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The CFO's role in capability building

Organizations developing new skills for the next normal must determine exactly how and where to invest in them. The finance leader is uniquely suited to provide the necessary combination of insights.

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It's becoming increasingly clear that one of the most critical responsibilities of CFOs in coming months will be supporting efforts to build new capabilities—the mindsets and behavior an organization needs to reach and sustain its full potential—and raising the bar on talent development.

A focus on capability building is especially relevant now as businesses attempt to rebound from the health and economic effects of COVID-19.[1] Think about it: the pandemic has accelerated the use of automation, artificial intelligence, and other digital technologies to enhance or streamline processes. It has affected the management of supply chains and business partnerships. It has changed the priorities and demands of customers and investors in ways that haven't totally revealed themselves yet. And all this is happening as the world of work continues to change rapidly. It would be a lot for C-suite leaders—including the CFO—to navigate even in the best of times.

However, capability building is one area in which many CFOs are likely to say that their experience has been underdeveloped and underutilized. Over the past decade, the CFO's role—and that of the overall finance function—has expanded to affect more parts of the organization directly. More functions now report to CFOs, who now have more oversight of tasks that traditionally hadn't been part of their mandate. In a 2018 McKinsey survey, four in ten CFOs said they created the most value for their organizations through their strategic leadership and performance management. But less than half of the CFOs surveyed reported having the time to focus on capability building, either within finance or across the organization.[2]

It's critical for companies to give CFOs enough space to play this role in capability building. They are uniquely positioned not only to ensure that business units get the resources they need to invest in the infrastructure, technology, talent, and organizational changes required to thrive in the next normal but also to model critical cross-functional behavior and skill sets.

Other denizens of the C-suite are only now catching on to the CFO's growing and varied responsibilities and emerging profile as financial controller, value manager, *and* strategic partner. In this article, we look at the primary ways a CFO can help companies build capabilities to prepare for the future—as well as the skills and mindsets finance chiefs may need to ensure that their recommendations are heard.

Capabilities: How the CFO can help the organization

As organizations shift from responding to the COVID-19 pandemic to recovering from it, many are discovering that the capabilities of the workforce no longer match the needs of the marketplace.[3] Grocers, restaurants, and retailers that quickly shifted to online ordering and sales during the crisis, for example, have had to rethink their systems, processes, and supply chains and, in many cases, to incorporate new technical capabilities and skill sets. But at a time when executives need to double down on capability building, they are finding that their efforts are falling short. In a 2020 McKinsey survey, for instance, just one-third of the respondents reported that capability-building programs often or always achieve their objectives and business impact.[4] To improve the odds of success, companies should leverage the CFO's expertise in three critical ways: identifying opportunities to invest in capabilities that can create significant value, boosting financial acumen at all levels, and supporting the company's overall talent-development efforts.

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[1] Marla M. Capozzi, Stacey Dietsch, Daniel Pacthod, and Michael Park, "Rethink capabilities to emerge stronger from COVID-19," November 23, 2020, McKinsey.com.
[2] Ankur Agrawal, Kapil Chandra, Priyanka Prakash, and Ishaan Seth, "The new CFO mandate: Prioritize, transform, repeat," December 3, 2018, McKinsey.com.
[3] Jon Garcia, Garrett Maples, and Michael Park, "Closing the capability gap in the time of COVID-19," *McKinsey Quarterly*, November 13, 2020, McKinsey.com.
[4] "Rethink capabilities."

Identify opportunities to invest in value-creating capabilities

Capability building and financial performance are inextricably linked—having the right people with the right skills in the right places can promote operational efficiency, customer satisfaction, and other elements that feed sales, revenues, profits, and many other measures of performance. The good news is that CFOs have most of the required financial and operational data in hand, as well as a cross-functional understanding of the business. They can therefore help companies identify the capabilities that can differentiate them from competitors.

