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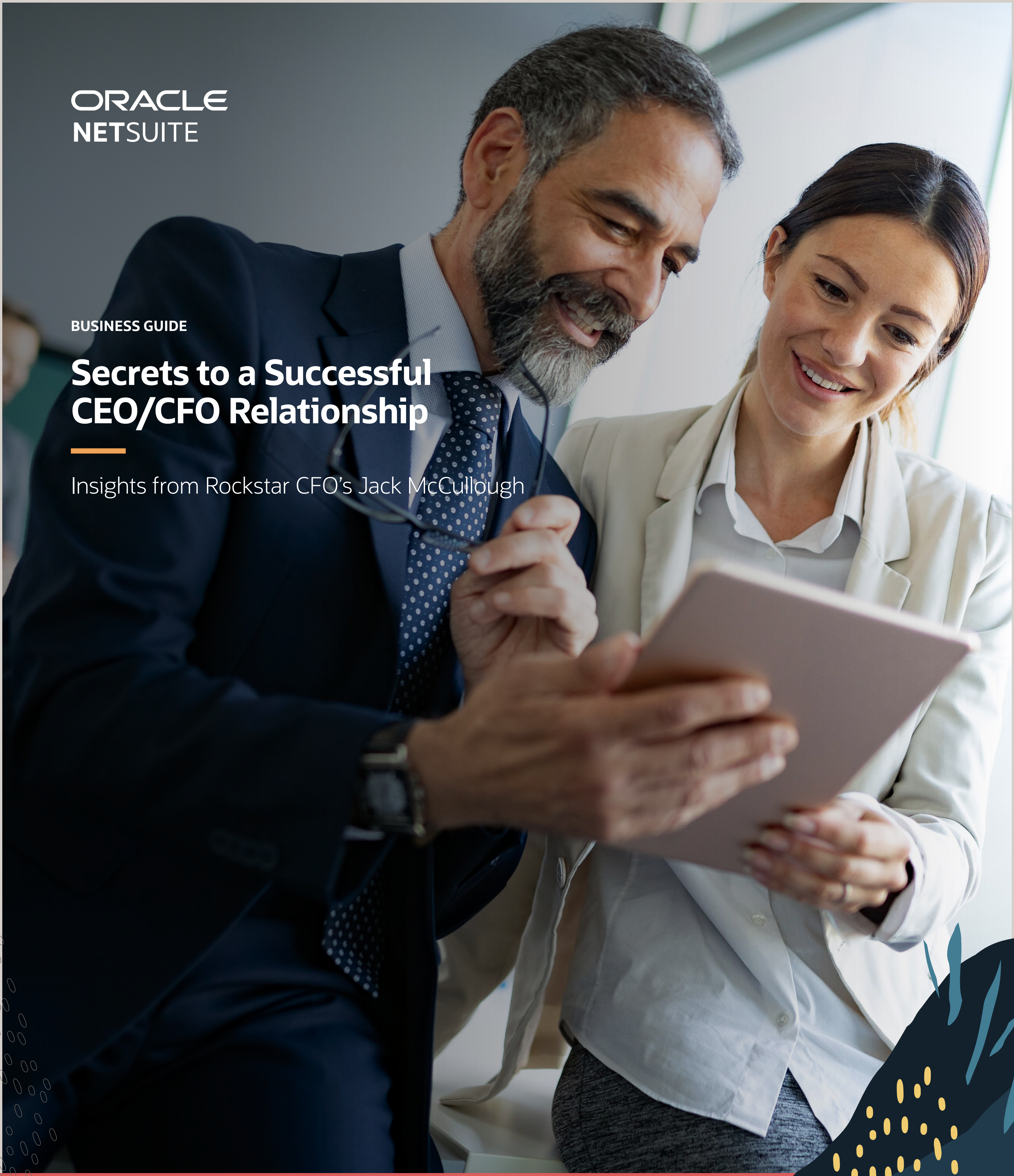
BUSINESS GUIDE

Secrets to a Successful CEO/CFO Relationship

Insights from Rockstar CFO's Jack McCullough



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The partnership between the CEO and the CFO is often considered the most critical to organizational success. Analogies that could be confused for marriage advice abound: "Each brings the puzzle pieces the other lacks," or "They need to be the yin to the other's yang."

