The role of the PE backed CFO
Survival of the fittest
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td></td>
</tr>
<tr>
<td>Executive summary</td>
<td>1</td>
</tr>
<tr>
<td>The role of the PE backed CFO – Survival of the fittest</td>
<td>3</td>
</tr>
<tr>
<td>Methodology</td>
<td>4</td>
</tr>
<tr>
<td>PE backed CFOs face longer timeframes in post</td>
<td>5</td>
</tr>
<tr>
<td>Investors demand rigorous stewardship</td>
<td>8</td>
</tr>
<tr>
<td>Building the team: CFOs need a little help from their friends</td>
<td>11</td>
</tr>
<tr>
<td>CFOs seek more input into strategy</td>
<td>14</td>
</tr>
<tr>
<td>Stresses and strains can lead to disconnects</td>
<td>19</td>
</tr>
<tr>
<td>PE backed CFOs turn focus to stakeholder relationships</td>
<td>23</td>
</tr>
<tr>
<td>Conclusion: private equity investors seek a new breed of CFO</td>
<td>26</td>
</tr>
<tr>
<td>Contacts</td>
<td>28</td>
</tr>
</tbody>
</table>
In Deloitte’s work across Europe with private equity houses and private equity owned companies it has become evident that the landscape for PE backed CFOs has changed since 2007 – and continues to evolve. In our daily interactions with CFOs and private equity investors we have seen that investors’ demands on CFOs are evolving fast, and CFOs are seeking to reshape their spheres of influence.

Against a typical backdrop of high leverage, earnings and working capital pressures and limited resources, private equity represents one of the most challenging environments for an executive to operate in. It is not for everyone, and not all will succeed. Yet for those that do, the level of reward and satisfaction can be unrivalled.

It was in this context that we decided we wanted to find out more about the role of the PE backed CFO. We know that the economic environment has been challenging for many years and that the private equity model is fundamentally shifting. But how has this affected the role? What is it really like to be a CFO of a PE backed business? And what is expected from shareholders, CEOs and chairmen? What are the business priorities as CFOs see them for the next 12 months? And importantly, what role should they play in taking their businesses from the long-hold periods that many of them are in, through to a success exit?

To find answers to these questions, we interviewed almost 150 PE Backed CFOs, CEOs and chairmen, alongside senior private equity investors to gather as many different viewpoints as possible before drawing together our conclusions.

What we found was both confirmatory and also surprising, and we hope that you find much food for thought from reading this report.

If you wish to discuss any of the themes or issues raised in this research please do contact me or your usual Deloitte contact, and we look forward to working with you throughout your private equity journey.

Best regards

Garret Byrne
Partner, Private Equity Leader
Central Europe

---

**Foreword**

“In many respects, the CFO is more important to us than the CEO.”

PE Investor
Executive summary

“The best CFOs are those who are a step ahead of the private equity house. But this is rare.”

PE Investor

PE backed CFOs must demonstrate an ability to cope with tight deadlines, work long hours and be ruthless when required. But even this is not enough: investors want CFOs who are adaptable, able to respond to changing priorities and new strategic directions, and who truly understand the private equity agenda. No-one ever said the PE backed CFO job was easy, but today’s CFO faces unprecedented pressures and the role bears little resemblance to that of the pre-2008 PE backed CFO. From our interviews, six clear themes arose:

PE backed CFOs face longer timeframes in post
The time horizons for PE backed CFOs have changed. Nearly a third of CFOs say they have been in their current role for five years or more – a significantly longer tenure compared with PE backed CFO roles of the past. With the economic climate offering reduced immediate returns to investors there is no imminent prospect of these extended timeframes shortening for investor or CFO.

As a result of these longer holding periods, pressure on the CFO from investors, CEOs and chairmen has significantly increased. With fewer deals around, private equity houses today are spending more time with their portfolio companies with greater scrutiny and expectations of the critical CFO role.

Investors demand rigorous stewardship
Private equity houses and chairmen of private equity owned businesses both insist that stewardship should be a CFO’s highest priority. PE investors were asked where they expected their CFOs to spend their time across each phase of the PE lifecycle. Stewardship (a concentration on delivery of accurate numbers and financial reporting) ranked number 1 both immediately post acquisition and during the exit readiness phase.

In challenging times, they demand that CFOs exercise absolute control over the company’s financial data, cash flow and forecasting. Many CFOs express surprise at the sheer intensity, volume and continual focus on this aspect of the job across the whole length of the investment. When CFOs fail, it is often because they are not fully on top of the numbers. This usually becomes apparent within a few months.

