



Talking to the Board: Risk & Reward

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A CFO's interactions with a company's directors can be a career maker or breaker.

Among the multitudes of things a CFO can do to enhance — or detract from — his or her career, where does the quality of interaction with the board of directors rank?

Very high, according to people who should know best: those who have served as both finance chiefs and board members. In fact, it may be that nothing is more important, except making sure the numbers are right.

Charles Noski has seen it all, from his tenures as CFO at Hughes Electronics, AT&T, and Northrop Grumman to his current memberships on four big corporations' boards, including audit committee chairs at both Microsoft and Morgan Stanley. "I can't imagine a CFO being successful and not being well regarded by the board," Noski told CFO.com. "If at any point in time the board doesn't feel the CFO is forthcoming and above board, he or she probably will leave the company."

Keith Hall, a former CFO of Lending Tree, who has served on seven boards (three currently), puts board communications "among the top two or three things" that can help or hurt a CFO's career.

"If the CFO goes out of his way to speak to board members, solicit their opinions and voice his own, and his are well thought out, that can help greatly," Hall told CFO.com. "But I've seen CFOs who like to put up barriers, who don't want anyone looking over their shoulder or 'in their shop.' I've seen them get very defensive when questioned during board meetings. That is not a good reflection on the CFO."

Indeed, the potential is far greater for harm than gain, according to some observers. "I don't see interaction with the board as a positive enhancement for a person's career," said David Carson, a recently-retired 33-year Ford Motor Co. executive and one-time executive director of finance for Europe, who made numerous board presentations over the years. He said that on a 1-to-10 scale, with 1 being no influence on career advancement, he would rate it a 2. "But it can be a negative, if you can't answer a question or you babble a long-winded explanation."

Tom Kolder, president of Crist|Kolder Associates, a C-level recruiting firm that does board searches as a side specialty, compared board communications with other "externally focused" activities. "I'd rank it right up there with your effectiveness in dealing with the analyst community and the banking community," he said.

Seeking Board ROI

Despite the obvious motivation for effective communication with directors, many CFOs do not take full advantage of opportunities in this area. That's according to the Corporate Executive Board, a for-profit firm that conducts qualitative research on a wide spectrum of issues on behalf of corporate subscribers.

The firm's Finance Leadership Exchange practice, whose subscribers include 630 CFOs at companies with annual revenue between \$50 million and \$1 billion, recently prepared a report concluding that many CFOs are not leveraging board interactions to enhance company performance. They tend to be unsatisfied with the level of strategic guidance their boards provide, the research found.

But it's up to CFOs themselves to extract more valuable strategic input from the board, according to Cameron Doolittle, senior director of the Finance Leadership Exchange. "When we talk to them about boards, we often see a defensive posture," he said. "It seems as though they're just trying to get through the meetings without looking dumb, as opposed to really trying to pick the board's brains and drive in a more strategic direction."

Doolittle said CFOs should regard the board as an investment in time and money, and be as rigorous about seeking ROI from that as they are with any other investments. One way to facilitate that is to avoid falling into one of four traps in their reporting of information to the board: reporting on all issues in great depth; reporting in too much depth on a single issue; reporting on issues in ad hoc tangents without clear parameters; and addressing all issues but in very little detail.

In some cases, certainly, the board or its individual members request specific detailed information. Otherwise, though, CFOs ideally should provide depth only on critical issues and cover others more briefly. "The people who are thinking more deeply about this are pulling back on the amount of information they're dumping on the board and trying instead to focus on metrics that are key to the company's operations," Doolittle said. "One CFO said to us that there are two ways he can make sure the board knows nothing: tell them nothing or tell them everything."

On the other hand, another CFO, who prepares a quarterly 150-page report for his board, told Doolittle that he just wanted to make sure the board "had it all." Observed Doolittle, "It's a pretty common mistake that starts when we're young and see we get better grades for longer papers." The irony, he said, is that CFOs who mount such an effort to be completely transparent often are surprised when board members then choose to focus on parts of the data that the CFOs didn't regard as material.