As such, the consequences of getting this matchup wrong are significant. In a Korn Ferry survey of 321 CFOs, 52% said the top reason they would voluntarily leave a position is a poor working relationship with the CEO. And 41% said not working well with the board and CEO is the top reason a company would ask a CFO to leave.

Research also shows that an effective CEO-CFO partnership is a key enabler of value creation.

With so much on the line, you as CFO are looking to build that strong alliance with your CEO. Jack McCullough, founder and president of the CFO Leadership Council and author of Secrets of Rockstar CFOs and The Psychopathic CEO: An Executive Survival Guide, has some thoughts on how to make that happen.

Here's how to create a strong partnership with the CEO through all stages of a CFO's career lifecycle.

The interview is where it all begins

Cultivating a strong relationship with the CEO doesn't begin at the start date. Rather, you can begin setting yourself up for success during the hiring process.

Interviewing can feel like a first date — no one is going to reveal all their personality quirks or red flags. However, CFOs can begin to understand the CEO and decide whether this job will be a good fit using three strategies.

1. Pay close attention to the questions you're being asked. During the interview, you'll want to ask about the CEO's relationships with past CFOs, what has worked and what hasn't. But as is so often the case, you learn more when you listen.

   "The one thing that I think is better than asking questions is taking stock of the questions that she or he asks of you," said McCullough. "That's how you can really find out what's important to the CEO. That gives you great insight into what's top of mind for them."

   For instance, CEOs whose questions are focused on topics like accounting, expense management and compliance are inclined to view the CFO in a more traditional role. They may be good CEOs — but not good partners for finance executives who want to act in a more strategic capacity, with a controller handling day-to-day finance tasks.

2. Ask about the company's vision and ethics. A CEO's leadership style isn't just evident in the interview process. It permeates a company, with the leadership persona evident in the organization's objectives and values.

   McCullough says that before joining a company, he tries to understand the vision and the strategy, to start.

   "I also try to get their feelings on commitment to ethics," he said. "See if they have a code of ethics and ask if it's something that they incorporate in the way they conduct their business."

   A company's commitment to values is especially important for the CFO to gauge.

