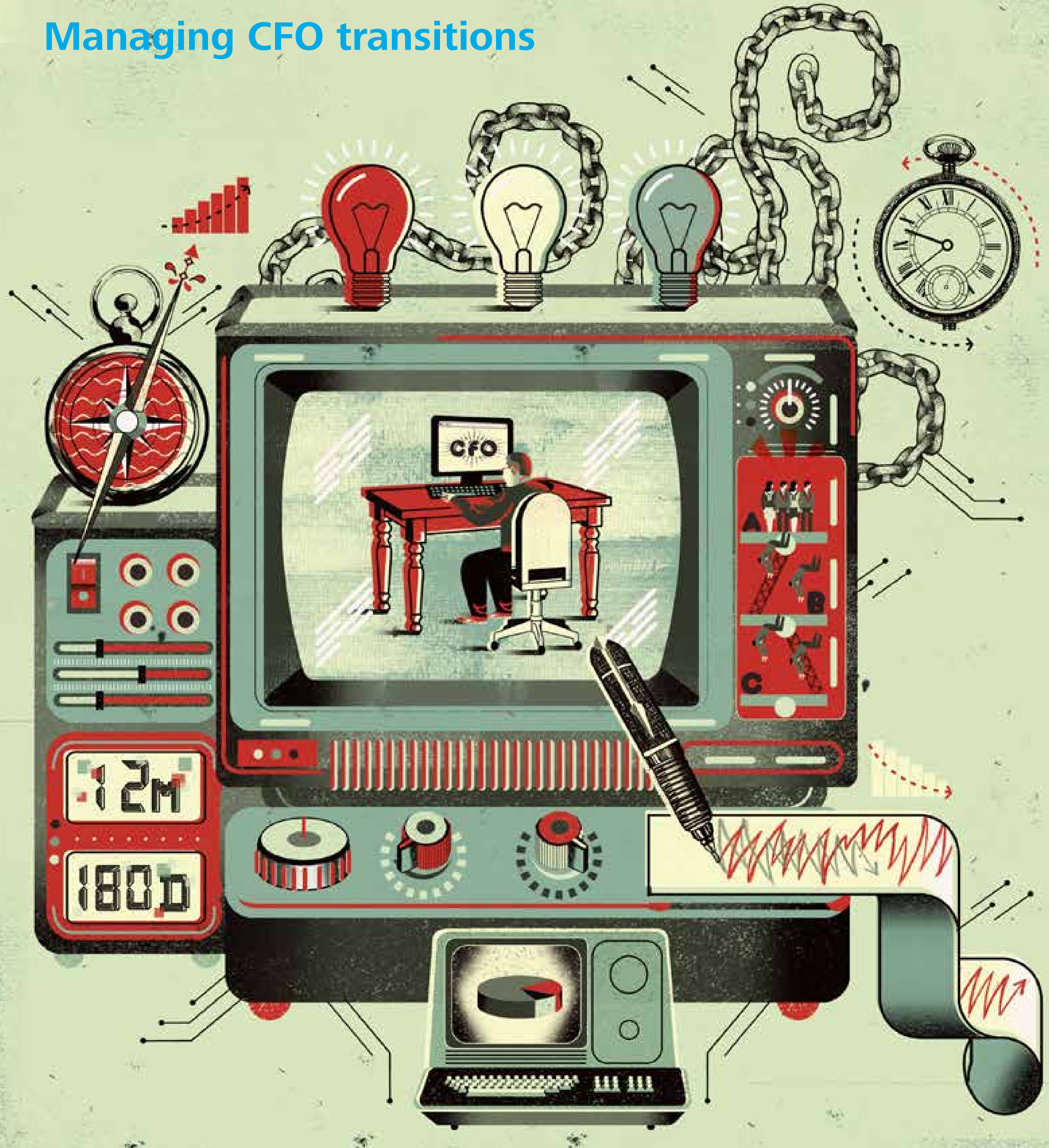
Taking the reins

Managing CFO transitions



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Into the saddle

When chosen to be the CFO of a global technology company, there was a weekend and two days before the first earnings call. With the help of the company's CEO, the new CFO hit the ground running—and positioned himself as a credible professional to the investor and analyst communities within 96 hours.

There is no standard background for becoming a CFO—and no magic formula for success. Some individuals are elevated to the role from within an organization, others are hired from outside. Some have a few days to prepare, others have weeks or months. Some land in public companies, some in family-owned businesses, some in government agencies. All these differences make every CFO journey unique, despite some common threads.