Building the team: CFOs need a little help from their friends
Today’s multi-tasking CFO must have back-up from an able team which is sufficiently experienced and knowledgeable to maintain control over the finance function when the CFO is focusing on wider issues. Private equity investors and chairmen are cognisant of the need for CFOs to restructure or up-skill the finance team to provide this valuable support.

Building and managing this team is a critical facet of the CFO role: the responses to our survey reveal that CFOs tend to fail if they are unable to grasp the private equity industry’s insatiable desire for data.

Satisfying this desire quickly and accurately involves building a strong team below them, with the position of financial controller (FC) being critical.

CFOs seek more input into strategy
CFOs argue that driving top line growth is one of their top three priorities for the next 12 months. Many view themselves as partners to the CEO. They believe their understanding of the data allows them to see where the company could improve. Investors and chairmen see the CFO role through a different prism, however: far fewer private equity investors or chairmen think that helping to drive top line growth should be a priority for CFOs. So while investors and chairmen want the CFO to stick to the numbers and make reports available at the drop of a hat, CFOs increasingly see themselves as a key driver of operations.
Stresses and strains can lead to disconnects
Investors are constantly questioning the capabilities of the CFO. They ask whether the CFO has the skillsets to handle the financials, help build the company's strategy and take it through to a successful exit. In other words, does the CFO have the experience and nous to handle a multi-faceted role? The answer to this question may change at various points in the cycle and can lead to considerable turnover in the CFO's office. Around 70 per cent of CFOs in this survey were brought in by the private equity house, showing that investors have few qualms about changing the CFO. In addition, only 19 per cent were hired at the time of the buy-out, so the rest were brought in mid-cycle, suggesting a disconnect in expectations or performance.

Longer hold periods and weak economic conditions means PE Investors cannot rely on overall economic growth and financial engineering to produce good returns. Wholesale strategic review of the organisation may be needed, which can elicit disconnects in opinion between the investor and the management team on the direction for the future. Additionally, where the CFO underperforms or if the CFO is no longer incentivised to perform, conflict may ensue.

PE backed CFOs turn focus to stakeholder relationships
CFOs believe they must nurture more and deeper relationships as their tenure lengthens. The key relationship remains with the CEO and the private equity investor house, but stakeholders such as other operational directors are now becoming increasingly important. CFOs require “buy-in” from these stakeholders to see the deal through potentially difficult times and deliver to longer timeframes. The need to work as a cohesive unit means relationships with internal stakeholders have increased in importance. The days of easy growth and easy credit sometimes masked internal flaws in business processes, in individual divisions and in communication. CFOs now need to work more closely with their colleagues and their private equity owners to identify and repair these flaws. There needs to be considerable alignment between the objectives of all the functions for deals to bear fruit. No-one – least of all the CFO – can afford to work in isolation.

Conclusion
For a PE backed CFO, ‘doing the day job’ requires considerable adaptability and presents a unique set of challenges. This report presents our findings on the ever increasing role of the PE backed CFO. We hope you find it enlightening.

“It is a big step from corporate to PE CFO and not everyone can make the transition. There is more pace, urgency and prioritisation in the role.”

PE Investor
The role of the PE backed CFO – Survival of the fittest

70% of CFOS were brought in by the PE house.

On average, assets sold in 2012 have been in their PE portfolios for 5.8 years compared with just 3.9 years for investments realised in 2006.

64% of companies are currently in their ‘mid-cycle phase’.

64% PE investors most critical requirement from their CFO is accurate numbers.

Cfos see the ability to build relationships with stakeholders as their most important attribute.

Cfos need a strong finance team to offset pressures from data hungry PE investors.

PE investors are seeking more input into setting the strategic direction of the business.
Methodology

This report assesses the changes to the role of the PE backed CFO and the key drivers of change through analysing the data and insight gained through our survey.

The survey was divided into two main parts: quantitative and qualitative. On the one hand, we wanted to be able to put numbers around the broad themes and rank some of the issues in terms of their importance to CFOs and investors. On the other hand, we sought to qualify these statistical findings by speaking directly to CFOs, investors and chairmen, and delving deeply into the emerging challenges in their work environments.

Our Deloitte ‘Four faces of the CFO’ model was used to ascertain where CFOs’ time was dedicated to the different aspects of their role across the PE Lifecycle:

- **Catalyst/Change Management**: Finance partnering with the business to deliver change, refining processes, IT systems.

- **Strategy/Project Management**: Input into decision making on strategy/business plans, delivering M&A, debt refinancing.

- **Stewardship**: Delivery of accurate numbers, financial reporting, internal control, compliance.

- **Operations**: Quality management information, cash and working capital management, defining and developing the finance function.