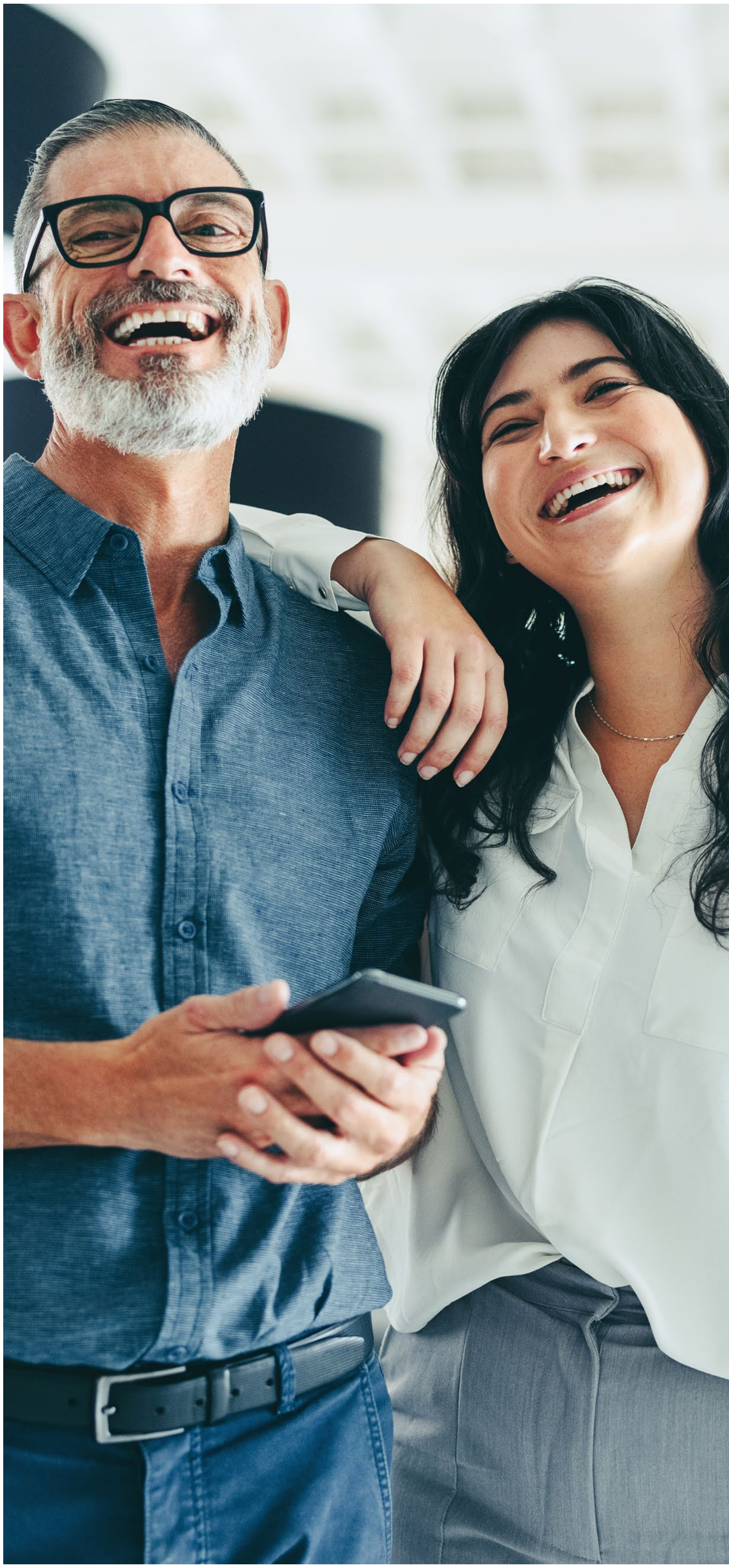
   One of the top-cited traits of a rockstar CFO, according to McCullough's research, is the ability to provide ethical leadership. Further, in over a dozen interviews conducted by NetSuite, "honesty" and "integrity" were among the top traits CEOs desired in their CFOs.

   If the CEO doesn't share your attitude toward ethics, you and, consequently, the relationship are set up to fail.

3. Be cognizant of red flags. Observation, research, and a good old-fashioned gut check are important prior to joining any company in any capacity, but particularly in the CFO role.

   If you think a company and/or CEO raises no warning signs whatsoever, you've either reached professional nirvana or you just aren't looking hard enough — maybe because you really want the job to be a good fit.

   Red flags to be especially aware of, according to McCullough, are high turnover rates, a CEO's tumultuous past relationships with CFOs or other executives, and resistance to adopting technology or making other investments critical for growth.



Also be aware of subtle signals. Do they check their phone frequently in the interview? Do they come off as dismissive at times? Are responses to questions vague?

And remember, what's a red flag for you might not be for someone else. For instance, if the culture runs counter to how you like to work, don't try to force the fit. A 100% remote firm is great for some execs, but maybe not for a finance chief who's switching industries and will need a lot of face time with colleagues.

"A lot of people say, 'Would you have a beer with your boss?'" said McCullough. "But I think a better question is, 'Would you be willing to walk in a dark alley or fight in the foxhole with your boss?' Would they have your back in a crisis? Are they all about themselves … or do they have a genuine interest in developing you as a professional?"

The first 90 days

The first 90 days of tenure will offer you a one-time opportunity to gather information, form connections, and build a successful partnership with the CEO.

While it may be tempting to jump straight into the deep end, careful planning trumps speed of execution. Again, you'll learn a lot by listening.

