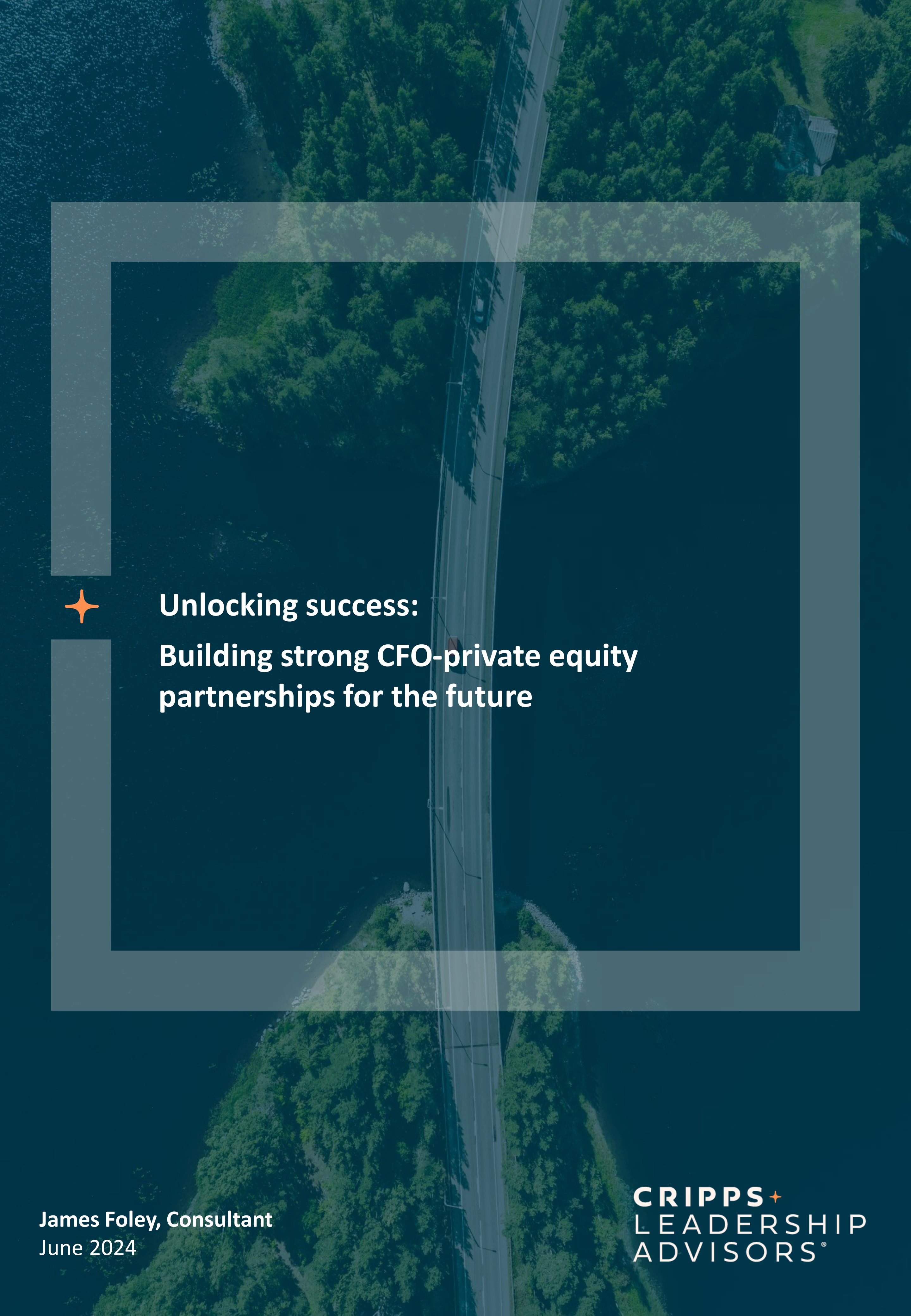

Unlocking success:

Building strong CFO-private equity partnerships for the future

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Bridging the gap

There is often tension between private equity sponsors, the CFOs and the CEOs of their portfolio companies. But with a strategic approach, all parties can build strong relationships that work for years to come.

These are unprecedented times in the private equity space. COVID and market headwinds have meant private equity (PE) firms had to hold on to their investments longer than they would have liked. In a recent report by PwC, it’s estimated that there are more than 250 exits[1] waiting to happen in Europe alone.

