

# Managing the Risk of a CFO Transition

By Dick Hissam

While much board attention is focused on the issue of CEO succession, there is another key role that directors should consider as part of risk management—the CFO.



Dick Hissam

In the past ten years, the CFO's role has continued to grow in breadth and complexity with the advent of SOX and other regulatory requirements, and turnover

has reached historical levels. Most CFOs are now making do with increasingly slim staffs, setting the stage for additional turnover.

What makes CFO turnover especially problematic is that companies, especially those in the middle market, typically lack someone on the finance team with the technical knowledge, political savvy and strategic perspective to step into the role, even for the short term. CFOs must

of risk. But there are steps you can take to mitigate those risks.

## Understand the Impact of a CFO Transition

The CFO serves as a company's financial steward and watchdog, providing business strategy support, horizon watching, insight and analysis into financial and operational performance. During a CFO transition, the Controller will most likely be able to maintain daily operations. However, financial leadership, strategy and direction may suffer, which can impact potential mergers and acquisitions, financing negotiations and the ability to respond to board requests and CEO priorities.

A CFO transition can also impact the organization's credibility with outside stakeholders, such as investors, lenders and private equity owners. During

During the economic downturn, most companies cut budgets and reduced staff sizes, adversely impacting the depth of financial talent on which the CFO could rely. However, the organization's needs have not lessened. In fact, CFOs are under pressure to accomplish more than before due to increased financial risk. Most have more objectives, priorities and initiatives than they can realistically deliver.

CFOs aren't the only ones suffering as the result of economic pressures, but they are often held accountable for poor results. The decision to terminate a CFO because of financial challenges is premature in many cases and misdirected in others, often addressing the symptom and not the underlying problems.

A costly termination and a lengthy, expensive search often exacerbate the problems instead of solving them. This is especially true if the new CFO inherits a situation identical to—or worse than—the one held by the predecessor. If the CFO role has turned over two or three times within one CEO's tenure, the issue may not be performance but rather an impossible position.

Every audit committee should consider an independent evaluation of the entire finance function (the office of the CFO) to ensure that the existing CFO has been given appropriate support around information systems and corporate governance, including the qualified resources to get the job done. A terrific

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navigate complex market conditions, meet stringent regulations, mentor staff, support business lines, satisfy investors and provide day-to-day financial leadership. These tax the most talented financial officers, and with today's "lean" organizations, a CFO exit strains the finance team, the organization and the board.

If your company is experiencing a CFO transition, either planned or unplanned, there are predictable areas

a CFO vacancy, companies must assure stakeholders that risks will be mitigated.

## Think Again Before You Terminate

If your company is considering a change in CFO leadership, make sure you thoroughly understand the facts and reasoning behind this decision. Are you in need of a CFO transition, or are you just "shooting the messenger?"

CFO who lacks proper resources and support can put the company in jeopardy, and the audit committee should take action to mitigate this risk.

## Align the Role to the Organization's "Life Stage" Needs

The basic recruiting criteria for a public company CFO are relatively straightforward—background in finance/accounting; comfortable with public company financial reporting rules, internal controls, risk management, budgeting and operational analysis; strategic insight; able to provide expertise and insight to a broad range of stakeholders; and able to lead a finance operations team.

As the list grows, the combination of qualities becomes a more difficult blend to find. An effective CFO must demonstrate not only strong technical, analytical and business acumen, but also "soft skill" competencies—communication, problem solving, negotiation, conflict resolution, collaboration, relationship management and coaching and mentoring.

The odds of a successful "fit" are improved by looking for a CFO whose expertise matches that of your company's current "life stage," or the five-year goals your company is trying to achieve. For example, if your growth plan includes acquisitions, you need a financial leader who can negotiate deals and understand the complexities of valuations and post-merger integration. These needs are dramatically different from a business that needs to improve financial efficiency and achieve a turnaround. The track record of navigating a certain type of financial terrain outweighs factors like industry experience, and must be part of the recruiting criteria.

## Use Interim Leadership to Minimize Risk

During financially difficult times, there is temptation to leave the CFO seat empty during the three to six months that a search is likely to take and employ the company's Controller to keep the ship moving. However, this approach often overwhelms the finance team and removes a key strategic perspective from the boardroom.

Hiring an experienced interim CFO is a growing trend that can have long-term benefits. This option enables the company to tackle targeted management initiatives, such as an

acquisition or a restructuring, while the CFO search is underway. The interim leader can then help on-board the new CFO, potentially smoothing the transition at both ends of the search period. Similar to a relay team, an interim CFO can advance the company's immediate objectives and then pass the baton to a permanent CFO.

Sometimes, business conditions are too uncertain to warrant immediate rehiring. If a business unit is for sale or encountering difficulty, finding a permanent executive may be difficult. An interim CFO with experience in similar situations can help navigate the difficult waters absent the attendant distraction of longer-term career considerations.

## Address Core Issues to Avoid Future Turnover

When CFOs are highly dissatisfied or the finance function is impaired, there are often two key points of

weakness in the office of the CFO: the controllership function and information technology. A lack of competent functional managers, technical expertise below the level of the CFO, or IT systems will create a crack that grows over time into an extreme fissure in performance.

Many companies have reduced staff without enhancing the technology infrastructure required for accurate financial reporting or managing financial drivers like inventory. This creates a cycle of dependency on manual processes to derive management reports, which then breeds errors and burnout in key positions

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within finance. Enhanced systems and processes—intelligently designed information flow—can ease regulatory reporting, audit committee concerns and peer requirements. Making a strong commitment to IT investments on the front-end will save time, money and heartache in the long run.

Like any executive change, the potential for risks during a CFO transition is significant without a plan for mitigation. Examining causes (not symptoms) behind a transition, making changes to better support the CFO and his or her staff, and employing flexible leadership for additional support when needed can help avoid a messy transition that negatively impacts your company's operations, morale and results.

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Dick Hissam is the national managing partner of the Interim Executive Practice at Tatum ([www.tatumllc.com](http://www.tatumllc.com)), the nation's largest executive services firm, offering interim leadership, consulting and executive search services and specializing in supporting the office of the CFO.