The Deloitte CFO Program interviewed more than 20 CFOs from varied companies with nearly $170 billion in combined revenues, most with more than $2 billion each. Our research shows that taking on the role of CFO, especially in a publicly traded company, is a deeply personal choice that can be joyful and exhilarating. It can also be a frustrating and, sometimes, career-limiting experience. In nearly all cases, however, it is an intense journey that places new and conflicting demands on personal time and relationships.

This report shares practices that successful CFOs have used to navigate transitions, with an emphasis on critical questions that need to be asked. In contrast to many excellent books and articles on general leadership transitions, *Taking the Reins* focuses specifically on the CFO role, exploring three transitional phases that all CFOs encounter:

- Getting to know the business
- Choosing what to do
- Making a difference

Across these phases, our interviews point to a cluster of critical resources that CFOs must manage to be successful: relationships, time, and talent.

If you're considering taking on a new CFO role, or if you're planning to hire, this research can help you manage your next transition—as well as those that follow—more effectively.

Getting to know the business

The journey begins in different ways. A phone call from a headhunter or a friend. An urgent request from a CEO asking you to step into an interim role. A purposeful search—initiated by you—to find your dream job. Regardless of how the process is initiated, all CFO candidates are thrust into the challenge of learning and understanding their prospective business, the critical players and issues, and the role they will play. It's demanding and important work that starts at first contact and often goes through the first three months on the ground at the new company.

> "While everyone wants to feel like they can parachute in and make a contribution, it's key to be a good listener."

Connections and considerations

Our research reveals two main threads of action in this early phase: (1) connect to and establish relationships with people who matter and (2) consider the major issues you'll be facing with them—and how you'll tackle them. You can't have one without the other.

Many of our interviews highlighted the importance of listening during these critical early days. One CFO in the heavy equipment industry summed it up this way: "While everyone wants to feel like they can parachute in and make a contribution, it's key to be a good listener. Certain skills are portable across industries and you want to leverage them, but you have to come in and be a willing student of the industry and business. Even though you are one of the top few executives, you need to acknowledge that you are willing to learn from others and realize they all want to make a contribution." Is authentic listening a personality trait or a learned skill? For new CFOs, it has to be both.

Knowing the business model

Understanding the fundamentals of the business model—how it really makes money—is table stakes for new CFOs. Those tracking within the same industry made quick work of this. CFOs jumping industry lines had to dig deeper.

Most read corporate disclosures and use the interviewing process as a starting point. But there are other helpful resources, too. In addition to preliminary meetings with the CEO and staff, conversations with the audit chair and the audit partner provide insights into how the company creates value. For CFOs transitioning across industries, conversations with industry analysts can be especially helpful.

Several CFOs found it useful to talk to the equity analysts tracking the company either before or immediately after assuming their roles. They said this was an important opportunity to test the business model assumptions of the analyst community with their own going-in assumptions. If there are differences in how analysts see things and the actual operating and revenue models of the company, it's important to reconcile them early—during the honeymoon period of the first three to six months.

The same is true if analysts have difficulties understanding the company's reporting. When the CFO of a company in the telecommunications, media, and technology industry initially met with investors and analysts, he discovered that the current way of reporting didn't really help analysts make sense of the breakdown of revenues in different segments of the business. He realized that when investors and analysts are confounded by disclosures, they tend to stay away from the stock. Instead of trying to educate them on his company's approach, he took the lead to make a change to the company's longstanding reporting practice. It was one of the first items on his agenda.

Knowing the players and concerns

Every CFO we interviewed said that getting to know the key players is one of the most important challenges—both before assuming the role and immediately after coming onboard. Critical relationships include the CEO, direct reports in finance, business unit leads, functional leads, the audit committee chair, and the audit partner. It's all about connection and consideration—listening to their perspectives, and assessing the value and validity of their inputs.

Managing up

Topping the list is the relationship with the CEO. No surprise there. Many CFOs began that work during the recruiting process. In a few cases, the CEO spent significant time doing detailed planning with CFO candidates. CFOs who had that experience went into their jobs with crystal clarity about expectations.

The new CFO at a global technology company used vacation time to meet with the CEO for a day-long working session before he was hired. They plowed through a detailed review of issues that weren't going well, and determined where changes needed to be made. "That step was critical to me," he said. "The CEO and I were completely aligned before I even took the job. We wrote up a detailed list of the things that were very important to do." In addition, this CFO spent advance time with the president, who led day-to-day operations. The goal going in was simple: make sure the two leaders could get along with one another.

