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Making an impact
The CFO view

The CFO Programme

Contents

About the Deloitte CFO Transition Lab
The Deloitte CFO Transition Lab is a one-day experience for newly appointed Chief Financial Officers (CFOs). It is designed to help an individual CFO make an efficient and effective transition into their new role. The Lab helps CFOs frame their priorities, assess their talent and organisation, and identify different approaches to managing their complex stakeholder relationships. As part of the Lab experience, each participating CFO receives a personalised and confidential 180-day action plan.

Methodology
Deloitte collects data and quotes from participants as part of the Lab experience.

This information, collected between October 2011 and June 2015, has been anonymised, analysed in aggregate and forms the basis of this publication.

Definitions
In this publication, references to Deloitte are references to Deloitte LLP, the UK member firm of DTTL.

Foreword

Richard Muschamp
Partner, CFO Programme Leader

Forty per cent of senior executives leave their role within 18 months of being hired.* Some do so voluntarily but many do not. To understand what causes such a high turnover and to help CFOs be effective Deloitte undertook research on the CFO role and lessons learned by CFOs during their transition[1].

In the publication Taking the reins: Managing CFO transitions Ajit Kambil, Global Research Director for the Deloitte CFO Programme, found that CFOs need to manage three critical resources to make an impact on transition:

- Time – their own and that of their staff.
- Talent – the right competencies to support key initiatives.
- Relationships – internal and external stakeholders.

As a result of this, the Deloitte CFO Programme established the CFO Transition Lab to support new-to-role CFOs. The Lab helps recently appointed executives thrive in their new roles. The one-day experience assists CFOs to frame their priorities, assess their talent and organisation, and identify different approaches to managing their complex stakeholder relationships.

Since 2011, over 150 newly appointed UK CFOs and over 1,000 CFOs globally have used the Lab to manage their transitions effectively and efficiently.

Each CFO role is different and every CFO Transition Lab is unique. The pressures on CFOs are enormous, particularly those that are new to the role. The CFO Programme has an unprecedented understanding of the challenges faced by transitioning executives and knowledge of where successful CFOs spend their time in the first six months to make the biggest impact.

Deloitte's dedicated Lab facilitators have identified themes and insights into these challenges. This report is the first in a series that shares the insights identified. The findings are grounded in the experiences of hundreds of newly appointed CFOs. It reflects their own assessment of the opportunities and challenges they face as they strive to make an impact and ensure a successful transition.

We would like to thank all the executives who have participated in the CFO Transition Lab sessions. The first 180 days is a critical moment in the career of any senior finance executive. We hope you find our insights into impactful executive transitions thought-provoking and useful, and welcome your feedback.

*"The Right Leader: Selecting Executives Who Fit", Nat Stoddard and Claire Wyckoff, John Wiley & Sons, 2009.

Maximising the impact on transition

The CFO view during transition

The board wants to see that the CEO and CFO are working as a team but I need to be prepared to challenge where necessary.

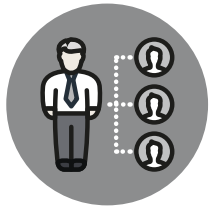
I have to make very positive choices about where I do and don't spend my time. There's no point in trying to do a bit of everything because I won't make the impact I need.

Making changes to a team must be handled with care; if you act hastily it can be viewed as trying to make your mark, yet if you don't act swiftly you can be viewed as weak.

Catalyst

Strategist

Steward



Operator

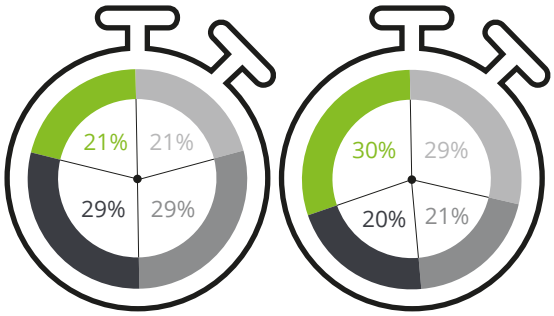
How time is allocated across the four faces of the CFO

Catalyst

Strategist

Steward

Operator



Current **Desired**

Finance organisation and talent is a top priority but...

