

Managing CFO Transitions

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Agenda

Anatomy of a CFO

Transitions

- Time
- Talent
- Relationships

Conclusion

Session Summary

Anatomy of a CFO

Polling Question

What was your previous role prior to becoming CFO?

1. Finance (controller, treasurer, etc.)
2. Non-Finance (business unit leader, operations manager, etc.)



Anatomy of a CFO

There is no single pathway to becoming a CFO

CFOs have a short shelf life

- On average, CFO turnover occurs at a faster rate than CEO turnover
- Annual CFO turnover is approximately 11.5% year over year in North America*

CFOs now hail from non-traditional finance roles

- Almost 55% of incoming CFOs held non-traditional Finance leadership roles (i.e., not a controller or CFO of another company) in their previous position*

CFOs backgrounds vary from organization to organization

- Previously, 10% of CFOs held the Controller title and 18% were a VP of Finance
- The majority of externally-hired CFOs were CFOs of their former company
- Almost 37% of CEOs had some experience as a financial executive prior to taking the position

CFOs are crunched for time

- The average CFO in North America spends less than ten minutes each day absorbing external information



Anatomy of a CFO

There are five essential traits to being a successful CFO

Curiosity

- Required to build the diverse knowledge required of a CFO candidate

Courage

- Willingness to face uncertainty and perhaps danger
- Courage to move to the unfamiliar and master new skills

Perseverance to mastery

- Persistence in spite of counterinfluences and opposition
- Drive to mastery and willingness to persevere and achieve

Confidence and self assurance

- Be certain in one's abilities
- Calm and confident self assurance

Ethical responsibility

- Be the truth teller to stakeholders
- Strong personal code of ethics



Anatomy of a CFO

The skill sets that matter

Communications and sales skills: Selling the company and oneself

- Communicate effectively the vision, state and prospects of the company to the investor community
- Develop presentation skills and become adept at selling themselves

Listening and approachability: Knowing what is critical

- Build trust and be approachable

Negotiation and conflict resolution skills: Driving solutions

- Negotiate and drive a fair bargain
- Conflict resolution skills

Operating, change and influence skills: Adapting to new realities

- Influence people to achieve change
- Wear multiple hats: catalyst for change, operator of finance function

Strategic judgment and prioritization: Making decisive choices

- Think strategically & understand inter-linkages between various disparate parts of the organization
- Make the tough decisions with uncertain and partial information

Anatomy of a CFO

The relationships that matter

Work for great CEOs and bosses: There are no better teachers

- Chose a company with a great CEO and boss from whom to learn

Role models and the “myth of the mentor”

- With the exception of three, all interviewees noted they did not have mentors in their careers
- Build the critical relationships with role models and sponsors

Peer networks: Choose to connect

- Connect with peer networks within and outside a company

Specialists: Always pick those who are smarter than you

- Develop and maintain relationships, internally and externally, with those who bring specialized expertise or professional knowledge

More than a village

- Recognize the broader experiences that shape leadership beyond the workplace by community involvement

Anatomy of a CFO

Polling Question

When you became CFO what was the most difficult part of the transition?

1. Managing your time
2. Assessing the talent in your finance organization
3. Identifying and developing key stakeholder relationships

