of CFOs than of CEOs. Don't forget that part of it. Particularly in this challenging economic environment, it is very important. Chairs and boards? We like to sleep soundly at night.

⁵ See Martin Hirt, Celia Huber, Frithjof Lund, and Nina Spielmann, "Boards of directors in the tunnel of the coronavirus crisis," April 2020, McKinsey.com.

Vivian Hunt is a senior partner in McKinsey's London office.

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