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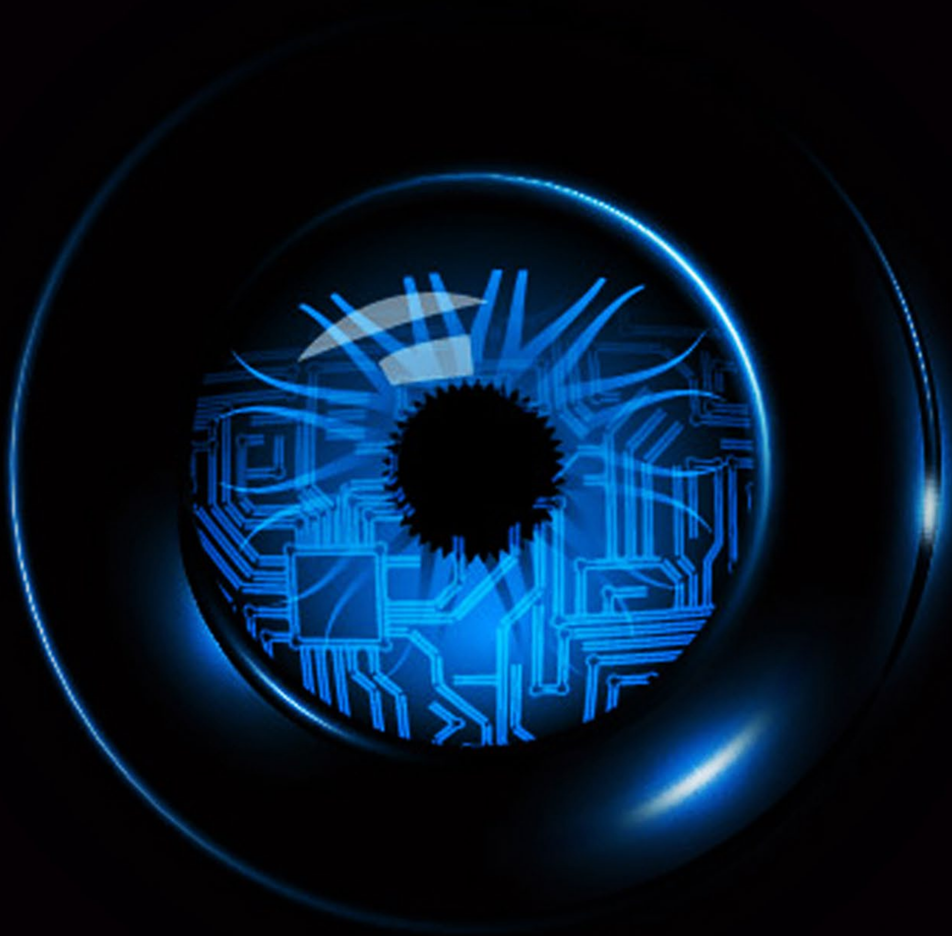

CFO Transitions

Managing transitions: CFO regrets

By Dr. Ajit Kambil

Based on historical averages, nearly one in five CFOs in the Fortune 1000 may change this year.[1] In our study – *Taking the reins*: *Managing CFO transitions* – we found CFOs had to manage three key resources to successfully navigate through their first year:

- **Time:** Both their own and their staff's
- **Talent:** Having the right people to execute initiatives
- **Relationships:** Both internal and external to the company.

When we asked CFOs who had navigated a transition beyond one year, "What one thing would you have done differently?", we found two key considerations. First, most CFOs wished they had moved faster to get the right talent in place. Secondly, some CFOs wished they had conducted better cultural due diligence.[2]

Get the right talent in place

During our interviews, CFOs indicated that recruiting and aligning talent to priorities is one of the most important tasks – sometimes the most important task – they face in the first 180 days on the job. Ultimately, it's the talent in the finance organisation that executes the CFO's agenda – either successfully or unsuccessfully. Thus, new CFOs have to quickly assess talent, recruit new "A" players to fill key gaps, and re-recruit the current team to their agenda.

Assessment often takes the form of direct conversations and observations. The CFO at one company got a quick read on his direct reports and other staff by asking pointed questions: What are you working on and why is it important? How do you measure success in your area? How do you assess your people?

When one CFO didn't receive answers from a direct report that were both strategic and valuable to the company, it was clear that a change was necessary. Within his first eight weeks, he had a new "A" player on board for that job.

Another CFO said it was important to observe people in action before reaching a verdict on their capabilities: "Sometimes it's the quiet ones who actually get things done." He likes to work with individuals to frame a set of desired accomplishments for the first few months (about 90 days) – and watch how they operate. He said that this gives him a truer measure of his people's capabilities.

