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The CFO's role in helping companies navigate the coronavirus crisis

Strong, steady leadership from the finance organization is critical for addressing immediate concerns about safety and survival, stabilizing the business in the near term, and positioning it for recovery.

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The spread of the novel coronavirus has created a worldwide humanitarian and economic crisis. The events we are living through are in many ways unprecedented, with large-scale quarantines, border closings, school closings, and physical distancing. Governments and communities have been jolted into action to “flatten the curve.”

Organizations, too, have needed to accelerate their actions to protect employees, customers, suppliers, and financial results. The challenges are many and varied: with some companies losing up to 75 percent of their revenues in a single quarter, cash isn’t just king—it’s now critical for survival. While always important, digital connectivity is now fundamental to the continuity of business operations, as remote work becomes the norm across much of the globe. The need for frequent, transparent communication with colleagues and investors has only ramped up in importance as business conditions, epidemiological forecasts, and rules of conduct change daily, if not hourly.

Amid all this uncertainty, the CFO can play a strong, central role, alongside executive peers, in stabilizing the business and positioning it to thrive when conditions improve. The CFO is the leader, after all, who day to day most directly contributes to a company’s financial health and organizational resilience. Our experience in helping clients through both internal and external crises offers lessons about the actions that CFOs should take in the wake of the pandemic to put their companies on a sound financial footing and help reduce some of the fear and uncertainty. We share those lessons in this article, outlining the critical steps CFOs and finance organizations can take across three horizons: immediate safety and survival, near-term stabilization of the business in anticipation of “the next normal,” and longer-term preparations for the company to make bold moves during recovery.[1] Our guidance is based partly on empirical research McKinsey has conducted on companies that outperformed competitors coming out of previous crisis points and recessions.[2]

Resolve and resilience: Addressing the immediate crisis

Economically, the COVID-19 crisis is most immediately one of liquidity and resulting financial stress. As the coronavirus has spread, thousands of companies have had to close their doors temporarily. Their supply chains have been disrupted. Consumers can no longer make many discretionary purchases. The finance leader’s top priority, then, has to be optimizing cash reserves, as the magnitude and duration of the crisis remain unclear. Specifically, the CFO should focus on assessing the company’s liquidity, launching a centralized cash war room, developing different scenarios based on potential paths of the virus’s spread, and rolling out an internal and external communications plan.

Launch a cash war room

Most CFOs are already moving quickly to quantify their companies’ cash on hand as well as any incremental capital they can access. Finance leaders will need to forecast cash collections associated with the latest sales projections. With many customers delaying payments, however, some companies may need to double down on collections to remain solvent. When working capital is no longer sufficient, CFOs should consider tapping lines of credit and other options while reviewing opportunities to raise capital, such as through divestitures or joint ventures. If necessary, they should also seek relief on debt covenants as early as possible to strengthen the balance sheet before doing so becomes a matter of survival. In such times of crisis, when a cash shortage is a distinct possibility and conditions are changing constantly, setting up a cash war room can help CFOs implement aggressive curbs on spending throughout the organization. Additionally, CFOs can use various tools or mechanisms—what some would call a “spend control tower”—to prioritize payments and impose clear reporting metrics that track liquidity in real time.

[1] For regularly updated articles on the business implications of the coronavirus pandemic and how organizations can respond, see McKinsey’s collection, “Coronavirus: Leading through the crisis,” on McKinsey.com.

[2] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, “Bubbles pop, downturns stop,” *McKinsey Quarterly*, May 2019, McKinsey.com.

Develop scenarios

Amid this period of heightened uncertainty, finance and strategy teams will need to rely on a range of scenarios rather than on individual time-horizon–based frameworks.[3] The finance leader should develop a point of view about two or three integrated scenarios that encompass multiple eventualities—for instance, which paths might the pandemic take, and which geographies or industries are poised for faster recovery than others? The CFO should also articulate clear thresholds or trigger points that suggest what financial actions the company will take and when. The financial planning and analysis (FP&A) group is uniquely positioned to help in this regard, as it works closely with the business units and can help project the effects of the pandemic on various aspects of demand and supply. Rolling forecasts should incorporate both macroeconomic and company-specific data to identify major areas of EBITDA risk. The forecasts should also identify second-order impacts, such as geographical supply-chain disruption and employee dislocation, as well as likely sources of cash leakage and customer-liquidity projections.

