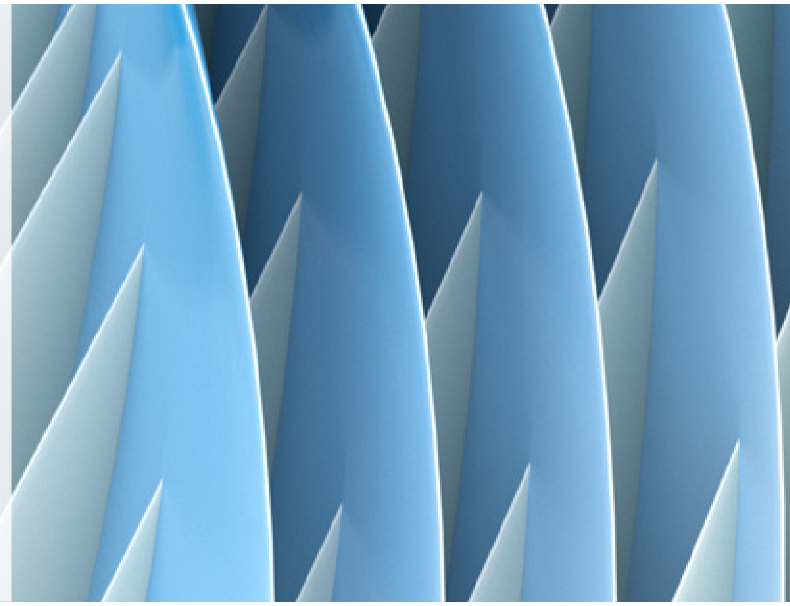
# What Makes a Successful CFO in Private Equity?



The chief financial officer position at private equity-backed companies has grown in importance in the past five years. Responsibilities have expanded, technology and transformation remain high on the agenda, and investors' value-creation expectations are rising amid higher purchase price multiples.

Amid this evolution, it's not surprising that PE firms today are increasingly seeking new CFOs at the earliest stages of the investment cycle — not just to guide the finance function but to serve as a strategic business partner to private equity investors, the CEO and the board in driving value creation and executing the exit strategy.

Traditionally, in seeking out CFO candidates, PE owners have focused on what we call "above-the-surface" markers of success — namely, their career background, capabilities and experience in an environment similar to PE. The expectation is that such experience would enable them to make a more immediate impact. However, in observations from our work, we have found that an over-focus on this one area of expertise overlooks relevant experience in different contexts. Furthermore, it may also overlook "below-the-surface" attributes that often prove just as crucial in the success for a leader — such as capacity for change and personal character. Time and again, we've seen that the ability to hit the ground running is hardly a guarantee of long-term success. Ultimately, strong candidates for these positions are discounted because their resumes aren't exactly right.

So, what does it take to succeed as a CFO for a PE-backed company? This piece looks at the answers based on our work with portfolio companies in Asia Pacific, our research into the leadership styles of CFOs at both PE-backed and public entities, and interviews with successful CFOs at both PE-backed companies and their PE sponsors.

# The experience guiding a CFO

CFOs at PE-backed companies in Asia need to shine in the basics, including accounting, treasury, taxation, and planning and analysis. But they must also navigate environments that are often quite different from multinational corporations (MNCs) and other large global enterprises. What skills are most important for a CFO rising to the role at a portfolio company? We look at the answers below.

## Solutions-oriented mindset

Due to the broader mandate and greater demands of CFOs at PE-backed businesses, private equity owners often prioritise enterprise-level CFO experience over divisional CFO experience. CFOs with enterprise-level experience will have managed the entire finance organisation (spanning audit, FP&A, tax and treasury) and worked with the CEO and the board on strategic issues. This wider exposure to different complex situations makes them more adept at dealing with ambiguous business situations that may arise throughout their investment lifecycle — from the first 100 days through to exit. A divisional CFO, by comparison, may have relied on global or shared-services resources for other functional responsibilities, and may only have exposure to a narrower set of profitability metrics.

"The mandate in a PE-backed business is much broader — more than what a divisional CFO in an MNC typically deals with," said Zubin Irani, partner and head of the operations group in Asia Pacific for TPG. "There is a lot of ambiguity, so a solution-oriented mindset is important to work through some of these challenges."

That said, divisional CFOs do bring to the table many relevant skills. For example, depending on the organisational structure, divisional CFOs from some MNCs may have the same amount of accountability as one from an independent entity. In addition, divisional CFOs from top organisations may also come with best-in-class operational practices that would enable them to transform the finance function earlier in the investment lifecycle.