... our results show that CFOs are least confident in implementing the necessary changes

Making an impact needs the right support, however...

95%

of new-to-role CFOs have struggled to identify a capable 'second-in-command'

The remit of the CFO

The role of the CFO is challenging at the best of times. New-to-role executives want to make an impact on transition and are in the spotlight, which understandably adds to the many pressures of the role.

CFOs are responsible for safeguarding the company's assets and fulfilling its regulatory obligations.However, there is also the very clear expectation that a CFO should be an influential business leader who shapes and challenges strategy and supports the CEO in its strategic implementation.

Deloitte has developed a model that describes the different aspects of a CFO's role. Deloitte's Four Faces of a CFO framework helps CFOs articulate clearly how they will achieve the impact they need to have for themselves and for their company. It enables CFOs to understand where to focus their time and resources and describes the competencies and behaviours that are expected of them.

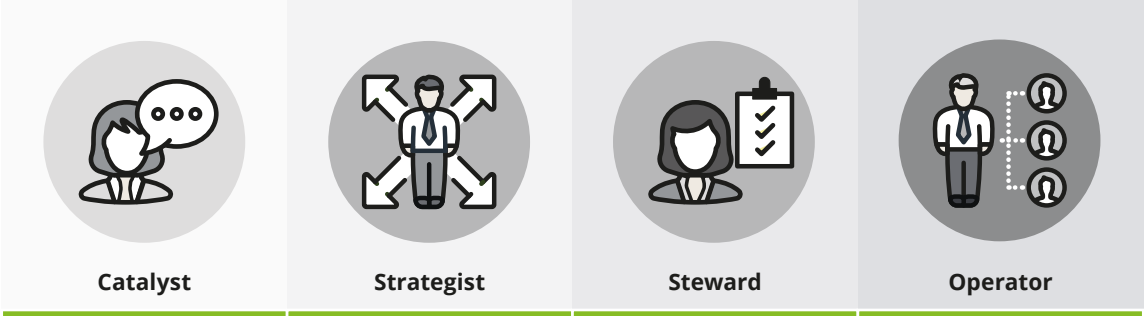
The model breaks the CFO's role and responsibilities into four key areas:

- Catalyst
- Strategist
- Steward
- Operator

As a Steward, the CFO acts as guardian of the organisation's assets. Company boards and external stakeholders expect the CFO to fulfil all regulatory and statutory reporting requirements. They expect good governance and compliance, and the close management of the company's finances. To fulfil these expectations, the CFO needs to act as an Operator to build and lead a fit for purpose finance function that balances capabilities, costs and service levels. Weaknesses within the finance function often translate into problems in the CFO's Steward role. This can be an early cause of CFO failure.

Maximising the impact on transition

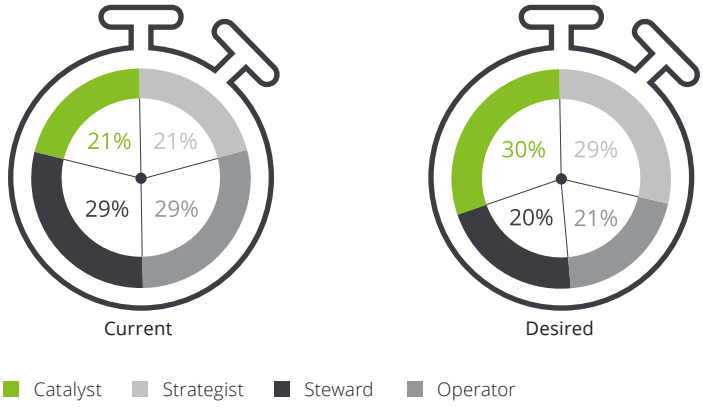
Figure 1. The Four Faces of the CFO



Catalyst	Strategist	Steward	Operator
Catalyse behaviours across the organisation to execute strategic and financial objectives while at the same time creating a risk intelligent culture	Providing financial leadership in determining strategic business direction, M&A financing, capital market and longer term strategies vital to the future performance of the company	Protect and preserve the critical assets of the organisation and accurately report on financial position and operations to internal and external stakeholders	Balance capabilities, talent, costs and service levels to fulfill the finance organisation's core responsibilities efficiency

Source: Deloitte CFO Programme

Figure 2. Time allocation across the Four Faces of the CFO



The remit of the CFO

Managing all of the operational aspects around people, processes and systems can be time consuming but is a pre-requisite for a CFO's early and sustained credibility in the wider organisation.

