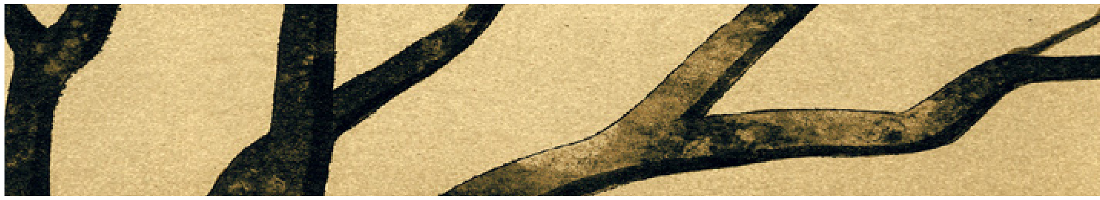
McKinsey on **Finance**

Perspectives on Corporate Finance and Strategy

Number 21,
Autumn 2006

McKinsey&Company



When should **CFOs** take the **helm?**

CFOs can bring much-needed skills to the CEO role, but the career path isn't always a direct one.

Richard Dobbs, Doina Harris, and Anders Rasmussen

Do chief financial officers make desirable CEOs? At a time when finance plays an ever-larger role in corporate strategy and many CFOs serve not only as key advisers to the CEO but also as the point person for communicating with financial markets, the CFO's portfolio of skills would seem to serve well as a platform for that final leap to the boss's suite.

Or does it? The ability of the chief financial officer to win promotion to the CEO's job is mixed. About a fifth of all CEOs in the United Kingdom and the United States once served as CFO. The number drops to between 5 and 10 percent in European markets (for example, France and Germany) and in Asia, perhaps because many companies in those regions still have CFOs who are little more than controllers. However, recent high-profile examples—including Werner Wenning at Bayer, Yoichi Wada at Square Enix, and Charles Chao at Sina—show that boards in continental Europe and Asia are willing to turn to the CFO as the next chief executive, even in some very large multinational companies.

To explore the CFO's appeal for a company's top position, we conducted interviews with investors, board members, external advisers, CFOs, and CEOs.[1] In our informal poll, for every respondent who believed strongly that CFOs make good CEOs, another vehemently opposed the idea. Respondents assigned high value to several classic CFO characteristics: the ability to communicate with shareholders, to focus on the creation of shareholder value, and to institute performance measures and controls. On the other side of the balance sheet were criticisms that CFOs are often without leadership skills, are weak at motivating and inspiring teams, and have a propensity to retain rather than delegate control.

[1] These 50 interviews and the analysis came from a joint research project undertaken by McKinsey with Simon Bailey and Susan Bloch of the executive search firm Whitehead Mann.

Our panelists also offered advice on how CFOs who want to move up can change perceptions of their abilities and make the transition to the broader skill set that CEOs typically need.

Under certain circumstances

Our anecdotal research suggests that CFOs can rise to the top job and be perceived as successful in it under either of two general circumstances. In both cases, the specific needs of a company match the demonstrated skills of an individual.

When financial capabilities serve a company's present needs

Not surprisingly, there is a strong perception that CFOs perform well as CEOs when companies are going through situations that require financial discipline and focus, such as attempting a turnaround or implementing mergers, acquisitions, or divestitures. Indeed, about 70 percent of UK CFOs who became CEOs did so as their companies were in the midst of such situations (Exhibit 1). Moreover, the skills that the CFO brings to the table are viewed as particularly essential in divestitures and turnaround programs (whether the focus is on cost cutting or on the sale of noncore assets). In the words of one private equity executive, a CEO with experience in the top finance slot "understands key performance indicators and how much they can improve the performance of an acquired business."

These same critical skills make CFOs effective as leaders of large multinational or multibusiness corporations, where the numbers become a common language that links many businesses together. Similarly, at asset-heavy companies in low-growth, low-margin businesses, the expertise of former CFOs allows them to focus on optimizing returns on capital and on controlling costs.

