Getting the Promoter-CFO Equation Right

Why do promoter-CFO relationships fail so often? **S Venkat** offers some insights

For most family-managed businesses that are professionalising or raising private capital, getting the CFO appointment 'right' is a critical prerequisite. Equally, CFOs who are keen to generate real impact, or even to produce transformational results, love to work with promoter-led companies. Unfortunately, despite this mutual 'need', CFO 'mortality rates' in family-run businesses remain very high.

What learnings can we derive from the not-so-successful 'CFO at FMB' experiments, and what can be done to improve the success rate, going forward? This can be broken into two parts: where CFOs go wrong, and where promoters do.

The four fatal mistakes that CFOs make

Not being adequately hands-on in the business

In India, family members tend to be heavily involved in promoter businesses. Not only are they sharp at engaging with the CFO on the 'big picture', but also, they are usually aware of day-to-day developments within the organisation, big or small. The one thing that promoter groups dislike is a CFO who sits in his room and comes across as patronising, condescending, or 'advisory' in tone. What they want is for the CFO to be involved in the thick of the action, and to be aware of the 'guts' of the business. In short, the CFO must be someone who solves problems and gets things done – and not just someone who talks.

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Not speaking the language of 'results'

Promoters understand the language of effort, but appreciate the language of results better. Most promoter groups place a high value on the honesty, integrity and hard work that a professional CFO brings to the table. They also appreciate loyalty to the business – and to them personally! While these traits get appreciated, they do not necessarily buy the CFO respect, or the time to deliver. Professional CFOs need to understand very quickly how to quantify their value-add in terms of revenue growth, cost reduction, improvements in margins, valuations or the velocity of cash flow, and the ability to raise funds. If the CFO is unable to tick even one of these six boxes while conversing with the promoters, he or she risks losing the plot very quickly.

Being a 'judgemental CFO'

Many professional CFOs come from larger, more sophisticated, process-mature, and more systematically-managed organisations. This can make them judgemental about the quality of systems, processes, and possibly even the leadership style of their new organisation – a dangerous pitfall that must be avoided. The reason family businesses decide to hire a professional CFO is precisely that they see gaps in the finance department. More importantly, they are tacitly admitting that they cannot manage the function by themselves. So instead of dwelling on problem areas and getting judgemental, the CFO must quickly start devising and implementing solutions. Finance heads that help the company professionalise in a time-bound manner, and move it towards better governance and IT enablement, are the ones who win and retain the respect of promoters.

Making wrong assumptions about the quality of support systems

In a more sophisticated organisation, the CFO can rely on support from a professional, highly qualified team. The response time is usually short, and the level of 'smarts' within the team typically very high. The CFO also deals with larger – and usually more professional – audit firms,

customers, investors, bankers and IT vendors. Yet when moving into a smaller FMB, they may find a lot more on their plate, but without the support ecosystem they are used to. In effect, it's a 'double whammy'. On the one hand, the expectation from the CFO role is larger than before, but on the other, the support system they think they are going to get is not up to scratch. A good way around this is to satisfy oneself about the promoters' ability and willingness to invest in the right teams and tools before taking on the new job.

The four fatal errors made by Promoters

Similarly, there are four types of errors that promoters tend to make, souring the CFO relationship in the process.

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A lack of transparency in the initial stages

If there is one thing that irks a professional CFO, it is not having all the facts at their disposal. Most CFOs need transparency, upfront, and at the very beginning of the engagement. They see their role very much like a physician would – someone who, in the absence of past 'medical records' cannot make the right 'diagnosis', or accurately recommend and implement the 'cure' that is required. On the flip side, most promoters think that trust is something that needs to be won, incrementally, over a period. The best strategy for promoter is to take their time deciding who they want as their new CFO – but once that person is on board, they need to be completely upfront so he or she

quickly understands the dimensions of the problem that needs solving. CFOs also appreciate an initial 'handholding', which helps them understand the business context in which they are expected to deliver results.

Promoter anxiety for quick RoIs

FMBs are hardwired to look at returns on investment, and commonly suffer 'ROI anxiety' after hiring a professional CFO. They look at the salary that is being paid as an investment on which they expect a return – and since professional CFOs do not come cheap, the corresponding anxiety levels can also be very high. An impatience for results, however, can put unnatural pressure on the Finance department – leading to a sense of frustration, and eventually, acrimony. Thus, it is crucial for promoters to realise that CFOs need time and space, and equally, they need to discuss RoI expectations and timelines at the recruitment stage itself. The new CFO will eventually deliver, but only when allowed to bring the full flavour of their experience to the new organisation.

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Multiple agendas

When several family members are involved in the business, each might articulate a different agenda with the finance team, and with the CFO. This can lead to one of two outcomes. Either the CFO will get confused about which agenda to follow, or the person will get tired out trying to work on multiple agendas at the same time. The solution is for the family to agree internally on who will be the 'point person' that interacts most directly with the CFO on the family's behalf.

Encouraging parallel reporting

Sometimes for valid reasons, at other times for devious ones, promoters might encourage the existing finance/accounts team to report parallelly to them. This might be for reasons as innocuous as having old 'confidants' manage their accounts or personal tax filings for them, or it might go into other realms, making the new CFO very insecure. After all, when bringing a senior person on board, it is fair to hold them accountable for results, but only if they have full ownership of their team. On the other hand, when the family starts to call on more junior members, it can affect the CFO's position, and the level of respect they command within the organisation. A simple solution is to agree on specific areas in which the promoters can continue working with the existing team.

Like any other partnership, the promoter-CFO relationship needs time and effort to nurture. It is always a two-way street: if you get it right, it's a wonderful *'jugalbadni'*, but if you get it wrong, its complete cacophony. Will promoters and CFOs figure out ways to avoid the pitfalls of the past and work in harmony? Here's to successful new beginnings! ■

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