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New technology, new rules: Reimagining the modern finance workforce

Innovations in technology and management practice are creating new opportunities for the finance function to add value to the business. Here's how finance teams will need to evolve to make the most of them.

Steven Eklund, Michele Tam, and Ed Woodcock

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CFOs and their teams are increasingly expected to counsel business units on innovative approaches for creating value. They are also being asked to use sophisticated analytics to measure and manage organizational performance, so they can better support complex decisions and create more accountability across the company.

But in a recent McKinsey survey (whose results are slated for publication later this year), only 13 percent of the CFOs and other senior business executives polled said their finance organizations are using automation technologies like robotic process automation and artificial intelligence. The survey also indicates that 64 percent of CFOs have digitized less than a quarter of the finance function in the past 12 months. What's more, when asked how much return on investment the finance organization has generated from digitization and automation in the past 12 months, only 5 percent said it was a substantial return; the more common response was "modest" or "minimal" returns.[1]

Why the limited progress? CFOs most often attribute it to not having a clear understanding of all the digitization opportunities in front of them. But the persistence of organizational silos and a lack of digital skill sets within the finance organization are also commonly cited as major impediments. A well-run automation program alone is not sufficient to bridge these gaps.

To keep pace with changing expectations and opportunities in a digital world, finance professionals need to make two core shifts. First, they need to replace traditional finance-function operating models with more flexible ones that deploy the most critical resources to the biggest business challenges. Second, within the finance function, they need to build new leadership and talent-management capabilities.

Once they make these shifts, finance organizations can better use the time freed up by automation and other digital technologies to generate meaningful insights that can boost the business's financial performance. (See sidebar, "A day in the life of a finance organization, 2022," for a look at how finance groups could work more efficiently and generate more value for the business in future.)

A day in the life of a finance organization, 2022

With an earnings call happening in less than a week, Sally Rogers, the CFO of American Technology Company (ATC), needs to prepare a response to a competitive threat to the company's industrial-equipment business. There's a new entrant into a segment that includes ATC's single most profitable line. Sally knows investors expect an answer, but before ATC's executive team can lay out a plan, they need to understand the implications of various counteractions. She asks her corporate-finance team to do some analyses.

Discussions are led by the finance value leader for the industrial-equipment business, a new finance role responsible for driving ATC's financial performance in the category. Two problem solvers—generalists with broad experience in revenue reporting and analytics work—have been pulled from lower-priority initiatives to provide analytical horsepower and get answers quickly. Also on the team is a data specialist—a contractor, who will help the team access and structure the data.

The specialist pulls several types of business information from ATC's systems, including financial data, customer-relationship figures, and external macroeconomic reporting such as the Purchasing Managers Index. He helps the problem solvers use an existing machine-learning algorithm to analyze trends in how customers have historically responded to previous competitor actions. These insights help the problem solvers assess the effects of a new entrant, both on ATC's overall market share and on share-of-wallet for specific customers. Under the finance value leader's direction, the team digs into the data to rapidly identify the most vulnerable accounts and the potential revenue and profitability impact of different pricing and product-launch scenarios.

The finance value leader schedules and facilitates a cross-functional problem-solving session with the head of ATC's industrial-equipment commercial team, together with marketing and sales leaders and representatives from supply chain and manufacturing. After examining the data and possible responses, they align on three scenarios: taking no specific action, cutting prices immediately in three product lines, and holding prices steady while speeding investment so that a new product hits the market three months earlier than originally planned. With input from the group, the finance value leader prioritizes the variables that require further testing for each scenario and identifies contacts in the business who can validate the team's assumptions.

While the two problem solvers reach out to the identified contacts in market and aftermarket sales and R&D, the data specialist creates dynamic models for each scenario. Aided by automation, data-management, and business-intelligence tools, he builds and tests each model in a matter of hours. By the time the problem solvers are armed with responses from R&D and sales, they can update the models and incorporate the financial implications of each scenario into the latest 18-month financial forecast.

Within 24 hours from the initial request, the team shares the results with Sally in ATC's online, mobile-ready forecasting tool, which generates graphics and other visuals demonstrating the effect any new competition will have on forecasts.

Sally has the information she needs and shares the potential responses with ATC's executive team, far ahead of the earnings call. As they raise concerns and questions, Sally tweaks the models in real time to display updated projections from each scenario. After some debate, ATC's leadership decides on an accelerated product launch. The CFO asks the finance value leader to mobilize the commercial organization to implement and monitor the decided-upon actions. He will also work with the investor-relations group to prepare a press release that will allow ATC to tell its own story about emerging changes in the marketplace.

