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In conversation: The CFO's role in talent development

By taking the lead in enhancing financial acumen and other capabilities throughout the company, CFOs can raise their leadership profiles and their organization's game.

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In the second of three conversations on the CFO's evolving role, four experts join communications director Sean Brown to discuss how these finance leaders can help promote capability building and talent development within their organizations. Kevin Carmody, one of the founders of McKinsey's Transformation Practice, and consultant Meagan Hill are joined by management professor Rawi Abdelal and Bill J. Pearson, former CFO of Nestlé Waters. The conversation is based on the recent article, "The CFO's role in capability building." The following is an edited transcript.

Sean Brown: Why is capability so important right now and why should CFOs be involved?

Kevin Carmody: There are three dimensions to performance: financial, meaning the company's financial targets; operational, or how you run the company; and capability building, culture, and health, which cover the skills you need to succeed. To thrive in this fast-changing world, leaders must treat capability building as a strategic weapon. Done right, capability-building programs not only create competitive distance but also materially enhance employee well-being. There is a huge opportunity now for the CFO to get more involved in resetting and executing these programs.

Sean Brown: We recently published an article on the "Great Resignation"—the exodus of employees looking for more satisfaction in their careers. Does this phenomenon factor into the importance of talent development?

Rawi Abdelal: Yes. We derive meaning, purpose, and dignity from the work we do, and the pandemic has provided us with the opportunity—and, in some ways, the necessity—to reflect on how we spend our lives in work settings. It has made us realize how important it is to our well-being that those minutes and hours and days are full of purpose and meaning. Interpersonal relationships with the people who manage us are particularly important because we need mentors regardless of our career stage. In a way, what we are experiencing in the broader economy and labor markets is a crisis of purpose and, thereby, a crisis of mentoring—of management's ability and willingness to invest in developing the people who work with and for them.

And we can do better. We can improve people's satisfaction with their work by helping them build

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personal and professional capabilities. When we create a sense of shared purpose, meaning, and commitment, when management invests deeply and consistently in people's capabilities, employees have more energy. We are healthier. We are more committed to and engaged with our work.

Sean Brown: Bill, you spent many years as CFO, CTO [chief transformation officer], and even interim CEO. Did you witness the dynamics Rawi describes?

Bill Pearson: From a CFO's point of view, low satisfaction leads to low productivity, which leads to low morale, and that can quickly get the organization into a spiral. I grew up in companies that had up-or-out cultures, and the brain drain was dramatic. It resulted in temporary labor costs going through the roof and many unnecessary disruptions in the business. To retain agility in the marketplace, we need to retain our smart, strong people, and to do that, we need to build satisfaction.

Sean Brown: So how should companies, and CFOs in particular, foster this satisfaction?

Kevin Carmody: First, CFOs need to use data to identify skill gaps and understand what needs to be done to enhance those capabilities. Secondly, we need to take a holistic viewpoint—for example, teaching basic financial acumen beyond the finance function to make the entire organization better attuned to what drives performance. CFOs should also help develop personalized, lifelong career journeys so people, regardless of tenure, can do their jobs more effectively and get more satisfaction out of the roles. When this is all done right, you see performance increase. People have an owner's mindset, and satisfaction scores skyrocket.

Sean Brown: Do most finance leaders already apply these practices?

Kevin Carmody: We surveyed more than 1,200 senior executives to understand how they self-rated across various dimensions. The good news is that 64 percent said they support employee capability building. But there is room for improvement. Forty percent reported that senior executives are directly involved in providing opportunities for employees to apply new skills; we would like to see that at 58 percent. It could mean executives teaching courses and leading by example in the broader program. Another area for improvement is linking learning priorities to business outcomes. How can somebody on the shop floor develop new capabilities to drive the production line more efficiently?

Sean Brown: What role specifically should the CFO play here?

Kevin Carmody: There is a unique opportunity coming out of the pandemic to elevate the role of the CFO outside the financial function. In our article, we laid out ten ways to raise the CFO's leadership profile, but I will highlight two. The first is team building: How can the CFO build capabilities in the finance team and also cascade that throughout the organization? Given their visibility, CFOs are uniquely positioned to leverage their team-building skills so that the finance organization becomes the gold standard for every other function and business unit. Part of that could be bringing finance people into other functional areas to teach how to drive performance and create the link between finance and other functions. The other point is educating the broader organization about the levers that can be pulled and the skills needed to take performance to a higher level.