Several portfolio company CFOs we interviewed noted that leaner teams in PE-backed companies mean that CFOs must be able to work broadly across many different areas and be able to get their hands dirty at a more granular level. As such, divisional CFO experience could prove advantageous, as the portfolio company CFO must be able to go deep in any area of finance, especially early in the investment cycle.

## Stakeholder management skills

The CFO is front and centre in ensuring that the PE firm's planned changes endure long term and lead to successful value creation. The CFO must walk a tightrope in maintaining alignment amid the complex dynamics of different stakeholders with potentially different priorities — PE owners, company founders, the board and the executive team.

The CFO's relationship with the board at a PE-backed company is generally less formal than at large global enterprises. While some PE investors are less involved in day-to-day operations, others are more hands-on. Similarly, it is not uncommon for a director to pick up the phone and call the CFO directly. The PE owners may also have a different perspective on how to run the business than the founders, who may be reluctant to relinquish control or favour a different growth strategy. As a strategic business partner, the CFO cannot be afraid to challenge the status quo, share original insights into business economics or offer solutions to organisational challenges. Knowing when to lean in and when to push back is crucial when working with an engaged board and PE owners.

"CFOs must be comfortable with a different stakeholder mix than they may be used to," one CFO at a PE-backed transportation company told us. "Everyone is all over you, and they have a strong interest in the financials, from shareholders downwards."

Similarly, the CFO of a PE-backed energy company said: "Stakeholder management becomes even more important in private equity compared to a publicly listed company or an MNC. In a non-PE setting, decision-making tends to be more binary in nature, but with PE, besides your CEO and the board, there are other considerations, such as how your decision will sit with investors."

## Change management experience

Typical PE value creation strategies call for portfolio companies to evolve and grow organically or inorganically while rapidly adopting best-in-class approaches to business operations. Unfortunately, many Asian PE-backed companies lack the fundamental processes, operational and technology capabilities and are less sophisticated in their functional finance expertise than multinational corporations.

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The new CFO must be able, upon entry, to implement and/or tighten up solid financial control systems and must be agile enough to drive this change with less staff support than at a typical MNC. Risk management systems are similarly also weaker, requiring a CFO who can build these capabilities almost from scratch. And as legacy systems are often sluggish and don't communicate with one another, the CFO has to be able to rapidly leverage new digital finance analytics tools to save costs, enhance decision-making and help keep pace with more forward-looking peers.

## Strategic thinking

In partnering with PE owners, the board and the CEO in the drive to create value, CFOs need to think creatively and strategically about various issues beyond sales or EBITDA, such as getting in leverage and expanding the portfolio.

Beyond shaping the finance strategy, aligning on the economics of the investment and thinking through potential exit strategies, the CFO must also work broadly across the business and adapt the approach to different business scenarios.

As one CFO from a PE-backed technology company told us, "A successful CFO needs to drive business growth and should understand the business in depth. This person should participate in all key business and client meetings, be involved in strategic initiatives and take a broader view of the business."

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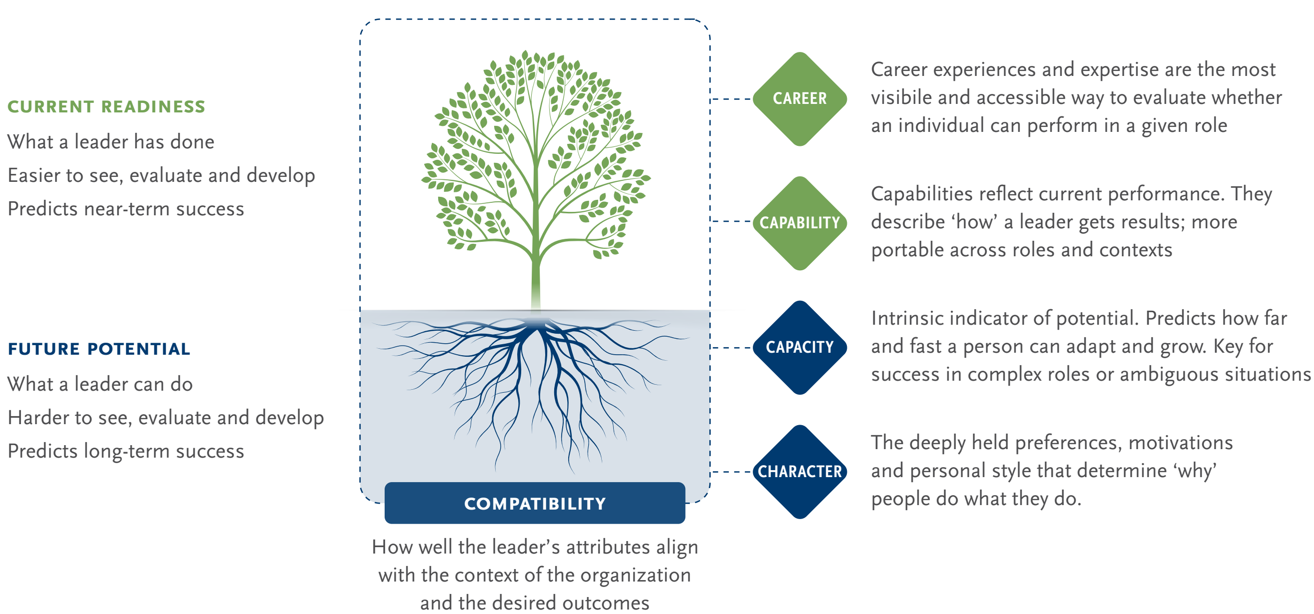
## Going "below the surface"