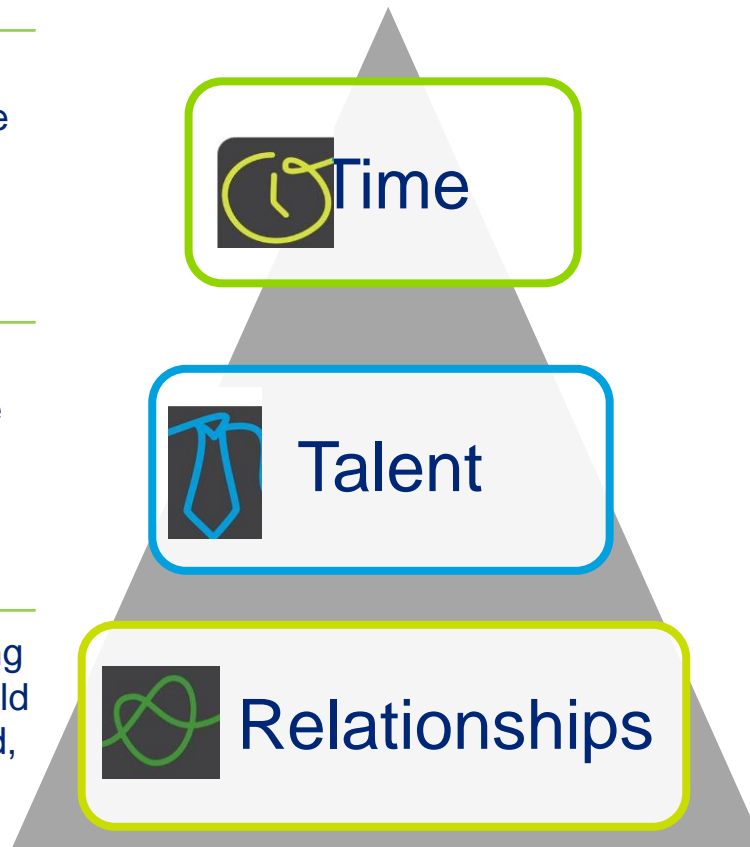
Transitions

Successful CFOs effectively manage their Time, Talent and Relationships

The one irrecoverable asset of all CFOs is time. Most CFOs operate initially with a mindset of a six month milestone to really get to know the company and its talent.

Great talent not only makes you look good but helps you conserve your time. Often, a new CFOs biggest regret is not moving fast enough on Talent.

In order to be successful executing Finance priorities, CFOs must build relationships with the CEO, Board, Business Leaders and Stakeholders



Time:

- Manage personal time
 - Manage the organization's time
 - Hold up to five priorities
 - Communicate well
-

Talent:

- Fix the organization quickly
 - Avoid rescue fantasies
 - Consider succession plans
-

Relationships:

- Maintain the CEO relationship
 - Build relationships with the Board and Audit Committee
 - Manage successful Peer Executive relationships
 - Maintain relationships with Analysts, Bankers, Investors
-

Transitions – Time

First impressions matter

CFOs actually have 180 days, not 90 days, to make an impact
Consider the following:

0 – 45 days: Get to know the business

- Get to really know the business – validate the business model
- **Begin talent assessment**
- Connect to CEO, Board, Peers, Select Equity Analysts

0 – 90 days: Begin to establish priorities

- Establish priorities and frame 180 day milestones
- **Initiate changes in finance organization – a talent agenda**
- Align talent to priorities – delegation framework

0 – 180 days: Establish a few key wins and signal intentions to the organization

- **Complete hiring and reorganization of talent**
- Address most urgent operational and steward activities through delegation
- Establish time to focus on catalyst and strategist roles

Transitions – Time

CFOs desire to be Catalysts & Strategists but this is not realistic without a high talent team