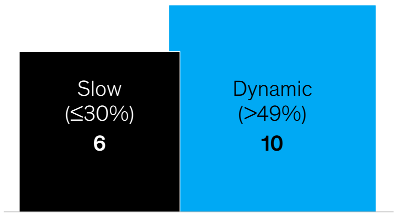
Meagan Hill: More specifically, the CFO should identify capabilities that can create significant value, ensuring that talent goes to the most valuable parts of the organization. Secondly, the finance leader should ensure that employees have foundational financial acumen no matter their tenure. The CFO should also support the company's overall talent development efforts, working alongside the CEO and the CHRO [chief human resources officer]. Our research shows that reallocation of talent matters as much as reallocation of capital does (exhibit). Companies that reallocate financial capital more dynamically have a higher compound annual growth rate. And those that reallocate human capital more dynamically, meaning they have the right people with the right skills matched to the right work, had approximately 60 percent probability of having

Exhibit

Reallocation of talent matters, just as reallocation of capital matters.

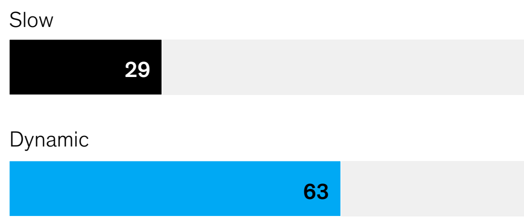
Successful companies that dynamically reallocate financial capital

Median total shareholder returns (TSR) CAGR of companies by degree of reallocation,[1] %



Successful companies that dynamically reallocate human capital

Probability of TSR higher than competitors by speed of talent reallocation,[2] %



[1]Measures the share of capital expenditures that shifted between business units over 20 years; assumes no dividends are paid out. For instance, a $10 billion dynamic reallocator would end up with a market capitalization of $67 billion vs $33 billion for a slow reallocator. Study encompassed 505 slow reallocators, 498 moderate reallocators (not shown), and 505 dynamic reallocators.
[2]Respondents were asked about their organization's current TSR.
Source: *Talent Wins: The New Playbook for Putting People First (Harvard Business Review Press, March 2018)*

higher total shareholder returns (TSR) than competitors.

How do you do this effectively? Focus on a core group of critical roles. These are usually selected based on what drives value for the organization, which lands squarely within the CFO's purview.

Sean Brown: Bill, as CFO, how did you approach the decisions about which roles to prioritize?

Bill Pearson: The "how" is amazingly simple—expand the Pareto principle of 80/20 to 50/50 or 70/30. And no one is in a better position than the CFO to understand where value comes from and where the levers are. But while we are pretty good at forecasting and target setting, we generally don't have a list of 100 initiatives that make up the strategic plan. The trick is to focus the organization on the initiatives that drive the plan. Once you do that, instead of asking, "Are you going to hit the forecast?" the question becomes, "Who is on that initiative and do you have everything you need to accomplish it?" I found that maybe half the time, the answer was no.

At one time, as both the chief financial officer and the chief transformation officer, I was the chief allocator so I could move resources around. If you think of your plan as a number of initiatives, with everyone's compensation linked to their success, then it can easily be determined which initiatives need more resources. For example, you don't have to worry about who is in which department. You can say, "We're going to put a three- or four-person team on that initiative." The barriers break down provided you have common compensation measures.

Sean Brown: Do you find it easier to move people and resources from one division to another than between functions like marketing to finance?

Bill Pearson: The decision to resource an initiative has nothing to do with hierarchy, department, or division. For us, it had everything to do with who were the three people I needed to solve that problem. If you bind yourself to the company hierarchy, you will never get anything done because you will spend all your time in meetings arguing about who needs a given person more. On the other hand, if your plan is the sum of several value creators, and without a particular value-creation initiative being done properly you won't hit your plan, and everybody's compensation is based on the same success measures, it's easy to say, "Sure, she will help out on that."

Meagan Hill: You need the best talent in the most value-contributing roles. We suggest looking deep into the organization, multiple levels down, and ensuring that those individuals are tied to the most valuable initiatives, then supporting talent in being cross-functional and allowing integration across different parts of the business. To make sure you capture value from those efforts, you need to put in place a system to measure OKRs [objectives and key results], outcomes, and goals at weekly, quarterly, and annual intervals.

Sean Brown: Is it harder to get people in highly specialized roles in technology or science to engage in this type of broader training?

Meagan Hill: People with more technical roles typically have capability-building options to stay up-to-date on those technical components. I have seen organizations supplement that with topics that are useful for any individual in the organization, such as negotiation, strategy, or finance. This goes back to ensuring that your approach is holistic. We find that top performers view movement around the organization as a positive thing for their careers. Typically, they possess intellectual curiosity and appreciate the opportunity to become well-rounded athletes, if you will.

Sean Brown: How do you identify the people with the right skills and then get management commitment to moving them to different projects?

Meagan Hill: To give you an example, when the CEO and CFO of a pharma company took on an enterprise-wide transformation, they identified the top 30 roles and then ensured those roles were distributed across the top initiatives. They had a rigorous weekly cadence to measure progress, and when they saw execution waning, they identified programs to develop the needed capabilities.

