

Hey! What's New? 2024-90

Four Imperatives for the Future of Finance Departments

Over the past decade, finance departments reduced costs by almost 30%, says a new report just released by McKinsey & Company. The next decade's focus: achieving even higher levels of effectiveness.

As we fast approach the midpoint in the current decade, says the report, "several trends impacting financial professionals have emerged – not least the arrival of AI – highlighting the need for reskilling and upskilling financial professionals to be able to respond to the fast-moving macroeconomic context. At the same time, we believe the four imperatives in this article hold true as leaders prepare for the second half of the decade."

Given this context, continues the report, "it is more important than ever for organizations to achieve a renewed focus on ensuring high-quality data, reinvestments in finance staff capability building and developing more fluid working models to capture the promise of technology such as GenAI.

The report analyzes the finance functions of hundreds of companies to understand how cost and effectiveness have evolved over the past ten years. After controlling for differences in sector, scale, and geographic footprint, several findings emerged:

- Finance organizations have, on average, decreased their cost by 29 percent.
- The most efficient cohort of finance departments ("finance leaders") achieved similar cost improvement to the level shown by average performers – an impressive feat given that the finance leaders started from a lower cost base.
- Finance leaders spent 19 percent more time on value-added (versus transaction-processing) activities than a typical finance department did.

What can companies do differently to join the finance leaders? The research points toward four imperatives. "The first is to *cast a wider net for new efficiency opportunities*, reaching beyond the transactional activities that have long been the primary focus of attention. Second, *boost finance's role in managing data*, whether consolidating, simplifying, or controlling the flood of information flowing across the organization. Third, *strengthen decision making* through widespread adoption of data visualization, advanced analytics and debiasing techniques. Finally, *reimagine the finance operating model* so that it fosters new skills and capabilities.

These steps are already enabling companies to join the finance-function elite – while cutting audit costs by double-digit percentages, improving data quality (and reducing wasteful data-cleaning efforts), upskilling finance teams and enabling the function to guide better decisions throughout the enterprise.

While the magnitude of improvement varied among sectors, ranging from 15 to 35 percent over the ten-year period, the decline in the cost of finance departments is consistent across industries. More significant, however, were the gains among the finance leaders, whose improvement rate was slightly higher (26 percent versus 25 percent) despite a leaner starting point – demonstrating the value of continuing to focus on finance-function efficiency regardless of previous gains.

Finance leaders further differentiate themselves by spending a greater portion of their time on value-added activities, such as financial planning and analysis (FP&A), strategic planning, treasury, operational-risk management and policy setting. Today's finance leaders spend 19

percent more of total finance-staff bandwidth on value-added activities than the average company did 10 years ago. This prioritization enables finance leaders to build deeper capabilities in value-additive areas, creating a positive feedback loop that could result in even greater advantages in the future.

For much more guidance, check out [Transforming to the finance function of the future | McKinsey](#).