

# The evolution of the CFO

CFOs are playing an increasingly pivotal role in driving change in their companies. How should they balance their traditional responsibilities with the new CFO mandate?



**In this episode** of the *Inside the Strategy Room* podcast, McKinsey partner Ankur Agrawal and consultant Priyanka Prakash speak with communications director Sean Brown about how to manage the competing demands of the CFO role in the digital age. (For more conversations on the strategy issues that matter, subscribe to the series on iTunes.)

**Sean Brown:** If you wanted evidence that the only constant in life is change, then look no further than the evolution of the CFO role. In addition to traditional CFO responsibilities, results from a recent McKinsey survey suggest that the number of functions reporting to CFOs is on the rise. Also increasing is the share of CFOs saying they oversee their companies' digital activities and resolve issues outside the finance function. How can CFOs harness their increasing responsibilities and traditional finance expertise to drive the C-suite agenda and lead substantive change for their companies?

Joining us today to answer that question are Ankur Agrawal and Priyanka Prakash. Ankur is a partner in our New York office and one of the leaders of the Healthcare Systems & Services Practice. Priyanka is a consultant also based in New York. She is a chartered accountant by training and drives our research on the evolving role of finance and the CFO. Ankur, Priyanka, thank you so much for joining us today.

Let's start with you, Ankur. Tell us about your article, which is based on a recent survey. What did you learn?

**Ankur Agrawal:** We look at the CFO role every two years as part of our ongoing research because the CFO is such a pivotal role in driving change at companies. We surveyed 400 respondents in April 2018, and we subsequently selected a few respondents for interviews to get some qualitative input as well. Within the 400 respondents, 212 of those were CFOs, and then the remainder were C-level executives and finance executives who were not CFOs. We had a healthy mix of CFOs and finance executives versus nonfinance

executives. The reason was we wanted to compare and contrast what CFOs are saying versus what the business leaders are saying to get a full 360-degree view of CFOs.

The insights out of this survey were many. First and foremost, the pace of change in the CFO role itself is shockingly fast. If we compare the results from two years ago, the gamut of roles that reported into the CFO role has dramatically increased. On average, approximately six discrete roles are reporting to the CFO today. Those roles range from procurement to investor relations, which, in some companies, tend to be very finance specific. Two years ago, that average was around four. You can see the pace of change.

The second interesting insight out of this survey when compared to the last survey is the cross-functional nature of the role, which is driving transformations and playing a more proactive role in influencing change in the company. The soft side of the CFO leadership comes out really strongly, and CFOs are becoming more like generalist C-suite leaders. They should be. They, obviously, are playing that role, but it is becoming very clear that that's what the business leaders expect them to do.

And then two more insights that are not counterintuitive, per se, but the pace of change is remarkable. One is this need to lead on driving long-term performance versus short-term performance. The last couple of years have been very active times for activist investors. There are lots of very public activist campaigns. We clearly see in the data that CFOs are expected to drive long-term performance and be the stewards of the resources of the company. That data is very clear.

And then, lastly, the pace of change of technology and how it's influencing the CFO role: more than half of the CFO functions or finance functions are at the forefront of digitization, whether it is automation, analytics, robotic processes, or data visualization. More than half have touched these technologies, which is remarkable. And then many more are considering the technological evolution of the function.

**Sean Brown:** In your survey, did you touch on planning for the long term versus the short term?

**Ankur Agrawal:** Our survey suggests, and a lot of the business leaders suggest, that there is an imperative for the CFO to be the steward of the long term. And there is this crying need for the finance function to lead the charge to take the long-term view in the enterprise. What does that mean? I think it's hard to do—very, very hard to do—because the board, the investors, everybody's looking for the short-term performance. But it puts even more responsibility on the finance function in defining and telling the story of how value is being created in the enterprise over the long term. And those CFOs and finance executives who are able to tell that story and have proof points along the way, I think those are the more successful finance functions. And that was clearly what our survey highlighted.

What it also means is the finance functions have to focus and put in place KPIs [key performance indicators] and metrics that talk about the long-term value creation. And it is a theme that has been picked up, in the recent past, by the activists who have really taken some companies to task on not only falling short on short-term expectations but also not having a clear view and road map for long-term value creation. It is one of the imperatives for the CFO of the future: to be the value architect for the long term. It's one of the very important aspects of how CFOs will be measured in the future.

**Sean Brown:** I noticed in your survey that you did ask CFOs and their nonfinance peers where they thought CFOs created the most value. What did you learn from that?

