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Synthesis

# CFO Leadership Insights

## Discussion highlights from a dinner with CFOs of Private Equity-backed companies

EgonZehnder

## Beware PE Sponsors: Your Portfolio Company CFOs Will Start Referencing You

Egon Zehnder hosted an intimate dinner in Houston for CFOs of Private Equity-backed companies. The gathering was an opportunity to connect, share insights and challenges, and discuss the talent implications for CFOs. Here is our Synthesis of the conversation:

1. **The Sponsor Quality is Key** PE CFOs are increasingly "reverse referencing" potential sponsors prior to selling their company or taking a new CFO role. These reference calls seek to understand how firms operate, to assess the personalities of key Managing Directors, and to test how 'hands on' they are in the first 100 days. With historically high levels of capital chasing assets and a shortage of CFO talent, top PE CFOs can be selective when choosing partners. Our CFOs mentioned being skeptical of sponsors who lacked real business knowledge and/or a track record of success in their space.

2. **The accountant CFO is dead. Long live the accountant CFO!** While several of our dinner attendees hold accounting degrees and are practicing CPAs, nearly all of them also had strong business experience – either as a GM, a divisional CFO and/or leading M&A. This business knowledge, and the ability to understand how actions affect financial outcomes, was crucial for many getting their first shot in the CFO role. While our attendees rely on a strong controller, the majority felt the "controller-only" profile lacks the business acumen to be a successful CFO. Our experience working with dozens of PE sponsors suggests that most firms would agree; nearly every PE CFO search in the last 12 months has focused on "business" CFOs, not "accountant" CFOs.

3. **But I taught you everything!** Many of our attendees lamented a real challenge retaining top performers in their finance organization. While strong CFOs make a point to rotate high potential talent to prepare them for the CFO role, these individuals then become more marketable in the process. In the current environment with high-quality PE CFOs in demand, these strong #2s are often getting great

offers for new roles. This double-edged sword makes succession planning, and a strong talent pipeline, all the more critical.

4. **Wage pressure is on the horizon** While most of the CFOs had not yet seen pressure to increase wages, nearly all agreed that the labor market is tightening. One attendee noted his company's hiring target was double the number of workers to satisfy its customers' requirements. This will likely lead to increased wages in 2019 and beyond.

5. **PE CFOs are people too** In today's fast paced, results-driven world (particularly in PE), it can be easy to forget behaviors that replenish energy and a feeling of fulfillment. All of our attendees felt they needed to improve their work/life balance, and some had taken active steps to do so while others were seeking healthier ways to prioritize. Some of the ideas discussed included using car time wisely to check-in with the CEO or colleagues who are also commuting (hands-free of course!) and setting the expectation to work from home periodically. While no one expects PE CFOs to work a 9-5 schedule, finding the right balance is critical for retaining top talent.

## In Summary

The role of CFO in PE-backed companies continues to evolve from accountant to business leader. Top talent remains scarce and retaining high performers is harder than ever. PE sponsors should recognize current dynamics, demonstrate deep business knowledge and a history of strong partnerships with executive teams. If they don't, the risk is to be overlooked by proven CFOs who perceive more attractive opportunities elsewhere.

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