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Sometimes insight about a company's leadership team comes from surprising sources. The incoming CFO at a global materials manufacturer knew a lot about his prospective new boss—from a family member. The CFO's brother worked for a competitor to the company where the CEO had been president. From that trusted source, the CFO learned that his new CEO had a strong reputation for being able to lead and drive change—a recognized star in the industry. That knowledge gave the CFO a high level of confidence about his opportunities to succeed.

Business partnering

The next set of critical relationships involves people delivering finance services—and the business units and functions they support. In large organizations, building these connections is a big job. Most CFOs we talked with were highly systematic in their approach.

Right after he was promoted, one CFO in retailing visited all the senior leaders of the company. He acknowledged that both the company and the finance function had made progress in recent years, but he wanted to know "how to go faster going forward, what issues clients wanted to fix, and how finance could help." He followed up on each meeting with a return visit to play back what he had learned, giving them a perspective through the lens of the finance team on how finance was working and how it could contribute better. This proved invaluable in considering major partnering issues. "Even though I had been here a long time, it wasn't until I started to talk to people that I really learned what they actually thought. Make sure you begin to unpack the old issues, and spend time with your internal customers talking about what's working and what's not working. Like all things, it's always a two-way street."

In his new role at CBS Corporation, Joseph Ianniello had a personal meeting with each of his direct reports on the first day to hear their concerns. "Even though I was an internal guy, I told them I'm a blank piece of paper. I wanted to know where they were and what they were doing. I asked, 'What do you like? What don't you like? Are you happy with what you're doing? Can you do more?'" This proved vital to establishing critical connections with his staff.

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While it takes a lot to build relationships, it's important to maintain them too. A CFO in the energy business has Monday morning oatmeal breakfasts with his direct reports and audit partner. This helps him get a handle on the issues inside finance—and expand his understanding of all areas of the function better, especially tax. "Learning what they struggled with helped me understand what to focus on," he said. "It's a healthy way to start the day too."

CFOs are finance ambassadors to the board and analysts. It's critical that they develop good working relationships with the audit committee chair, other board members, and the audit partner. This is especially helpful during a transition. When one CFO started in October, the budget was nowhere near ready for the November board meeting. Working directly with the audit chair, he was able to get the time and resources needed for finance to do it right, not just fast. The audit committee chair also coached him on how to talk with the board.

Understanding culture

External hires often face a big climb when it comes to understanding and adapting to the culture of their new firm. For most of the CFOs we talked with, this was one of the toughest parts of the job. In some cases, it was also a frustrating career experience.

Culture reflects the underlying beliefs and assumptions of a company, which guide the behaviors of the workforce. Discovering the true culture of a company is tricky from the outside, and the interview process may not reveal all the beliefs that matter. Some CFOs reached out to friends or friends of friends who were previously with the company. Others tried to read culture during the course of interviewing. Sometimes these efforts were not enough.

CFOs grapple with two levels of culture—across the company, and within finance. The company's culture frames a broad set of operating norms and expectations.

One CFO went through an extensive set of interviews during which he heard that the company's culture treated employees like family. What he didn't learn is that "like family" meant he couldn't make the changes he wanted, in terms of either people or processes. The company's culture is almost impossible to change unless the CEO is driving it. In situations where the CEO is unwilling to do that, the CFO is better off leaving for greener pastures.

The second level of culture to consider is that of the finance department—and a lot of questions come into play. What policies were established by the prior CFO? Was that CFO competent or incompetent? A control freak? A transactional leader or a transformational leader? Is finance known for keeping its commitments, or are internal controls lax?

Sometimes a new CFO is brought in to drive a change in the culture of the finance organization itself, such as being more responsive to clients or more disciplined. The CFO will then need support from the CEO to realign the values of the finance organization with the broader firm. This may require letting people go who can't or won't align their behaviors with the changing norms.

Today there are new sources of information that can shed light on culture. Websites like Vault.com provide a glimpse into employee and alumni frustrations with a company. One CFO reviewed online discussions as part of due diligence, using that knowledge to frame more discerning questions to ask during the hiring process. She triangulated across responses from different interviews to get a more granular sense of the culture.

Minding the gaps

Incoming CFOs often have to learn new skills—from investor and board relations to understanding tax issues. This is especially true for those promoted from within. On the other hand, outsiders can be faced with the need to master unfamiliar issues in a new industry. How do CFOs mind the gaps and master the skills? How do they incorporate this into their 90-day plans?

Most of the interviewees had to dive into issues and learn the job by doing it, often in a hurry. "It's never quite the same as you envisioned when you have to do things like make decisions in front of the board," he said. "They look to you to be the expert. You learn things by being put in the CFO pressure cooker, things you don't learn in any other job."