- Talk to board members and peer executives. As you start the job, cultivating relationships with peers and board members is integral to success. It also provides an opportunity to learn more about the CEO.

  "I encourage the incoming CFO to spend a lot of time across the entire C-suite and with the board to understand their priorities in the business, but also to get an understanding for their relationships with the boss," said McCullough.

  Ask about hot-button issues and any CEO priorities that might not be expected or obvious. By having these conversations early on, a CFO can gather intel to manage the CEO relationship. For instance, what does the CEO not enjoy doing versus tasks they prefer to handle themselves? Work to discover where you, as CFO, can fill in gaps or weaknesses and what to leave alone, at least at first.

- Learn the business. Resist the urge to immediately dive headfirst into the financials. Look at the first three months as an opportunity to learn about the organization — the people, culture, customers, business, competition, and marketplace.

  "Try to come along to investor meetings, board meetings, and customer meetings," said McCullough. "A lot of elite CFOs that I know actually go on customer meetings not to necessarily help close the business, but to just spend some time with the CEO. And, at the same time, you're benefiting by learning a lot about the business, its customers, why people buy the product and how it works."

  That time will also let you view the business from another angle. In a survey by KPMG, 30% of CEOs said that their CFOs don't understand or assist them enough with the challenges they face in running the company.

  "Make the time to understand the business from the CEO's lens, not just from your own," said McCullough. "Most of them grew up in a sales and marketing environment, so it's not your first instinct if you grew up in accounting or finance. But try and look at it from that perspective."

  Taking in data from multiple sources makes you a better ally. Spend time with employees beyond finance and accounting to gain a solid understanding of their roles. Read marketing collateral and recent sales proposals. Build up competitive intelligence.

> Knowledge of the whole business — not just the financials — is the foundation of a strong CEO-CFO partnership.

Continuing in the CFO role

To continue the marriage analogy, relationship work doesn't end after the honeymoon. The partnership between the CEO and CFO requires trust, respect, and communication to thrive and drive business performance. Here are three keys to success.

1. Challenge the CEO, in the right way. Honesty is key to any successful relationship, so you need to be willing to challenge the CEO — McCullough emphasized the importance of not being a rubber stamp.

   "In this case, if the CEO is the emperor, it's on the CFO to point out that the emperor has no clothes," said McCullough. "If the CEO is making a bad strategic decision, it's difficult for other people to challenge it."

   However, unless it is a serious, ethical issue where the board needs to be notified, McCullough says to have that conversation in private.

   "For the most part, and there are exceptions, just tell them the truth, the whole truth and nothing but the truth," he said. "Just get it out."

   And be specific.