Sean Brown: Is that the kind of approach you have taken, Bill?

Bill Pearson: There was a tremendous amount of latent entrepreneurial spirit in our company, and the people closer to the customer loved to participate in training. I cannot tell you how many said, "I've been saying this for years, but nobody let me implement it." You will be surprised at how many people love to jump in, step up, put a dollar value on what they are contributing, and learn how to run the company.

Sean Brown: We talked earlier about ensuring all employees have a foundation of financial knowledge. What's the best way to lay this foundation?

Meagan Hill: All employees should understand the market in which their organization operates, how their activities generate value, and how to talk about that value. We have seen companies approach this is by providing business case training for the broader organization and using that as an opportunity for employees to collaborate with finance. We have also seen CFOs create programs to build and reinforce what we call a cash culture and ensure employees focus on metrics beyond profit and loss.

Interestingly, most executives are making sure there are budgets for training. In a recent survey, one-third of company leaders reported that spending on capability building has increased since 2020 despite the other urgent priorities over the past couple of years.

Sean Brown: In the article, you talk about creating teams of C-suite leaders—typically the CEO, the CHRO, and the CFO—that link talent, capital, and strategy. Bill, you were deeply involved in developing talent at Nestlé Waters. How did you work with the head of HR?

Bill Pearson: I want to pick up on the financial acumen point because that is what brought us together. I realized at one point that many people did not understand the finances of the company—terms were being thrown around interchangeably that, to a trained ear, required different activities. For example, profit dollars, profit per case, and profit margin all drive different activities, and to ask the CFO for a $20-million marketing plan to drive profit did not ring true. So, I aligned with the CEO and the CHRO on how we would help people develop these skills. By then, we had cut our training budget to almost zero, but it turned out to be a great enabler. We didn't need to send people off-site for training; we needed someone to teach them how leverage works, how our capital asset pricing model—the one *we* use—works. So we engaged experts within the company. People love to talk about what they do.

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I ended up creating an MBA class for the top 300 people in the organization. I not only gave them the financial overview but also asked each member of the executive team to talk about one of their levers. It was a big success and gave the top of the organization a common language. Once you do that, it is easy for the CFO and the CHRO to work as copilots—to look at initiatives and say, “That initiative will deliver $20 million; how are we going to do it together?”

Sean Brown: How much of future skill development do you envision happening virtually versus through in-person instruction?

Meagan Hill: The days of the big-event, get-everyone-in-a-room style of capability building is somewhat behind us. Real-time, tech-enabled learning delivered exactly how and when an individual needs will be the future.

Rawi Abdelal: We were forced into virtual training by the pandemic and realizing that we couldn’t put talent and leadership development on hold indefinitely. We learned incredibly quickly how to deliver robust programs that are different but complementary to in-person programs. There are some things we cannot do in person, including getting people together quickly across geographies. Virtual training also gives you access to extraordinary people both inside and outside the organization who cannot come to events every week or quarter.

Sean Brown: How much time and attention do CFOs currently devote to capability building?

Kevin Carmody: In another survey we conducted in 2018, the respondents said 20 percent of the time, the CFO was not engaged in developing the company’s top talent, and when the CFO was engaged, two-thirds of the time, it was narrowly, mostly within the finance function or ad hoc. It brought to my mind what one CEO of a large consumer company said when I asked him what he felt the CFO’s role is. He said, “Across my entire C-suite, I view the CFO as my strategic value partner. I need the CFO’s help to get outside of finance and train our folks on what matters for driving performance.” But our survey suggests that CFOs are not engaged to the degree they need to be. We found other disturbing trends. For example, the amount of time that CFOs spent on developing finance capabilities dropped by almost 30 percent from 2018.

Sean Brown: What should CFOs do now to shape the capability-building direction of the company?

Kevin Carmody: First, amplify your voice across the organization by communicating frequently and openly about what you need, starting with defining performance and enhancing the financial acumen of everybody in the organization. The second element is about role modeling—walking the walk. A CFO taking the trainings, setting the agenda, and teaching classes can materially accelerate capability-building programs. Finally, reserve 10 to 15 percent of your day or week to step outside finance to work with other functional leaders.

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—Kevin Carmody

Sean Brown is global director of communications for the Strategy & Corporate Finance Practice and is based in McKinsey’s Boston office; **Kevin Carmody** is a senior partner in the Chicago office; **Meagan Hill** is an associate partner in McKinsey’s Transformation Practice and is based in the Boston office; **William J. Pearson** is the former CFO, executive vice president, finance, and chief transformation officer of Nestlé Waters and a senior adviser in the Miami office. **Rawi Abdelal** is the Herbert F. Johnson Professor of International Management at Harvard Business School.

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