> "I didn't really understand what 'like family' meant."

Some CFOs sought help to mind the gaps. When one CFO was promoted to lead finance in a life sciences company, he had no prior experience in investor relations (IR). He turned to outside vendors who supported the company and got a crash course on investor relationship management. The coaches and role-playing exercises brought him up to speed quickly on this critical aspect of the CFO role, but even "quickly" took a lot of time. "I was not ready for the amount of time IR would require. It took me outside of my normal box. It (the time spent training) helped me broaden my capability to work with internal people and the external world."

Relationships are also vital to minding the gaps. One of the energy-sector CFOs put it this way: "You can't be an expert in all the fields that report to you. You have to build relationships with the people that you have on your team. At some point, have regular meetings in areas that you are weakest at. If you're an accountant, have meetings with the treasury guy and the investor relations guy. You want to understand what they're wrestling with, and how you can help. If you don't think they're good, you need to make a change right away."

Whether it is learning by doing, using coaches and others for training, or leveraging key relationships, new CFOs have to narrow their own skill gaps quickly, sometimes starting before they even arrive at the company, but typically in the first 90 days.

> "I was not ready for the amount of time investor relations would require."

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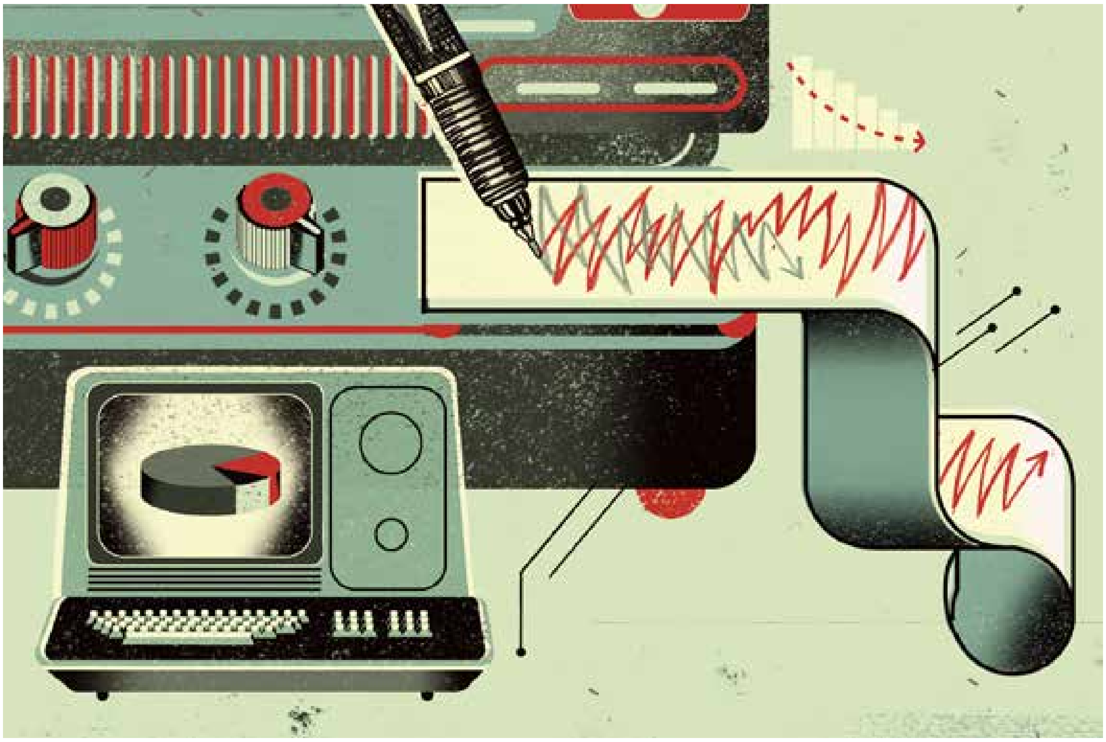
Choosing what to do



Every new CFO we talked with represented an opportunity for change. The day they arrived, the clock started ticking. Some CFOs had to quickly identify important wins, while also framing a longer-term agenda. That meant deciding which issues to tackle immediately—such as recapitalizing debt coming due shortly—and which could wait. They had to choose where to focus.

Choosing the 180-day agenda

Most CFOs we interviewed worked with a six-month marker to establish themselves. While they built relationships and managed pressing problems right out of the gates, it generally took more than 90 days to accomplish significant wins. "In my lens, I felt like I had six months to re-recruit my team, show my team I was going to do something different, and show my internal customers we were going to do something different," said one CFO.

