

Navigating the Uncertain Road from **CONTROLLER** to **CFO**: *The Leadership Imperative*

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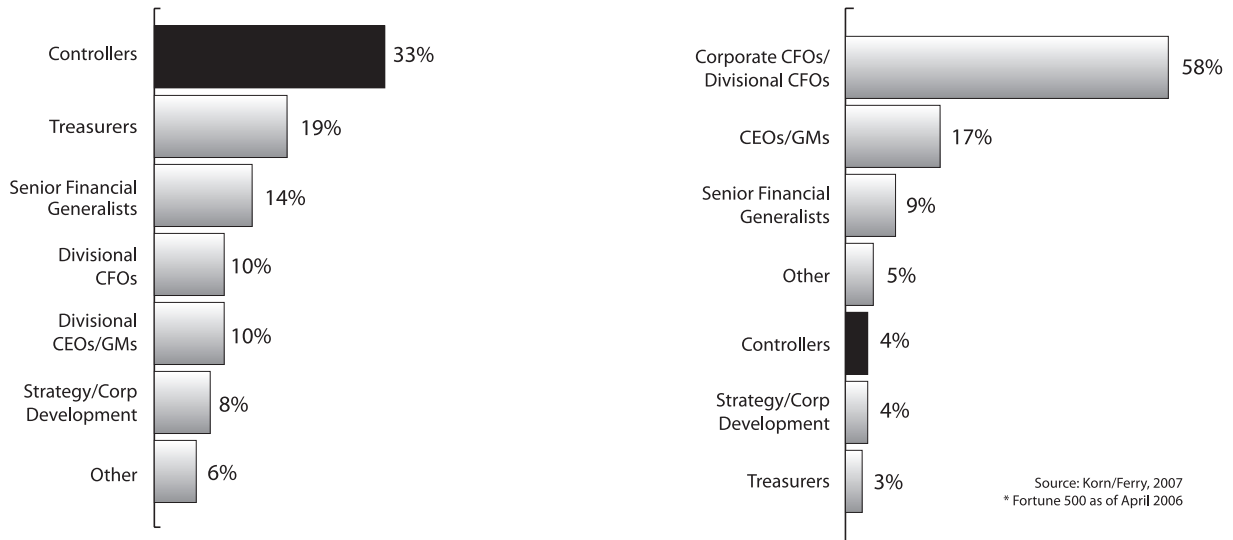
As organizations of all sizes struggle to fill their top finance positions, controllers are emerging as strong candidates. Yet, while controllers may have the technical expertise to move up the ladder, an analysis by Korn/Ferry International shows a gap in the leadership skills necessary for best-in-class CFO performance. Controllers who want to occupy the C-suite and be truly successful need to move beyond finance expertise to become participative leaders.

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hen it comes to competing for the CFO position, controllers have an advantage. In an analysis we conducted of FORTUNE 500 companies in 2006, one-third (33 percent) of all CFOs who had been promoted to their jobs came from the post of controller. Treasurers ran a distant second place at 19 percent.

The picture is less encouraging in organizations that recruited their CFO from outside, our study found. Only four percent of external hires were controllers, while 58 percent were already corporate or divisional CFOs elsewhere.

Being a controller, therefore, definitely offers a path to senior management, but with two-thirds of internal promotions and 96 percent of external CFO searches going to other candidates, controllers cannot assume anything and must actively prepare for opportunities to advance to the CFO role.

Fig. 1: PROMOTED TO CFO VS. HIRED CFOs*


Among the FORTUNE 500 CFOs who were promoted to their jobs, one-third came to the top post from the controller's job. While this shows that controllers have an advantage, two-thirds of the CFO jobs went to other candidates, so there is plenty of opportunity for those who prepare to compete.

In those FORTUNE 500 companies where the CFO was recruited from the outside, controllers were not well represented. Boards and search committees appear to be looking for executives with demonstrated leadership skills.

Korn/Ferry research indicates that there is a way for controllers to become more attractive CFO candidates. The key appears to be in developing a critical set of behavioral skills that characterize the most successful CFOs.

On an organizational level, developing the leadership skills of high-potential finance managers is, unfortunately, often overlooked. But individuals who want some control over their career paths and are willing to make the extra effort can develop and hone these skills in a way that results in leadership success at the CFO level.