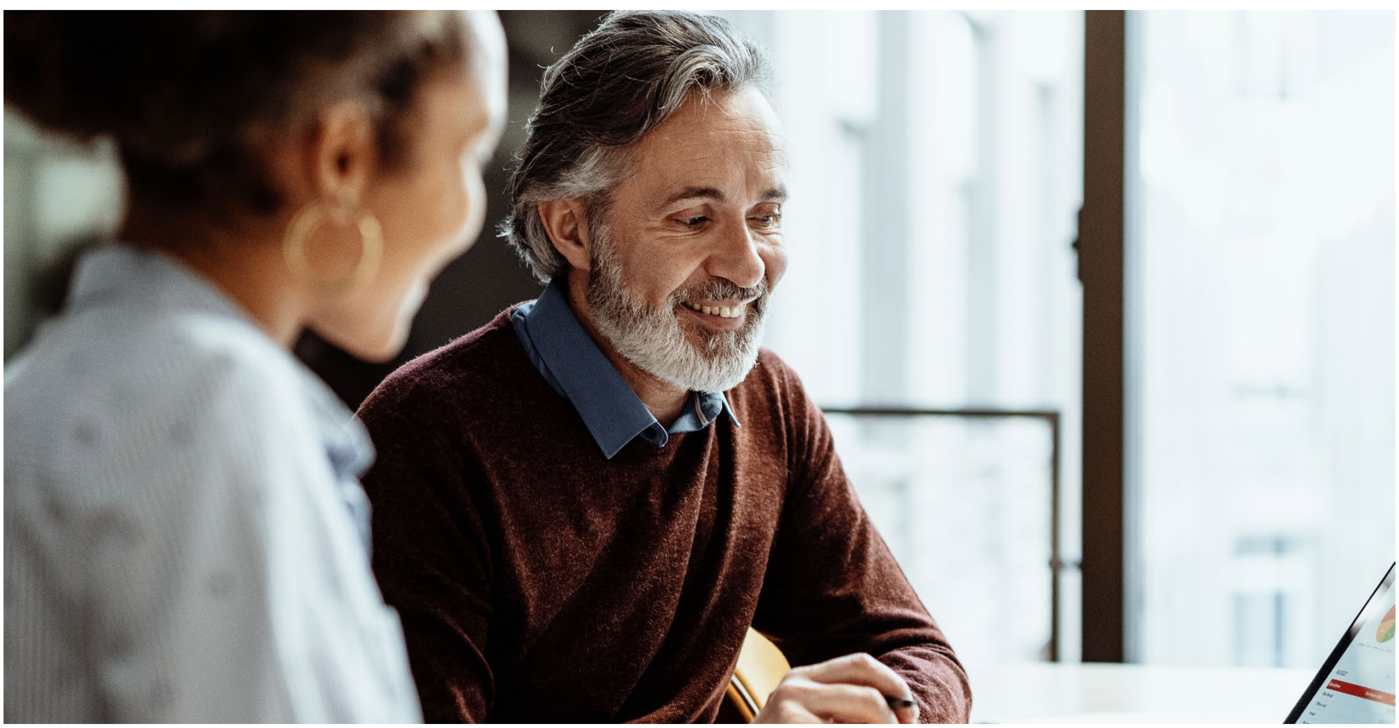
   "Don't just say, 'That's a mistake,'" he said. "That doesn't bring value. Say 'I think you're making a mistake, this is why, and let's talk through what we can do.'"

2. Be solution-oriented. McCullough advocates being a "CF-Go" who makes things happen, not a "CFO-No."

   "CFOs, for the most part, are more cautious than other members of the C-suite," said McCullough. "But rather than being the person who points out the reasons not to do a deal, look for opportunities."

   To become a more calculated risk taker, he circles back to understanding the business, competition, customers, and the company's place in the market, again emphasizing the need for a strategic finance leader who is able to drive toward opportunities from a position of strength.

   "If there's a particular opportunity, check it out, thoroughly understand the pitfalls and make sure you understand the plan," said McCullough. "Instead of saying, 'These are the reasons we shouldn't do this,' say, 'Here are the potential problems I see and how we can try to address them.'"



Of course, there will be opportunities that don't pass financial muster. In those cases, it's your responsibility to point that out.

"Sometimes the best deal is the one that you don't make," said McCullough. "Don't be afraid to stand alone in the room and say, 'No, this can't happen.' And make sure you're heard. I always need to remind CFOs that they are very likely the only financial expert on the executive team, so you need to make sure that everybody understands your perspective."

If, despite objections from finance, the team decides to move forward with a plan, do everything possible to make the opportunity successful.

3. Ensure that you have a good team and good technology. While many CEOs want strategic partners, it begs the question: Where are you to find the time?

"Hire that world-class controller who you think can become a CFO in a couple of years, serve as a mentor, and then build a great team around them," said McCullough. "And empower them. You're trying to learn the business and think strategically. You need a team that can make the trains run on time."

To empower the finance staff, you need to ensure that the necessary technology and resources are in place. Without it, the team will be bogged down in manual, error-ridden processes that won't reflect well on you, at a detriment to the CEO relationship.