We obtained the views of 146 respondents, mainly from highly experienced CFOs and senior investors. This was achieved through interviews of around 30 minutes each, which were carried out from March to May 2013.

We are hugely grateful to each of these respondents and participants for their time and insights. Their views are represented in the report below. We trust you find them insightful.

**Figure 1. Breakdown of respondents to our research**

- **64%** PE Backed CFO
- **24%** PE Investor
- **9%** PE Backed CEO & Chairman
- **3%** Head Hunter

**PE investors**

- 3i Group
- Blackstone
- The Carlyle Group
- CVC Capital Partners
- ECI Partners
- Endless
- European Capital
- Graphite Capital
- HgCapital
- HIG Capital
- Inflexion
- Isis Equity Partner
- Kelso Place Asset Management
- KKR
- LDC
- Lyceum Capital
- MMC Capital Partners
- Terra Firma
PE backed CFOs face longer timeframes in post

“I am surprised how much more difficult it is to take this business forward compared with my previous CFO role. The economic climate and the nature of the private equity industry compared with six years ago have changed hugely.”

CFO
Times have changed. Changes in the debt markets, which started back in 2007, have made it considerably more difficult to raise the level of debt experiences in the boom years or refinance existing debt. Changes in economic conditions have blighted revenue and profit growth, and private equity business plans for portfolio companies have become, in many cases, unachievable. A recent report by Unquote found that on average, European assets sold in 2012 have been in their PE investors’ portfolios for 5.8 years since their original buyouts, compared with just 3.9 years for investments realised in 2006. (Source Unquote.com)

This has led to longer holding periods of portfolio companies for private equity firms and as a consequence the time horizons for CFOs have shifted considerably. This is demonstrated in the responses of participants in this survey: some 29 per cent of CFOs say they have been in their current role for five years or more. This is a significantly longer period of tenure compared with PE backed CFO roles of the past as a decade ago, precious few PE backed CFOs would have expected to be in post for that length of time.

“The relationship between the PE sponsor and the CFO is more critical than ever used to be the case – we have more interaction with CFOs than anyone else on the management team.”

PE Investor

Figure 2. How long have you been in your current CFO role?
There is no immediate prospect of the timeframes for portfolio companies and their CFOs shortening. Of the CFOs surveyed, only 25 per cent say they are at the “exit-readiness” stage, indicating the current difficulty of planning for exit. Nearly two-thirds of CFOs (64 per cent) are resolutely stuck in a mid-cycle phase and are unlikely to see exits in the near future.

Their extended tenure and lack of immediate exit prospects add up to a decidedly different outlook for the PE backed CFO. As a result of the longer holding periods, the CFO’s role is no longer purely financial – if it was ever just about reporting the numbers and getting the company ready for exit within two to three years, it certainly isn’t now. The role has morphed to encompass a wide range of activities that many CFOs of 2006-7 vintage would find unfathomable, with longer hold periods compelling CFOs to be more involved in operational aspects than ever. They now, increasingly, see themselves as business owners who must not only produce the numbers, but interpret from them future obstacles and possible strategic directions of the business. This has put significant extra pressure on the role.

Pressure on the role has increased from investors, CEOs and chairmen. These parties are acutely aware of the increased scale of the challenges and are communicating them loud and clear to CFOs. In addition, with fewer deals around, private equity houses today are spending more time with their portfolio companies and placing increasing scrutiny on the critical CFO role in particular. This may be a result of the Investor’s own financial backgrounds and comfort zones. This increase in scrutiny and involvement in decision making may in itself lead to extended decision making procedures and tension between stakeholders.

“We are the role we have most visibility of – we see more of the CFO than anyone else.”

PE Investor
Investors demand rigorous stewardship

“There are threshold requirements in terms of accuracy and communication. The numbers need to be on time, accurate and in full.”

PE Investor
The expectation of many PE backed CFOs today is that they will have to manage the company for several years before an exit prospect beckons. The longer tenures are largely a result of a continuing challenging economic environment. It is hardly surprising then, that private equity firms are watching the CFO’s every move. In the survey private equity houses and chairmen of private equity owned businesses both insist that stewardship should be CFOs’ highest priority through the majority of the lifecycle of the investment.

By stewardship, they mean protecting and preserving the assets by applying good judgement and ensuring compliance. At the coalface, this means the delivery of accurate numbers, financial reporting, internal controls and compliance processes.

PE investors were asked where they expected CFOs to spend their time across each phase of the PE lifecycle. Stewardship ranked number 1 both immediately post acquisition and during the exit readiness phase and dipped only slightly to number 2 during the mid-cycle, when operations became the top priority.

The mantra for the private equity houses is: no shocks, no surprises.

