

## The Essential Skills

To ascend to (and remain in) the CFO's office, you need much more than financial acumen.

[Alix Stuart](#), CFO Magazine

November 01, 2007

No one becomes a CFO without possessing the commensurate finance skills. No one thrives as a CFO, however, without having much more. As Scott Simmons, vice president of Crist Associates, a Chicago-based recruiter, puts it: "No company wants just a really good finance person anymore; they want someone who can go beyond that."

But exactly what are those other essential skills? What capabilities, talents, and expertise should be in a CFO's toolbox no matter what industry or company he works for or challenges she may face?

To hear CFOs tell it, "toolbox" may be the wrong metaphor: magician's bag of tricks is more like it. There's nothing easy about mastering the soft skills they say are essential, and which seem to boil down to clairvoyance, X-ray vision, and the ability to bend time. Ultimately, however, there is a common theme. "Once you get past the technical skills, it's all about people — communicating with them, developing them, empowering them, and listening to them," says Charles H. Noski, retired CFO of AT&T and Northrup Grumman. "If you do those things well, it will contribute to your success as an executive, whether you're a CFO or not." Patience, experience, and a solid dose of intuition can help you round out your financial acumen with the following tricks of the trade.

### Time Benders

Every executive knows all too well that a 24-hour day can feel woefully insufficient. Overload may be a way of life in finance, but there are ways to cut through the clutter.

Stephen D. Young, CFO of time-management consulting firm and accessory-maker FranklinCovey, tells his staff to stop producing any information they deem unimportant and "see if anyone notices." That advice has led to a 40 percent reduction in the volume of data reported over the past two years. For example, "rather than having a budget-versus-actual analysis sliced five different ways, we slice it two different ways, and rather than have 15 different inventory reports we have 10," Young says.

Young also takes a merciless approach to his E-mail inbox. He glances at it several times a day but doesn't respond to any messages until the end of the day unless they are clearly urgent. That establishes a very high bar — Young says he leaves about 60 percent of his messages unopened.

Frank Gatti, CFO of ETS, also relies on a strict E-mail hierarchy. "Not all E-mails are of equal importance," he says. Aside from those sent by his CEO, "investors and bondholders come first. Respond quickly even if you don't have all the facts, just to let them know you'll get back to them when you do."

### Managing Up

Every CFO has to deal with a CEO, and figuring out how to make the boss happy is a skill no aspiring finance chief can be without. "The CEO connection is the single most important thing a CFO must understand and maintain," says David Johnson, CFO of The Hartford Financial Services Group. While a sound strategy will depend on myriad interpersonal factors, Johnson says he thinks a critical element is candor, which is key to becoming a trusted adviser to the CEO.

"You need to know what your CEO's hot buttons are: what's important to him, what is he being judged against, what's his value system?" says Tony Panos, a consultant who developed and teaches a class on managing up for one of Cornell University's extension schools. "Anything you suggest should fit into that. You should demonstrate how you are helping him meet his goals."

But what about managing up to a dictatorial CEO? The advice is the same, Panos says, but he recommends looking a bit deeper for motive. "People who are dictatorial tend to have some level of fear driving them. Start by looking at what those fears are and how you can mitigate them."

### The Art of Saying No

CFOs are often labeled as the original "Dr. No," and in fact they may be more likely than other senior executives to put the kibosh on ill-advised plans or projects. But many CFOs agree that a thumbs down, or any form of unwelcome news, can be delivered professionally and with a little less sting.

One way is to "help people feel like they're coming to a decision together," says Bright Horizons Family Solutions CFO Elizabeth Boland, by giving them the facts and the potential risks rather than a final answer. Richard Fearon, CFO of Eaton Corp., says that listening can make all the difference. "You just need to hear the idea through so that no one feels shortchanged," he says. In a well-managed company, he adds, the CFO won't have to play the heavy very often, because bad ideas will usually be weeded out before they get to his door.

Sometimes, of course, the CFO will have to say no. The toughest situations, in Boland's view, are those in which the lack of revenue potential "makes it really evident that a proposal is not even worth talking about." She counsels patience. "We try to talk through all possible revenue opportunities," she says, "before saying it won't work." When all else fails, says Fearon, you simply turn the tables. "I just ask what the person would do if he or she owned 100 percent of Eaton."

### **Vetting Vendors**

Third-party consultants, contractors, and service providers have become essential in this era of increased regulation and outsourcing. And thanks to Sarbanes-Oxley, not only has "reliance on third-party vendors reached a new extreme," says Jeff Burchill, CFO of FM Global, but so has the complexity of deciding which firms to hire. In the past, the decision was based largely on who was the low bidder. But now that public-company CFOs face a potential personal liability regarding the quality of financial reporting, "price may not even come up," Burchill says. Consequently, CFOs often have to be "personally involved in the selection process," he says.

That means digging deep on references. Ideally, have a technical person on your staff find out exactly how a consultant handled, say, a software conversion at the reference's company and what complications ensued, says Bright Horizons's Boland. Then ease into the relationship slowly, signing up for only a short project to start. Build in time for unexpected problems.

Setting out detailed, measurable expectations can help guide the relationship. "You don't want to micromanage what you've outsourced, so you need to have the right reference points to measure them against," says ETS's Gatti. He recommends asking the vendor for an easy-to-read dashboard showing early warning signs for problems, along with more-detailed weekly or monthly reports.