Both company boards and the CEO often consider the CFO's ability to perform the Steward and Operator roles as a given. These are fundamental and unless there is a need to repair broken finance operations and controls candidates are more likely to be hired because of their ability to challenge and stimulate the business.

CFOs are increasingly expected to act as a Strategist and provide financial leadership to help determine the strategic business direction. CFOs must develop their judgement on the commercial and strategic questions facing the organisation and actively demonstrate their ability to support the CEO and the board to shape corporate strategy. For many CFOs, whose experience is grounded in financial control and accounting, this is often a new but critical area that they have to grow into – sometimes very quickly.

Finally, the CFO as a Catalyst requires the CFO to ensure the disciplined execution of strategy across the company. This requires the CFO to partner with their corporate peers to manage performance to defined and agreed metrics. It often falls to the CFO to ensure implementation of company-wide initiatives. In the Catalyst role, the CFO must demonstrate a good understanding of the commercial drivers in the business to influence a wide range of internal stakeholders effectively.

Transition into the CFO role

CFOs have endless demands on their time. The most successful CFOs quickly determine how to balance their resources across the Four Faces but this is no easy task. The pressure of transition requires clarity of purpose. Only by effectively prioritising their time do new-to-role CFOs build and then sustain their impact.

As part of the Deloitte CFO Transition Lab, newly appointed CFOs are asked how they currently distribute their time across each of the Four Faces and what they would like this distribution to be in the future. In the first few months CFOs spend on average 58 per cent of their time with their Steward and Operator roles, the remainder across Strategist and Catalyst. The clear ambition of new CFOs is to swap this time allocation around within the next 6-12 months and spend the majority of their time in the Strategist and Catalyst roles. It is understandable, and in fact expected, that in the initial months CFOs must spend time to understand the financials and their finance function.

"In the first few months CFOs spend on average 58 per cent of their time with their Steward and Operator roles, the remainder across Strategist and Catalyst."

It is unlikely that a CFO will ever spend an equal amount of time in each of the Four Faces. Spending more time in the areas perceived as creating value for the organisation, such as Catalyst and Strategist, seems to be a common theme, not just for new but also experienced CFOs. However, a clear understanding of where stakeholders expect the CFO to make an impact is critical to a CFO's success. This may not always align with their perceptions. Ultimately, each CFO must operate effectively across the Four Faces. Timing, business requirements and personal experience will determine the amount of time and effort dedicated to this.

The importance of the first 180 days

Why are the first 180 days in role so significant for a CFO? Conventional wisdom talks of the importance of the first 90 or 100 days. Much can be achieved within that timeframe, relationships can be built and critical issues in the finance function can be managed. However, for many CFOs it will take longer to create a more sustained impact.

A focus on recruiting and renewing talent may prove time consuming but is likely to be essential. Similarly absorbing is the creation and communication of the CFO's vision to key internal stakeholders. While building relations with brokers and analysts in the City is a process that takes time to achieve, many new CFOs significantly underestimate the number of new relationships that must be established and then nurtured. Notably, CFOs who are internal hires often struggle to recognise the way in which their relationships, especially those with the board, will change. What is expected of a CFO is very different to what is expected of a Finance Director or Financial Controller, or increasingly perhaps a head of Treasury or a business division.

"It is important to be aware of how quickly time can pass and unsurprisingly a significant amount of the Lab is spent discussing how participants spend their time."

It is important to be aware of how quickly time can pass and unsurprisingly a significant amount of the Lab is spent discussing how participants spend their time. Typically, the first set of quarterly results announced by a new-to-role CFO is in fact the legacy of the previous CFO. The second set of quarterly results is wholly owned by the new CFO. That is two quarters or 180 days for a new-to-role CFO to own the numbers, to assess their talent, to understand how the business really operates and to build critical relationships. If they are unable to do this by their second set of quarterly results they will struggle to transition from Stewards and Operators to Strategists and Catalysts.