Defining the Successful CFO

In order to determine what makes a CFO successful for this study, we mined Korn/Ferry's database of more than 500,000 profiles of business executives worldwide. These profiles are created through our proprietary assessment tool, which is based on the research of the behavioral scientists at Decision Dynamics, LLC. The assessment leads executives through several sets of scenario-based questions in order to evaluate their leadership style, thinking style, emotional competency and cultural fit.



After identifying the CFOs in the database, we created an "average CFO" profile. We followed a similar process for arriving at the profile of an "average controller." In order to drill down into the assessment data to find the common behavioral characteristics of the most successful CFOs, we then selected compensation as the indicator for "success," the rationale being that CFOs who show a consistent increase in salary are being rewarded for good performance. Our CFO Success Profile was then crafted from the information available on the CFOs who met our criteria.

So, what does CFO success look like? One thing is clear: it's not the same as controller success. CFOs focus on "people" issues as well as on their traditional financial governance responsibilities, and use interpersonal relationships to help them make better decisions and get ahead. Controllers, by contrast, tend to be more task-focused and less inclined to build consensus. For those controllers wishing to make the transition, closing the behavioral skills gap is a priority.

CFOs Are Participative Leaders

The way we act when we are consciously aware of what other people expect of us is called our *leadership style*. Our research found that the most successful CFOs are highly interactive, social and consensus-oriented leaders. In meetings and external situations that are non-pressured, for example, best-in-class CFOs are attentive to others, involving them in discussion and responding to their input. In short, they are participative leaders.

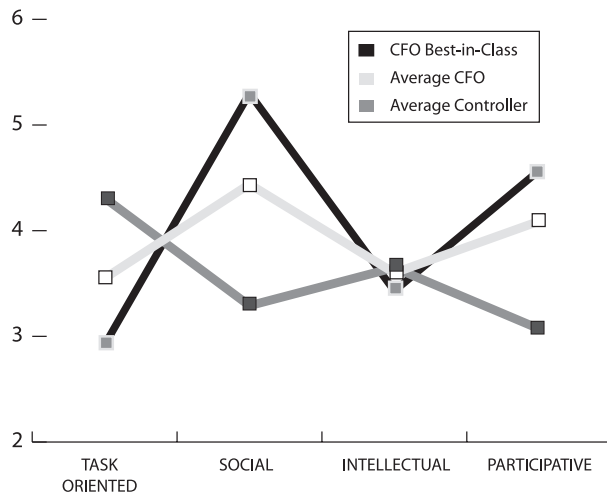
When the heat is on, however, they remain open to others but adopt a more "fluid" leadership style that tends toward swifter action and managing more quickly through alternative solutions in concert with others.

Overall, our study finds that successful CFOs lead with an open style that persuades others to buy into a solution and to work as a team to implement it. Additionally, these strong relationship-building skills allow such CFOs to utilize a network of partners and authorities who can provide insights, alternatives and feedback they may not have been able to obtain on their own.

In contrast, our research indicates that controllers have substantially different leadership styles. In non-pressured situations, controllers show themselves as methodical and analytical, focusing on quality and accuracy. This is an "intellectual" leadership style.

When faced with pressure situations, controllers become task-focused leaders. Communicating in a clear and matter-of-fact way, the controller issues concise directions, delegates responsibilities and emphasizes adherence to policies. Obtaining buy-in and motivating the team are not usually high on the controller's task list.

Fig. 2: LEADERSHIP DECISION STYLES



CFOs are more social than controllers. They encourage input from others, listen to it, and work to reach a consensus. In contrast, controllers focus on getting the task done. Although perseverance is a worthy trait, controllers who do not embrace and develop an interactive, social leadership style will find it hard to reach the most senior levels.

While one can understand that the nature of a controller's day-to-day work is more tactical than that of a CFO, controllers with eyes on the C-suite may want to focus on developing the participative and social leadership style that will get them – and keep them – in the front office.

Controllers who aspire to become CFOs need to be attuned to professional situations that lend themselves to interactive leadership styles. For example, a controller may face a problem whose causes are not well defined. He or she can use this situation to involve stakeholders in identifying the issues and finding solutions, thereby developing and exhibiting competencies that emphasize getting things done through others and building teamwork.

Controllers need to move beyond being "finance gurus" to being the "bridge" between finance and other parts of the organization. To succeed as a CFO, it is critical to develop strong, positive relationships and establish trust across a network of people at different levels.

CFOs Are Creative Thinkers

Thinking style is the way we behave when we are not in the spotlight or when we simply are not watching ourselves. Our study found that successful CFOs use a thinking style that combines creative problem solving and focused action.