Functional finance skills and experiences are only part of the equation for a CFO's success, however. Our research and experience advising companies has found that "below-the-surface" leadership attributes are often just as critical; these include capacity (the potential to adapt and grow); character (a person's preferences, motivations and personal style) and compatibility (the leader's alignment with the organisation and its desired outcomes) (see figure 1).

**FIGURE 1: OUR VIEW OF LEADERSHIP**



Our research on the style preferences of CFOs at PE portfolio companies, based on Spencer Stuart's proprietary Individual Style Profile, finds that the below-the-surface attributes of successful CFOs at PE portfolio companies in Asia are quite similar to those of their public-company counterparts.

Indeed, from this point of view the barriers to entry into PE may not be as high as they seem at first. Strong candidates who can manage a leaner and multiple-stakeholder environment may be found outside the PE world.

So, what are the most critical below-the-surface qualities for CFOs at PE portfolio companies?

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## Nimbleness and agility

CFOs at PE-backed companies have to be fast on their feet, in order to balance the typical finance job requirements along with a fast-paced environment and aggressive growth expectations. They have to be nimble and confident enough to make swift decisions under ambiguous circumstances. "A CFO in private equity cannot be too black-and-white," one former CFO at a PE-backed company told us. "You need to be able to manage the grey area."

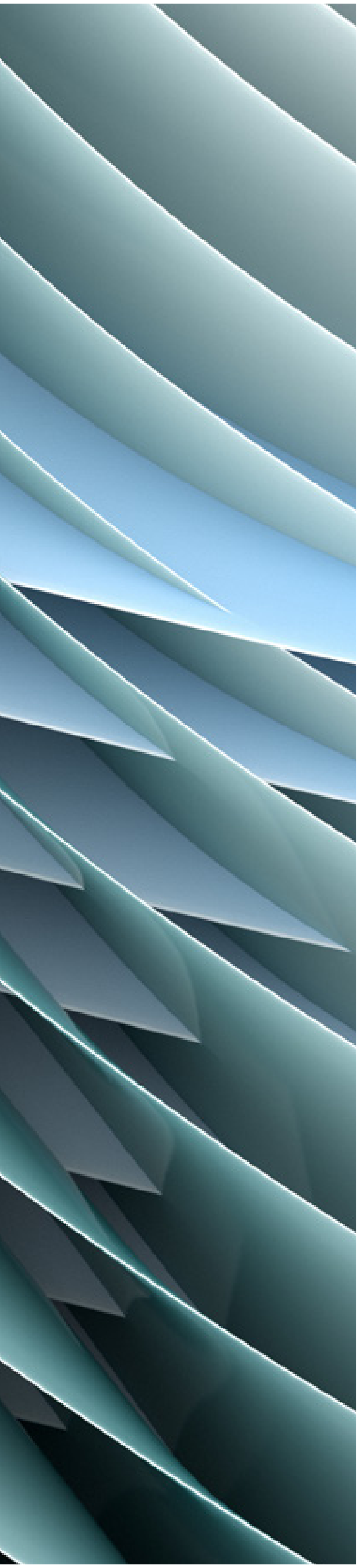
## Ability to see the big picture

As we've noted, CFOs in PE may often be "in the weeds" more than public-company CFOs, due to the generally smaller teams and wider range of stakeholders. Yet it is at the same time critical that the CFO be able to see the forest for the trees. A CFO who can see things from many angles will help ensure the company takes the right path in terms of commercial results and the exit strategy.