Focus is everything

Knowing what is important and then urgent is the start. Understanding this is central to a successful transition. Deloitte's work with over 150 transitioning UK CFOs has highlighted the key themes that new-to-role CFOs prioritise in their first 180 Days.

Critical input from their key stakeholders, namely the CEO, Chair and Audit Committee Chair, as well as the CFO's own views is obtained as part of the Transition Lab preparation process to ensure their perspective is included. The CFOs are guided to focus on areas and priorities where their personal time and drive is required to a greater extent and are encouraged to be bold in choosing those priorities where they can really make an impact quickly.

The key themes identified represent areas of responsibility across the spectrum of the CFO role. Although the priorities stretch across the Four Faces, Deloitte's Transition Labs show there is an increased emphasis on responsibilities aligned with the Catalyst role, particularly around partnering with the business, providing decision-support capabilities and building key relationships with corporate peers.

Quotes from Deloitte CFO Transition Lab participants

I have to make very positive choices about where I do and don't spend my time. There's no point in trying to do a bit of everything because I won't make the impact I need

There were never enough hours before and now I have even less time – I have to be more particular on my areas of focus.

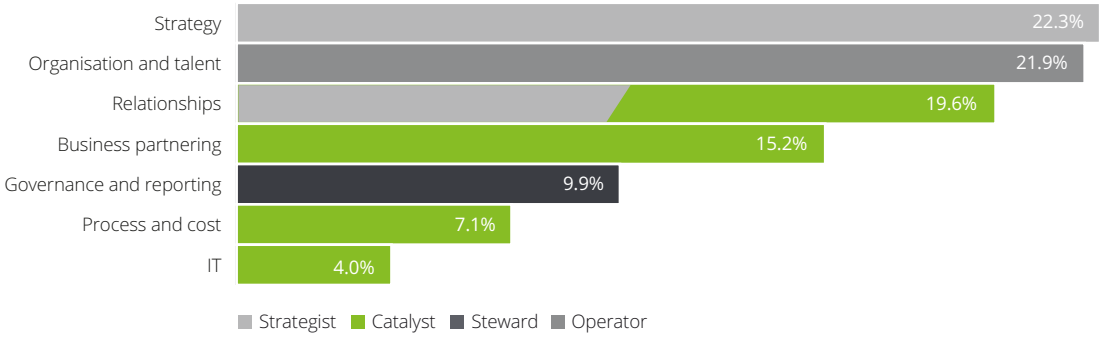
I don't have the time to think; I want to be proactive instead of reactive.

Time is tight and the diary is never empty; there's permanent white noise.

My time is consumed with issues I ought to trust the team to deal with. As a result I'm spreading myself thin.

Source: Deloitte CFO Programme

Figure 3. Top priorities for transitioning CFOs, percentage of responses



Source: Deloitte CFO Programme

The expectation of the CFO to play a significant part in supporting corporate strategy and driving growth and profitability is reflected as a featured top priority.

"Every CFO who has participated in the Lab had at least one priority relating to improving the finance organisation or solving issues around talent."

It is encouraging that developing the finance organisation and talent is the second most important priority on a new CFO's agenda. Every CFO who has participated in the Lab had at least one priority relating to improving the finance organisation or solving issues around talent. Given the wide range of responsibilities for each CFO, it is not surprising that quickly establishing a strong team in the finance function is critical to success. In fact, a lack of appropriate talent and support has been most often cited by new-to-role CFOs as the most significant barrier to achieving their priorities.