Desired

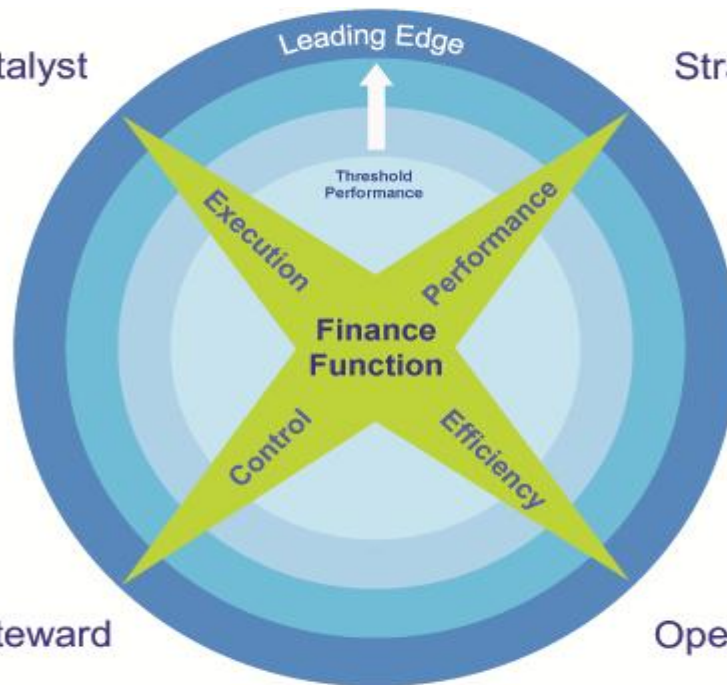
30%

Current

25%

Catalyze behaviors across the organization to execute strategic and financial objectives while at the same time creating a risk intelligent culture

Catalyst



Strategist

Desired

30%

Current

15%

Provide financial leadership in determining strategic business direction, M&A, financing, capital market and longer term strategies vital to the future performance of the company

Desired

20%

Current

25%

Protect and preserve the critical assets of the organization and accurately report on financial position and operations to internal and external stakeholders

Steward

Operator

Desired

20%

Current

35%

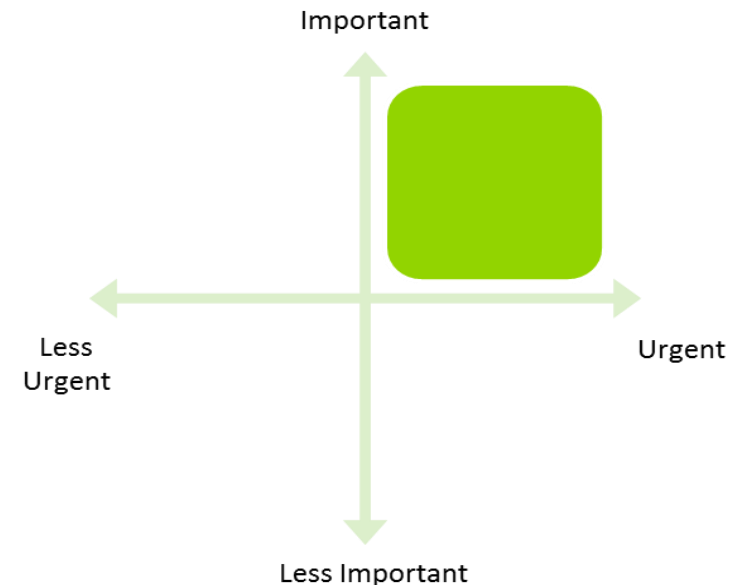
Balance capabilities, talent, costs and service levels to fulfill the finance organization's core responsibilities efficiently

Transitions – Time

Top Priorities for CFOs

On average, CFOs have about 25 priorities that require their attention, with FP&A, Talent, and Corporate Strategy consistently identified as the most urgent and important priorities that need to be addressed

Category	Count
Financial Planning and Analysis	164
Corporate Strategy	144
Talent	138
Profitability and Cost Management	135
Communications and Teaming Enterprise Wide	125
Operations	124
Governance, Risk and Controls	116
Financing and liquidity	110
Financial Reporting	92
Information Technology	81
Mergers, Acquisitions and Divestitures	58
Regulations	53
Revenue Growth/Preservation	49
Investor Relations	47
Capital Structure Management	40
Capital Expenditure Management	34
Other	30
Tax Operations and Strategy	27
Investment Portfolio Management	26
External Networking/Relationships	22
Managing assets and working capital	18