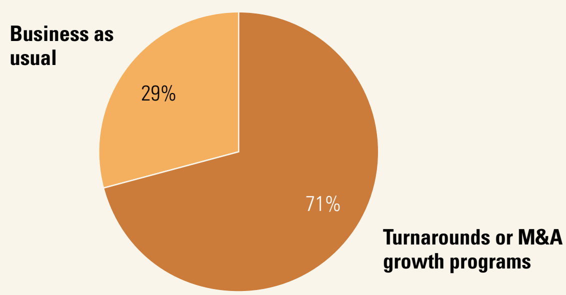
On a related note, our panel perceives the CFO as a good candidate to step up if a CEO resigns unexpectedly or a company

Exhibit 1

A natural fit

CFOs are perceived as good candidates for the CEO role when financial issues are core to strategy.

UK CFOs promoted to CEO during the following situations[1]



[1] Jan 2000 to Feb 2006; for the 45 companies in the FTSE 250 index of UK companies whose CEOs have prior CFO experience.

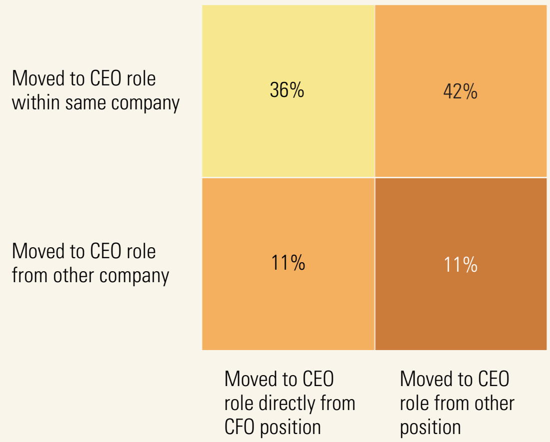
Source: BoardEx; Dealogic; Factiva; FTSE; Hoover's; McKinsey analysis

Exhibit 2

Not always a direct path

Most UK CEOs with a CFO background were promoted within the same company.

UK CEOs with prior experience as CFOs[1]



[1] Jan 2000 to Feb 2006; for the 45 companies in the FTSE 250 Index of UK companies whose CEOs have prior CFO experience.
Source: BoardEx; Dealogic; Factiva; FTSE; Hoover's; McKinsey analysis

lacks clear succession plans. As one respondent explained, "Former CFOs are a safe pair of hands with high integrity" and "an existing relationship with the capital markets." Others explained that appointing the CFO as CEO in these situations was less likely to upset the division heads than would promoting one of their number above the rest. This choice therefore increases the likelihood of retaining all the division heads.

When CFOs have the broader experience expected of a CEO

Many interviewees argued that to become a successful CEO, a CFO needs hands-on general-management experience. Too many, said one, are perceived as "much too narrow ever to become CEOs"—a perception that CFOs must continually fight. A number of interviewees counseled CFOs to exit the finance department at some point in their career and build expertise in a different function.

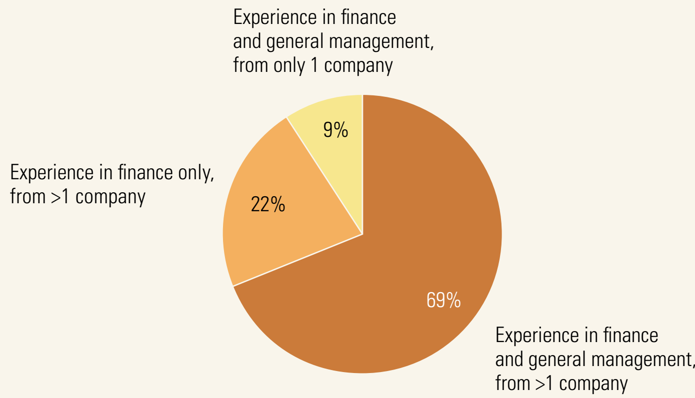
Indeed, the experience of UK CFOs-turned-CEOs seems to bear out this point—more than two-thirds had at some point worked outside the finance function. This breadth of experience is a crucial part of what many respondents described as a necessary skill: the ability to focus on the entire organization, including the task of motivating employees, rather than simply mastering the numbers. Most of the UK CEOs with a CFO background who moved to the top job from 2000 to 2006 did so from within the same company—but fewer than half moved directly from the CFO position (Exhibit 2). A CFO is even less likely to be promoted directly to the CEO role at another company.