Choosing what to do was most clearly shaped by conversations with CEOs and peer executives. The CFOs often used these conversations to create a quick list of potential early wins—which varied widely by opportunities available at the specific company. It could be a debt renegotiation, a change in the disclosure process, or a critical talent upgrade. It could also be the generation of tax savings, the repair of frayed relations with clients, the implementation of a quick shared services initiative, or establishing cost controls to bring a business back to profitability. It could even be a decisive recommendation or the sale of a business to stop losses.

When one CFO took the finance reins of a struggling division in his company, he quickly decided it could not be repaired to contribute to earnings. He built the case to dispose of the unit he was working with—and eventually oversaw its sale. For John Sideras, the CFO of Case Western University, the focus was on cost controls. Initially operating in an interim role, he learned what was important to the president and the board, and quickly executed a plan to return the university to a surplus during his first six months. He also turned his attention to repairing relations between the finance organization and the board.

Recruiting and renewing talent

Recruiting and renewing talent is one of the most important tasks, if not the most important one, a new CFO faces in the early days. The right talent is vital for any CFO's change agenda, and new recruits can often raise the bar on performance and reshape expectations. New CFOs had to quickly assess talent, recruit new "A" players to fill key gaps, and re-recruit the current team.

> "I'm always amazed with leaders who accept 'C' and 'C-minus' players."

Assessment often took the form of direct conversations and observations. The CFO at a global fashion 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 he didn't get strategic answers from the tax director, he knew he'd have to make a change. Within his first eight weeks, he had a new "A" player onboard for that job.

Gerry McDonald, CFO at Acxsys Corporation, said it was important to observe people in action before deciding on the quality of talent. "Sometimes it's the quiet ones who actually got things done." He likes to work with individuals to frame a set of desired accomplishments for the first few months—and then watch how they operate. He said that gives him a truer measure of their capabilities. A number of CFOs said they adhered to the old Reagan maxim with talent—trust but verify.

When they're looking for new talent, CFOs turn to executive recruiters or people with whom they have worked previously for candidates and referrals. The process of conversations, assessment , and even selective recruitment is also part of re-recruiting the existing staff and earning their allegiance. Several internal promotes had to deal with peers they had competed with for the CFO role. The most effective approach involved direct conversations with the person who was passed over about a week or two after the CFO announcement. The conversations opened by acknowledging that the person's aspirations were not met, followed by a direct request for a commitment to the new CFO, the team, and the agenda.

The one regret most CFOs we talked with had was that they did not move quickly enough on talent issues. As 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."

Choosing what not to do

Every new CFO inherits a mixed bag of talent and capabilities in finance. He or she has to quickly read whether the talent can deliver on early initiatives and match its potential with the capabilities needed to execute the CFO's agenda. This brings up the importance of choosing what not to do. Stopping or deferring the initiatives that have a low probability of success or that will dilute the deployment of talent is critical for focusing resources on what's most important.

John Sideras held off upgrading corporate reporting and data warehousing systems for the first year because his ERP systems were several releases behind the latest vendor offerings. By choosing to wait until the ERP system was suitably upgraded, he was able to focus his resources on initiatives that provided a more immediate payoff.

Communicating the agenda

Communicating the chosen agenda—as well as the initiatives not chosen—is a critical job for CFOs during the first 180 days and beyond. Many CFOs said framing effective communications both inside and outside of finance was critical—they knew they had to be good at it.

In most cases, new CFOs felt the need to upgrade communications to ensure clarity, simplicity, and accessibility. Maria Pope, CFO of Portland General Electric Company, said clarity of communication was essential for getting key improvements moving: "The more important the agenda item, the more important to communicate it clearly and often." For another CFO, achieving that clarity meant sometimes having to "simplify the language into plain English and focus on business value" so it was accessible to stakeholders.

Communications with key stakeholders tend to be direct and personal. But broader outreach is also important. One of the energy-sector CFOs attended brown-bag lunch meetings throughout the organization to communicate what finance was focused on. Another CFO established an internal email communication with the entire finance organization every six weeks. This kept everyone aware of important initiatives and priorities.