> **The CFO will need to be relatively low in ego, resilient but very firm on certain principles, such as compliance issues."**

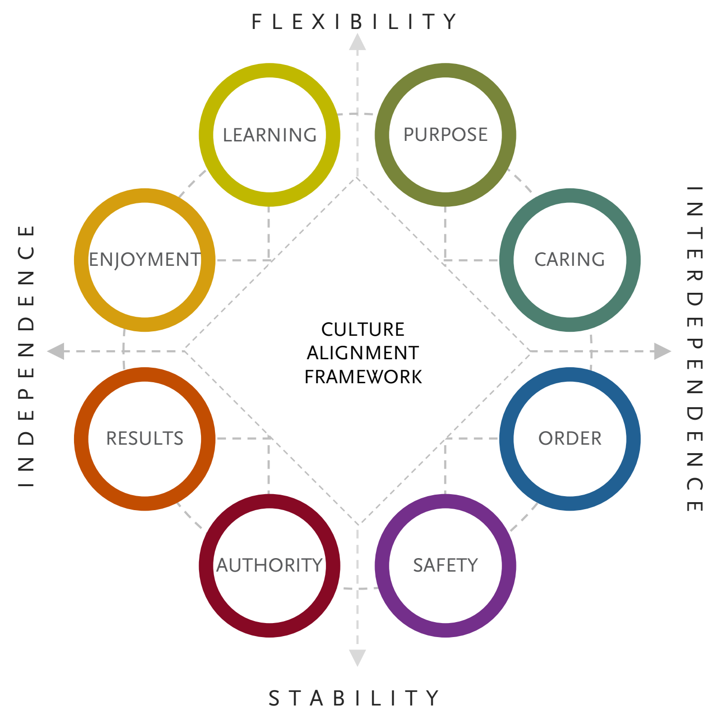
## Curiosity and low-ego leadership

With their hands in many more areas of the finance function than a public company CFO, portfolio company finance leads need a natural curiosity and desire to learn on the job. This learning mindset will help them navigate as a strategic business partner.



Our Individual Style Profile research found that CFOs with PE experience rank comparatively lower on authority (defined by strength, decisiveness and boldness) compared to their counterparts in publicly listed companies or MNCs (see figure 2). That makes sense in a complex, multi-stakeholder environment that is more fluid and less hierarchical. “The CFO will need to be relatively low in ego, resilient but very firm on certain principles, such as compliance issues,” says a former CFO of a PE-backed company in China.

**FIGURE 2: INDIVIDUAL STYLE PROFILE FRAMEWORK**




# Conclusion

To ensure the right leadership talent is in place in CFO positions at portfolio companies, it is important for private equity firms to evaluate candidates holistically.

“Too often firms overly focus on industry background and compromise on strategic thinking or open-mindedness,” said Jie Li, a director at FountainVest Partners. “Those are actually more difficult to train someone to do. When weighing the trade-offs, I believe we should lean toward that more.”

Instead of single-mindedly just seeking a PE CFO or industry fit, by also looking “below the surface” the right candidate may also emerge who can help lead the company toward its value creation goals. While it’s important that PE portfolio companies hire for proven capabilities, they truly succeed when finding leaders with the right combination of below-the-surface attributes.

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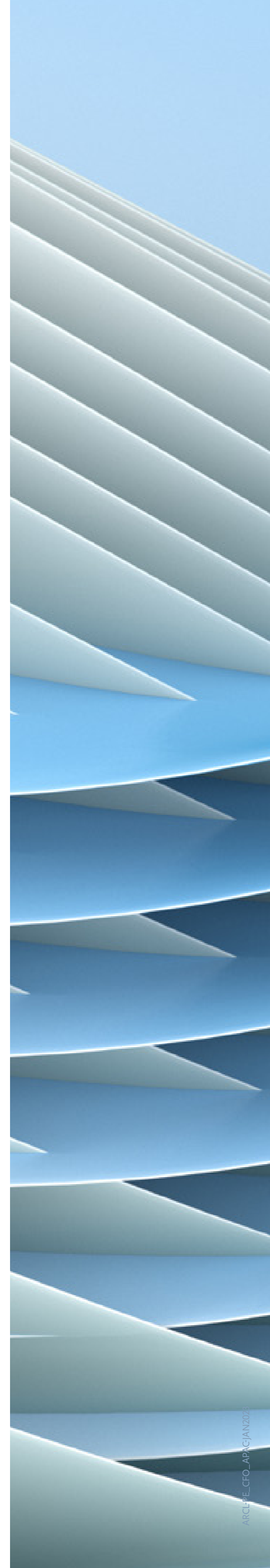

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## About Spencer Stuart

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