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Today's CFO: Which profile best suits your company?

Profiles of today's CFO show how the role is evolving and raise important questions for boards about talent and leadership development.

Ankur Agrawal, John Goldie, and Bill Huyett

Most readers are well aware that the role of the CFO generally has broadened over the past decade. Beyond the core responsibilities of financial reporting, audit and compliance, planning, treasury, and capital structure, many CFOs are playing a stronger role in corporate portfolio management and capital allocation. Others have become prominent as the voice of the company in investor relations and in communications to the board, as leaders in performance management, and as exporters of finance-experienced personnel to the rest of the organization.

Where does it end? It's unproductive to stretch the role too far and unreasonable to expect a CFO to be good at everything. How can the CEO and the board—through the audit committee—shape a manageable profile for the position? It's an important question, both for companies hiring a new CFO and for existing CFOs who see their roles expanding without a broad perspective.

To get a more detailed picture of how the role continues to evolve, we analyzed the experience, credentials, and backgrounds of CFOs of the top 100 global companies by market capitalization.[1] Our review, while not definitive, suggests that companies are shaping the role to meet their current needs. Indeed, we identified four distinct profiles of the role defined by the breadth of the current CFO's experience in finance or in nonfinance functions; his or her professional focus,

whether it's an internal focus on operations or an external focus on strategy; and the sources of the CFO's expertise, whether from years of experience at the current company or another one, for example, or whether it includes a traditional accounting degree or some other.

The four profiles include what we would characterize as the finance expert (or numbers guru), the generalist, the performance leader, and the growth champion. And while there is no single CFO profile that will fit the needs of every company—each must target candidates with competencies that best fit their strategy, the composition of the rest of the company's top team, and current finance-function capabilities—these profiles do offer a glimpse into how the role is evolving and where peers are looking for talented and innovative CFOs. They also raise important questions for board audit committees thinking about CFO development or the profile of the person they would like to hire, as well as for executives seeking to shape their current role or considering new ones.

Four profiles of today's CFO

Management roles vary by organization, depending on a company's history, the characteristics of its industry, and the demands of investors. And although fitting CFOs into a clear-cut typology may seem artificial, we found it useful to understand how companies are filling the role to get a clearer picture of how it's changing. Based on our research, we categorize CFOs into four general profiles.

The finance expert. Typically internal hires, these CFOs have years of experience rotating through multiple roles within the finance function—controlling, treasury, audit, financial planning and analysis, or business unit finance. They tend to have intricate working knowledge of the company and are often experts in relevant finance and accounting issues, such as financial regulation, international accounting, or capital structure. Many have advanced accounting degrees or experience at an auditing firm.

This type of CFO is particularly well suited to highly decentralized companies with stand-alone businesses or early-stage ones scaling up and professionalizing the finance function. Their strong finance-function knowledge across a broad spectrum of activities is critical to effective compliance and standardization of processes. The finance-expert profile may also be best for any company whose top team otherwise lacks strong finance leadership—or whose finance department is inefficient or in disarray.

The generalist. Companies in highly capital-intensive industries, such as basic materials, oil and gas, and telecommunications, put a high premium on operational capabilities. So they naturally look for executives with broad experience—including CFOs who have spent time outside the finance organization—in operations, strategy, marketing, or general management. Indeed, among the 51 CFOs in our sample who were hired since 2009, 31 of them have such experience, up from 17 of those hired prior to 2009. Among all the CFOs in our sample, 62 have MBAs or other advanced degrees, compared with only 28 with advanced accounting degrees—reflecting a premium for management and communication skills over deep technical expertise.

CFOs that fit this description tend to engage heavily in business operations and strategy and often bring strong industry and competitive insights. They are often found in companies in mature sectors, such as financial institutions, where operational similarities across business units provide a good platform to rotate managers among businesses and eventually into functional leadership roles; most are internally hired and already fill an executive function, often being groomed for a CEO role. These rotations give managers insights about different businesses that they need to support tightly run operations, allocate resources, and influence peers—which, regardless of industry or strategy, make them ideal for companies where personal influence is needed to get things done.

The performance leader. CFOs with strong track records in transformations both within the finance function and throughout the organization are what we have dubbed performance leaders. They tend to focus on cost management, to promote the use of metrics and scorecards, and to work to standardize data and systems. They are often hired externally, and many have previous experience as CFOs. Most have worked internationally—explaining in part why, among the 51 CFOs in our sample hired in the past three years, 30 have significant experience in multiple geographies, up from 21 of those with longer tenures.

Companies employing these types of CFOs are often highly diversified companies requiring rigorous analytics to compare performance across businesses, companies with aggressive growth or cost targets that must be met in the near term, or companies with scarce resources that must be carefully allocated.

The growth champion. Externally hired professionals are the least common type of CFOs, but they have risen to account for nearly 25 percent of new CFO hires. They are most common in industries with frequent disruptions that require dramatic changes in resource allocation—and in companies that plan to grow considerably or reshape their portfolio of businesses through aggressive M&A or divestiture programs. Such moves make external hires especially valued for their significant experience in M&A, as well as for their external networks, independent thinking, and strategic insight, often gleaned through working as a CFO or serving for years in professional-services firms. Many growth champions are among the nearly one-third of new CFOs who have spent a sizable portion of their career in investment banking, consulting, or private equity, up from one-fifth with a similar background prior to 2009.

Aligning the role with the company

These profiles are obviously not prescriptive; it would be simplistic to suggest definitive rules prescribing a specific CFO profile for general categories of company. That said, with the profile

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characteristics in hand, companies can more explicitly weigh them against the skills and capabilities they expect to require from the CFO as they shape, refine, and implement their strategy for the future. Whether this means selecting a new CFO or rebalancing the role of an existing one, they will need a candid assessment of their current corporate strategy, the skills and temperament of the CEO, the composition of the senior-management team, the current capabilities of the finance function, and organizational and reporting structures. We propose four questions (by order of importance) that CFOs should answer when planning their own career-development plans—or that CEOs and boards should answer when beginning the search for a new CFO.

