

A CFO's perspective on sustainable, inclusive growth

In the current challenging environment, how can CFOs and other business leaders continue to deliver sustainable, inclusive growth?



CFOs' positions give them unique visibility into companies' efforts to deliver sustainable, inclusive growth. In this episode of the *Future of America* podcast, McKinsey senior partner and CFO Eric Kutcher talks with IBM CFO and senior vice president James (Jim) Kavanaugh about the current moment's unique challenges for CFOs, the importance of resilience, and imperatives for business leaders around talent, recruitment, and retention. An edited version of the conversation follows.

Eric Kutcher: Welcome to the ninth episode of McKinsey's *Future of America* podcast, where we'll explore how we can build a future that drives sustainable and inclusive growth. Join us in the conversation with leaders who are accelerating progress to grow, broaden, and sustain prosperity for more Americans.

I am your host today, Eric Kutcher. I'm a senior partner and CFO, and I am based in the Bay Area, although today I am recording from Davos and the World Economic Forum. Today I am joined by Jim Kavanaugh, senior vice president and CFO at IBM. Jim has worked at IBM since 1996. And Jim is a wonderful personal friend. So Jim, welcome and thanks so much for being here today.

Jim Kavanaugh: Eric, thanks so much for having me. And I'm excited, as always, to talk to you.

Eric Kutcher: Jim, just because we want to make sure all the listeners get to know you, tell us a little bit about you and your background.

Jim Kavanaugh: Sure. I'm with IBM now, coming up on my 26th year—so I joined IBM in 1996. I've held numerous financial roles across the company internationally. And I was appointed the IBM CFO in January 2018. I was reflecting on that while driving in today, thinking about this great conversation here, in my fifth year: how fast things go. But I'm sure we're going to get into more of that throughout this podcast—and the challenges and the opportunities of the role of CFO.

As part of the CFO role, I have responsibility for all finance and operations across the company. I have the stewardship responsibility that really, as I always tell my teams, is at the epicenter of how you run a company—everything from strategy and portfolio optimization to financial management and all the operations for the company, including our chief information officer, our chief data officer, our supply chain, our operations. Very happy to be here with you today.

Eric Kutcher: That's awesome, Jim. And there's a bunch that you already said that resonates. We'll talk a little bit about the role of the CFO, for sure, because I think it really has evolved.

You and I talked a little bit about having played sports growing up and even into college, and I was a catcher. And catcher was that position that no one wanted to play.

Jim Kavanaugh: I was a nose guard in football. And no one wants to play that either.

Eric Kutcher: That's exactly right. And what I remember was, everyone kept saying, "Why would you ever do that?" And when I took on my current role a few years ago, everyone would start with "my condolences." And I'm sitting there thinking, "this is the greatest job on Earth," right? It's just like being back on the baseball diamond: I can see the whole field. I know where the defense is set up.

It really resonates because it talks a lot to what you just said: the scope of the role. And a lot of what you do day to day, frankly, is as an enabler of the organization, right? I think that is something that I certainly think about. It sounds like you do as well.

Jim Kavanaugh: Most definitely, Eric. And catcher, nose guard in football have a lot of similarities because you're at the core of how you actually play.

The role of CFO, I think, is changing dramatically. I had a chance, a unique opportunity five years ago—prior to this CFO role—to step out of finance and lead the next evolution of the IBM company and

become the IBM company's chief transformation officer. But I think that is very important in really what's required of all of us, as CFOs of companies. You've got to have that broad-based knowledge and experience overall.

Eric Kutcher: One of the things, Jim, that I'd love to chat about is this notion of sustainable, inclusive growth. In this case, let's talk a little about the US: that we have to create a sustainable United States—one that is also inclusive and is also growing.

And those things are, by definition, kind of pulling at each other. What does that mean to you and how you think about both terms? What does it mean for what you have to do each and every day and kind of where IBM goes as an organization?

