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Why Your CFO Should Be Better Than You

By Timothy R. Chrisman

One of the wiser things that have been said by any number of successful leaders is this: "Hire people that are smarter than you. They will never make you look bad." Unfortunately, senior leaders often assume a management team from a previous incumbent, only to find – in the worst of circumstances – that key members of that team are a bad fit. And, there can be no more critical fit than the CFO.

Imagine being the new head of a financial services unit of a Fortune 500 company. Imagine sitting in front of the CEO for the second time in as many months to explain why your financials just don't make sense. Now imagine the cold shock racing up your spine as you realize you have more relevant and accurate data in your head than your CFO does in the pile of papers spilling from his attaché case.

Unfortunately, this is a true story.

The only saving grace for the leader of this organization was that he had not hired the (soon-there-after dismissed) CFO.

But what if he had? More importantly, what if you had? What does it really take to be an effective, value-adding Chief Financial Officer of a corporation?

The CFO is a unique breed of animal. It needs a rock-solid acumen for numbers and the mental agility to evaluate them from a variety of different angles. But a CFO needs to be able to step from behind the spreadsheet and out onto the sales floor to see where the numbers really come from, and what makes them flow. In the post-Enron and Sarbanes-Oxley era, the CFO must also completely avoid mistakes and be highly sensitive to the impressions of finicky investors and eagle-eyed regulators.

The next order of frustration down from a CFO who knows less than the CEO is the CFO who knows the numbers cold, but has zero idea what they mean for marketing, operations, distribution or any of the other myriad of activities in an organization.

That truly is the key to finding excellence in a CFO. No longer is being an Excel Wizard with one finger on the pulse of the stock market and another sensing the winds of economic change the job description. Those are just qualifications as basic as an undergraduate degree. A CFO that really adds value to the organization must have an understanding of the organization that is almost as global as is the CEO's.

But that is a definition that is as unique as is each business – and as is each business at a given moment in time.

As businesses grow from one model to another, or take on new complexities, they may outgrow a CFO or develop new demands that exceed those of the incumbent. The tough part comes when a CEO has to evaluate whether a faithful and effective numbers guy no longer fits, no matter how much he wants to, the direction and operation of the firm.

Recently, the new CEO of a community financial institution was doing a “road show” for a well-healed group of potential investors. This institution was taking some new strategic roads and was seeking a platform from which to operate. Logically, this CEO brought along the firm’s long-time CFO, who knew what made the place tick.

Much to everyone’s chagrin, the CEO quickly found that while the old hand knew what made the business tick, he had no concept of what it would take to make the new model organization a success. Unfortunately, this became evident in a room full of investors watching and awaiting the answer to a question. When the CFO asserted it was not his job to know how the whole organization functioned, he was quickly shown the door so a more forward-looking numbers person could be brought in.

In the 1980s, experts in the field debated enthusiastically as to whether companies needed CFOs who were MBAs or CPAs. The answer is, really, both – but not in the hanging on the wall sense. An effective corporate CFO must have the numbers knowledge that comes with decades in accounting but that must be coupled with true knowledge of the underpinnings of the business. He (or she) must know what numbers mean to the business and its environment. He must understand what they mean to the marketplace – including customers, competitors and vendors. And a CFO must understand the financial agility of the organization, and what it needs to accomplish strategic goals.

In short, a CFO should be able to morph into a CEO, either for simple understanding, a single decision or, possibly, as a temporary (or even permanent) replacement.

When looking for a good CFO for an organization, CEOs should remember a new take on that age-old advice: hire someone smarter, and as well versed in the business, as you.

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