Shift 1: Adopt an agile operating model

Many companies still follow a traditional operating model in which dedicated finance professionals support specific areas of the business, with a focus on management reporting, budgeting and planning, and ad hoc analysis. Coverage for those business units may be guaranteed, but finance staff deployed in this way rarely have time to step away from their unit-specific tasks and help shape financial strategy for the business overall.

Moreover, this structure often keeps the finance organization from responding quickly when market forces require the business to change—as happens all the time. What finance organizations instead need is an agile operating model that encourages finance staffers to pivot to the business's most pressing issues. Deep business knowledge would still command a premium, but finance staffers would also be able to serve as knowledge integrators—sharing information from multiple sources inside and outside the finance function.

Very few companies follow this model currently, while others have just started to roll out various components. Nevertheless, based on our experiences and observations, here is what a fully agile finance organization would look like:

- *It would be focused intensely on stakeholders* (customers, partners, and competitors), which would allow it to sense and quickly respond to changes in the financial environment.

- *It would comprise a flat network of teams* rather than a traditional hierarchy. Finance work would be clearly divided into two types: first, transactional tasks handled by a small cadre of individuals using standard, streamlined, repeatable processes; and second, higher-level strategic tasks managed by staffers drawn from one or more "communities of interest," with formal and informal links among community members. The communities of interest would serve as home base for finance staffers who are rotating in and out of small teams that are tasked to high-priority finance projects.

- *It would convene small, focused project teams* made up of staffers with cross-functional skills who are dedicated to a single project at a time, with full accountability for a clearly defined scope. Nontransactional project work would be conducted in rapid cycles, or sprints, in agile-development terminology. Sprints make it easier for organizations to adjust budgets and action plans in the wake of changing business conditions.

- *It would foster an entrepreneurial mind-set* in its members, asking finance leaders to act as coaches who empower employees to stretch their skills and serve as proactive counselors to the business units.

Clearly, to succeed with this type of network-based organization, finance organizations would need to distinguish among the following four groups of staffers (Exhibit 1).

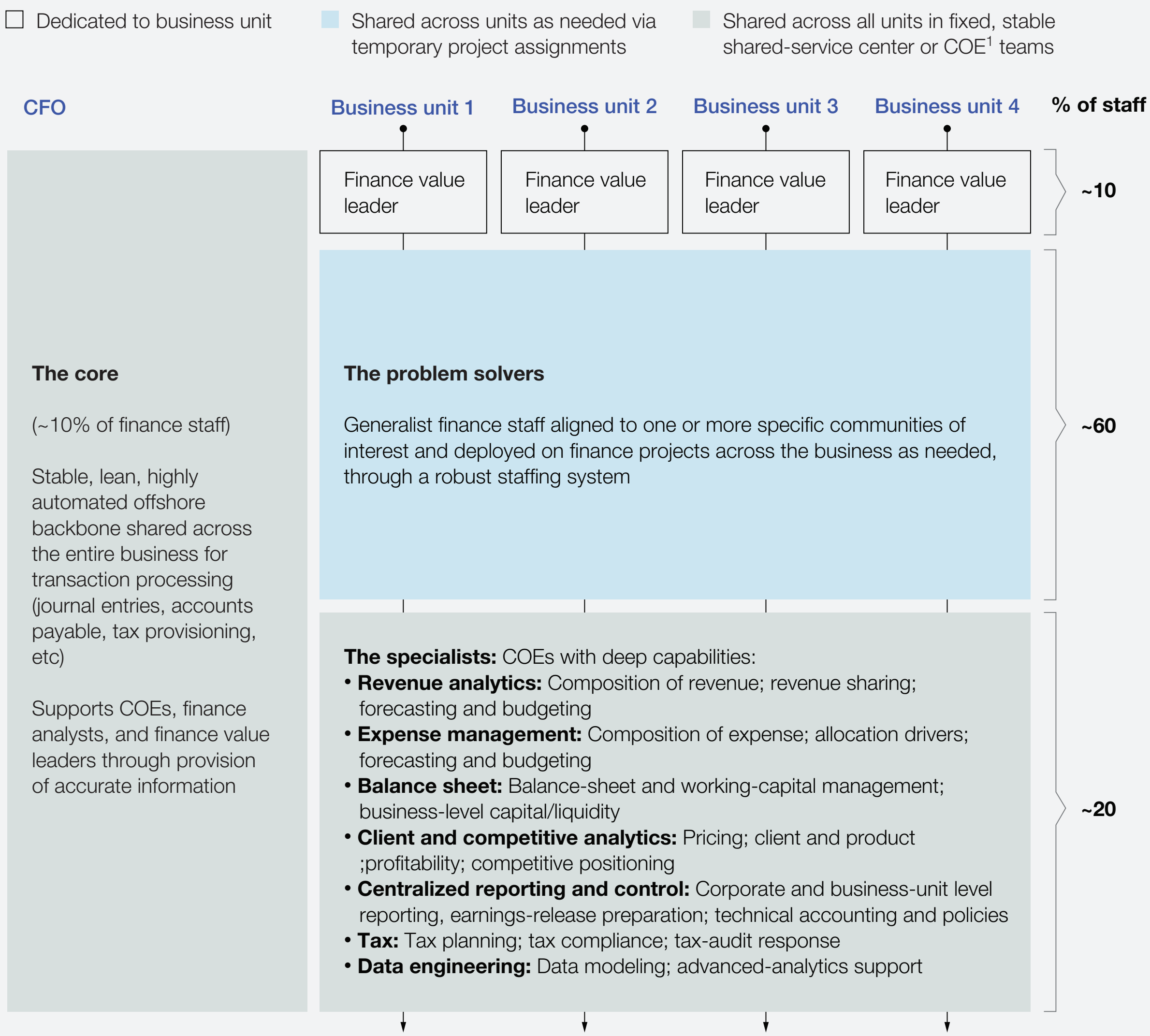
- *The core.* A small team of finance professionals would be responsible for most of the accounting and bookkeeping activities, as well as transactional processes such as invoice-to-pay and revenue management. Many of these activities would be automated and standardized, hence the small headcount.