This so-called observation approach is more feasible when a CFO is coming into a stable finance organisation without a burning platform for change. A number of CFOs noted the importance of the old Reagan maxim – trust but verify – in talent management as they observed their direct reports and the next layer of talent during their first 90 days. This was typically used to identify the "A", "B," and "C" players.

Great talent not only makes the finance organisation more likely to succeed, but also helps CFOs conserve their time. Many CFOs encounter a talent conundrum when they take the reins. They may need "A" talent in a particular role, such as the treasurer, but currently have congenial "B" talent in the role. This forces them to choose between either bringing in a new person or trying to develop the "B" into an "A." Many CFOs we interviewed regretfully chose the latter – and found that it took time away from other critical things they had to do. Thus, getting "A" players in key roles quickly is vital to conserve the CFOs' time for other initiatives and tasks.

Not managing the fundamental trade-off between talent and time can lead to regret. One CFO noted, "You have to take some people out fast and make at least a few changes in the first three to six months. For me it was easy, because I had some 'C' players. But even if you have all 'A' and 'B' players, I think you still have to do it. You need to make sure it's your team and that your people are aligned with you. I'm always amazed with leaders who accept 'C' and 'C-minus' players. My feeling is that if you don't get rid of these people, you'll regret it." And this indeed was the primary regret we heard in our interviews.

When they're looking for new talent, CFOs most often turn to executive recruiters or former colleagues for candidates and referrals. Bringing in new recruits could be an important trigger for raising the bar on performance and reshaping expectations within the finance organisation. In addition to new staff, rerecruiting the existing staff and earning their allegiance is also important. The internal re-recruiting of peers, especially those who competed for the CFO role, can be a challenge. One effective approach to managing this is for a CFO to initiate direct conversations with the people who were passed over within a week or two after his or her appointment is announced.

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For the CFOs we interviewed who did this, the conversations opened by acknowledging that the other's aspirations were not met, followed by a direct request for commitment to the new CFO, the team, and the agenda. Naturally, sometimes the passed-over peers leave – but clear understanding is helpful all around.

Conduct cultural due diligence

A second important regret that a few CFOs noted was tied to the lack of "cultural fit" with the organisation they joined. Culture is the shared assumptions and beliefs of those in an organisation. For a few CFOs, the lack of "cultural fit" left them frustrated by their inability to drive the people and organisational changes that could improve the performance of the finance function in a way that was personally rewarding. Cultural misalignment can occur at the company-wide level or between the CFO and his or her finance organisation, based on how the prior CFO led the finance group.

Why did these few CFOs fail to undertake a successful cultural due diligence? While they all had had discussions with the CEO and other peer executives before taking the role, and some had also checked with their network of friends, these few CFOs found themselves in a quandary soon after they arrived in their new role.

There are a number of reasons for cultural misalignment. First, many employees and ex-employees do not want to speak negatively of their company or organisation. Second, perhaps the prospective CFO did not probe deeply enough in their CEO interviews. For example, they may not have asked the CEO questions like, "Would you be supportive of changes in leadership in the finance organisation, especially among long-serving employees?" Today, online employee communities such as vault.com create unprecedented visibility into potential cultural issues at a company. By tapping into these resources, CFOs can frame more discerning questions in their cultural due diligence. These questions could include what level of support the CEO would offer for changes in the finance organisation's talent and processes. If a prospective CFO fails to read the culture correctly, and finds CEO support lacking, he or she is best off leaving the organisation as quickly as possible to join a more supportive environment.

CFOs' regrets about culture and talent during their transitions into the job highlight the importance of effectively managing relationships, especially with the CEO, and the importance of quickly moving from assessing to recruiting new talent and re-recruiting existing talent to key priorities. More thorough upfront cultural due diligence and quick moves on talent can help save CFOs time they can use to focus on executing their key priorities, and it can also save them from later regrets.

To learn more about how CFOs successfully navigate transitions, see *Taking the reins: Managing CFO transitions*.[3]

About the author

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Dr Ajit Kambil, a director with Deloitte Consulting LLP, is the global research director and transition lab leader of Deloitte's CFO Programme, Deloitte LLP.

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Endnotes

1. *Deloitte analysis of CFO turnover trends from 2004 through 2009.*
2. *Deloitte interviewed more than 20 CFOs whose companies collectively had over $160 billion in market capitalisation at the time of writing.*
3. *Ajit Kambil, Taking the reins: Managing CFO transitions, Deloitte Development LLC, 2010, http://dupress.com/articles/taking-the-reins-managing-cfo-transitions/.*

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