One stumbling block for the CEO and other C-suite leaders, however, is the idea that investments in capability building must show immediate payoffs. In reality, most of the value from human-capital investments accrues over time. As U.S. Bank's Tim Welsh has noted, "Capability building never ends. It is an ongoing task. So you have to look for markers along the way that make you feel comfortable you're moving in the right direction." Those markers of success might include an increase in the number and quality of customer engagements and higher employee satisfaction scores. "The likelihood is that these markers will point to more tangible measures: sales, deposit growth, loan-balance growth," said Welsh.[5]

Indeed, one of the biggest mistakes we've seen companies make in capability building is a failure to link learning and other development efforts directly to performance improvements. The CFO must guide other C-suite leaders through the long- and short-term trade-offs associated with investing in capability building and help them define the means and metrics to monitor progress toward stated performance goals.[6] The CFO at one food manufacturer, for instance, has assigned financial analysts to work directly with the operations team to collect and interpret real-time data on consumer preferences. The CFO uses the data and cross-functional relationships to help C-suite leaders track the need (and build the business case) for skills and capabilities in specific areas of the business: as online sales increase, more investments may be required for user-experience designers, supply-chain specialists, or other kinds of experts.

Boost the organization's financial acumen

Employees across an organization often use the same terms to mean different things. Profit, for example, can refer to profit dollars, profit per unit, profit margins, or even gross margin; costs can mean overhead, marketing investments, or even capital. To reduce confusion and increase efficiency in both operations and communications, CFOs must ensure that leaders up and down the

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[5] "'An environment where everybody can thrive': A conversation with U.S. Bank's Tim Welsh," *McKinsey Quarterly*, November 20, 2020, McKinsey.com.
[6] "The capability-building imperative: Make 'purposeful investments' in people," February 26, 2021, McKinsey.com.

organization use a common language to discuss finance. In this way, the CFO can build core functional capabilities for monitoring cash flows, establishing base and momentum cases, and using a range of scenarios in decision making—all critical to understanding how an organization can unlock more value.

At one consumer-goods company, the CFO became concerned enough about the general lack of business acumen outside the finance group to design an internal mini-MBA program and curriculum for high performers. This program aimed to help business-unit leaders better understand their divisions' roles within the global organization, the function's value-creating role within the division, the importance of the individual roles of the business-unit leaders, and how key performance indicators were wired into the company's operating model and strategic plan. The business-unit leaders also learned how the company made resource-reallocation decisions, what trade-offs might be required, and how they themselves could contribute to the company's success.

After the first sessions ended, the CFO noted instances when teams "really seemed to get it." Some, for instance, accepted fewer resources in the short term so that resources could be applied to other initiatives, which the business-unit leaders now understood to be more important for the company over the long term—with the benefits ultimately redounding to their own units over time. The CFO also organized frequent town halls and presentations about the organization's strategy, so all functions could understand how the business model worked and their role in it. In this way, the CFO celebrated wins and reinforced the kind of behavior that drives success.

Now—and, frankly, always—it is critical for the CFO and CEO to work together to empower business-unit leaders and other employees to take ownership of cash-related decisions.[7] Particularly in the wake of COVID-19, cash preservation remains a critical concern for most organizations. How are they managing receivables, payables, and inventory? Are they wringing the most value from the balance sheet? Are operating and capital expenditures under control? To build and reinforce a cash culture, the CFO can help highlight the executives and teams tackling these questions and managing cash well—for instance, rewarding teams that have reduced spending during the COVID-19 crisis without sacrificing product quality or customer satisfaction.[8]

'Lean in' for talent development

CFOs and their executive peers have a critical postpandemic opportunity to develop talent by systematically reviewing the talent profile, identifying the skills needed now and in the future, and working with HR leaders to map skill sets to strategic and operating plans. Retailers that shifted to a digital-ordering model during the COVID-19 pandemic, for instance, may require more data analysts, programmers, or other types of digital talent to maintain or build new online capabilities. If so, the CFO and other senior leaders may want to establish a skills matrix that outlines key roles and responsibilities relevant to the changed business context. Using this tool, which will need to be refreshed continually, managers can have frank conversations (during performance reviews, for instance) about the new skills and mindsets required in various parts of the organization and understand the associated investments.[9]