Transitions – Talent

Polling Question

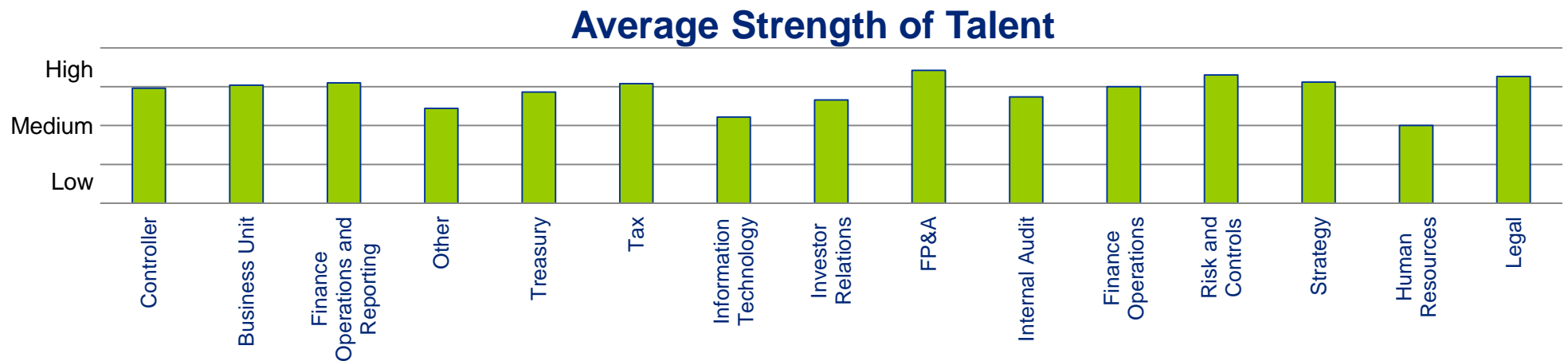
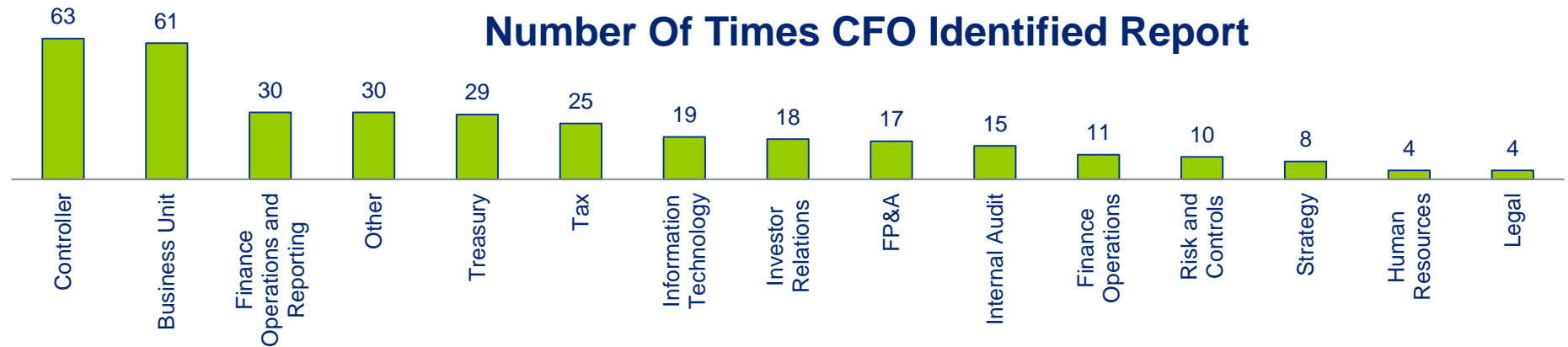
How do you feel about the talent in your finance organization?

1. Excellent
2. Very Good
3. Good
4. Not so Good
5. I lose a lot of sleep at night

Transitions – Talent

The talent paradox

With an average of almost 7 direct reports and 25 priorities, CFOs regularly face a tough trade-off between time and talent. Great talent not only makes the CFO look good, it also helps them conserve time. The paradox lies in choosing between recruiting or developing that high talent.