Jim Kavanaugh: I do not think there's been a more important time for the role of the CFO than today. It's important that we're having these conversations here, as there's so much going on in the world right now that we're all dealing with.

You're coming out of Davos, as we speak right now. But I think we all can agree that the past two years have been challenging, both professionally and personally, for many people around the world. We've faced an ongoing health crisis that turned into a social crisis that went to an economic crisis and, unfortunately, we're facing humanitarian crises, such as the war in Ukraine.

But the fact of the matter is, people are making decisions, different decisions than where we were three to five years ago. And I believe they're challenging the purpose of organizations, businesses, and leadership. As we talk about sustainability and inclusivity with that combination of the foundation for growth, that's what the priorities of people are today.

You asked about today's CFOs and sustainability, inclusivity, growth. I truly believe that history will be written about these times that we've been operating in. As CFOs, we're always—Eric, as you know quite well—focused on the *what*: productivity,

efficiency, operational stability, liquidity. But I think these times will be less about pure financials and more about a culture.

And when I think about culture, IBM—let me give a little shout out to my company—has a framework. We've been in existence for 111 years. We have a framework around culture that's really grounded in purpose, united in values, and demonstrated through growth behaviors. Purpose is why we exist, values are what we believe, and behaviors are how we act. And I think there could be no better time than right now, to your question, taking all that into account.

Eric Kutcher: It is interesting. Leadership today feels just so different than I think it probably felt a little bit ago, right? Even the Business Roundtable came out and kind of shifted its orientation away from pure shareholder to stakeholder. And I think the expectation of what the institutions that we are part of mean to our people—and frankly, what they mean for society and the impact they have—is just greater.

The responsibility that we have each and every day is much, much greater than it was probably in the past—or at least, it feels that way. And I think also, as leaders, we're a little bit in the unknown, right? And it's hard.

I think it really does force us to think outside our comfort zone because none of us, as leaders, have had to deal with a European war, right? None of us have dealt with a supply chain shock of this magnitude, at least not as leaders, right? Most of us were pretty young kids the last time that happened.

So today's situation is sort of recentering where we all are and forcing us to think. And I know it's hard. And I don't feel like I get it right most days. But it's not because we're not trying.

Jim Kavanaugh: Not at all.

Eric Kutcher: So coming out of Davos, I'm just wrapping up what was a pretty intense few days,

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and the mood is interesting. The mood here in Davos feels a bit more somber than I would have said I've heard in the past. I think that's reflective of a lot of the issues that you just raised, and I'd love to kind of go through a few of these.

So one of the issues on everyone's mind is this inflation that was supposedly transitory but certainly doesn't feel that way at the moment. I'd love to hear how you're thinking about inflation and maybe a little bit about what it means when you think about it as a leader from a business point of view.

Jim Kavanaugh: You know me well, Eric. I'm surely no economist, and I won't try to be one here today. But let me give you it from my lens. I think we're all learning on the job as we move forward. I think if you go back, it's probably, what, 40 years since we've seen the type of inflationary impact we're dealing with right now? So it's real.

Today, I think it's more of a question, unfortunately, around if and how you can achieve a soft landing sometime in early '23, maybe late '22. On the one hand, inflation's creating challenges for growth across clients, across industries; higher human capital costs—that's salaries, retention, churn, recruiting; the cost of talent acquisition right now is going through the roof—higher component material costs; higher logistics costs; higher borrowing costs.

We're a very acquisitive industry in technology. And the higher borrowing cost is impacting the financial flexibility of some companies to go drive that growth, that sustainability, as they move forward.

One other thing that we obviously spend a lot of time on, being a multinational enterprise, is currency volatility and what inflation's doing with currency around the world. Two-thirds of our business is non-US-dollar functional. It is a real cost. It's not just translation. There are transactional implications to currency.

So on the one hand, it's challenging for us. And I think that's what brings you and I into work each and every day: to come and make a difference and have something challenging to go work on.