**Priyanka Prakash:** This has an interesting link with the entire topic of transformation. We saw that four in ten CFOs say that they created the most value through strategic leadership, as well as leading the charge on talent, including setting incentives that are linked with the company's strategy. However, we see that nonfinance respondents still believe that CFOs created the most value by spending

time on traditional finance activities. This offers an interesting sort of split. One of the things that this indicates is there's a huge opportunity for CFOs to lead the charge on transformation to ensure that they're not just leading traditional finance activities but also being change agents and leading transformations across the organization.

**Ankur Agrawal:** The CFOs of the future have to flex different muscles. They have been very good in really driving performance. Maybe there's an opportunity to even step up the way that performance is measured in the context of transformation, which tends to be very messy. But, clearly, CFOs are expected to be the change agents, which means that they have to be motivational. They have to be inspirational. They have to lead by example. They have to be cross-functional. They have to drive the talent agenda. It's a very different muscle, and the CFOs have had less of an opportunity to really leverage that muscle in the past. I think that charismatic leadership from the CFO will be the requirement of the future.

**Sean Brown:** You also address the CFO's role regarding talent. Tell us a bit more about that.

**Ankur Agrawal:** Another really important message out of the survey is seeing the finance function and the CFO as a talent factory. And what that means is really working hand in hand with the CEO and CHRO [chief HR officer] over this trifecta of roles. Because the CFO knows where to invest the money and where the resources need to be allocated to really drive disproportionate value, hopefully for the long run. The CHRO is the arbiter of talent and the whole performance ethic regarding talent in the company. And the CEO is the navigator and the visionary for the company. The three of them coming together can be a very powerful way to drive talent—both within the function and outside the function.

And the finance-function leaders expect CFOs to play a really important role in talent management in the future and in creating the workforce of the future. And this workforce—in the finance function,

mind you—will be very different. There's already lots of talk about a need for data analytics, which is infused in the finance function and even broader outside the organization of finance function. The CFOs need to foster that talent and leverage the trifecta to attract, retain, and drive talent going forward.

**Sean Brown:** Do you have any examples of successful talent-development initiatives for the finance function? And can you share any other examples of where CFOs, in particular, have taken a more active role in talent and talent development?

**Ankur Agrawal:** An excellent question. On talent development within the finance function, a few types of actions—and these are not new actions—done very purposefully can have significant outside outcome. One is job rotations: How do you make sure that 20 to 30 percent of your finance function is moving out of the traditional finance role, going out in the business, learning new skills? And that becomes a way where you cultivate and nurture new skills within the finance function. You do it very purposefully, without the fear that you will lose that person. If you lose that person, that's fine as well. That is one tried-and-tested approach. And some companies have made that a part of the talent-management system.

The second is special projects. And again, it sounds simple, but it's hard to execute. This is making this a part of every finance-function executive's role, whether it's a pricing project or a large capex [capital-expenditure] and IT project implementation. Things like that. Getting the finance function outside of their comfort zone: I think that's certainly a must-have.

And the third would be there is value in exposing finance-function executives to new skills and creating a curriculum, which is very deliberate. I think technology's changing so rapidly. So exposing the finance function to newer technologies, newer ways of working, and collaboration tools: those are the things I would highlight as ways to nurture finance talent.

**Priyanka Prakash:** Just to add onto that. A lot of the folks whom I talked to say that, very often, finance folks spend a large chunk of their time trying to work on ad hoc requests that they get from the other parts of the business. A big opportunity here is in how the finance function ensures that the rest of the nonfinance part has some basic understanding of finance to make them more self-sufficient, to ensure that they are not coming to the finance function with every single question. What this does is it ensures that the rest of the organization has the finance skills to ensure that they're making the right decisions, using financial tools.

And secondly, it also significantly frees up the way that the finance organization itself spends its time. If they spend a few hours less working on these ad hoc requests, they can invest their time in thinking about strategy, in thinking about how the finance function can improve the decision making. I think that's a huge sort of benefit that organizations have seen just by upscaling their nonfinance workforce to equip them with the financial skills to ensure that the finance team is spending time on its most high-value activity.

**Sean Brown:** Is this emphasis on talent focused only on the finance function? What I am hearing from your response is that it's not just building up the talent within the finance function but embedding finance talent and capabilities throughout the organization. Is that right?

**Priyanka Prakash:** Absolutely. Because if you take an example of someone who's in a factory who wants to have an investment request for something that they want to do at a plant, they will have to know the basic knowledge of finance to evaluate whether this is an investment that they need or not. Because at the end of the day, any decision would be incomplete without a financial guideline on how to do it. I think that the merging of your other functions with a strong background and rooting in finance can improve the quality of decisions that not just the finance function but other teams and other functions also make in the organization.

