The McKinsey Quarterly

CORPORATE FINANCE

MARCH 2008

Starting up as CFO

There are a few critical tasks that all finance chiefs must tackle in their first hundred days.

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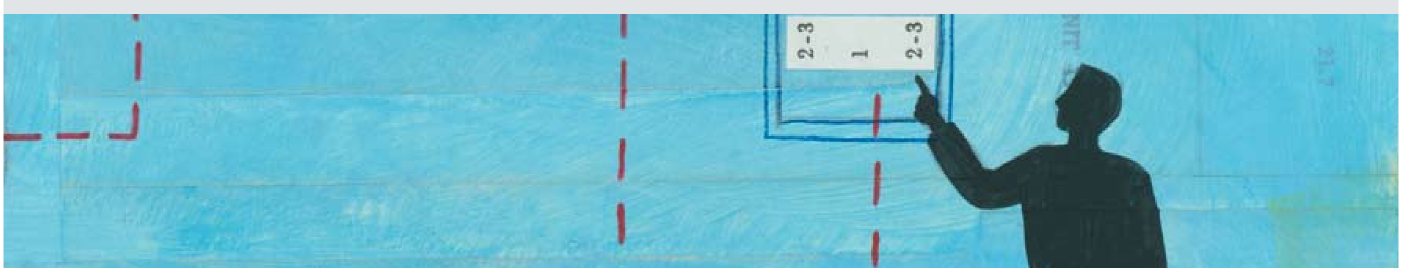
Article at a glance

In recent years, the CFO's role has become increasingly complex, with new responsibilities, such as direct accountability for corporate performance.

To help new CFOs better understand how to balance the multiple (and often competing) demands of their challenging role, we surveyed and interviewed current CFOs of many different tenures.

While no consensus emerged on what every new CFO should do, these executives shared valuable lessons that shed light on what it takes to succeed in the role—and identified activities that ought to make the short list of nearly all new CFOs.



In recent years, CFOs have assumed increasingly complex, strategic roles focused on driving the creation of value across the entire business. Growing shareholder expectations and activism, more intense M&A, mounting regulatory scrutiny over corporate conduct and compliance, and evolving expectations for the finance function have put CFOs in the middle of many corporate decisions—and made them more directly accountable for the performance of companies.

Not only is the job more complicated, but a lot of CFOs are new at it—turnover in 2006 for Fortune 500 companies was estimated at 13 percent.[1] Compounding the pressures, companies are also more likely to reach outside the organization to recruit new CFOs, who may therefore have to learn a new industry as well as a new role.

To show how it is changing—and how to work through the evolving expectations—we surveyed 164 CFOs of many different tenures[2] and interviewed 20 of them. From these sources, as well as our years of experience working with experienced CFOs, we have distilled lessons that shed light on what it takes to succeed. We emphasize the initial transition period: the first three to six months.

Early priorities

Newly appointed CFOs are invariably interested, often anxiously, in making their mark. Where they should focus varies from company to company. In some, enterprise-wide strategic and transformational initiatives (such as value-based management, corporate-center strategy, or portfolio optimization) require considerable CFO involvement. In others, day-to-day business needs can be more demanding and time sensitive—especially in the Sarbanes–Oxley environment—creating significant distractions unless they are carefully managed. When CFOs inherit an organization under stress, they may have no choice but to lead a turnaround, which requires large amounts of time to cut costs and reassure investors.

Yet some activities should make almost every CFO's short list of priorities. Getting them defined in a company-specific way is a critical step in balancing efforts to achieve technical excellence in the finance function with strategic initiatives to create value.

Conduct a value creation audit

The most critical activity during a CFO's first hundred days, according to more than 55 percent of our survey respondents, is understanding what drives their company's business. These drivers include the way a company makes money, its margin advantage, its returns on invested capital (ROIC), and the reasons for them. At the same time, the CFO must also consider potential ways to improve these drivers, such as sources of growth, operational improvements, and changes in the business model, as well as and how much the company might gain from all of them. To develop that understanding, several CFOs we interviewed conducted a strategy and value audit soon after assuming the position. They evaluated their companies from an investor's perspective to understand how the capital markets would value the relative impact of revenue versus higher margins or capital efficiency and assessed whether efforts to adjust prices, cut costs, and the like would create value, and if so how much.