On the other hand, I would tell you—as I'm telling my teams and as I'm telling many of my key clients that I talk to—I firmly believe the only deflationary force is technology. And technology now is a source, I believe, of sustainable, competitive advantage. It's the reason why, over the last few years, technology shifted to, I think, the number-two—maybe number-three—driver of GDP, behind healthcare.

The advent of automation, AI, is now moving to scaling and adoption from many people tinkering and experimenting. I saw a statistic last week that we are actually, in terms of the labor force, 200,000

to 300,000 people in excess of the prepandemic level in high-tech consulting-area employment.

We are four million people short on labor, as you know quite well, a lot of that being in service-based industries. It's elderly healthcare. It's childcare. It's education services. It's retail. Those people are struggling. They can't get the talent. And the cost of talent acquisition is tremendous.

The best companies get stronger during this time period with these exogenous events. And I do believe the technology industry is a source of competitive advantage right now. That's how we're approaching it.

Eric Kutcher: Yeah, Jim, I love the way you're thinking about technology. In particular, two things you said really struck a chord. One is this notion of the productivity required for the real way to fight inflation, which, in many ways, is going to be how we use technology. And I think the other is this talent gap.

During the course of the COVID-19 pandemic, we lost something like five million people from the US workforce, some of which will never come back, right? One of the things I heard was about one million to 1.5 million were baby boomers who left the workforce a little bit early. And I don't think they're coming back. So how do you fill that workforce?

The last thing is this inflation with supply chains. And I think every time we think we're making progress, there's another disruption, whether it's the effects of the zero-COVID policy in China and the impact on the supply chain or whether it's the capacity of the semiconductor industry. How do we think about supply chains and what's going on today? And I think equally important, how do we think about the way this is going to evolve?

Jim Kavanaugh: It's a great question, overall, because we're all dealing with this. The supply chains are impacted in every industry. Globally and in all industries, it's been a force to react to, plus the

multitude of compounding challenges over the last two and a half years.

Let's just take a step back and see what all of us have had to deal with, from pervasive issues—like the pandemic that we all got into a little over two years ago, the natural disasters, the global semiconductor constraints, and now, unfortunately, the war in Ukraine—to current tactical issues that we're dealing with every single day.

We've got COVID-19 lockdowns in China. We have issues with shipping capacity, velocity reductions, and semiconductors under capacity. So across all industries, I think supply chain challenges touch every stakeholder to a degree. And it's impacting growth for all businesses.

We know supply chains can be a competitive advantage or a disadvantage for any business. As I talked about earlier, organizations that were already on a path to leverage data, AI, automation, and digitization absolutely, I think, are demonstrating resiliency and agility better than others through these challenges.

And I think those are the critical factors for enabling sustainable growth as we go forward. So there are several things that we've been doing within IBM to minimize disruptions. I take this as an opportunity. Again, I have the transformational role, I have the operational role, in addition to the CFO role on the financial side, in the strategy role.

I look at disruption across our business model and practices as a forcing function to prioritize and focus on mission-critical functions. We look at it to understand product-pricing optimization in light of this and how you deal with supply chains.

Finally, you use this as a forcing function on an enterprise-wide transformation to get better.

Eric Kutcher: Fantastic. Now we're going to spend some time on this notion of inclusive talent strategy and sustainability. Jim, I know IBM has been incredibly involved in workforce development.

And it's not just inside of IBM; you do it in the communities within which you operate, which I think is something very admirable.

I'd love to dive in a little bit on this and see what you're seeing in terms of workforce and trends. I know one of the things that everyone talked about last year was this Great Resignation and what that meant for the retention of talent, the attraction of talent, and the diversity of talent. I would love to hear what you've witnessed personally and how companies think about it—and how you as a leader think about it as well.

Jim Kavanaugh: Eric, great question. And it's something I'm very, very passionate about. You think about IBM—high value, innovative, IT-based company. At its core, it's built on innovation as a key thesis. And it's built on human capital. Its people. And it's people who I truly believe—it's not a cliché—are only the sustainable competitive advantage as you move forward.