Exhibit 3

Broad experience preferred

Experience in more than one role and more than one company broadens a CFO's appeal as a CEO candidate.

UK CEOs with prior experience as CFOs[1]



[1] Jan 2000 to Feb 2006; for the 45 companies in the FTSE 250 index of UK companies whose CEOs have prior CFO experience.

Source: BoardEx; Dealogic; Factiva; FTSE; Hoover's; McKinsey analysis

Our respondents also felt that CFOs could broaden their appeal by working under more than one CEO and in more than one company. Upward of 90 percent of UK CFOs who became CEOs had worked at more than one (Exhibit 3).

Making the transition

When CFOs do win the promotion, the transition to CEO isn't easy (see sidebar, "Making the transition to CEO: An interview with Carrefour's José Luis Durán"). Former heads of finance not only must deal with the usual challenges facing new CEOs but also, in many cases, drastically change their approach to business. A few key critical issues emerge from the interviews with stakeholders who have watched CFOs making the transition to CEO and with former CFOs themselves:

- *Adopting a CEO mind-set.* CFOs-turned-CEOs need to forget their finance role as quickly as possible and take a much more holistic view of the business. In particular, they should focus on the entire organization—not only on the numbers—by spending time in operations and with customers and by acting as the company's external face to broader stakeholder groups beyond the financial community.

- *Delegating responsibility.* Our interviews revealed that CFOs-turned-CEOs must avoid being what one interviewee termed a "controlosaurus." They must resist the familiar habits of their previous roles in finance and control and give their new teams enough room to operate without interference. It is particularly important to give new CFOs some latitude to lead the finance function rather than push them down into a limited role as controller.

- *Building the right team.* Former CFOs need to recognize their limitations and

Making the transition to CEO: An interview with Carrefour's José Luis Durán

Peter N. Child and Erik van Ockenburg

One CEO who was promoted directly from his CFO position is José Luis Durán, who served for three years as Carrefour's chief financial officer before being tapped for the top slot in 2005. He discussed his transition between these roles in an interview earlier this year with McKinsey's Peter Child and Erik van Ockenburg. What follows is an excerpt from that interview.

McKinsey on Finance: *In your experience, what's the hardest part of the transition from CFO to CEO?*

José Luis Durán: The hardest part is defining what is really important for the CEO to do and what should be delegated to others. We all think we know how to delegate, yet I find I delegate much more as CEO than I did as CFO. In those first days and weeks, when I was trying to work the same way I had as CFO, I quickly realized it was just impossible.

As CEO one has to be conscious that normally there's somebody who does the detailed and technical work better than you. At Carrefour that includes everything around product ranges, loyalty programs, supply chains, IT systems, and even the financial structure. I have to be confident that the people around me know how to do all this better than I do. New CEOs probably have to learn this on their own, but it's crucial to learn it very quickly; otherwise it's easy to get bogged down in the minutiae. One has to learn to manage the company on a cross-border basis with the main key indicators, looking more at trends than at the individual details behind them.

MoF: *You said new CEOs have to learn the new role quickly. In your experience, what should they focus on during the first 100 days?*

José Luis Durán: Communication is key, both internally and externally, to make it very clear what are the priorities and the key indicators you intend to focus on. In my own case, because retail is to a certain extent a pure people business, communication was even more important. I needed to show that I was a regular guy who could be very customer focused, and I needed to define our priorities—which in our case are only two: growth and customers. And in our organization of 430,000 people, these messages had to be accelerated, quickly spanning the organization from top to bottom.

