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Starting up as a new CFO

Congratulations, you've made it—now hit the ground running. Here are seven key mindsets and practices that effective CFOs adopt from day one.

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It's a long climb to chief financial officer—and that's just the easy part. Whether you're the CFO of a publicly traded corporation, a privately held company, or a portfolio business, responsibilities will look very different once you're in the lead. To start, the number of functions reporting to the CFO in a typical organization has increased steadily in recent years, from four in 2016 to more than six. Additionally, CFOs have reported that they increasingly oversee digital initiatives alongside traditional tasks such as budgeting, planning, and risk mitigation.[1] Most important of all, CFOs are responsible for the human element of a modern finance function—leading a large group of individuals and partnering with C-suite colleagues.

Based on years of research and experience working with new CFOs and seeing what works, we've identified seven key mindsets and practices that new finance leaders can commit to right from the outset, to help jump-start and sustain long-term value creation.

1. Scope the challenge

A critical first step for new CFOs is to form an independent, fact-based view of the resources, support structures, and activities that support and fall short of creating value—and then quickly gain agreement and follow through with C-suite colleagues, business unit leaders, and the board of directors about the assessment. Agreeing on sources of value is easier said than done. Function and business unit leaders will present lofty goals and competing requests, all with the best of intentions. Effective CFOs recognize, however, that leaders' conclusions can be clouded by incomplete information and wish casting. It's easy to assume that budgets are already at the right level, and it's typical that future results will be presented in the shape of a hockey stick.[2] For CFOs, day one is a unique chance to ask, "What would this company's support structures and aggregating budgets be if we weren't defaulting to what we've done in the past?" And, "How likely are these projected scenarios, really?" Thinking critically isn't just a matter of parsing data in a granular way; it requires addressing decision biases that can lead to organizational inertia. Building a momentum case can provide a holistic view of how financial statements and operating plans will be affected if the company does nothing except move with prevailing headwinds and tailwinds. Some key initiatives may require years of development, and most will require you to work closely with the CEO and the board. But effective CFOs take an even broader prospective. They look beyond the four walls of the organization to take stakeholders and competitors into account.

The CFO of a healthcare-equipment company did just that when investing in key technologies: competitors were planning to meet consumers' changing needs by bringing to market a technology with functionality similar to the healthcare company's own. Rather than default to prior assumptions, the CFO used a market-momentum case—an eroding one given emerging competition, instead of a hockey-stick projection—to align the executive team on how much investment would be needed, and when, to proactively counter the competitors' moves.

2. Adopt a bias for action

A company can't achieve or sustain a competitive advantage by staying in place. Its competitors are on the move, and broader conditions, from existential climate change to persistently high inflation, can destroy value even if a company meets every short-term target. Effective CFOs strive relentlessly to identify levers that could create more value for the competitive landscape that *will* be. They commit to innovation, engage in programmatic M&A, and make sure to allocate appropriate resources to digital and analytics, not

1 "The new CFO mandate: Prioritize, transform, repeat," McKinsey, December 3, 2018.
2 Chris Bradley, Mart Hirt, and Sven Smit, "Strategy to beat the odds," *McKinsey Quarterly*, February 13, 2018.

just for their function but also for the company. Avoiding tough calls and continuously postponing a moment of truth, McKinsey research has found, typically leads to the worst outcomes in terms of total shareholder returns.[3] Tough calls become easier when the CFO can identify a practicable path to funding the changes—such as improving physical sites or adapting supply chains. In the past, our research has shown that most investors believe a willingness to make long-term changes (three years or more) is important, and only a small share think consistently beating consensus for earnings per share is important.[4] Intrinsic investors play the long game; they want CFOs to have a well-defined strategic direction. It's the CFO's mandate to work with the management team to establish that direction quickly, as well as the risk profiles, incentives, and metrics that will reflect performance beyond the immediate quarters. One possibility, for example, is to introduce new ways to think about ROI for new technologies or process innovations—implementing stage gates for funding, clear transformation targets, and contingency plans.

3. Make space in your portfolio for a few bold bets

A bias for action should yield more than just a bunch of incremental changes. Research consistently shows that companies are too risk averse. One of the biggest challenges that CFOs face in their new role, for example, is assessing the value of digital and analytics opportunities—such as building a new digital app or establishing an advanced analytics capability—and understanding why some digital strategies succeed while others fail. CFOs also need to evaluate acquisitions to grow the business or enter new markets, and separations to exit businesses that no longer support the company's strategy. As the CFO, you set the tone for how these opportunities and bolder bets will be evaluated and help shape how internal and external stakeholders frame their understanding of the company's capital allocation. Effective CFOs understand and communicate that it's a losing bet *not* to take risks. In particular, many companies are too hesitant to "test and learn" with small, speculative investments and are content to leave their existing portfolios as is, to serially underperform. At the individual level, many executives fall into the trap of becoming sentimental about the businesses they've built or championed.[5] An effective CFO makes sure that every business is on the table—and should always be subject to "grow or go."[6]

4. Teach and translate

A large part of your role as CFO is to engage in frank dialogue with the CEO, the board, and the top team about the economics of the businesses, and to clearly explain the consequences of making various trade-offs. This requires speaking in terms that can be understood by all and avoiding financial jargon to be sure that all of your C-suite peers grasp what you are saying. But beware of oversimplification. It's the CFO's role to educate colleagues on what the financial implications are for their businesses and functions. Effective CFOs share bad news with the CEO and the board early; it's important to get their insights on how best to address the issues at hand, and to provide them with different options and conceivable paths forward. When things are going well, it's also essential to help everyone understand what's really behind the positive performance: Was it skill, industry tailwinds, the rules of accounting, or just luck? Investors also need clear communications—not just the high-level numbers but also the details and dynamics that really drive the business model. Sophisticated investors spend considerable time and effort to understand the business and will see through any discussion of strategy and performance that is rendered in sound bites. It's critically important to