But before I address the question specifically, I've had a lot of this discussion with my teams here across IBM. I'd like to actually propose a different point of perspective on this term Great Resignation—in fact, more of a reframing, I think. I believe this is the era of the “Great Reevaluation,” I'd like to call it, instead of the Great Resignation. Why? I think employees, as I've said earlier, are all reevaluating the type of work they do, when and where they want to work, and the careers they want to have.

In these last couple years, which I talked about being challenging personally and professionally, people have been through a lot. And it's forced them to reevaluate what they want out of life, what they want out of their professional career, as they move forward. Now people expect, I think, something in return from employers. And that is to be transparent about the purpose of work, around flexibility, and around career mobility. And those are themes that we see in IBM here today. They want to see a genuine commitment to diversity and inclusion programs.

Our HR team, and I think companies all around every industry, need to follow employees' leads and reevaluate how the company is meeting employees' evolving needs. We've kind of coined something here at IBM about “invest in you to rerecruit”; a pretty important term of ours is to “rerecruit your employees.” How much time do we spend rerecruiting our talent, our personnel, in selling that value proposition of purpose, culture, and what a company means?

IBM, I think, is a hotbed of opportunity—we are in 170 countries; we operate in 17 different industries; we've got six different major lines of business—a whole vast array of experiences that people can get. People want to understand that career optionality and mobility overall.

Third, becoming very, very important now, is flexibility. And that is beyond, I would say, return to work. I don't like that term, “return to work,” because it kind of alludes that people are not working. People are working; they're just working from anywhere. And I think flexibility is important. We've always had flexibility in IBM, even pre-pandemic.

I think it's more about workplace experience now and what people are looking for. So continuous learning, career mobility, flexibility, and the culture and the purpose of a company, I think, are really top of mind for the “IBMers” around the world in getting at this framing of the Great Reevaluation.

Eric Kutcher: I love this notion of the reevaluation and some other things you hit on, like the notion of purpose. I think the connection that people have to an organization, or to any team, is much more around how they feel committed to the purpose. Are they waking up every day and doing something they believe in, they have passion for? And when they do that, they want to do more of it, right? You don't see those people leave. And I love this notion of rerecruit.

I happened to be at a dinner last night at Davos—and it was very US-oriented, much like the conversation we're having today—and the topic was something you just picked up on. It was this

whole question of, “How do I think about remote, hybrid, and in-person work?”

And there’s diverging views, right? There’s some out there that say, “We can only build the culture we want, develop the people we want, etcetera, if we are all in an office five days a week.” And I heard equally, on the other end of the authority, “Actually, we’ve done remote work for two-plus years. It’s clearly done OK. Why don’t we give people a lot more flexibility?”

Then everyone sort of sits there and goes, “I don’t like the word ‘hybrid,’ so is that really what we mean? How do we get to the right balance?” I’d love to hear how you’re thinking about that and the experience in what you’ve seen so far.

Jim Kavanaugh: Yeah, I don’t like the phrase “return to work,” as I stated. I think it all boils down to something I talked about earlier, which is purpose. I think it starts with purpose. Hybrid, flexible, work from anywhere: I think what people are really yearning for is to work for a company that has a sense of purpose and is good for the world.

I think you have to start with that cultural framework and what people are looking for, which is sense of purpose. Do you have a core set of values, and do you have behaviors—do you have leadership that exemplifies how the company really should be run? I think that’s the most important thing right now. It’s now hybrid or whatever.

By the way, with that is a purpose on why and where at work. Some companies went out and said, “You have to be in two days a week.” Some companies went out and said, “We want you in three days a week, four days a week.” We have not, on purpose, given a hard-line date or period of when people need to be in. Why? Because I think it’s different for every discipline, every function, and every work process in the company. And you have to align that value proposition back to your employees. You have to align it back to a purpose on why.