- *The problem solvers.* A second, larger group would comprise finance professionals who could be assigned on short notice across the business to projects addressing specific financial challenges. Moving in and out of project teams would give these problem solvers a broad appreciation of the business, with opportunities to develop a wide range of finance and business-advisory skills.

  Senior finance leaders would need to closely track where these problem solvers spend their time, so that they focus on the most important questions and the parts of the business. A range of time-tracking and workflow management tools can help senior leaders align resources to strategic priorities, reassign analysts quickly, and manage staffers' workloads.

  A North American telecommunications provider, for instance, used a simple work-intake tool and triage process to smooth workflow among

Exhibit 1 **An agile operating model helps finance quickly share expertise where it's needed most.**



[1] Center of excellence.

Source: McKinsey analysis

a 70-person financial-reporting and analytics group. Short, daily alignment meetings, backed by new standard operating procedures, helped prioritize requests and make assignments—reducing rework while balancing staffers' workloads. Eventually, the finance group also introduced time-tracking mechanisms and customer-feedback metrics, which aided in refining coaching efforts and workflow processes.

- *The specialists.* A third group of finance professionals with deep technical and analytical skills would be organized into centers of excellence (COEs). Each COE would focus on a particular aspect of financial performance—for instance, customer and revenue analytics, liquidity, tax planning, or working-capital management.

COE specialists would develop distinctive sets of analytical and technical skills for leading insightful analyses in specific domains, such as top-line growth, tax management, or operating-expense control. At one technology company, for instance, overall financial-forecasting accuracy was less than 60 percent, in part because of unreliable customer-attrition data. To understand what drove attrition, the company set up a global COE whose staff of finance professionals continually monitored data such as relational and transactional customer-satisfaction scores, pricing changes, and related factors. This dedicated effort strengthened the finance organization's ability to predict attrition, allowing it to respond before indicators dipped into a designated red zone.

- *The value leaders.* The fourth group of professionals would be the highly skilled finance value leaders, who would have free range to tackle the most pressing business opportunities and challenges across the company. Typically making up no more than 10 percent of the total finance staff, these leaders would demonstrate distinctive capabilities in problem solving, collaboration, financial and business acumen, and technical and data analytics. To help shape the economic agenda of a business unit, the value leaders would serve as integrators, collecting and analyzing insights from the core team, the problem solvers, and the specialists, then developing action plans for improving the unit's financial health. The value leader could help identify the business variables that problem solvers should be modeling, for instance, or he or she could work with a specialist and a business-unit head to discuss the implications of a team's analysis.