The CFO can also make the argument for preserving some or all of an organization's employee-training budgets. According to industry reports, overall training expenditures dropped significantly in 2009 and 2010 (the Great Recession), followed by a surge in 2011 and a drop back to 2008 levels in 2012. Rather than sacrifice long-term efficiency and resilience for short-term gains, organizations might

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[7] Michael Birshan, Matt Stone, and Michael Park, "Transforming the culture of managing working capital," January 4, 2018, McKinsey.com.
[8] "Cash preservation in response to COVID-19," May 26, 2020, McKinsey.com.
[9] Steven Eklund, Michele Tam, and Ed Woodcock, "New technology, new rules: Reimagining the modern finance workforce," November 2, 2018, McKinsey.com.

CFOs should walk the walk, completing capability programs themselves. Apart from role modeling the desired mindsets and behavior, they can also help C-suite leaders think about strategic imperatives as a cohesive whole.

be wise to stick with their existing talent-development investment plans, to the degree possible.[10]

More broadly, CFOs should walk the walk, completing capability programs themselves.[11] Apart from role modeling the desired mindsets and behavior, they can also, better than most, help business-unit and fellow C-suite leaders think about strategic imperatives as a cohesive whole, the skills needed to execute the plans, and the impact of these activities on the financial health of the company.

Capabilities: How CFOs can help themselves

Along with increased responsibilities, CFOs have taken on a broader set of challenges, and many of them may feel less than comfortable. For that reason, CFOs may need to reskill themselves in two key areas before they can help others reskill.

Amplify their voices

Most CFOs likely don't need to learn new finance skills—they are already well versed in the mechanics of budgeting, forecasting, and planning. But they may need to take a closer look at how they communicate: What are the best ways for them to impart key strategic information or finance concepts to others? If CFOs get this part right, they have an opportunity to amplify their own voice within the performance dialogue.

In one European metals company, for instance, the CFO and finance managers were the first points of contact for transforming the data generated by the advanced-analytics team and data scientists into specific actions the business could take to improve production-volume forecasts, factory usage, and pricing. The CFO was seen as a clear communicator and independent arbiter and so gained the trust of general managers. The suggested changes were implemented, raising the company's overall profitability. Most important, the CFO led from the front, proactively shaping the corporate agenda in addition to managing the traditional responsibilities, such as closing the books, reconciling actuals to budget, and generating month-end reports.

Step outside the finance silo

The CFO's worldview—or sense of how macro trends affect micro decisions—is unique, for it includes a comprehensive understanding of where individuals

[10] Sapana Agrawal, Aaron De Smet, Sébastien Lacroix, and Angelika Reich, "To emerge stronger from the COVID-19 crisis, companies should start reskilling their workforces now," May 7, 2020, McKinsey.com.
[11] "Capability building in 2030," February 26, 2021, McKinsey.com.

fit within teams, where teams fit within the company, where the company fits within its industry, and where the industry fits within a national and global context. To construct (and reconstruct) that worldview, the CFO must step outside of the finance silo and continually scan company operations, the industry, and the ever-changing global, political, and economic context. The CFO can complement this outside view with a perspective on the company's organizational dynamics—how teams flourish or founder—its strategic principles, and how it creates returns for shareholders. With this information, the CFO can help other C-suite leaders to create a compelling vision for the future and to share that vision with inspiration and conviction.

One high-growth organization, for example, faced a range of threats, such as new entrants in the market, rapidly changing costs, and competitive pricing. It responded effectively, in part because the CFO and executive peers had such a clear view of the shifting landscape. They assessed their existing business model against those of the new entrants, identified its strengths and weaknesses, and retooled it to better meet changing demand. The team built an empirical case for change, drawing on data and insights from the company's analytics efforts. Then it shared a compelling narrative with the rest of the organization, highlighting the opportunities for improvement and gaining buy-in. Over time, the organization operated more efficiently, gained more value from its key assets, and boosted its ROI to all-time highs.

Capability building must be front and center in any company's plans to prepare for the next normal. CFOs have access to data, a cross-functional perspective, and an expanding role as value manager and strategy partner. They therefore have a critical role to play in ensuring that companies develop the skills, mindsets, and behavior required for long-term success.

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