Although this kind of effort would clearly be a priority for external hires, it can also be useful for internal ones. As a CFO promoted internally at one high-tech company explained, "When I was the CFO of a business unit, I never worried about corporate taxation. I never thought about portfolio-level risk exposure in terms of products and geographies. When I became corporate CFO, I had to learn about business drivers that are less important to individual business unit performance."

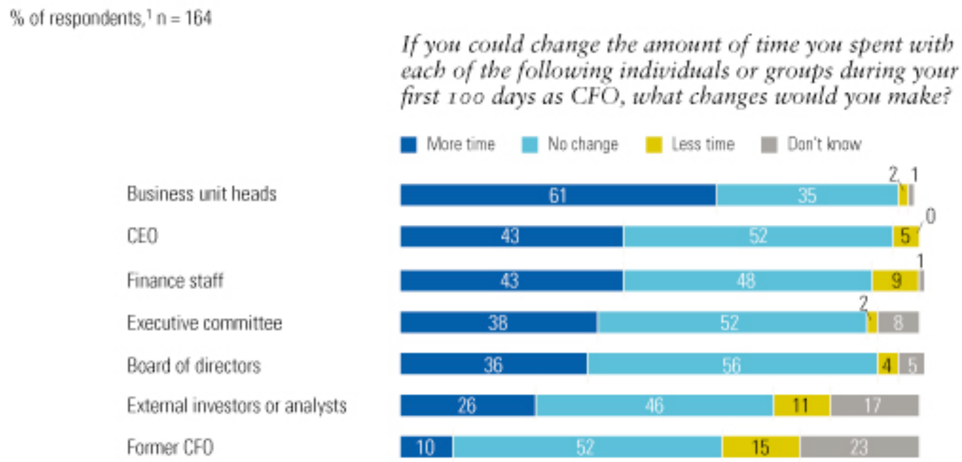
The choice of information sources for getting up to speed on business drivers can vary. As CFOs conducted their value audit, they typically started by mastering existing information, usually by meeting with business unit heads, who not only shared the specifics of product lines or markets but are also important because they use the finance function's services. Indeed, a majority of CFOs in our survey, and particularly those in private companies, wished that they had spent even more time with this group (Exhibit 1). Such meetings allow CFOs to start building relationships with these key stakeholders of the finance function and to understand their needs. Other CFOs look for external perspectives on their companies and on the marketplace by talking to customers, investors, or professional service providers. The CFO at one pharma company reported spending his first month on the job "riding around with a sales rep and meeting up with our key customers. It's amazing how much I actually learned from these discussions. This was information that no one inside the company could have told me."

Lead the leaders

Experienced CFOs not only understand and try to drive the CEO's agenda, but also know they must help to shape it. CFOs often begin aligning themselves with the CEO and board members well before taking office. During the recruiting process, most CFOs we interviewed received very explicit guidance from them about the issues they considered important, as well as where the CFO would have to assume a leadership role. Similarly, nearly four-fifths of the CFOs in our survey reported that the CEO explained what was expected from them—particularly that they serve as active members of the senior-management team, contribute to the company's performance, and make the finance organization efficient (Exhibit 2). When one new CFO asked the CEO what he expected at the one-year mark, the response was, "When you're able to finish my sentences, you'll know you're on the right track."