Put simply, private equity houses, CEOs and chairmen are looking for CFOs to exercise continual absolute control over the company’s financial data, cash flow and forecasting. If this was always important, it is now an over-riding priority. CFOs stress the absolute importance of understanding leverage and being very close to covenants and cash management – activities they feel are firmly in the “stewardship” box. Liquidity is under the microscope at every stage in the deal, even during the mid-cycle when an exit is not immediately on the horizon.

“Cash management is very important. The private equity house pays very close attention to liquidity. The CFO needs to understand free cash flow and the sensitivities around it.”

PE Investor

“The best CFOs have gravitas, commercial experience and confidence but are also all over their numbers – you need to be able to scale up and scale down.”

Chairman
“The CFO needs to honestly articulate the numbers and the trajectory – bluff always comes back to bite you.”

Chairman

Figure 4. Where time is spent over the course of the PE lifecycle – CFO views

That private equity investors are data hungry and see the quality of data and accuracy as paramount, to some extent reflects their professional backgrounds. Many hail from investment banking where numbers speak louder than words.

They set great store by the accuracy of data and numbers quickly become a key dynamic between investment house and CFO. The CFO must be able to produce management information in short order to meet fast-changing priorities. Investors demand that this information is not just timely, but absolutely representative of the true state of the business.

Some of the CFO interviews conducted for this survey highlighted concerns about the capabilities of some of their own management systems’ ability to deliver the data they need.

When CFOs fail, it is often because they are not fully on top of the numbers. The chairmen interviewed in this survey say that it usually becomes apparent within a few months whether a new PE backed CFO can adapt to the rigours of the private equity environment.

PE investors are intolerant of a failure to understand the importance of numbers, and the critical information that numbers provide on performance and forecasting.

The challenges of satisfying the Investors’ appetite for information are highlighted by the CFOs themselves, who express surprise at the sheer intensity of the job. Many of the CFOs in the survey say the biggest surprises are around the amount of time spent with banks, the high levels of interaction with the private equity house, and the volume of data demanded by the private equity house.

The stewardship role may not always be glamorous, but getting it wrong means there is no tomorrow – the reputation of the CFO hinges on getting it right again and again.

“Transparency is key – sweeping bad news under the table is a sackable offence.”

PE Investor
Building the team: CFOs need a little help from their friends

“CFOs are only as good as their finance teams.”

PE investor
Time management issues, excessive workloads and the demands of “data-hungry” PE investors place huge pressures on CFOs. These pressures can be offset if a strong finance team is in place.

In order to meet the considerable demands for data and reporting, as well as playing a part in strategic operational decisions, PE backed CFOs need to be able to rely completely on the people around them. Today’s multi-tasking CFO must have back-up from an able team, which is sufficiently experienced and knowledgeable to maintain control over the finance function when the CFO is focusing on wider issues.

“If we fire someone, it’s often because they have failed to build a good team below them.”

PE Investor

This team needs to comprise robust personalities: without a tough edge, staff can easily become overwhelmed by the demands, which may include disruptive events like regular rounds of cost reductions and a refinancing part way through strategic initiatives.

The position of financial controller (FC) is critical and the CFO must have complete faith in the skills and commitment of the FC. While the CFO is the key strategic cog in the finance wheel, it is the job of the FC to keep the wheel on the road. High quality financial controllers are typically hard to source and harder still to retain in highly-pressurised situations when they are unlikely to be incentivised in the same vein as the CEO and CFO as part of the deal.

“CFOs need to bulk up their teams, get a good financial controller and team beneath them so that they can get an overview and not just focus on the numbers.”

PE Investor

So the CFO needs to be able to build and manage a team. This is a critical facet of the role: the responses to this survey reveal that CFOs tend to fail if they are unable to grasp the private equity industry’s insatiable desire for data.

Private equity investors are particularly cognisant of the need for CFOs to restructure or up-skill the finance team. They rank up-skilling the finance team above investment in new systems, processes and controls. Chairmen also agree that CFOs require robust finance teams to allow them to perform strategic roles.
From the CFO viewpoint, asked to rate which attributes are most useful in their role, leadership skills came second-highest – only building relationships with stakeholders rated higher. It is clear, though, that not all CFOs are impressed with the teams they have inherited and they believe this impedes their ability to add value.

“I replaced most of the finance team. Finding quality people has been my biggest challenge in the last 12 months.”

CFO

As well as having the people skills to build a team, it is helpful for CFOs to have deep networks outside their organisation. With large networks of able people, they should be able to ensure a wide talent pool for potential recruits of superior quality. PE chairmen believe CFOs should also be flexible enough to realise that sometimes the requisite skills are not available in-house and they need a helping hand or a process of checks and balances.