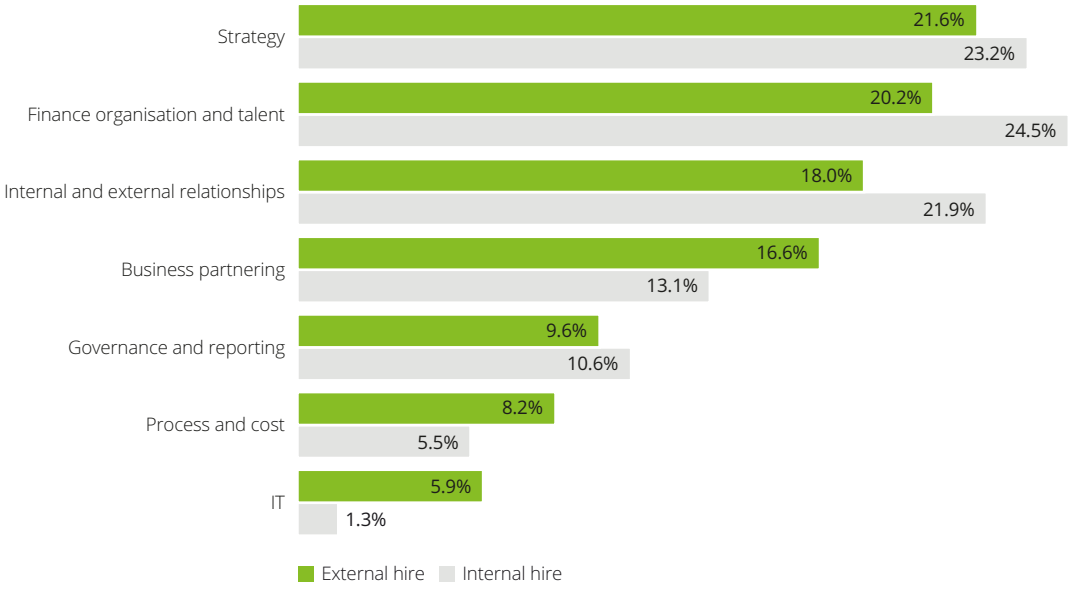
The Steward responsibilities are those that are most traditionally linked with the CFO role. However, they come out relatively low in their list of priorities. This is not a reflection of neglect in this area but rather the result of CFOs delegating finance governance and process responsibilities to their teams so they can deliver on those priorities that only the CFO can lead.

Relationships are crucial

Many CEOs interviewed by the Deloitte CFO Programme said they wanted their CFO to be a sparring-partner, essentially someone who can bring a finance perspective to strategic and operational issues. This view is strongly supported by the board who want to see the CFO constructively challenge the strategic decision-making process.

To be fully effective in this role means quickly establishing a strong relationship with the CEO and the board. This is one of the key priorities for all of the CFOs who have participated in a Transition Lab.

Figure 4. Top priorities for transitioning CFOs based on type of hire, percentage of responses



Source: Deloitte CFO Programme

n=45 (Internal hires); n= 68 (external hires)

Quotes from Deloitte CFO Transition Lab participants

The relationship with the CEO is a journey that needs to be started.

The Board wants to see that the CEO and CFO are working as a team but I need to be prepared to challenge where necessary.

Source: Deloitte CFO Programme

Building relationships, both internal and external, requires dedicated time and focus so that these relationships can be maintained through day-to-day activities. New CFOs recognise the importance of spending additional time upfront to kick start and then nurture those key relationships.

There are many relationships that are important. New CFOs are surprised by the sheer number of relationships they need to develop. Internal hires need to reposition themselves and recalibrate their relationships with stakeholders. Internally appointed CFOs give a higher priority to relationship building activities than their externally appointed counterparts.

To maximise the impact with key stakeholders in the first 180 days, CFOs need to have early conversations to clarify their expectations and understand the communication and working style that they prefer. There is rarely one approach that fits all relationships and the emotional agility required to navigate all of them successfully can be challenging for new CFOs when every interaction is building his or her reputation.

Building a high-performing finance organisation

CFOs understand the need for high-quality talent throughout the finance function based on a well thought out talent agenda. A critical task for incoming CFOs is to make sure the right people are in the right roles.

A team assessment can be as simple as a series of conversations or observations. Nevertheless, CFOs must quickly review the talent within finance and assess their team's alignment with priorities. If the wrong people are in critical roles, it is unlikely that a CFO can deliver all their priorities. Choosing to invest in a weak team member is one area where time can quickly be lost and often puts off the inevitable. CFOs need to act decisively to be successful but talent is often the area where they find it hardest to do so.