As the economy begins to see some positive movement, firms are beginning to consider exits again making the market for the right CFO increasingly competitive. In this paper, we’ll examine why CFOs have struggled in the last two years - and lay out a plan for success in the future.

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CFOs are now expected to go beyond their traditional responsibilities, and take on a more commercial, operational and strategic role. As requirements continue to develop, there needs to be greater transparency on the needs of a role and an agreement from boards, stakeholders and CFOs, of what success looks like.

James Foley | Consultant

[1] https://www.strategyand.pwc.com/de/en/functions/deals-strategy/uptake-in-private-equity-exits-for-2024.html

Understanding the gap between CFOs and private equity firms

The relationship between CFOs and the financial sponsor, particularly at the c-suite and board-level, can often feel strained for a number of reasons, the most common issue being multiple conflicting agendas.

1. The PE firm and the CEO often focus on delivering operational capability that drive investor returns.
2. In turn, the PE firm and the CFO want to ensure that investor returns happen as a result of the an operationally efficient business.
3. To contrast the first two agendas, the CEO and/or CFO are then focused on managing any conflict between operational delivery, investor returns and financial regulations and compliance.

All of this combined leads to tension, mistrust and relationship breakdowns. The PE firm crave data and need a direct line to the CFO and may well speak to them more than the CEO which, if not clearly defined from the outset, can create more issues.

Unrealistic or loosely defined CFO job descriptions

With markets and technology changing at such a pace, firms want a candidate who has it all: prior PE experience, multiple exit experience, ability to take on additional responsibilities, and skillsets beyond spreadsheets and financial models. These extra requirements (whether skills or experience-based) are not always communicated as effectively as they could be, however, it is an easy solve. All parts of a role need to be clearly and concisely shared both on paper and verbally so that all parties feel equipped to ensure the right person comes on board, and so that the appointed professional knows what the situation is and what's expected.

Expectations

As mentioned above, the modern CFO is expected to possess a diverse skill set that goes beyond traditional finance and accounting expertise. They must be strategic thinkers, commercial business partners, effective communicators, decision support specialists and adept at navigating complex business environments to drive sustainable growth and value creation for their organisations. What is feasible to expect from a candidate versus what a work environment can actually provide, needs to be taken into account and measures put in where needed.

Clear role separation across company leadership

A lack of understanding and clear expectations, particularly from non-finance professionals, can create diverging ideas about what a CFO should do. Ten years ago, being a CFO was about reporting the numbers, but now the role is deeply integrated into the wider company and its decision making. Firms have often created investment managers, corporate developers and corporate financiers, just to name a few, who work with the CFO. All of these roles must be clearly defined. The CFO often knows more about what's going on in every corner of the firm than anyone else, but what is their expected reach in decision making?

Selecting the right CFO for future success

When interviewing for a CFO, financial sponsors should use this time to lay the foundations for the role itself and the working relationships. In our experience, we believe that there are two components that can ensure success for both parties.

Capabilities – examination and assessment

Firms may feel that if they hire a CFO with prior PE experience and multiple exits on their CV, they've done everything they can to appoint the right person. However, while having steered several companies through exits is a significant strength, it's not the only skill to look for. Not forgetting, that building robust financial systems and controls are just as important as experience in delivering an exit in its own right.

CFOs play a pivotal role in a company's success; they're an integral part of the senior leadership team (SLT) that steer the company. Success depends on the cohesion of that SLT - the CFO cannot be an isolated figure and needs to manage the relationship with the financial sponsors and their colleagues very carefully to ensure transparency. There will be instances where the CFO is asked to take on new roles or responsibilities where they may not have as much experience in or which have not been their primary focus. How they deal with this change could dictate the trajectory of the business.

What we've observed over the years is that sponsors are more likely to choose the best candidate for the role when they use behavioural and cognitive assessments during the selection process.

Assessments can help identify personality traits, strengths and weaknesses that you would not typically uncover in a standard interview. They're an unbiased and clear indicator of a person's capabilities and how they approach situations and build relationships. As part of the assessments that our advisory team use, we include a comprehensive debrief of the results with both the candidate and the company, giving a more well-rounded interpretation of the findings and an opportunity for both parties to ask questions and understand more.