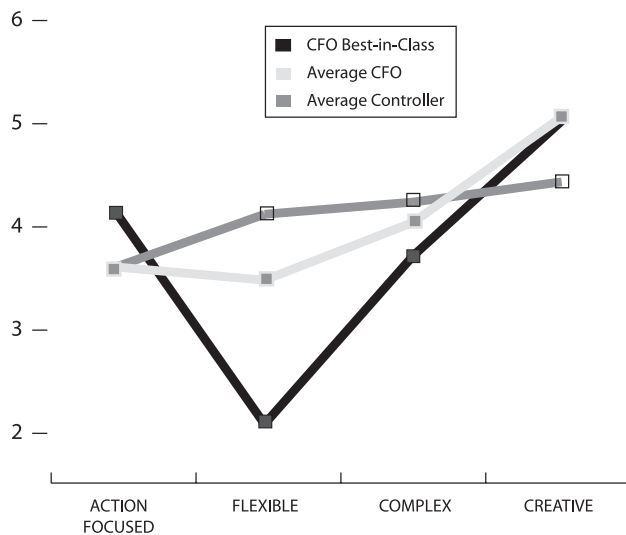


Today's world of finance is diverse, complex and multi-faceted. CFOs, therefore, need highly developed analytical skills. At the same time, however, CFOs must be able to identify trends and patterns in their industry sectors and to take a big-picture approach that recognizes not only the rippling consequences of decisions and actions but also their long-term impact. CFOs need to see both the horizon and the foreground.

When working alone in non-pressured situations, best-in-class CFOs use creative, exploratory problem solving that involves "playing with" different solutions. This allows them to explore options in the context of the larger issues and to consider input from multiple stakeholders. And, when pressure picks up and it is time to solve the problem, a successful CFO focuses on implementing the chosen solution.

There are similarities in the thinking styles of controllers and CFOs. Where their behavior diverges is in a controller's tendency to react quickly to situations, adjusting to changing circumstances. This "flexible" style, which allows for abandoning one plan and moving toward another that better suits the environment, may be an asset to a controller, but a CFO could create confusion and lose time and credibility by shifting direction too often.

Fig. 3: THINKING STYLES



When considering a problem in a non-pressured situation, CFOs explore issues and options, and include the opinions of others. Controllers and CFOs share an action orientation, but differ in how they react to problems as they arise. Controllers often change course as the situation evolves. At the CFO level, however, this tendency to shift direction could cause confusion and loss of credibility. Would-be CFOs, therefore, must work on analyzing problems more broadly.

Would-be CFOs, therefore, would benefit from developing their abilities to analyze problems on a broader level that takes into consideration more than just the solution's financial aspects.

CFOs Are Risk Tolerant

Emotional competencies refer to feelings and motivations that give energy and direction to our behaviors. We call them "competencies" because they influence directly and importantly how we perform our work and the amount of effort we exert when coping with environmental pressures and demands.

Of the emotional competencies examined by our assessment tool, we chose the following as relevant to the controller-to-CFO discussion:

Ambiguity tolerance – handling uncertainty, dealing with the unknown and the unclear

Composure – emotional stability in the face of adversity

Empathy – capacity to understand others and self

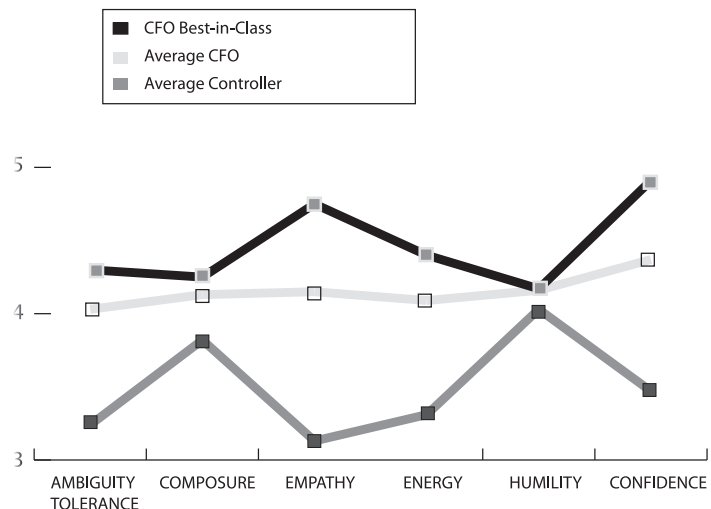
Energy – sustained ability to handle complexity

Humility – lack of personal ego involvement

Confidence – self-assurance and ambition

Fig. 4: EMOTIONAL COMPETENCIES

Once again, the "people" orientation of best-in-class CFOs appears as our analysis shows them to be more empathetic than controllers. In general, though, controllers and CFOs share similar emotional competencies. CFOs have a greater tolerance for ambiguity, which is in keeping with their corporate role that requires assuming visible, risk-prone challenges.