Incoming female CFOs put a greater emphasis on team development in their priority setting. Twenty-nine per cent of their top priorities relate to their finance team compared with 20 per cent for their male counterparts.

Twenty-one per cent of Lab participants stated that a lack of appropriate talent to support their priorities was a significant barrier to accomplishing them. At the same time, this was one of the areas where CFOs had the lowest confidence in achieving their priorities. This reinforces how important an early assessment of talent is in determining whether the right people are in place to execute key initiatives.

On average a new-to-role CFO inherits 7.3 direct reports. Quickly identifying from this group a capable 'second-in-command' to take ownership of initiatives, particularly those around running the finance function is critical. However, at the time of the Lab, the vast majority of CFOs had not yet identified a capable second-in-command.

Figure 5. Challenges to making an impact, illustrative

95%

of new-to-role CFOs have struggled to identify a capable 'second-in-command'

n=113

Figure 6. CFO assessment of direct report capabilities, percentage of direct reports

Weak Neutral Strong

Source: Deloitte CFO Programme

n=113

A common theme among established CFOs is that they did not act swiftly enough on talent issues. A new-to-role CFO must ensure that it is their team aligned to their priorities, not their predecessors.

Issues and weaknesses within their team take a disproportionate amount of time to resolve. Not addressing issues within the first few months in the role stores up problems that will take more resources to resolve later. It is important to understand within the first few weeks in role which team members will advance the CFO's priorities and where potential talent gaps exist.

Executives can only be effective if they have a strong team behind them. On assessment, Transition Lab participants classified 14 per cent of their direct reports as 'weak'. Transitioning CFOs believe that at least one of their direct reports is unable to help deliver their key objectives.

Making the decision to replace a direct report is difficult, especially if the CFO were previously a peer. However, the consequences of not doing so can be significant.

There is typically a mix of talent within the finance team. This in itself is not an area of concern but CFOs should be aware of team dynamics and must ensure they provide sufficient vision and leadership to build a high-performing team instead of a team of individuals.

Encouragingly, many of our CFOs had the support of strong team members. With strong performers it is important to identify who may be a 'flight risk'. Gauging which team members require greater opportunities or challenges helps in deciding which direct reports should lead key initiatives.

Quotes from Deloitte CFO Transition Lab participants

The word 'team' sticks out – there is no team, only a group of individuals who rarely talk to each other.

Making changes to a team must be handled with care; if you act hastily it can be viewed as trying to make your mark, yet if you don't act swiftly you can be viewed as weak.

I fear I do not have enough finance talent to deliver my plans.

Source: Deloitte CFO Programme

Finance as a partner for change

CFOs understand the need for high-quality talent throughout the finance function based on a well thought out talent agenda. A critical task for incoming CFOs is to make sure the right people are in the right roles.

There are two distinct roles for the CFO to play here. First, as leader of the finance organisation the CFO is the catalyst in building relationships and partnering with the business. Second, CFOs need to build capabilities within the team to enable them to support the business. The ability for finance to produce reliable and insightful management information to support decision-making is a frequent request from the CFO's key stakeholders.

The ambitions and background of a CFO influences the degree to which business partnering is prioritised.
Those CFOs who aspire to one day become a CEO spend more time on business partnering. External hires, by the nature of their unfamiliarity with the organisation, focus more of their time in the first 180 days on gaining an understanding of the business. Similarly, those CFOs with past industry experience or past CFO experience are also more likely to prioritise business partnering than those lacking such familiarity.

Quotes from Deloitte CFO Transition Lab participants

Finance has traditionally had a bookkeeping role; positioning finance as a business partner will be a challenge.

Source: Deloitte CFO Programme

Planning for success

To maximise your impact as a new CFO it is essential to plan how you spend your early days in role.