Transitions – Talent

CFO's strategic role

Escalating demands and responsibilities create the need for strong finance organizations and talent

Higher needs for talent, but tighter availability

The demand for skilled finance talent is greater than the supply. Two years ago, CFOs indicated companies have elevated their skill set requirements, making it hard to identify skilled finance talent. One-third of CFOs said they had trouble filling open positions.

Struggles with strategy setting

75% of CFOs said their staff needs to improve their analytical acumen and become better at analyzing and presenting information for decisions. About 50% of CFOs wanted staff to improve their macroeconomic knowledge. As CFOs add strategic planning and business development to their traditional responsibilities, it becomes clear that they need the talent in their finance organizations to support them with these skills as well.

Focus on strategy

These escalating demands create the need for strong finance organizations. Talent has become more and more of a focus for the CFOs as apparent in our Transition Labs and CFO Signals Surveys. As of first quarter 2013, 40% of CFOs say improving finance strategy and retaining talent is a top priority for this year.

Transitions – Relationships

Polling Question

Who is your most important stakeholder relationship?

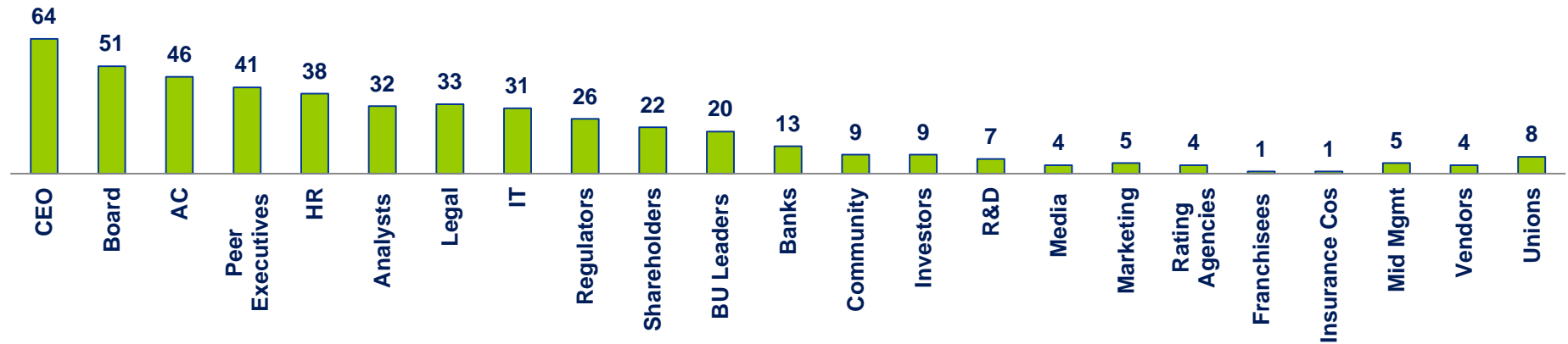
1. Chairman of the Board
2. CEO
3. COO
4. Audit Committee Chairman
5. Investor Community
6. Spouse/Significant Other
7. Other