Shift 2: Build finance capabilities for the digital age

Despite the lag in digitizing finance processes, trends are pointing toward the inevitable: 40 percent of finance activities (such as cash disbursement, revenue management, and general accounting) can be fully automated, and another 17 percent can be mostly automated.[2] The capabilities required to be a highly effective finance professional are changing. Traditional quantitative competencies will always matter, of course, but we believe finance professionals will also need to raise their game in the following qualitative areas as well:

- *Shaping the economic value-creation agenda.* At the macro level, finance professionals will need a deep understanding of strategic principles and how the organization creates returns for shareholders. Examples include knowing where the company falls on the industry power curve or being able to predict the conduct and performance of competitors.

- *Overseeing financial performance and organizational health.* At a micro level, finance professionals must lead the case for change, identifying specific levers to be pulled and actions to be taken. They must gain the trust required to influence their peers in making difficult decisions to help improve financial performance—and then drive accountability to ensure those actions are implemented.

- *Managing stakeholders and processes outside of a formal hierarchy.* The finance function's role no longer entails simply reporting facts with cursory recommendations. They will need to know how to interpret and present data accurately and persuasively—and then coach others, both inside and outside the finance function, on using digital tools and data effectively. Finance managers in a European metals group, for instance, served as central translators of the insights generated by the company's advanced-analytics team and data scientists. They translated the data insights into specific actions that general managers could take on pricing, production-volume forecasts, factory utilization, and overhead absorption. Because of the finance managers' role as independent arbiters, their recommendations persuaded the general managers to implement changes that raised their plants' overall profitability.

These aren't new skills, but in our experience, finance organizations struggle to cultivate them because of executives' competing priorities. In our forthcoming 2018 survey, fewer than half of the CFOs polled reported having the time and focus to develop new finance capabilities.

Finance organizations will therefore need dedicated processes for defining, measuring, and assessing individuals' functional and leadership skills in digital environments, with formal and informal development pathways (Exhibit 2).

At a minimum, they will need a well-defined skills matrix that outlines what the "gold standard" looks like, so that employees can have transparent conversations with managers about the skills they need to develop. In leading organizations, these conversations occur regularly, often layered into standard performance reviews. As the agile operating model takes hold, these matrices must be regularly revisited to incorporate updated expectations and skills requirements.

Relevant formal and informal training opportunities are also essential. At some companies, an internal finance academy uses classroom, online, and expert-coaching methods to help finance staff build new capabilities. Others, recognizing the breadth and depth of skill that can be developed through job rotations, let managers switch into other roles, such as supporting different parts of the business or even moving out of finance roles entirely.

Finance leaders themselves should "walk the talk" by role modeling these changes, sharing examples when new skills are well demonstrated and recognizing and rewarding managers for

Exhibit 2

Organizations can develop digital-finance capabilities through formal and informal pathways.

Skills clearly defined and assessed regularly

- A skills/competency matrix defining basic, intermediate, and advanced skill demonstration
- Objective, calibrated, and transparent skills-assessment processes for all employees
- Regular discussions between employees and managers on skill-development goals and progress since last check

Formal avenues for skill development

- Internal or external finance academies for all skill sets—with online, in-person, and coaching-based options included
- Portion of formal promotion criteria tied to skill development (eg, attain intermediate skills A, B, and C to move from team leader to manager)
- Job rotations to develop breadth and depth of skill

Informal support for skill development

- Target for minimum % of finance-leadership team to be promoted from within
- Rewards and recognition for managers who foster skill development through coaching of team members
- Role modeling by leaders and regular "example sharing" of best practices

Source: McKinsey analysis

effective coaching and team development. Finally, structural actions, such as defining promote-from-within quotas and linking promotion criteria to skills attainment, can signal the importance of training opportunities. That way, the day-to-day demands of the business do not entirely drown out the need for finance staffers to build a new range of capabilities.

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Companies have embraced digital and automation technologies, but they are still figuring out how to capture value from them—and may be doing so for the next few years. Regardless, we still believe finance professionals must begin to think about how these technologies will affect the way their work is structured and completed, as well as the type of talent required to realize the promise of digital tools. Those that do may reach the next level of sophistication in charting a path to maximum financial value in the organizations they serve. ■

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[1] McKinsey's 2018 CFO Survey asked 212 global CFOs and 236 business leaders a series of questions on the role of the CFO, the CFO's role in enterprise-wide transformations, the finance function's digital and talent strategy, and the evolution of the finance function. The survey was conducted online in April 2018.

[2] For more information, see "Harnessing automation for a future that works," McKinsey Global Institute, January 2017, on McKinsey.com.

Steven Eklund is an associate partner in McKinsey's Stamford office, where **Ed Woodcock** is a senior expert; **Michele Tam** is an expert in the Chicago office.

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