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3 Sandra Andersen, Chris Bradley, Sri Swaminathan, and Andy West, "Why you've got to put your portfolio on the move," *McKinsey Quarterly*, July 22, 2020.
4 Tim Koller, Rishi Raj, and Abhishek Saxena, "Avoiding the consensus-earning trap," McKinsey, January 1, 2013.
5 J. André de Barros Teixeira, Tim Koller, and Dan Lovallo, "Bias busters: Knowing when to kill a project," *McKinsey Quarterly*, July 18, 2019.
6 Yuval Atsmon and Sven Smit, "Why it's still a world of 'grow or go,'" *McKinsey Quarterly*, October 1, 2015.

make clear connections for investors between the company's strategy and performance. CFOs who are straightforward in presenting "performance versus promises" build more credibility than those who gloss over difficulties.[7]

5. Be proactive about risk

The only forecast you can make for sure is that your next earnings statement will be different. Sometimes, it will differ by a lot. The possibility of massive, systemic disruptions and risks are always lurking, and while no one can predict the future, it is essential to recognize the elements of your business that are most at stake should major disruptions arise. The CFO plays a central role in helping organizations respond to immediate crises—for example, developing scenarios, monitoring and adjusting cash flows, and instituting a communications plan—and building up organizational resilience for the long term. We've seen some CFOs adapt to the COVID-19 crisis by reimagining the business from a zero base and holding back spending centrally to build flexibility and optionality into their budgets. One healthcare company, for instance, quickly resized its sales and marketing investments, given the decline in elective procedures as a result of the pandemic. The finance team set up a stage gate whereby sales resources could be added back as demand for elective procedures grew, as it did in the third quarter of 2020.

McKinsey research shows that the companies that fared best during the 2008 financial crisis were those that used a number of interventions to balance out performance and position themselves for a strong recovery. The actions of these so-called resilients hold lessons for new CFOs today. Effective CFOs cut costs (faster and deeper) when signs of recession first emerged, but they also continued to focus on growth through the down cycle. Because they had ensured investment flexibility as part of their working model, they were able be more acquisitive through the crisis, as well. Being proactive before and through the downturn helped put their companies in the lead as the economy recovered.[8]

6. Think strategically about ESG

Approaching environmental, social, and governance (ESG) should always begin with the company's unique business model. At a minimum, your company can use ESG to more comprehensively consider ways to derisk the business. But beyond risk, many companies rightly see ESG as a growth play. McKinsey research shows that more than 80 percent of C-suite leaders and investment professionals expect ESG programs to contribute more shareholder value in five years than today. Many investors also indicate they would be willing to pay a premium for strong ESG performance.[9] As CFO, you can help business leaders understand whether, how, and to what extent ESG-related initiatives are connected to the company's strategy. A business-specific approach toward allocating resources to ESG can facilitate top-line growth, reduce costs, minimize regulatory and legal interventions, increase employee productivity, and optimize investments and capital expenditures.[10] Effective CFOs also consider using new and emerging standards to report on the company's ESG activities, such as alerting investors and other key stakeholders to positive outcomes from green initiatives and averting risks from misreading stakeholder priorities. One natural resources firm, for example, was able to earn a 30 percent price premium from its customers because its ESG initiatives have made it the most sustainable producer of its commodity.

7. Pull together for talent

Effective CFOs collaborate closely with their colleagues, particularly their CEO and chief

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[7] Robert N. Palter, Werner Rehm, and Jonathan Shih, "Communicating with the right investors," *McKinsey Quarterly*, April 1, 2008.
[8] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles pop, downturns stop," *McKinsey Quarterly*, May 21, 2019.
[9] "The ESG premium: New perspectives on value and performance," McKinsey, February 12, 2020.
[10] Witold Henisz, Tim Koller, and Robin Nuttall, "Five ways that ESG creates value," *McKinsey Quarterly*, November 14, 2019.

human resources officer (CHRO), to allocate capital toward attracting, teaching, and retaining talented employees. One effective practice for CFOs is to convene a central brain trust with the CEO and CHRO. The goal is to identify individuals and teams that drive business value, and to agree about the major investments in talent and capabilities required. Effective finance teams can also be talent factories. That goes beyond a core team of finance professionals responsible for accounting and transactional processes; it includes both "quants" (the data scientists, designers, and data-visualization professionals who can help scour financial and operational data sets for critical business insights and value-creation opportunities) and strategic problem solvers who can move easily among short-term projects to address specific finance challenges. While many of these professionals may not imagine a fit within a traditional finance function, effective CFOs can turn "aversion to tradition" into an advantage—for the employee and the organization. They experiment with agile operating models in the finance function and build a team of "all-around athletes" who can bring financial expertise to other businesses and put their early careers on a faster track.[11]

Effective CFOs incorporate seven key mindsets and actions to prioritize value creation. They resist a setting for inaction or incrementalism and hit the ground running. After all, competitors won't stop as the new CFO settles in.

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[11] Ankur Agrawal, Kevin Carmody, Matthew Maloney, and Ishaan Seth, "Five insights for public company CFOs from private equity," McKinsey, November 15, 2022.