“CFOs need to allow themselves to be challenged in a way that leads to debate rather than the CFO getting defensive. In a recent example, the audit committee decided to appoint an internal auditor. The CFO supported this and it has led to a lot of improvements.”

Chairman

Overall, both CFOs and investors realise that the quality of people in the finance operation becomes much more important when private equity holding periods are extended. There is considerable agreement and alignment on this point.
CFOs seek more input into strategy

“You have to be a Jack-of-all-trades and capable of performing a large role. The CFO is like an investor but also a project manager for a three-to-five year period.”

CFO
The longer tenure of the current crop of PE backed CFOs means they could be more accurately described as business owners than employees. This is certainly how they see themselves.

As a result, more of them seek to play a strategic role in trying to get the company “over the gain line” and towards exit. We see one manifestation of this in their desire to create stronger relationships with a greater cross-section of stakeholders, which we examine later in this report.

PE backed CFOs want to help drive more fundamental business issues. In our survey, driving top line growth was stated as one of their top three priorities for the next 12 months. Only refinancing/securing a sustainable capital structure was seen as a higher priority.

“...This is a key year for driving top line growth.”

CFO

Investors and chairmen see the CFO role through a different prism however. Cost control remains a top priority for the CFO in the eyes of the PE investor, and fewer private equity investors think that helping to drive top line growth should be a priority for CFOs. Even when they do agree, there can be disagreements in the ways growth can be achieved. Many CFOs, for instance, are keen for their companies to grow by acquisition, whereas some investors are wary of this, fearing the depletion of capital that has been built up as a buffer.

“The greatest opportunity to grow the top line is in emerging markets. There is lots we can do there.”

CFO
“We would rather focus on growing the core business rather than on M&A. CEOs and CFOs see M&A as a great area to drive value.”

PE Investor

Figure 6. PE backed CFO’s top priorities for the next 12 months – PE house views
In terms of the top priorities for the next 12 months, investors view refinancing, working capital improvements, margin improvements and cost control as the key priorities for CFOs.

According to CEOs and chairmen, instilling financial discipline in operational decisions should be the top priority for CFOs over the next 12 months.

So while investors and chairmen want the CFO to stick to the numbers and make reports available at the drop of a hat, CFOs increasingly see themselves as a key driver of operations and strategy (see figure 4).

**Figure 7. Importance of the activities of the PE Backed CFO – PE house views**

**Figure 8. Importance of the activities of the PE Backed CFO – CEO & chairman views**
Many CFOs have reached the stage where they don’t think further cuts are viable and believe they can add most value via the top line. They view themselves as partners to the CEO rather than as subordinates, and see an intersection between the two roles. They believe their understanding and control of the data allows them to see where the company could improve, how it could expand and how it can create value.

This finding reflects the most recent Deloitte CFO Survey (Q2 2013), which shows that CFOs have become considerably more expansionist in their outlook. 45 per cent of CFOs report that now is a good time to take risk on to balance sheets, the highest level recorded in the survey.

“There is always a risk that CFOs move away from what they do best to do the things they want to do – the role of the CEO and Chairman is to rein them back occasionally.”

PE Investor

Figure 9. Risk appetite
% of CFOs who think this is a good time to take greater risk onto their balance sheets
Stresses and strains can lead to disconnects

“I am always staggered by how often we have to churn CFOs – often they are less adaptable and less scalable than we thought.”

PE Investor
The average private equity deal used to be fairly standardised: a company was bought, turned round, grown or bolstered through acquisition, and sold again within a reasonable and defined timeframe. There were stresses and strains, but the benefits of financial engineering and relatively stable markets meant it was often possible to define and quantify the outcome and the value created.

In this (simplified and idealised) scenario, the respective roles of PE backed CFO and private equity investor were clear and the financial incentives both clear and in theory obtainable. However, given more recent market conditions and longer hold periods, there are now pressures on the CFO and private equity investors that can lead to discord and a fracturing of the alignment that is critical to every private equity project.

Investors are constantly questioning the capabilities of the CFO. They ask whether the CFO has the skillsets to handle the financials, help build the company’s strategy and take it through to a successful exit. In other words, whether they have the experience and nous to handle a multi-faceted role. The answer to this question may change at various points in the lifecycle and can lead to considerable turnover in the CFO’s office.

There are trigger points at which CFOs are “moved on”. Most investors say the first six months post-acquisition is a key period, particularly for CFOs who haven’t experienced the private equity environment. This is the time in which CFOs have to get up to speed with the private equity agenda, understand how important the numbers are, and get to grips with the intricacies of the debt agreements. A good proportion of CFOs don’t survive this initial period, but those that do often go on to see the company through the whole lifecycle.