Finally, realize that managing vendors now carries the additional burden of being responsible, at least to a degree, for the quality of their internal controls. "It's bad enough trying to monitor your own internal controls," Stephen Bainbridge, a law professor at the University of California, said at a recent symposium. But overseeing another company is "more difficult and more expensive."

### **Develop X-ray Vision**

The CFO is in a unique position to have a window into every aspect of a company, but that's no substitute for real vision.

"We participate in or lead some of the most complex decisions an enterprise can make, so one of our jobs is to see the consequences of all those paths that others can't see," says The Hartford's Johnson. And that, says Robert Mittelstaedt, dean of Arizona State University's business school and board member at two public companies, requires being "analytic enough to constantly think about 'what-if' scenarios." After all, CFOs "are better versed than anyone about the financial implications of any of those risks," he says.

Many CFOs are analytic by nature, of course, but Johnson says that what really helps hone a CFO's powers of perception is trouble, and the more the better. "Until things go very wrong in ways that were completely unanticipated, you don't develop those skills," he says. And he should know. Having helped clean up fraud at Cendant and worked with companies in bankruptcy as an investment banker, Johnson has seen his fair share of crises. He actually reads forensic audit reports of disasters at other companies to help keep him on his toes.

### **Legal Ease**

The last thing any company needs is a lawsuit. But in Corporate America, they come with the territory. Patent infringement, employee discrimination, workers' compensation, and, perhaps scariest of all, securities class-action cases are all a fact of life.

The real issue is risk avoidance, and there are some simple safeguards, says Cynthia Jamison, national director of CFO Services for Tatum LLC. For example, "Have routine legal forms that are used for 'usual' business [that is, customer contracts, NDAs, option agreements, and so on]. Then, whenever something is out of the ordinary, or someone requests a substantial change to normal policy, call a lawyer."

Bill Stephan, the former CFO of Harborside Healthcare, added another layer of protection. "We had a policy that no field personnel could enter into contracts." Instead, the company, an 80-location nursing-home operator, mandated that only the CFO and the in-house counsel were allowed to sign. But Stephan avoided bottlenecks by pledging to turn around any documents very quickly — often in the same day.

Having a good working relationship with your counsel — whether inside or outside — can be a safeguard in itself. In fact, says John Iino, a partner at Reed Smith LLP and co-chair of the firm's Corporate & Securities practice group, lawyers are most efficient "when they are kept close to the internal decision makers." Only then, he adds, can they help companies "draw the line between legal compliance and financial compliance" in such areas as executive-compensation disclosure. Stephan worked close enough with his inside counsel, in fact, that he became adept at spotting legal red flags.

Of course, there are times when outside counsel must be called in. This is especially true, says Jamison, "if you are in

a defensive posture — say, a customer threatens to sue or you get subpoenaed for a court appearance." That's when the CFO's skills come in handier than ever. "It's just like managing anything else," says Stephan. "You want someone who is working in your best interest. And you want to avoid anyone with a tendency to overlawyer or who's just out to win points." If you don't, you'll regret it when the bills come in, he adds.

### **Street Talk**

Increasingly, a wide range of stakeholders want direct access to the CFO. Knowing what communication techniques work with which audiences can help finance shine, both within and outside the company.

But honing your skills as a public face of the organization requires a bit of homework. Before his company went public in March, Steffan Tomlinson, CFO of Aruba Networks, listened in on some 20 conference calls and kept a log of questions asked by analysts so that he would know just what to expect when Aruba held its first call. From that, he learned that "tone and tenor mean a lot, especially over the phone," and "how you answer questions about competitors is telling." He says that when executives on one of the calls he listened in on stumbled over certain questions, their company was soon described by an analyst as faltering.

Frequent calls, road shows, and meetings can be a grind, but Boland of Bright Horizons says it's critical to stay focused. "You get very routine about how you do your presentations and what you think people want to know," she says. "Try to hear what they're really asking."

If the audience is internal, be prepared to forgo finance jargon in favor of plain English. "I've worked with many CFOs who aren't CPAs but became CFOs because they were able to synthesize financial information into something useful," says Bruce R. Evans, a managing partner at private-equity firm Summit Partners. Offer a few select bar charts and graphs when possible, instead of tables of numbers. And don't talk too much. "Even when the work behind something is extremely complex," says Gatti, "your audience really just needs to know the headlines."

### **Leading by Example**

As the head of the finance department, the CFO must lead and inspire — and know when to get his hands dirty.

It is a delicate balance, says Joseph E. Esposito, recently retired CFO of Concord, Massachusetts-based SolidWorks Corp. "You have to demonstrate that you are a leader, but without interfering." That means offering the guidance and counsel of a top executive, he says, but letting your employees do their day-to-day jobs. Boland echoes that idea: "As CFO, you've got the title and authority to be involved, but you have to make other functions feel like you're an assistant, that you're there to make them look good."

There are times, however, when the pressure is such that a CFO must step into the fray. Esposito has found that a particularly effective approach is to jump in as a short-term project leader. As a CPA, he says, there have been many times when he's been able to lead a technical project, such as dealing with stock-options accounting, and that when he has done so it has come as a big relief to his staff. "To them, something like that is just a big pain in the neck," he says, "since many have never seen it before and may never see it again."

At the same time, sometimes it's the little things that count. For ETS's Gatti, for example, leading by example means getting his expense reports in on time so that he can encourage others to do the same.

*Alix Nyberg Stuart is a senior writer at CFO.*