A second main issue is to simplify the organization in terms of people and decision-making processes. Take time to think, to be close to your people, to be on the shop floor, to visit units in different countries, and to give advice. And if you want to have the time to

(continued on next page)

José Luis Durán

Career highlights

- Carrefour (1994–present)
  – Group managing director, chairman of board (2005–present)
  – CFO, managing director of organization and systems, member of executive committee (2001–04)
  – CFO, Spain (1997–2000)
  – Management auditor, southern Europe and then Americas (1994–97)

address all these issues, you must delegate to the people around you. If you don't feel that the right person is around you, it's better to change the person rather than toughing it out or doing it yourself. At the same time, at the CEO level, one has to be a little more patient, a little less emotional, than one might have been as CFO.

MoF: *What keeps you awake at night now, compared with what kept you awake as CFO?*

José Luis Durán: I think that the priorities change from technical challenges to more people-oriented ones. So a CFO might lie awake worrying about very short-term issues, such as next month's P&L, the next road show, or a rough set of sales figures. In contrast, a CEO lies awake worrying about people—about a team in one of the main markets that isn't motivated; about a country manager who doesn't have what it takes to deal with upcoming challenges; about people who aren't communicating. These things keep me awake much more than the short-term issues.

In our case, we made a certain number of changes which we were, frankly, a little worried about making. For example, we had pretty clear ideas about what we needed to do in terms of portfolio rationalization and the tools we have to give back to the shop floor. But whenever an issue is people related, you are always less sure; it's always more sensitive, and you always have to take into account other consequences a change can have, both internally and externally. Of course, now that it's clear that those changes have worked, it's easy to say we should have implemented them earlier, but in the end we've done quite well.

MoF: *Given your experiences as CEO, how would you suggest today's CFOs should approach their role differently?*

José Luis Durán: My advice for a CFO today is to expand your knowledge beyond what might be included in your role as a technical CFO and to expand your responsibility within the company. What I look for is an operating CFO who's interested in the business, who can discuss different procedures within the company or within the back office but who also knows how the front office works. Someone who isn't interested in the main activity of the business doesn't create the value that a CFO should.

You also have to be open to the entire business. When you think about finance and new accounting rules, of course, you have to be the strictest person in your organization. You have to respect the rules—to be, to a certain extent, the lawyer of internal control. But at the same time, you have to be as open minded as possible, to interest yourself in the main activity and the main operations of the business. And if there's any opportunity to get involved in mergers and acquisitions or in financial communications or even in the supply chain, take it! Take it and try to play the game.

As a corollary, my advice to any CEO who has a purely technical CFO would be, first, to give your CFO the opportunity to be much more active in the business—to understand inventory control and the supply chain from supplier to shop floor—in order to better understand the business. If that doesn't work, then change CFOs as quickly as possible.

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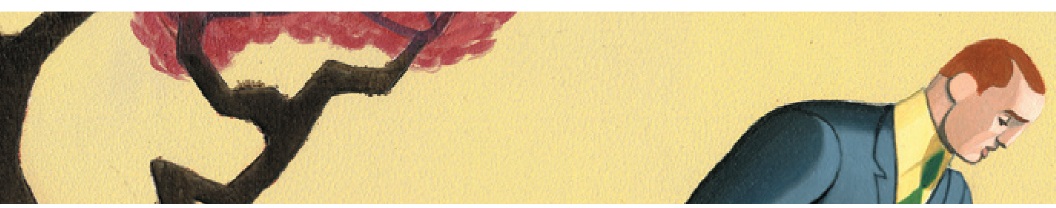
the need to build a complementary team. In particular, that team must have strong marketing capabilities, operations, and sales—including people with the right combination of business and interpersonal skills to mentor the CEO in those areas.

CFOs promoted to the top job can bring a unique set of skills. Those who strengthen their management capabilities early on are more likely to be perceived as strong candidates—and will be better positioned for success once they get the nod. And for those who don't end up in the CEO's suite, our interviews suggest that the steady focus many CFOs have on shareholder value recommends them to become effective board chairs. MoF



The authors would like to thank Simon Bailey and Susan Bloch for their contributions to this article.

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