“Don’t underestimate the importance of understanding the Senior Facilities Agreement (SFA) inside out – CFOs who don’t quickly get to grips with a leveraged environment don’t last long.”

PE Investor

Around 70 per cent of CFOs that participated in this survey were brought in by the private equity house, showing that investors have few qualms about changing the CFO if they think it necessary. In addition, only 19 per cent were hired at the time of the buy-out, so the rest were brought in sometime during the mid-cycle, suggesting a disconnect in expectations or performance at various points in the deal cycle.

The disconnect may involve underperformance on the part of the CFO, but equally of the private equity house or of stakeholders. Not all factors affecting the company are within the CFO’s control. One issue that can arise is that the CFO is absolutely on top of the numbers, meeting the key demand of investors. But, as the deal moves to a later stage, the numbers increasingly need to be linked to operations to add value. The CFO must either demonstrate the skills to do this, or have access to mentors and advisers who can bridge the gaps.

“The PE House doesn’t have the time to educate or mentor CFOs. They need to be already fully-fledged.”

PE Investor

The close attention to the data, numbers, reporting and forecasting often has to be performed under great pressure. Many CFOs report that the pull on their time is nothing less than extraordinary. Almost every day there is a new action or a new priority that requires urgent attention. In this environment mistakes become much more likely. Yet mistakes are the things that are least tolerated. On top of this a CFO must ensure that the urgent does not outshine the important in their long list of tasks to complete.
“When CFOs leave of their own accord it has to do with the incentive plan or when the CFO is out of tune with the expectations of the rest of the team.”

PE Investor

In a tough operating climate there is a greater risk of the gap between planned and actual growth diverging. When it is above plan, all parties are on the crest of a wave and there are far fewer questions about strategy. But when it falls below plan, opinions on how to plug “value leakage” and push the company back on track can differ. The CFO, in conjunction with the CEO, will need to demonstrate strong leadership skills to resolve the disconnects. Communication is important in this respect. The CFO should at all times seek to foster good relationships and good communication with private equity investors that leads to the creation of trust. If trust is not established and these issues cannot be resolved, the investor may well institute changes.

“CFOs more than anyone else have the figures in their head and will be aware of the value creation for themselves. If another opportunity comes up, they’ll move!”

Chairman

These discussions are far from straightforward, however, the timing, structure and terms of the new deal can often be fraught with difficulty and conflict.

“There should be alignment. If there isn’t you have to ask why not. Is it due to the skillsets of the management team? A problem with the incentive plan? Or a clash of personalities?”

Chairman

With this in mind, it is curious that investors do not put more emphasis on the CFO’s ability to manager a team and develop trust with stakeholders. Just 1.4 per cent of investors say that managing a team is one of the three key attributes that a CFO should possess, and just 1.4 per cent believe leadership skills are one of the three most important attributes of a CFO.
These kinds of situations are where good chairmen can earn their keep. The chairman can keep communication between the parties harmonious and help to broker an agreement between executives and the private equity partners.

"The chairman has a mediation role – that is what makes him effective as chairman. They need to translate between the private equity house and the CEO/CFO."

Many private equity houses see value in having experienced, well-connected chairmen, who are genuinely independent so that they are trusted by all parties. In the good times, the value of the chairman is not obvious. But in times of stress, an able chairman can be the glue that makes a deal hang together.

"Where we haven't had an independent chairman, that is when we have had the most misalignment and issues."
PE backed CFOs turn focus to stakeholder relationships

“Managing the relationship with the PE House is critical – it’s all about building trust.”

CFO
In long relationships, devoting time and effort to building partnerships are critical. With longer portfolio holding periods, the PE backed CFO has to work with investors, the chairman and other stakeholders for extended periods of time. In a challenging economic environment, these relationships have to be carefully crafted and judged.

CFOs believe they must nurture more and deeper relationships as their tenure lengthens. The key relationships are still with the CFOs, the banks and the private equity houses, but stakeholders such as other operational directors are now gaining in importance. CFOs require “buy-in” from these stakeholders to see the deal through potential difficult times and deliver to longer timeframes.

The greater need to work as a cohesive unit means relationships with internal stakeholders have increased in importance. The days of easy growth and easy credit sometimes masked internal flaws in business processes, in individual divisions and in communication. CFOs now need to work closer with their colleagues and their PE owners to identify and repair these flaws and manage change in strategic direction if necessary.

This is recognition that for a private equity backed company to survive and grow, the CFO needs to establish good relationships with a large number of stakeholders. There needs to be considerable alignment between the objectives of both functions and the people within those functions. No-one – least of all the CFO – can afford to work in isolation.