When looking at the relationship that CEOs want from today's CFOs, it becomes clear that finance leaders cannot be caught up working solely in a back-office capacity with manual, error-prone processes. Instead, they need to provide accurate and actionable insights in real time and have bandwidth to collaborate with the CEO and the rest of the business on what to do with that information.

A robust enterprise resource planning (ERP) system like NetSuite allows organizations to operate more effectively by automating core processes and providing real-time visibility into operational and financial performance.

When a CEO-CFO relationship goes south

Sometimes, despite best efforts, the CEO and CFO simply don't see eye-to-eye. Is the situation salvageable? That depends. First, take time to reflect on what went wrong.

"I've seen a lot of bad relationships," said McCullough. "Almost always, it's [because of] multiple people, not one person. They don't communicate well, and they don't work hard to resolve their differences. Look at yourself and ask, 'What could I have done differently to prevent this? And what can I do differently from this point forward to fix things?'"

However, McCullough cautions against fighting hard for a relationship that may be too dysfunctional to save.

"You don't want to fool yourself for a couple of months that things can change if they cannot," he said. "Know when to quit. [The CEO] might be a good person. But not a good person for you."

An open door is key

Another key to relationship success is transparency.

"CEOs need to know that they have a full understanding of everything that's going on with the business and the CFO is not keeping stuff from them, and vice-versa," said McCullough.

That requires open communication. You shouldn't have to schedule an appointment to talk with the CEO, nor should CEOs have to reserve time with their finance chiefs. If you don't have those open doors, according to McCullough, "You have a little bit of a problem."

Continue to grow — and know when to go

As a company grows, the demands of the job may eventually surpass your comfort zone. It's on you to be the best partner to the CEO, which means proactively knowing where you want to go in your career and how that aligns with the company's trajectory.

In short: When to grow and when to go. For McCullough, the decision in his career was clear.

"I was pretty good [as a CFO] at companies from early stage to about $150 million to $200 million in revenue," he said. "After that, they would have outgrown me, and I just wasn't that interested."

The CFO role changes with company size. If the culture of a larger company doesn't hold appeal, it's time for a conversation with the CEO to come up with a transition plan.

If you want to stay and lead the company through whatever milestones are coming down the line — revenue growth, market expansion, an IPO — your tasks are threefold. The first two have already been covered but increase in importance in times of high growth: Have a good team and capable technology. This will allow you more time to learn and work with the CEO on new, growth-related responsibilities.

The third component is finding a mentor that has experience in those areas; the CFO Leadership Council (CFOLC) is a great place to start.

The bottom line

In a nod to his book, McCullough concluded with framing the relationship in the context of rock 'n' roll's most iconic duo.

"Before becoming a rockstar, you need to be a great musician, so remember which role you're playing and which hat you're wearing," said McCullough. "When the CEO is in the room, you're gonna have to play Keith Richards to his or her Mick Jagger. Sometimes the best role you can play is being a great musician and letting your boss be the rockstar."

With the right technology, CFOs will have the bandwidth and the insight to be the trusted strategic partner that today's CEOs need.

Learn more

- **How 3 CFOs Are Growing Their Careers and Companies**
  What do finance chiefs from an eco-conscious apparel brand, a healthcare services provider, and a high-growth startup focused on critical energy infrastructure have in common? More than you may expect. In this guide, these three CFOs share insights into how they got where they are and how they've stayed at the top of their games through some challenging times.
- **The 80/20 CFO**
  For a new CFO, operating without a clear job description in those critical first 90 days can be a challenge. Determining what priorities to focus on for long-term success requires developing relationships with key stakeholders, getting comfortable with the numbers, and identifying key performance indicators early on.
- **Chief Financial Officer Defined: Role, Responsibilities and Skills**
  Big public companies may have defined the CFO role, but the chief financial officer position is becoming increasingly common in midsize and even small firms. Let's look at the role, responsibilities, and skills finance chiefs need to serve their companies well.
- **Controller vs CFO: 6 Key Differences to Understand**
  Chief financial officers and financial controllers have a lot in common — and some significant differences, too.

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