1. What are your corporate strategy and aspirations—especially considering the nature of your industry?

While there are certain trends in the hiring of new CFOs generally, CFO profiles often reflect the structure, conduct, and performance of a company's industry. Stable sectors with large global footprints and extensive supply chains—such as oil and gas and consumer packaged goods—are more insular in their CFO selections. Only 4 of 28 CFOs in our sample in these industries were hired externally, and only 2 had significant experience outside the sector. However, international experience is very important, with 9 of 13 CFOs in oil and gas and 10 of 15 in consumer packaged goods having worked in multiple geographies. At the other end of the spectrum are industries with rapidly changing technology and significant R&D, such as pharmaceuticals and medical products (PMP) and technology. Companies in these industries tend to have CFOs with more experience in strategy and transactions, and they are much more likely to select CFOs from outside the company or the sector. For example, of the 14 PMP CFOs, 8 were hired externally, 6 had consulting or investment-banking backgrounds, and 9 had general-management backgrounds. Over half of CFOs in both the PMP and technology industries have experience outside their sector.

In addition to industry context, companies must consider how certain CFO characteristics might best support their own strategic plans. Leadership teams of companies following inorganic (M&A) growth strategies require a higher degree of market insight and strategic orientation. Senior executives of companies following organic growth strategies, meanwhile, exhibit a high competency in people and organizational leadership. So regardless of industry characteristics—and as long as candidates meet the threshold of finance expertise and performance-management skills—a company embarking on an ambitious M&A program, for example, would want to give a strong preference to those with significant transaction experience and industry insight, more akin to a growth champion. A company lagging in profitability or undergoing significant industry consolidation may require a CFO more similar to the performance leader—strong in performance management and cost containment.

2. What is the composition of your top-management team?

The selection of a CFO cannot be made in isolation; companies must consider the strengths of the rest of the top team, paying specific attention to its blind spots and missing capabilities. Recent research has found that the top teams of high-performing companies score higher on all measures of leadership competencies—including thought leadership, people and organizational leadership, and business leadership—than those of low-performing companies.[2] Finding the right set of leaders is clearly an important determinant of corporate performance.[3] This means that the specific profile of your CFO may need to be different from that of other companies—even those in the same industry or those that have similar strategic goals—in order to create a robust top team.

Companies with a disproportionate share of leaders with a few areas of deep expertise—so-called spiky leaders—tend to outperform those whose leaders have a broad range of more general skills. This requires members of the top-management team to build on one another's strengths and compensate for one another's short-falls. A company with a visionary CEO may require a CFO with a firm grasp of the economics of the business and enough influence capital inside the organization to provide a counterbalance against potentially risky moves. Or a company that recently hired a CEO from outside the organization may require a CFO with deep company expertise and a firm grasp of the numbers, such as a person who fits the finance-expert or generalist profile.

The downside of mistakes in selecting the top team, and the CFO in particular, is significant. Myopic top teams can undertake risky or costly acquisitions, fall behind on innovations in the market, or fail to retain key talent. High-performing CFOs must have the integrity and conviction to challenge the CEO and other members of the top team on key strategic and financial decisions and hence steer the company to a higher performance trajectory.

3. What is the current level of capability in your finance function?

As long as a CFO's profile fits with a company's strategy and complements the top team, further considerations are more tactical. The current level of capability of the finance function is the most important of these, since the CFO's primary responsibility is to ensure the execution of core functions of the finance group, especially strong compliance and controls, accurate data, and systems integration. If a company struggles with efficiently performing the basic finance functions (relative to peers), then it may be necessary to promote candidates for CFO with considerable experience in a variety of finance roles and a track record of performance improvement.

However, if strong capabilities are already present in the finance organization, a company may consider candidates with other competencies, such as broader management experience or strategic insight. Companies that do so typically pair such a CFO with a senior finance executive who manages accounting and other traditional finance roles.

4. What is the organizational and reporting structure of your company? Which areas report to the CFO?

It is also important to consider the company's reporting structure—that is, does it have solid or dotted-line reporting to the CFO—and the breadth of formal CFO responsibilities.
For example, a CFO in a global company with a complex matrix structure and only dotted-line reporting must be able to exert a considerable amount of personal influence to be successful.
In this situation, it may help to hire a CFO

internally—regardless of which general profile he or she fits—who has the networks and institutional knowledge necessary to drive change. It is also important to define the areas of responsibility that may lie beyond traditional finance areas, such as IT, procurement, and transformation, which demand day-to-day hands-on management and people skills typically seen in the generalist CFO profile.

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The right fit between a company and its CFO involves a complex set of trade-offs reflecting its strategy, the skills and abilities of top management and the finance function, and a given individual's ability to drive change. Understanding how the role is evolving can prompt useful conversations that shape the CFO's role at your company in the future.

[1] From the top 146 largest companies by market capitalization, we excluded Asian companies and 14 others with insufficient public data, for a total sample size of 100 companies. We then compared CFOs hired prior to 2009 with those hired after. Note that the pre-2009 sample includes only CFOs who are still in that role.

[2] See *Return on Leadership—Competencies that Generate Growth*, Egon Zehnder International and McKinsey & Company, February 2011.

[3] See Katharina Herrmann, Asmus Komm, and Sven Smit, "Do you have the right leaders for your growth strategies?," mckinseyquarterly.com, July 2011.

Ankur Agrawal is an associate principal in McKinsey's New York office, where **John Goldie** is a consultant; **Bill Huyett** is a partner in the Boston office.