Only through communication and interaction can horizontal barriers between functions be broken down. So there needs to be considerable understanding of each other’s motives and incentives. This is likely to involve healthy debate and even conflict so that decisions can be made, action taken and everyone can move on quickly and keep to the set timeframes.

“We talk more to the CFOs than to the CEOs. We foster an open and direct relationship. We explain to the CFOs the underlying reasons behind our requests and ultimately we want them to feel part of the team.”

PE investor

“Part of my role is educating other executives on the importance of IRR on their decisions.”

CFO
Interestingly, while building relationships with a variety of stakeholders is important for the CFO, this is not always recognised by private equity investors. The investors are typically focused on the numbers and don’t always see the need for relationships to be established and deepened within portfolio companies. Some PE backed CFOs see this as a flaw in investors’ approaches to running businesses.

However, the importance of the relationship between the PE backed CFO and the private equity house is ranked highly by both parties. The CFO may have a more intense and more frequent interaction with the private equity house than the private equity house has with the CEO. There is frequently a standalone relationship that transcends other relationships because it goes right to the heart of both the company and the private equity firm’s interests.

This bilateral relationship is all the more important because of the differences in perspective of each side. Private equity houses are dominated by numbers people who may only find the comfort they need in data and reports. The PE backed CFO may have to work hard to establish a trusting relationship, even when he/she has been appointed by the private equity firm itself. The key is to communicate expectations and, if necessary, document ways of working together.

Each private equity firm and each CFO is different so the dynamic will be different in every case. Once communication and trust is established, the CFO should have generated sufficient goodwill for the private equity investors not to panic unduly if performance is below plan. This can relieve shorter-term pressures and allow the CFO the space and time to add value.

The dynamic of this relationship often changes over the lifecycle of the deal, and may have to be recalibrated at each stage to reflect business performance and market conditions.

“Not all representatives of PE firms, however academically superb their educational credentials, are good judges of people or even commercially-astute business people.”

CFO

Investors see banks as the second most important relationship for CFOs after the relationship with the CEO. This reflects their conviction that the CFO should primarily be on top of the finance and the numbers. Internal relationships do not appear to be a major consideration for private equity investors.

“There is a very important relationship with the banks. Many CFOs are surprised by the nature of the relationship, they are not used to such demand for information.”

PE Investor
Conclusion: private equity investors seek a new breed of CFO

“The PE backed CFO role is extremely challenging; there is more complexity, more intensity and more commercial pressure – it is an incredibly high velocity environment.”

Chairman

The PE backed CFO will often have a strong idea of the rules of the game before the game commences. In return for wealth creation, status and high adventure, they can expect a period of intensity and pressure that will probably exceed anything they ever experienced outside of the private equity environment. They must demonstrate an ability to cope with tight deadlines, work long hours and be ruthless when required. But even this is not enough: investors want CFOs who are adaptable, able to respond to changing priorities and new strategic directions and who truly understand the private equity agenda. Indeed, CFOs say the flexibility to deal with fast-paced change and new projects is one of the three most useful attributes a CFO can have. It is rated one of the three most important attributes by 10 per cent of CFOs, and is only outranked by the ability to build relationships with stakeholders.

While intensity has always been in the job description of the PE backed CFO, it has been heightened by the more challenging operating environment of recent years. Private equity houses are now looking for candidates with excellent financial stewardship skills as a bare minimum. At the same time, CFOs need to have the ability to deliver on immediate requests from the investor while ensuring important longer-term transformational projects are delivered on time and on budget.

Investors participating in the survey are clear that they are not necessarily looking for people with private equity experience. It is more important that CFOs have the right mind-set. So while it may be surprising that more than half of CFOs interviewed are in their first private equity role, in fact this is intuitive. Private equity houses seek youthful CFOs, who are hungry, are not necessarily wealthy from previous deals, and will do what it takes to make a deal work.

“…When I ask head-hunters to look for CFOs, PE experience is not important to me. Great managers are great managers irrespective of the ownership structure.”

PE Investor

Figure 11. The most useful attributes of a PE Backed CFO – CFO views

- Technical accounting knowledge
- Knowledge of industry
- Understanding of leveraged environment
- Risk management
- Provide a robust financial challenge of the operational strategy (ROI etc.)
- Discipline in building a strong control environment
- An analytic focus on data and detail
- Knowledge and understanding of private equity environment
- Leadership and inspiration to set the tone from the top regarding the culture and ambition of the business
- Ability to make tough decisions
- Ability to build relationship/trusts with stakeholders
- Energy and drive to implement change
- Ability to manage and develop a team
- Ability to influence the strategic direction of the business
- Flexibility to deal with fast-paced change and new projects
“This role requires a different attitude. It is about concentrating on ROI as opposed to constantly reviewing five-year plans. The shareholder group is very different and has a different agenda to normal shareholders.”