We think cocreation is important. We think creativity is important. But many tasks can be done remotely. As you said, we’ve proved it the last two years. As CFO, when we all, within 48 hours, took 350,000 people remote, we didn’t miss a beat. As we all know, that happened in the early part of March 2020. In the beginning of April, less than one month later, we closed all of our general ledgers around 170 countries in the world, with everyone working remotely. And that was an eye-opener, right?

As CFOs, when the pandemic occurred, naturally our mindset went to, “What’s the lack of productivity and efficiency we’re going to lose, in addition to liquidity, operational stability, balance sheet, and all that?” In reality, I’ve become converted. I’ve actually seen productivity increase over the last two and a half years.

But the challenge is, when you talk about the Great Reevaluation, that people have reevaluated what they want out of a company. And you have to have a value proposition of that core purpose and a set of values of what it means to employees that, when they come in, each and every day—into their home office, work office, client office, or wherever—they can make a difference.

Eric Kutcher: The thing that I often think about is, I think we can create a much more inclusive work environment with this level of flexibility. I’ve got to drive my kid to school. I can do that now a lot more readily because I have the flexibility of where I’m going to be that day, and I might not have to make that 45-minute or hour-long commute to the office.

So I think there’s a lot more that we can do. I also think about this notion that teams need to decide what is the right working model for them. There’s no reason why, as leaders, we have to decide for everyone. I really do agree with where you’ve gone with this, which is the flexibility in letting the teams decide. And I think that, by the way, is what maybe the term “hybrid” really gets defined as. It’s team

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based and what’s right for that team as opposed to this in-person or not in-person physically issue.

The next topic is a bit of a non sequitur, but I’m going to go there anyway: sustainability. As CFOs, we are being hit with a whole bunch of new regulations and reporting requirements. We’ve looked at what we think it takes to get to net zero and most of the ways toward the 1.5° path. And it looks like between now and 2050, it’s \$9 trillion per year, which is roughly 50 percent of corporate profits.

What does this mean to IBM? How are you looking at it in terms of your responsibilities as a corporate citizen? I think equally important, what types of opportunities does this create, as we all have to rethink our role in the world and making it better for our kids and our grandkids and their kids?

Jim Kavanaugh: So the reality is, sustainability has been a focus, at least at the IBM company, for decades. We’ve always talked about stakeholder value. And that is many different constituencies—shareholders, clients, suppliers, communities we operate in. That’s how Thomas Watson Sr. built the IBM company, with the core set of values. But to your point, sustainability, rightfully so, has been elevated the last few years—in fact, it was part of

getting prepared for this discussion here tonight and our board meeting next week.

The World Economic Forum, or Davos—pertinent to where you’re at, Eric—has argued that the top five business risks are all related to environment. Sustainability has a business imperative. And it’s crucial to driving the resiliency and agility that businesses need in a world where change is constant.

So for us at IBM, it’s living our purpose of being the catalyst that makes the world work better. Our values of trust, transparency, and ethical leadership guide the work that I do each and every day. But as CFO, I’m always thinking about growth. Sustainability becomes front and center for all business leaders today. We actually do many different studies with our consulting group around our institute of business value.

We just completed this year’s annual CEO study—with 3,000-plus CEOs from around the world, many different industries, overall. It was interesting what came out this year, in that sustainability is a higher priority than ever before on corporate agendas. Roughly half of the CEOs say increasing sustainability is one of the highest priorities and recognized as a business imperative and growth

driver, which is why you and I, as CFOs, spend our time on this—because it's real.

More than half of those CEOs cite sustainability as among their greatest challenges in their next three years, an increase of 70 percent from last year's survey. And—this is the one that got me—over 80 percent of the CEOs believed that a company's sustainability investments will produce improved business results and better ROI as they move forward, but just under a quarter of those CEOs are saying that they're implementing today, which leads to a question. Why?