We found that controllers and CFOs share similar emotional competencies, although best-in-class CFOs tend to exhibit higher levels of ambiguity tolerance, empathy and confidence.

This is not surprising because the CFO role, by definition, requires the ability to tolerate uncertainty and to assume visible, risk-prone challenges. The tendency toward higher empathy speaks to the need to understand the motives, agendas and styles of those with whom CFOs have interpersonal relationships that create success.

Controllers Can Learn CFO Behaviors

What do the results of Korn/Ferry's analysis of the CFO Success Profile mean for controllers? Although a controller may not have had full responsibility for finance or accounting previously, from a technical skills viewpoint, controllers are well prepared to move to the C-suite. But, without behaviors that emphasize "people" skills, controllers limit their chances of making it to the top. The good news, though, is that leadership qualities can be developed, and those controllers who choose to do so will be well rewarded.

Controllers aspiring to become CFOs may direct their professional development efforts in the following ways:

- Evolve your leadership style – Move from a command-and-control (directive) style of leadership toward a collaborative and open style.
- Learn from others – Rely less on your technical expertise and embrace and draw on the strength of others.
- Become situationally aware – Keep your eyes open for situations that will allow you to work collaboratively in solving problems.

A Practical Guide to Developing CFO Skills

Korn/Ferry's research reveals that while controllers have the technical expertise organizations are looking for, they often fall short on the leadership skills companies expect from CFOs. Here are some suggestions for improving your chances of being recruited for the top spot.

- Take a hard look at yourself. Identify your strengths and weaknesses and make a commitment to developing the participative leadership skills demonstrated by best-in-class CFOs.
- Ask a trusted colleague for feedback on your self-assessment and use that input to make the necessary changes.
- Find a role model who possesses the qualities you seek and observe his or her behavior. Ask for that person's help, if appropriate.
- Find an executive coach to help you develop your potential.
- Attend seminars and other learning opportunities focused on the particular skills you want to develop.
- Investigate job rotation or assignments in other business units that provide opportunities to hone behavioral skills and to develop the big-picture view required of CFOs.

- Focus on people – Replace some of your emphasis on monitoring day-to-day minutiae with more attention to relationship and team building.
- Improve creative thinking – Try to combine innovation with strong execution and resist the tendency to change direction quickly as the environment shifts.
- Be aware of yourself – Develop increased interpersonal awareness and responsiveness and project a strong, steady presence even in the face of uncertainty.

As the Baby Boomers leave the workforce, companies will find it harder than ever to recruit senior leaders. There will continue to be more senior-level openings than executives to fill them. Controllers, therefore, will find themselves in a favorable position to become CFOs, but success will depend on their ability to evolve into leaders who rely less on technical skills and more on their abilities to motivate and engage those who work for them. Fortunately, leadership is a skill that can be learned by those who are willing to put in the effort.



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Methodology

For this study, data gathered by Korn/Ferry on more than 500,000 top executives (more than 1,500 of whom were CFOs) was mined to develop statistically validated Success Profiles for the position of CFO and other C-suite level positions. With the help of Decision Dynamics, LLC, the CFO Success Profile was compared to the average CFO profile (n=1,831) and the average Controller profile (n=2,547) calculated from Korn/Ferry's extensive database. This comparison reveals the challenges of those aspiring to move from the Controller position into that of CFO.

Korn/Ferry also gathered extensive data about CFOs in the 2006 FORTUNE 500, including prior functions, employers, industry sectors, CFO and CEO start dates and accession types (i.e., promotions versus hirings), and other pertinent variables, and then conducted a detailed analysis of this information, examining trends related to the hiring and promotion of FORTUNE 500 CFOs through August 2006.

About Korn/Ferry International

Korn/Ferry International, with more than 70 offices in 40 countries, is a premier global provider of talent management solutions. Based in Los Angeles, the firm delivers an array of solutions that help clients to identify, deploy, develop, retain and reward their talent.

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