**Sean Brown:** Priyanka, your survey touches a bit on the topic of digital. What did you learn there?

**Priyanka Prakash:** Sure. This is one of those things that everybody wants to do, but the question that I've seen most of my clients struggle with in the initial phases is, "Yes, I have the intent from the top. There is intent from the finance and other teams on how to become more digital, but how do you actually start that process?"

There are four distinct kinds of technologies or tools that finance teams, specifically, could use in enabling their digital journey and transformation. CFOs have way too much on their plates right now. What this essentially means is that they need to invest time and a lot of their thinking into some of these newer, more strategic areas while ensuring that they keep the lights on in the traditional finance activities. The biggest tool that will enable them to keep the lights on as well as add value in this new expanded role is to take advantage of automation, as well as some of the newer digital technologies that we see.

There are basically four types of digital stages that we see as finance functions start to evolve. One is using automation, which is typically the first step. For example, "How do I move from an Excel-based system to an Alteryx one? How do I move from a manual transactional system to something that's more automated, where my finance teams don't have to invest time, but it happens in the background with accuracy?" That's step one.

The second thing that we see as a result of this is you have a lot of data-visualization tools that are being used. This is very helpful, especially when you think about the role of FP&A [financial planning and analysis]. "How does my FP&A team ensure that the company makes better decisions? How do I use a visualization software to get different views of my data to ensure that I'm making the right decisions?"

The third one is, "How do I use analytics within finance? How do I use analytics to draw insights from the data that I might have missed otherwise?"

This could be something in forecasting. This could be something in planning. But this could also be something that's used when you compare your budget or your forecast. Your analytics could really help draw out drivers of why there's a variance.

And fourthly is, "How do I then integrate this advanced-analytics philosophy across the rest of the company?" What this means is, "How do I integrate my finance and traditional ERP [enterprise-resource-planning] systems with the pricing system, with the operations, and supply-chain-management system? How do I integrate my finance systems with my CRM [customer relationship management]?" Again, the focus is on ensuring that the whole database is not this large, clunky system but an agile system that ensures you draw out some insights.

**Sean Brown:** Some have suggested the CFO is ideally suited to be the chief digital officer. Have you seen any good examples of this?

**Ankur Agrawal:** There were examples even before the digital technologies took over. In some companies, the technology functions used to report to CFOs. There are cases where CFOs have formally or even informally taken over the mandate of a chief digital officer. You don't necessarily need to have a formal reporting role to be a digital leader in the company. CFOs, of course, have an important role in vetting expenses and vetting the investments the companies are making. That said, CFOs have this cross-functional visibility of the entire business, which makes them very well suited to being the digital officers. In some cases, CFOs have stepped up and played that more formal role. I would expect, in the future, they will certainly have an informal role. In select cases, they will continue to have a formal digital-officer role.

**Sean Brown:** It sounds like, from the results of the survey, the CFO has a much larger role to play. Where does someone begin on this journey?

**Priyanka Prakash:** Going back to the first point that we discussed on how CFOs should help their companies have a more long-term view, we see

that this transformation is specifically here to move to more digital technologies. It's not going to be easy, and it's not going to be short. Yes, you will see quick wins. But it is going to be a slightly lengthy—and oftentimes, a little bit of a messy—process, especially in the initial stages. How do we ensure that there is enough leadership energy around this? Because once you have that leadership energy, and once you take the long-term view to a digital transformation, the results that you see will pay for themselves handsomely.

Again, linking this back with the long-term view, this is not going to be a short three-month or six-month process. It's going to be an ongoing evolution. And the nature of the digital technologies also evolve as the business evolves. But how do you ensure that your finance and FP&A teams have the information and the analytics that they need to evolve and be agile along with the business and to ensure that the business responds to changes ahead of the market? How do we ensure that digital ensures that your company is proactively, and not reactively,

reacting to changes in the external market and changes in disruption?

**Sean Brown:** Priyanka, any final thoughts you'd like to share?

**Priyanka Prakash:** All that I'll say is that this is a very, very exciting time for the role of the CFO. A lot of things are changing. But you can't evolve unless you have your fundamentals right. This is a very exciting time, where CFOs can have the freedom to envision, create, and chart their own legacy and then move to a leadership and influencer role and truly be a change agent in addition to doing their traditional finance functions, such as resource allocation, your planning, and all of the other functions as well. But I definitely do think that these are very exciting times for finance organizations. There are lots of changes, and the evolutionary curve is moving upward very quickly.

**Sean Brown:** Ankur, Priyanka, thanks for joining us today.

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