As I got into the CEO study, over half of the respondents said they aren't implementing because of "lack of data." We've heard these things before as CFOs, right? Lack of data, lack of standards, lack of segmentation, and lack of governance are no surprise to any of us. The second most common reason was technology barriers—lack of architecture. All this leads to unclear ROIs and economic investments.

That's what's gotten me excited, as a technology CFO—the investments we've been making and our capital allocation, both organically and inorganically, building out sustainability practices around our consultant business transformation services. We've actually acquired a couple of companies—the most recent being Envizi, which gives us a sustainability dashboard that leverages our software asset-management capability, our supply chain capability. So I think there are a lot of opportunities.

But to the core of your question, sustainability's real. I fully support it. It's about time that it continues to get elevated. And I think it's coming upon us as CFOs to turn this into a competitive advantage for all of us. And I'm excited about it.

Eric Kutcher: Awesome. Before we go to some rapid-fire questions, Jim, a couple of things really resonated with me.

One, I think we probably live at a moment of uncertainty with external shocks that are just unfamiliar to all of us, right? The level of inflation,

to which the supply chain challenge is obviously linked. The level of geopolitical conflict in the world; I certainly haven't lived through a war that's quite like this. Obviously, we've got these natural disasters. You keep going, and you say the world keeps throwing punches, if you will, for us to handle.

I think what that means is, frankly, that we as leaders have to be resilient. And as individuals, I think each and every one of us has to learn to be resilient. I'm not sure that I think about that enough, but this conversation made me think a lot about what it means for me to be more resilient.

Second is this notion of talent. How do you invest in your talent, this notion of rerecruitment? We have this huge opportunity to make the people that we've already brought into our organizations really excited about what we get to do every day, and that they get to live purpose with what we have. And we can do it in a way that fits their needs, with flexibility. I think that really kind of stuck out for me.

The last bit: look, we have an obligation to leave the world better than we found it. And we're not on a path to do that. If we're not asking the questions and we're not starting to take action—because we know that there are some no-regret actions we can begin to take—then, I think, we've sort of done a disservice.

With that, Jim, I've got three rapid ones for you. The first is, give us your favorite book or article that you've read recently that excites you about sustainability and inclusiveness.

Jim Kavanaugh: Great question. I'm going to give a shout out to some of your McKinsey colleagues.

Eric Kutcher: Alright. I love it.

Jim Kavanaugh: This shouldn't surprise you, given you know me and my passion around leadership: I'm a very big believer in the power of people and leadership. And I'm reading the book *CEO Excellence: The Six Mindsets That Distinguish the Best Leaders from the Rest* [Scribner, March 2022]. A tremendous book. It talks about CEOs, how they

do their job; it has extensive interviews. It's great. I can't wait to finish it.

Eric Kutcher: Awesome; thanks for the shout out. Second question: What is the one thing you would convey that gives you optimism around our ability to be more sustainable, more inclusive, and growing?

Jim Kavanaugh: I think, in reality, it's conversations like this—just having this on the agenda. For yourself, for me here, and I know for many of our colleagues that are listening in, these things are top of mind on every board's agenda right now. But I think the communication, the broad recognition from corporations at large in today's world, around purpose, around values, around behaviors, is what excites me and makes me optimistic. As you know, I'm always a glass-half-full guy.

Eric Kutcher: I love it. And last, what's the one thing listeners can do today to help promote and make a difference to create the sustainable, inclusive, and growing world, or growing United States, that we're hopeful for?

Jim Kavanaugh: It's like many other things: it starts with education; it starts with getting engaged. Growth starts with personal development. And once you can engage, personalize what this means and why it's important, then you can mobilize an organization. And I think that, in its core, is the role of a CFO.

Eric Kutcher: Thank you, Jim. For listeners, that was Jim Kavanaugh, senior vice president and CFO at IBM. I'm Eric Kutcher. You've been listening to McKinsey's *Future of America* podcast series, and thank you for joining us.

Jim Kavanaugh is the CFO and a senior vice president of IBM. **Eric Kutcher** is a senior partner in McKinsey's Bay Area office.

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