Once all this is in place, the CFO should guide the creation of a framework that a small executive team can use to make business decisions (to rationalize projects, for example) and monitor conditions (for triggers that might cause various scenarios to unfold, for instance). The CFO will need to track in real time the effect that cash decisions are having on the company's ability to ride out the downturn and resume business operations once demand begins to bounce back.

Institute a communications plan

The CFO must take a lead role in the financial and strategic aspects of crisis management. As mentioned previously, the company's primary finance focus during this period will be on implementing a "cash culture"—that is, preserving cash and deploying it dynamically. The CFO must communicate this priority throughout the organization and help establish incentives to reinforce it so that all departments and business units understand "why this matters now" and what their specific role is in helping optimize cash.

It is equally critical to communicate proactively with boards of directors and investors. The message to both should focus on the crisis's actual and projected effects on the company, the actions being taken to protect the business, the liquidity situation, and any changes to earlier earnings commitments. In addition, the CFO would be wise to increase the frequency of investor communications after the first few months of upheaval, particularly when new information is available. Such connections are essential for demonstrating that executives are taking fast and resolute action based on their best understanding of the situation.[4]

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[3] "Economic Conditions Snapshot, March 2020: McKinsey Global Survey results," May 2020, McKinsey.com.
[4] For more on communicating with investors during this crisis, see Tom Kolaja and Tim Koller, "When investors call: How your business should talk about coronavirus," March 2020, McKinsey.com.

Return: Stabilizing the business

Once concerns about cash preservation have been addressed, the CFO needs to ensure that the company is positioned to operate effectively in this next normal. The finance leader's critical tasks here will include making operational improvements to bolster productivity, reevaluating the investment portfolio, and investing in the finance function's capabilities.

Bolster productivity

Our research shows that, during the last economic crisis, a small subset of leading companies (we call them "resilients") pursued productivity improvements more often and more frequently than others, creating the capacity for growth during recovery.[5] As a result, they outperformed competitors, doubling their generation of TRS over the subsequent decade. What's more, when compared with peers, the resilient companies reduced their operating costs by three times as much—and they made the moves to do so 12 to 24 months earlier than peers did.

The CFO and the finance organization can make several operational moves to support near-term performance improvements. For instance, to shore up revenues, the CFO can promote the development of new products and services that will assist customers who are experiencing financial difficulties, thereby promoting loyalty from valuable customer cohorts. The CFO can actively reallocate resources to businesses with strong existing revenue streams and optimize the company's use of alternative sales and delivery channels, such as e-commerce.

With much of the world in lockdown and demand falling, it will be necessary for finance leaders to take decisive actions for reducing operating costs, but it will also be critical for CFOs to maintain some flexibility and to balance those reductions against the eventual need to scale operations back up as the economy recovers. In the meantime, the CFO and finance team can also bring some rigor to spending management by implementing rapid zero-based budgeting for all discretionary expenditures, such as indirect procurement.

Reevaluate investments and strengthen the balance sheet

CFOs should use this period of crisis as an opportunity to perform a deep diagnostic on the balance sheet—for instance, reviewing goodwill impairments; refinancing debt; reducing inventory, accounts-payable, and accounts-receivable terms; and so on. This sort of balance-sheet cleanup can extend the company's financial flexibility while keeping everyone focused on key metrics at a chaotic time. Additionally, CFOs should guide peer executives in a review of major R&D, IT, and capital allocations and use the opportunity to optimize the company's investment portfolio. It is very likely that business units' initial projected returns on investments will have changed significantly as a result of the pandemic. Finance leaders will need to quickly shift human and financial resources to higher-yielding projects and the initiatives most valuable to the company's future.

Turbocharge the role of financial planning and analysis

Under crisis conditions, the FP&A team must accelerate its budgeting and forecasting work, providing continually updated business information that the CFO and the finance organization can then incorporate into an integrated forecast. The FP&A team should use collaborative tools to monitor and manage key performance indicators; in a crisis period, issues with data latency will not be acceptable. And the team's updates need to become a true rolling forecast, supported by a "decision cockpit"—a real-time dashboard business leaders can use to focus on the seven to ten key metrics that will guide the organization's operations through the coming months.

Some finance organizations may lack executives with the skills necessary to elevate the FP&A team into such a role—those with analytics and business

[5] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles pop, downturns stop," *McKinsey Quarterly*, May 2019, McKinsey.com.

backgrounds may be in particularly short supply. To build up the finance bench, the CFO will need to scout for dynamic, proactive individuals; explicitly recognize their performance; and support their experiments with new tasks and new roles on the fly. Additionally, with the likely sudden and dramatic rates of unemployment in many sectors (such as hospitality and travel), finance organizations may be able to recruit top talent with some combination of the digital, finance, and business expertise required but that had previously been harder to find.