Establishing the longer-term vision

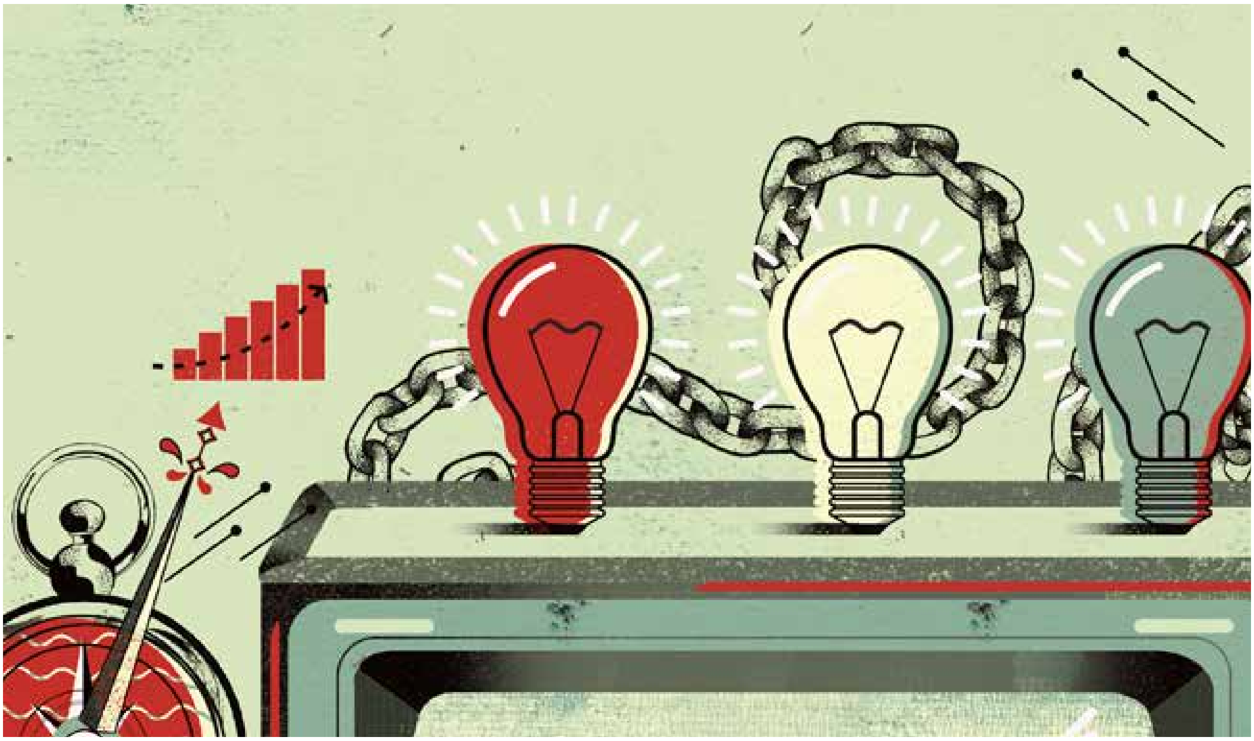
Most of the CFOs we talked to were focused on a multitude of pressing issues, repairing what typically needed to be repaired inside finance during their first year on the job. But some also established clear longer-term objectives with their CEOs. Joseph Ianniello of CBS Corporation said he had a list of major transformations he wanted to accomplish in finance—one each year, over the next four years.

Others arrived at a longer-term vision through unexpected processes. After the CFO at a global materials supplier took on his new job, his tax director emphasized the need for a long-term vision for finance and suggested benchmarking performance as a starting point. The CFO hired a consulting firm to undertake a benchmark. The study showed that the finance organization would not scale efficiently as the company sought to double its revenues. The CFO knew he would have to drive the transformation of the finance organization to hold down its costs as the company grew. The tax director's suggestion triggered a multiyear transformation effort.

By benchmarking and asking questions about how a finance organization can effectively scale to support growth or shrink through downsizing, CFOs can identify elements of the long-term vision for finance. For example, with looming changes in IFRS and carbon reporting, CFOs will need to initiate longer-term changes as they manage immediate challenges. One area of general concern to many CFOs is the large amount of corporate debt coming due in the next three years.

“Doing things in the ‘right order’ reduced risks in the transformation process. It also made it easier to communicate what was happening when, and to manage expectations for change.”

Making a difference



If the first 180 days are about getting to know the company, choosing what to do, and getting the right team in place, the next 12 months are about execution and ratcheting up the contribution of finance to the business. Making this difference requires deploying resources and capabilities effectively to achieve key initiatives. We found a few notable practices that proved helpful.

Aligning the best talent to your most important initiatives

All the CFOs noted the importance of talent in getting things done, but some took it a step further. They assigned their best people to their most important priorities.

When one CFO sought to transform finance, he asked one of the highest performers in the organization to take on the task. It took some convincing, but the choice not only improved the probability of success, it also communicated confidence in the CFO's commitment to change. If reassigning top talent is part of your plan, make sure they know what they should not be doing, in order to make room for their new assignment.