CFOs must manage three critical resources to navigate their transition successfully:

- Time – their own and that of their staff
- Talent – the right competencies to support key initiatives
- Relationships – internal and external stakeholders

It is encouraging that the priorities of transitioning CFOs articulated in the Lab sessions reflect a balance of the Four Faces. New-to-role CFOs recognise the need to be effective across all Four Faces to achieve the impact that they and their stakeholders desire. There is also recognition that getting quickly to the heart of talent issues and having a plan to manage relationships is at the centre of every successful transition story. Failure to do this quickly erodes the one irrevocable resource that CFOs possess: their time.

How you invest your time is critical. Once it is spent it is gone forever. The most successful CFOs quickly determine how to balance their time and resources. Where and how you act as a new CFO will change as your stakeholder relationships evolve and the lifecycle of the business moves on.

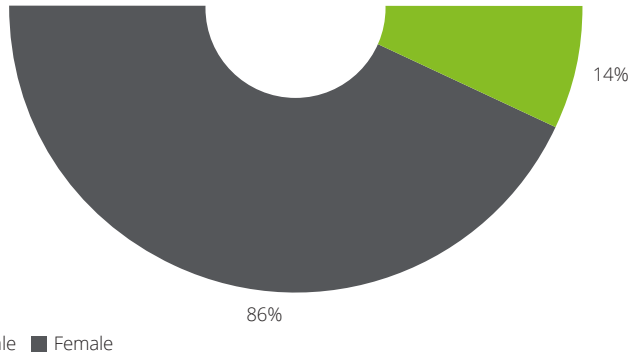
Stakeholders, both inside and outside of your organisation, will form opinions of you even before your first day in role. A successful transition relies on you maintaining and building strong relationships. The ability to identify which relationships are important and how to influence them effectively is essential to a successful transition.

It is important that CFOs take the time to challenge themselves on whether they are focusing on the right priorities, have the right team in place and know which relationships need to be developed to make the most impact.

The Deloitte CFO Transition Lab provides an opportunity for transitioning executives to take a step back and to think holistically about the role they should undertake and the legacy they wish to leave. Moreover, as evidenced by this report, the Lab provides new insights for all new-to-role CFOs into how to manage a successful transition and make an impact that matters.

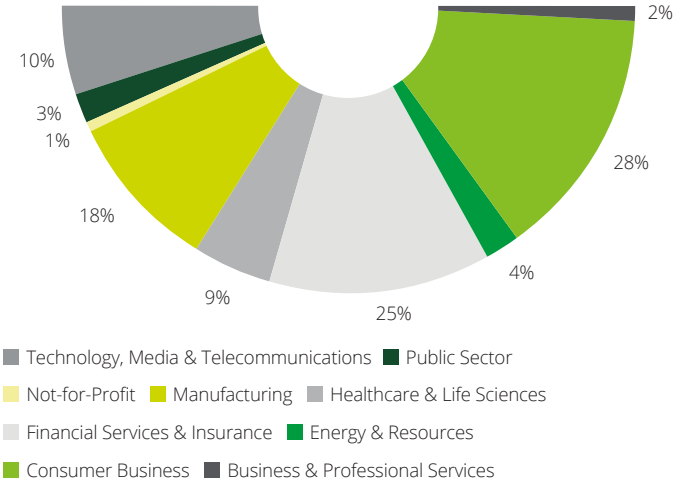
About the CFO Transition Lab participants

Figure 7. Gender of new CFOs, percentage of Lab participants



Source: Deloitte CFO Programme n=113

Figure 8. Industry of new CFOs, percentage of Lab Participants



Source: Deloitte CFO Programme n=113

Contacts

Richard Muschamp
Partner, CFO Programme Leader
+44 020 7007 0724
rmuschamp@deloitte.co.uk

Ajit Kambil
Global Research Director, CFO Programme
+1 212 492 4286
akambil@deloitte.com

Sabine Benz
Director, Senior Boardroom Relationships
+44 020 7007 9147
sbenz@deloitte.co.uk

Lucy Clay
Head of the UK Next Generation Programmes
+44 20 7007 5193
luclay@deloitte.co.uk

Author

Richard Horton
Senior Manager, Consulting Foresight
+44 020 7007 7274
rhorton@deloitte.co.uk

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Deloitte CFO Programme
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Fax: +44 (0) 20 7583 1198.

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