Reimagine and reform: Thriving in the next normal

Once the crisis abates, senior management will want to move forward. To enable the company's pursuit of bold strategic moves, the CFO and peer executives should convene a small group of talented executives whose mandate is to focus on strategic planning, with oversight and support from senior management and the board. The team will set the game plan for investments, portfolio shifts, and major productivity initiatives that will position the company to win after the pandemic.

There are five big moves that our research shows have the greatest impact on a company's ability to significantly outperform the market: dynamic resource reallocation, programmatic M&A, strong capital expenditure, productivity breakthroughs, and differentiation improvement.[6] All are important, but in the current crisis, reallocating resources for future growth, realigning the portfolio through acquisitions and divestitures, and boosting productivity are the most critical.

Adopt a transformation mindset when reallocating resources

Crises are often opportune times to restructure parts of the business that require transformation (and to take the related charges). This one is no different. The CFO and finance organization would be well served to adopt a transformation mindset when they are setting targets, managing performance, constructing budgets, or challenging their business on growth or expense actions. The finance team should launch a review of the portfolio, with a focus on achieving the full potential of each business unit. This is a time to shelve incremental thinking and seek out transformational plans that could boost revenues or reduce costs—not by 5 to 10 percent but by 30 to 40 percent.

Consider how M&A and divestitures could improve the portfolio

Roiled markets and plummeting valuations can create a ripe environment for M&A. CFOs should be a leading voice in determining how to use M&A as a tool to manage the crisis (through divestitures, for instance) and to reallocate capital toward high-priority needs (through product, geography, or supply-chain acquisitions, for instance). A programmatic approach to M&A—where companies pursue frequent small and medium-size acquisitions—may hold some promise during this disruptive period.[7] Consider that during the last financial crisis, companies that maintained a programmatic approach to M&A outperformed through the downturn and maintained excess TRS through the recovery. In fact, the top-performing companies through the downturn (those with top-quartile TRS) had the highest average volume of annual transactions during that time period and returned roughly six times that of the bottom-quartile performers. Similarly, resilient companies divested assets 1.5 times more than their nonresilient peers.

Boost productivity through digitization

This is the first economic disruption that requires a large part of the global workforce to perform their duties remotely, making digital-collaboration tools necessary to keep the business functioning. But the finance team's use of digitization to help the company manage the crisis should not be considered a onetime event. Digital initiatives that once seemed out of reach—from automated closings to real-time forecasts—are now business critical. The CFO and finance team should take a leadership position in advocating for the use of digitization across the organization, long after the

[6] Chris Bradley, Martin Hirt, and Sven Smit, "Strategy to beat the odds," *McKinsey Quarterly*, February 2018, McKinsey.com.
[7] Jeff Rudnicki, Kate Siegel, and Andy West, "How lots of small M&A deals add up to big value," *McKinsey Quarterly*, July 2019, McKinsey.com.

crisis has passed. The CFO and finance team can codify the solutions they have developed—the cash war room, rolling forecasts, and collaborative dashboards, for instance—and help scale them throughout the organization. This active, informed embrace of digitization will be invaluable for ensuring accurate reporting, informed decision making, and business continuity in any future crises.

Meanwhile, much attention has been paid to the massive disruptions to global supply chains. These disruptions have changed business leaders' ROI calculus overnight—from being solely focused on efficiency to now accounting for resilience and stability. Consider how business-process-outsourcing centers worldwide are reeling from lockdowns and limited bandwidth in their own countries (India and the Philippines, for instance), and think about the degree to which many of the critical processes they support have been disrupted. CFOs will need to do the hard of work of digitizing and automating core business processes to reduce their exposure to exogenous shocks and to create resilience.

In the coming days, weeks, and months, as employees are struggling with anxiety about their health, their future, and their loved ones, finance leaders must demonstrate empathy—but also bounded optimism that the organization and its people will find a way through the crisis.

The CFO can back up this view with clear actions and decisions. Regular communication is critical: the CFO must be forthcoming about the "knowns" and the "unknowns." This will help ease misgivings, decrease distraction, and keep people motivated. Also critical is empowering others in the finance organization to direct aspects of the crisis response while establishing a financial decision-making framework that will help executive peers make necessary trade-offs.

No one knows how long the pandemic will last, but in time, business and daily life will find a new equilibrium. CFOs are key to ensuring that their organizations not only survive the current crisis but thrive in the next normal.

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