Kolder called the ability to prepare concise reports for boards a differentiator. "World-class" CFOs don't provide a huge document that board members have absolutely no ability to digest before the meeting, he said.

Strategy vs. Compliance

From many CFOs' perspective, one thing that bars the way to strategic discussions is a fixation on the financials. "When CFOs see the board conversation focusing on compliance and controls and the other things that Sarbanes-Oxley has conditioned them to focus on, they see a missed opportunity to address the real strategic questions that are going to drive the business," Doolittle said.

That perspective baffles the CFOs-turned-board members. "I'm quite surprised that CFOs would say that," said Noski. "I think most directors understand and respect their compliance obligations, but they certainly also understand the importance of, and the need to focus on, strategy and the performance of the company, which are usually more interesting."

Pushing hard to be a driver of strategy actually can backfire on CFOs, according to Hall. They absolutely should be involved in strategic planning and be able to explain the plan to the board, he said, but deflecting the board's attention too much away from compliance is a great risk to both the company and its shareholders. "It's definitely bad for the CFO's career if the board perceives that he wants to focus only on the big strategic issues and not get into the details of making sure the firm is compliant."

Kolder, too, took issue with an excessively strategic mindset, saying it doesn't speak to the chief thing a board wants from a CFO. "They want to sleep well at night knowing that the business operation over in Istanbul is operating on processes that are consistent with the overall fabric of the enterprise and that they aren't going to end up in jail," he said.

It's fair to say that in today's world, with CFOs being close partners of their CEOs, they are naturally drawn into strategic discussions, Kolder said. But that should not be their top priority.

Ask the Experts

Another way for CFOs to derive value from board members is by identifying their individual areas of expertise and seeking their counsel off line. That can be a slippery slope, because the CFO doesn't want the board member to become actively involved in running operations, and in most cases board members don't want that either.

Done judiciously, though, it can "scratch an itch the board has," which is that they often feel disconnected from the company's operation, Doolittle said. He praised companies his group encountered in its research that assign board members to assist with initiatives that grow out of board decisions. "When you can turn to someone who has vast expertise in a particular area of the business and ask them to go meet with someone in the company who is involved in that area, most directors will jump at that," he said.

Noski said that because he's a former CFO, the finance chiefs for the companies on whose boards he serves commonly use him as a sounding board. On some of the boards, directors are assigned, with their input, to get to know an area of the business in depth or to mentor a particular executive.

At Ford, said Carson, the specific expertise of individual directors has been tapped in recent years to improve the company's credit business, understand the Far East business environment, provide counsel on the environment and alternative fuels, and develop end-user customer relationships.

Filling Holes

One of the Corporate Executive Board's recommendations was that CFOs expand their role in board composition decisions. That does not mean promoting specific people for membership, but rather assessing the board's competencies in light of the company's strategic priorities in order to highlight gaps that new directors should fill.

Hall said that on one board he served on, the company was making a big technology investment, so it added a strong tech person to the board. It had a CFO who needed some coaching in investor relations, so it lined up an experienced public-company CFO as a director. It identified contracts as an area of weakness, so it added a director with legal experience.

That plan was laid with the participation of the CEO, but Hall said that if a CFO is aware that such a discussion is going to happen, he should voice any opinions he has about what is needed. In particular, the CFO might be aware of, say, an impending departure of a key department manager that would leave a hole in the organization over which the board could provide some additional oversight.

At the bottom line, the most effective CFO is the one who can be proactive in steering board discussions, according to Doolittle. "It's not about being pushy," he said. "We understand that the CFO is one of the more junior people in the room. But everyone knows certain decisions need to be made. The CFO can act as a conscience or coach to the boardroom in making sure everything is tied down and there is accountability for every decision made."