EXHIBIT 1

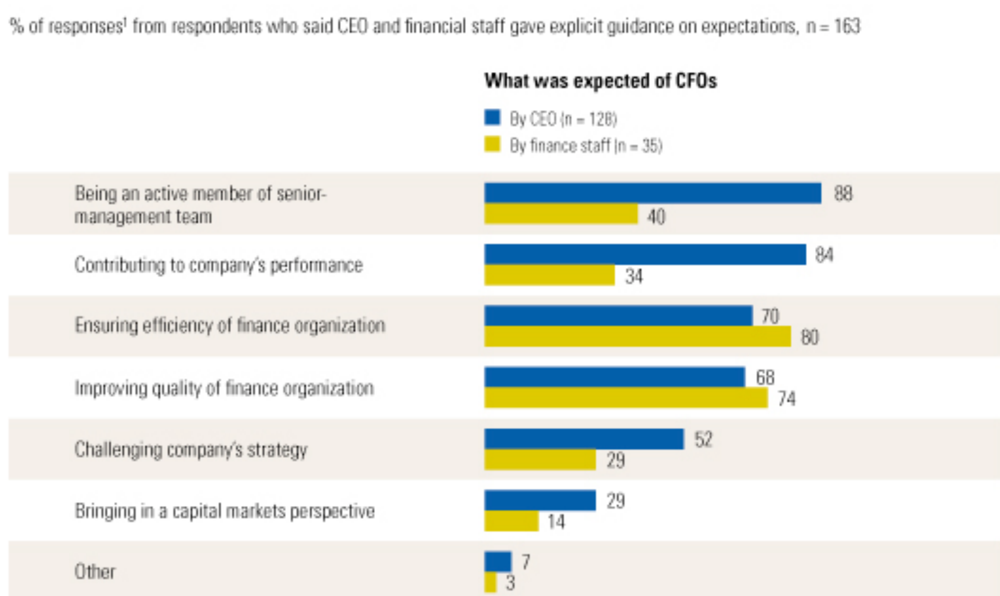
More time with the right people



[1]Figures may not sum to 100%, because of rounding.

EXHIBIT 2

Diverse expectations



[1]Respondents could select more than 1 answer.

Building that kind of alignment is a challenge for CFOs, who must have a certain ultimate independence as the voice of the shareholder. That means they must immediately begin to shape the CEO's agenda around their own focus on value creation. Among the CFOs we interviewed, those who had conducted a value audit could immediately pitch their insights to the CEO and the board—thus gaining credibility and starting to shape the dialogue. In some cases, facts that surfaced during the process enabled CFOs to challenge business unit orthodoxies. What's more, the CFO is in a unique position to put numbers against a company's strategic options in a way that lends a sharp edge to decision making. The CFO at a high-tech company, for example, created a plan that identified several key issues for the long-term health of the business, including how large enterprises could use its product more efficiently. This CFO then prodded sales and service to develop a new strategy and team to drive the product's adoption.

To play these roles, a CFO must establish trust with the board and the CEO, avoiding any appearance of conflict with them while challenging their decisions and the company's direction if necessary. Maintaining the right balance is an art, not a science. As the CFO at a leading software company told us, "It's important to be always aligned with the CEO and also to be able to factually call the balls and strikes as you see them. When you cannot balance the two, you need to find a new role."

Strengthen the core

To gain the time for agenda-shaping priorities, CFOs must have a well-functioning finance function behind them; otherwise, they won't have the credibility and hard data to make the difficult arguments. Many new CFOs find that disparate IT systems, highly manual processes, an unskilled finance staff, or unwieldy organizational structures hamper their ability to do anything beyond closing the quarter on time. In order to strengthen the core team, during the first hundred days about three-quarters of the new CFOs we surveyed initiated (or developed a plan to initiate) fundamental changes in the function's core activities (Exhibit 3).

EXHIBIT 3

Taking action

[1] Respondents (n = 164) could select more than 1 answer; those who answered "none of these" are not shown.

Several of our CFOs launched a rigorous look at the finance organization and operations they had just taken over, and many experienced CFOs said they wished they had done so. In these reviews, the CFOs assessed the reporting structure, evaluated the fit and capabilities of the finance executives they had inherited, validated the finance organization's cost benchmarks, and identified any gaps in the effectiveness or efficiency of key systems, processes, and reports. The results of such a review can help CFOs gauge how much energy they will need to invest in the finance organization during their initial 6 to 12 months in office—and to fix any problems they find.

Transitions offer a rare opportunity: the organization is usually open to change. More than half of our respondents made at least moderate alterations in the core finance team early in their tenure. As one CFO of a global software company put it, "If there is a burning platform, then you need to find it and tackle it. If you know you will need to make people changes, make them as fast as you can. Waiting only gets you into more trouble."

Manage performance actively

CFOs can play a critical role in enhancing the performance dialogue of the corporate center, the business units, and corporate functions. They have a number of tools at their disposal, including dashboards, performance targets, enhanced planning processes, the corporate review calendar, and even their own relationships with the leaders of business units and functions.