CFO

Our research has found that:

• The external environment has fundamentally changed the private equity journey. It is typically longer, CFOs must anticipate the bumps in the road and be ready with alternative routes. CFOs need to exhibit adaptability, clarity of purpose and stamina, or can expect to be left on the side of the road.

• The numbers never leave the ‘critical’ box. CFOs need to ensure the ‘stewardship’ hat is the one always put on first – never neglect the core activity of the job. Strategic and commercial achievements will be forgotten about quickly if the numbers aren’t right.

• CFOs need to prioritise the construction of a watertight set of processes, controls and systems that ensure financial data can be delivered with absolute integrity in short order. Building a strong finance team is essential.

• CFOs may unwittingly be pulled into or indeed crave a more commercial and strategic role. To influence the top line, the most appropriate way is to produce stellar financial data and interpret it.

• Invest heavily in, and allocate specific time to, strengthening the relationship with PE investors. Trust, transparency and mutual respect can overcome a lot of obstacles. The CFO/PE House relationship is arguably the most important and warrants extensive development outside the board room.

It’s quite a task. No-one ever said the PE backed CFO job was easy, but today’s CFO faces unprecedented pressures and the role bears little resemblance to that of the traditional CFO. Few people are betting that the role will get any easier going forward and it’s fair to say the role these days is about the survival of the fittest.
Contacts

Deloitte Private Equity Leaders in Central Europe

Garret Byrne  
Central Europe & Czech Republic  
+420246042339  
gbyrne@deloitteCE.com

Ivica Kresic  
Croatia, Bosnia and Herzegovina, Slovenia  
+38512351935  
ikresic@deloitteCE.com

Balazs Csuros  
Hungary  
+3614286935  
bcuros@deloitteCE.com

Kreshnik Robo  
Albania & Kosovo  
+355(4) 451 7922  
krobo@deloitteCE.com

Linas Galvele  
Baltics  
+37052553022  
lgalvele@deloitteCE.com

Ivana Lorićević  
Slovakia  
+421258249148  
ilorencovicova@deloitteCE.com

Gavin Hill  
Bulgaria  
+35928023177  
gahill@deloitteCE.com

Darko Stanisavljević  
Serbia  
+381 (11) 3812 134  
dstanisavic@deloittece.com

Mark Jung  
Poland  
+48225110017  
markjung@deloittece.com

Janez Skrubej  
Slovenia  
+38613072811  
krobo@deloittece.com

Kreshnik Robo  
Albania & Kosovo  
+355(4) 451 7922  
krobo@deloitteCE.com

Ivica Kresic  
Croatia, Bosnia and Herzegovina, Slovenia  
+38512351935  
ikresic@deloitteCE.com

Hvandam  
Slovakia  
+40212075230  
hevandam@deloittece.com

Ivana Lorencovicova  
Slovakia  
+421258249148  
ilorencovicova@deloitteCE.com

Hein van Dam  
Romania  
+40212075230  
hvandam@deloittece.com

Balazs Csuros  
Baltics  
+35928023177  
bcsuros@deloitteCE.com

Linas Galvele  
Baltics  
+37052553022  
lgalvele@deloitteCE.com

Ivana Lorencovicova  
Slovakia  
+421258249148  
ilorencovicova@deloitteCE.com

Gavin Hill  
Bulgaria  
+35928023177  
gahill@deloitteCE.com

Darko Stanisavljević  
Serbia  
+381 (11) 3812 134  
dstanisavic@deloittece.com

Mark Jung  
Poland  
+48225110017  
markjung@deloittece.com

Hein van Dam  
Romania  
+40212075230  
hvandam@deloittece.com
“Deloitte” is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, and tax services to selected clients. These firms are members of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee. Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTTL does not itself provide services to clients. DTTL and DTTL member firm are separate and distinct legal entities, which cannot obligate the other entities. DTTL and each DTTL member firm are only liable for their own acts or omissions, and not those of each other. Each of the member firms operates under the names “Deloitte”, “Deloitte & Touche”, “Deloitte Touche Tohmatsu”, or other related names. Each DTTL member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in their territories through subsidiaries, affiliates, and/or other entities.

Deloitte Central Europe is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu Limited. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities. The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region’s leading professional services firms, providing services through more than 3,900 people in 34 offices in 17 countries.

Deloitte provides audit, tax, consulting, financial advisory services and legal services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte’s approximately 200,000 professionals are committed to becoming the standard of excellence.

© 2014 Deloitte Central Europe