> "The transition from personal leading to leading through others is big."

Delegating with confidence

CFOs know they have to rely on their teams to execute, but more than a few CFOs said this was an area where they needed personal improvement. CFOs, like other leaders, are held responsible for everything that goes on in their organizations. They have to balance their time between doing things themselves and ensuring that other people get things done for them.

The CFO of a large global technology company had this counsel for those transitioning to CFO of a large company: "When you're at a smaller company, you're doing a lot of the work—managing 70 percent and doing 30 percent. At a company like mine, you're managing about 99 percent and really doing very little by yourself. The transition from personal leading to leading through others is big. I've often found people who are good delegators, but don't follow up. There's a delicate balance between delegating and maintaining quality control. Trust, but verify."

Adopting tried and true practices

The CFOs in this study like approaches that are tried and true. John Sideras noted he was trained in various GE management principles, including clearly defining deliverables and linking tactical initiatives to strategic objectives. He used these principles to frame an agenda and convert it into executable actions. In addition, he was deliberate in staging and sequencing projects. Doing things in the "right order" reduced risks in the transformation process. It also made it easier to communicate what was happening when and to manage expectations for change.

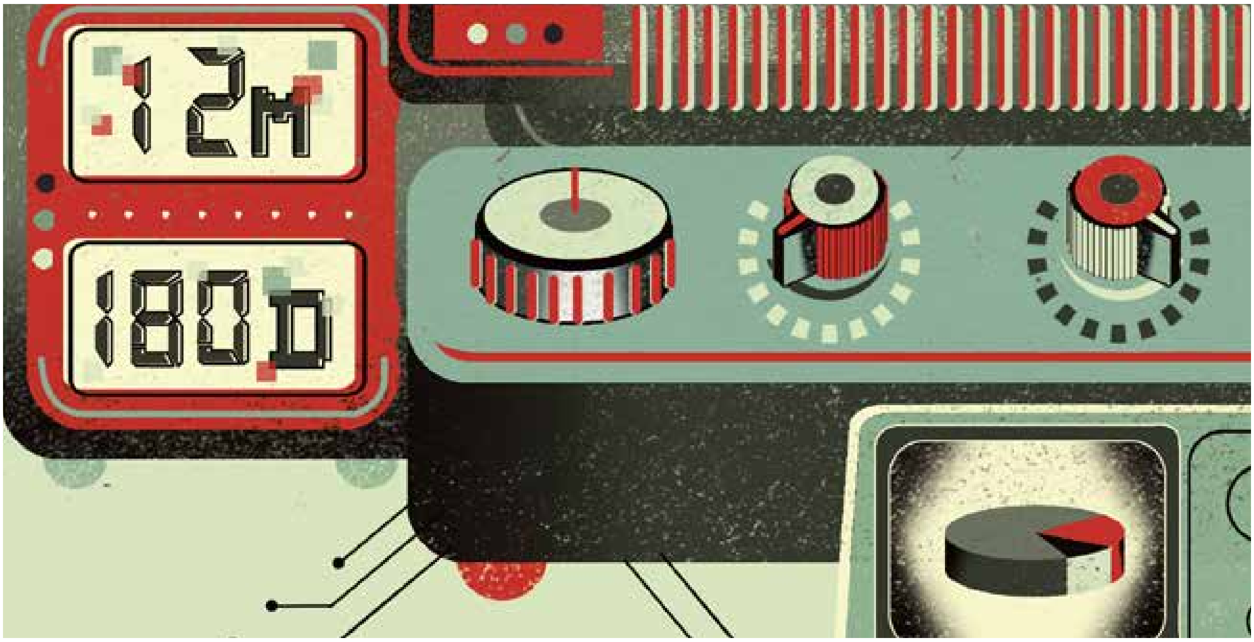
> "The better your processes are, the less you need to think about the non-strategic parts of the business."

Another CFO looked to his experience with lean manufacturing to help drive more efficient processes, both company-wide and in finance. "The better your processes are, the less you need to think about the non-strategic parts of the business. That way we can spend more time on acquisition strategy for growth and thinking about the business."

Increasing teaming, transparency, and accountability

CFOs focused on driving change tended to increase teaming and transparency within their organizations. One CFO made sure that his functional leaders met on at least a weekly basis in person. During the course of those sessions he was surprised how many things were going on that impacted other functional areas that area leaders were unaware of. Another CFO found there were a number of walls in her way—walls between finance and the business units, and walls between the center and the periphery. One of her goals was to tear down those walls and operate as one global finance team. To make this happen, she established a biweekly meeting of 14 key finance team members and stakeholders and gradually added more representation from the field. These meetings addressed progress over each two-week period in terms of people, efficiency, compliance, and control goals. This improved accountability across groups while serving to foster a shared understanding across the "walls" to support her priority initiatives.