Among the CFOs we interviewed, some use these tools, as well as facts and insights derived from the CFO's unique access to information about the business, to challenge other executives. A number of interviewees take a different approach, however, exploiting what they call the "rhythm of the business" by using the corporate-planning calendar to shape the performance dialogue through discussions, their own agendas, and metrics. Still other CFOs, we have observed, exert influence through their personal credibility at performance reviews.

While no consensus emerged from our discussions, the more experienced CFOs stressed the importance of learning about a company's current performance dialogues early on, understanding where its performance must be improved, and developing a long-term strategy to influence efforts to do so. Such a strategy might use the CFO's ability to engage with other senior executives, as well as changed systems and processes that could spur performance and create accountability.

First steps

Given the magnitude of what CFOs may be required to do, it is no surprise that the first 100 to 200 days can be taxing. Yet those who have passed through this transition suggest several useful tactics. Some would be applicable to any major corporate leadership role but are nevertheless highly relevant for new CFOs—in particular, those who come from functional roles.

Get a mentor

Although a majority of the CFOs we interviewed said that their early days on the job were satisfactory, the transition wasn't without specific challenges. A common complaint we hear is about the lack of mentors—an issue that also came up in our recent survey results, which showed that 32 percent of the responding CFOs didn't have one. Forty-six percent of the respondents said that the CEO had mentored them, but the relationship appeared to be quite different from the traditional mentorship model, because many CFOs felt uncomfortable telling the boss everything about the challenges they faced. As one CFO put it during an interview, "being a CFO is probably one of the loneliest jobs out there." Many of the CFOs we spoke with mentioned the value of having one or two mentors outside the company to serve as a sounding board. We also know CFOs who have joined high-value roundtables and other such forums to build networks and share ideas.

Listen first . . . then act

Given the declining average tenure in office of corporate leaders, and the high turnover among CFOs in particular, finance executives often feel pressure to make their mark sooner rather than later. This pressure creates a potentially unhealthy bias toward acting with incomplete—or, worse, inaccurate—information. While we believe strongly that CFOs should be aggressive and action oriented, they must use their energy and enthusiasm effectively. As one CFO reflected in hindsight, "I would have spent even more time listening and less time doing. People do anticipate change from a new CFO, but they also respect you more if you take the time to listen and learn and get it right when you act."

Make a few themes your priority—consistently

Supplement your day-to-day activities with no more than three to four major change initiatives and focus on them consistently. To make change happen, you will have to repeat your message over and over—internally, to the finance staff, and externally, to other stakeholders. Communicate your changes by stressing broad themes that, over time, could encompass newly identified issues and actions. One element of your agenda, for example, might be the broad theme of improving the efficiency of financial operations rather than just the narrow one of offshoring.

Invest time up front to gain credibility

Gaining credibility early on is a common challenge—particularly, according to our survey, for a CFO hired from outside a company. In some cases, it's sufficient to invest enough time to know the numbers cold, as well as the company's products, markets, and plans. In other cases, gaining credibility may force you to adjust your mind-set fundamentally.

The CFOs we interviewed told us that it's hard to win support and respect from other corporate officers without making a conscious effort to think like a CFO. Clearly, one with the mentality of a lead controller, focused on compliance and control, isn't likely to make the kind of risky but thoughtful decisions needed to help a company grow. Challenging a business plan and a strategy isn't always about reducing investments and squeezing incremental margins. The CFO has an opportunity to apply a finance lens to management's approach and to ensure that a company thoroughly examines all possible ways of accelerating and maximizing the capture of value.

As an increasing number of executives become new CFOs, their ability to gain an understanding of where value is created and to develop a strategy for influencing both executives and ongoing performance management will shape their future legacies. While day-to-day operations can quickly absorb the time of any new CFO, continued focus on these issues and the underlying quality of the finance operation defines world class CFOs. Q

About the Authors

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Notes

[1] Financial Officers' Turnover, 2007 Study, Russell Reynolds Associates.

[2] We surveyed 164 current or former CFOs across industries, geographies, revenue categories, and ownership structures. For more of our conclusions, see "The CFO's first hundred days: A McKinsey Global Survey," mckinseyquarterly.com, December 2007.

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