Transitions – Relationships

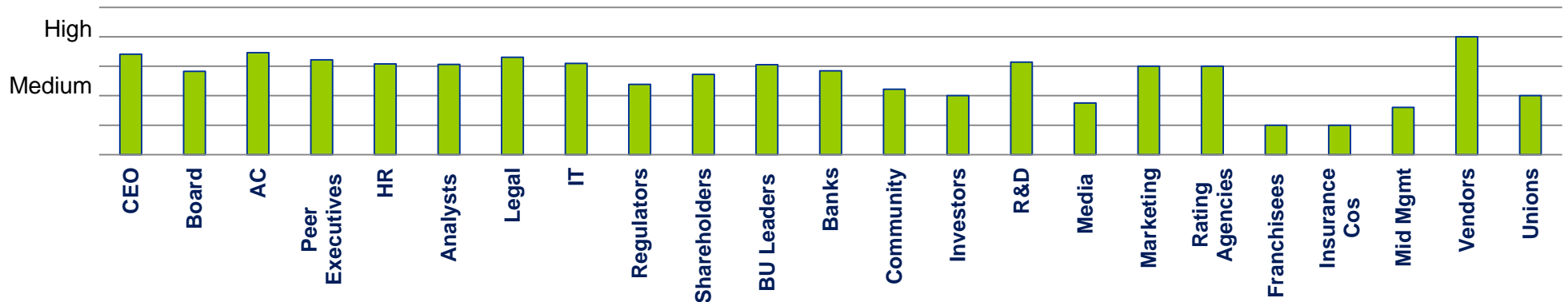
Understanding the key Stakeholders

Relationships with the CEO, the Board, and the Audit Committee are critical for CFOs. Communication and personal connection are viewed as vital to sustaining the broad complement of relationships critical for success in their role.

Number of Times Relationship Identified



Average Strength of Relationship



Conclusion

The key to a successful CFO transition is managing the basics: time, talent and relationships

Time: “Protect your time”

Talent: “Build a world class team...quickly”

Relationships: “Develop and maintain strategic internal and external relationships”

Session Summary

Transitions – Time

Transitioning CFOs should not make decisions too quickly

CFOs commented:

(abridged and edited for clarity)

“There is a merit in **sitting, watching, observing, taking notes, at least for your first months.** Unless your team sees you trying to understand the how’s and the why’s, they won’t respect your decisions.”

“You can jump to conclusions too quickly. You need to have **good partners** that you need to identify quickly and that you can trust.”

“Especially in a new culture, you have to be careful with people’s behavior. People do not speak up in Japan, **but it does not mean they do not have opinions.**”

“There is often a **shadow organization** apart from the real organizational structure. **The way information flows, the way decisions are made** – Japanese culture is very unique. I think it is important to respect and really understand that.”

Transitions – Time

CFO's time depends on the strength of the organization

CFOs commented:

(abridged and edited for clarity)

“To have a **good balance between top-down approach and delegation of roles to the team** is always difficult, but needs to be considered carefully. **CFOs must decide how much they want to be involved.**”

“It really does come down to the **strength of your team**. If that is not there, you are unable to spend your time on developing your team, and you are caught in a **downward spiral.**”

“The finance team needs both **systems and technology** to produce reliable data.”

“**Shared center approaches or regional controller roles** should be considered in order for staff to spend more time on **value adding work.**”

Transitions – Talent

Skills and traits required for finance talent have diversified

CFOs commented:

(abridged and edited for clarity)

“**Strategic judgment skills** are quite important. Finance people need to be able to judge what matters and what does not matter.”

“**Influencing skills** are often overlooked, but is becoming more critical especially for finance, as organizations have become **more global** and transitioned into a **complex matrix organization**”

“**Mutual approachability** is necessary in order to build **good communication**”

“The ‘**Ability to handle Ambiguity**’ is getting more important. In the past Finance people have been making judgment based on data. But now they usually cannot collect complete information for a decision. **They have to learn to take risks.**”

“**Randomly picking a mentor** just doesn’t work. It requires certain closeness to make it a meaningful relation. A boss who can **be your coach and change your behavior** is the best.”

Transitions – Relationships

CFOs need to invest in a broad range of stakeholders

CFOs commented:

(abridged and edited for clarity)

“Expats tend to spend more time with those team members whose English levels are higher, but it is important **not to pre-judge by the language skills.**”

“The **relationship between finance and IT and HR** are critical. They are the real pain points.”

“**Relationships with vendors** should be considered carefully, especially in Japan. I found it very important to have some accurate benchmark data. Oftentimes it is said that there are really good longstanding relationships and nothing can be changed. That is where benchmark data helps **to put things in perspective.**”

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