Managing transitions in the triangle: Time, relationships, and talent



Across all three phases of their transitions, CFOs had to manage time, relationships, and talent. Many of those taking on their first CFO role found crushing new demands on their time, and the need to cultivate new types of relationships. They were also responsible for managing a broader portfolio of talent, which they had to trust to deliver.

> “If you’re not careful, you end up sleeping next to your Blackberry, getting messages 24 hours a day, and burning out.”

Time

CFOs’ mindsets and practices for managing time were varied and instructive. In contrast to conventions about the importance of the first 90 days, we found most CFOs initially operate with a six-month milestone to really get to know the company and its talent, and perhaps establish a preliminary win. As the CFO of a large global technology company noted, “When you’re moving into a well-run or stable company, you have more time to evaluate the organization.”

This first phase of work is followed by another six months where there’s a real opportunity to make a difference. This schedule, of course, doesn’t work with all companies. Some may be in a crisis that demands swift action by the new CFO.

People new to the CFO role say the job is extremely demanding on their personal time. One described the scope of the new job as "eye opening." As a CFO, you are now a business partner and advisor to the CEO and senior executives," he said. "You're involved in a broad range of financial activities, and you have to decide how you're going to allocate your time. That can be challenging. If you're not careful, you end up sleeping next to your Blackberry, getting messages 24 hours a day, and burning out."

To manage his time better, one CFO hired a strong administrative assistant and set a routine where he gets up early and clears out his emails, and then sets up a schedule. He uses regular staff meetings to address specific issues and align finance initiatives to specific clients or priorities. He also learned to delegate more.

Another CFO manages her time by ensuring there are no meetings on her calendar before 9 a.m. and that no meetings last more than an hour. No one is allowed to put an appointment on her calendar without her permission. She also sets aside two-hour blocks of time to walk the halls. This discipline gives her uninterrupted time to reflect on what is truly important, to connect with key clients, and to know the business better.

We asked the CFO interviewees how they spent their time across the four faces of the CFO. As expected, many felt they were primarily operators and stewards, and catalysts for change. Some were thrust into the catalyst role by the financial crisis of the last two years, tasked with cutting costs and downsizing both the finance organization and the company. In many cases, their first two years were consumed in transforming finance, and many wished they could be a more active strategist and partner to the CEO.

Relationships

CFOs have to navigate many relationships to succeed in a new role—and some of the most important turn out to be family relationships. Those CFOs who had to relocate often cited negotiations with family and relocation as two of the most stressful parts of their transition. Other CFOs had to commute to a different city during the week and could be at home only on weekends. This put considerable stress on spouses and strained other familial relationships, especially with teenagers.

Relationships with CEOs, peer executives, and direct reports were also critical, as were those with general counsel, auditors, and board members. Communication and personal connection were viewed as vital to sustaining the broad complement of relationships critical for success. Many CFOs said that being new on the job permits a number of introductory meetings, but relationships have to be tended over time to support the ongoing finance initiatives.

A third category of relationships has to do with CFOs at other companies. Despite available opportunities, the intense demands on their time often led CFOs to neglect external networking. Many wished they could invest more in meeting peers in other companies and learning from their experiences. Neglecting these kinds of relationships can be costly. Some of the CFOs got completely consumed by their roles, only to discover their contracts were not going to be renewed. Peer networks can be very helpful during an unexpected transition.

Talent

There is a fundamental trade-off between talent and time. Great talent not only makes you look good, it also helps you conserve your time. But many CFOs confront a talent paradox. They need "A" talent in a role, such as the controller, but currently have congenial "B" talent in the role. This forces a choice between bringing in a new person and trying to develop the "B" into an "A." Many CFOs made the regretful choice of the latter and found it took time away from other critical things they had to do. Getting "A" players in key roles is vital to conserve time.

Taking the reins

The CFO role is complex and demanding. Some new CFOs come into crisis situations, others to stable companies. Some are in the role for the first time, others have many prior CFO transitions under their belts. Clearly, there is no single formula for managing a CFO transition.

Our interviews highlight the importance of managing time, talent, and relationships across three overlapping phases—getting to know the company, choosing an agenda, and making a difference. That pattern was common across all the CFO interviewees.

We are grateful to the busy CFOs who participated in our study and hope their experiences and insights help others better manage their own transition journeys. Our related work frames critical questions and checklists of issues for consideration in the transition.

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