Alongside a comprehensive onboarding and integration programme, ensure that your chosen candidate is equipped for your unique requirements. The candidate should have the opportunity to understand the environment and the role that they could be coming into, at a more in-depth level, and assessments can help in this area.

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Assessments provide an unbiased deep dive into someone's capabilities that goes far beyond the interview.

James Foley| Consultant

Managing expectations

Prior to the start date, we advise firms to review five key areas and share these with the appointed candidate to help manage expectations. This also gives them the opportunity to discuss any ideas or concerns and for both parties to create a plan together.

Five areas to consider:

Value creation
What does success look like for the CFO and the company?

Culture
How does the private equity firm interact at the portfolio company level? What does the Sponsor expect from the CFO? What can the CFO expect from the Sponsor?

Goals
Agree short, mid and long-term expectations. This can be a flexible, iterative process due to ever-changing world events, economy and business needs, but a regular assessment is valuable.

Role
What does the CFO role cover, and what does it not? Be transparent and realistic on what is achievable. This is also an opportunity for the candidate to say what they require from the business to deliver against these objectives.

Skills
Never underestimate the scope and complexity of the CFO role. Do they have the skills to go beyond the core financial management and FP&A/decision support? If not, how will you fill those gaps?

Delivering the job

Aligning expectations
The role of the strategic and commercial CFO
Once the CFO is in the role, an effective way to establish and develop the working relationship is for the them to work on what the sponsor (in conjunction with the CEO) considers to be the priorities and identify the resources necessary to deliver them. While each firm and the portfolio companies they work with are unique, there are some recurring themes on which it's always good to focus.

Single source of the truth
Ensure an integrated dataset is structured to satisfy the needs of the Investor (PE), the Operator (CEO) and Finance (CFO)
CFOs are data-driven and are always looking to find ways to increase value. They will always look at different ways to identify inefficiencies, reduce costs and maximise value. Ensure that the systems and processes are appropriate and aligned to provide the data points that are needed to clearly understand the business, its opportunities and its risks. If not, create a plan to upgrade systems and processes.

Agreed priorities
Create a 90/180-day finance plan which feeds into a company-wide strategic plan
Develop a strategic plan from day one that supports both parties. Having a clear plan of attack helps everyone to progress in a competitive landscape. Measure success against the initial plan and be prepared to adapt.

Building the right team and ways of working
Technical vs people-led
The CFO is a leadership role. Leadership and team management are as important as technical competence. CFOs can often neglect the people aspect of the role in favour of the numbers which leads to their inability to work upwards - commercially and strategically - because they don't have the optimum team in place. CFOs who thrive will act as facilitators, building a strong bench and delegating effectively, prioritising, communicating and executing.

Communication, communication, communication
Set up regular meetings with documented agendas and actions
Communication is a three-way street. The CFO, CEO and the Sponsor need to be able to assess situations for what they are, communicate the challenges, and ask for what they need when they need it.

Ensuring success
Be flexible, things change
Creating the right balance for both parties will always be a challenge, and there will always be obstacles to overcome, particularly given the changing world of business and ongoing world events. However, when both individuals and boards/ SLT are able to be flexible, everyone can achieve their goals.

Summary

Hire for alignment

The relationship between CEO and CFO is critical. Firms should look to hire someone with complementary skillsets that add up to more than the sum of their parts, and CFOs should look for a work environment that can nurture and grow their career.

Use assessments

Assessments can help you understand how potential CFOs deal with challenging situations, their motivations, as well as delve into their strengths and weaknesses. Psychometric tests aren't just for candidates, they can be used for the wider SLT in order to gain a more detailed understanding of how they work as individuals, and as a team, and can be used to identify what works well and any development opportunities.

Don't be a perfectionist

No candidate will be 100% perfect for a role, and a workplace will never be 100% perfect for a candidate. It can be exciting for a new person to come into a business or to take on a role, and optimism brings far more opportunity than pessimism, but be transparent and realistic about what can or can't be done.

Don't be set in your ways

Both parties need to be open to new ways of working and approaching problems. Growth happens through change and having a new pair of eyes looking at a situation, or having a new workplace to create new solutions can be a great opportunity for everyone.

Communicate and provide resources

Start the way you mean to go on and ensure everyone's communicating. We would recommend companies to be open about what resources are available, what can be acquired and what support is available. Simultaneously, CFOs need to be open about what they need and how resources can benefit themselves, but ultimately their team and business.

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