

# Does Your CFO Wear Too Many Hats?

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At a recent meeting with a highly successful private equity CFO whom I will call Joanne, the conversation turned to her daily activities. I listened carefully and felt a surprising level of concern. No longer "just" performing the traditional recording, reporting and safeguarding of firm assets, Joanne was responsible for a broad range of operations, technology, personnel and finance duties.

I asked politely if she had any support. She explained that while these duties would be handled by a COO and a large staff in a larger private equity firm, her firm was "not yet that large" – they were "mid-size." Although budgets and head count at her firm were constrained, their needs continued to grow. When Joanne took the job, she envisioned herself in a "strategic role," not in her current execution role. Complicating the situation, many of the time-consuming, control-driven operating duties were not well understood by her partners, all of whom were intensely focused on the investment process. Her controller, already struggling to meet a variety of deadlines arising from their multi-fund status, was unable to take on any more responsibilities.

Having listened to Joanne's concern, I began asking other CFOs to discuss their work situation. Their feedback

echoed my initial conversation with Joanne: Rather than scheduling tee times, attending leadership conferences, or engaging in other activities designed to "sharpen the private equity knife," CFOs widely described their working life as harder than ever. Their partners wanted and expected them to do more and execute more, giving the CFOs themselves little choice in the matter. Firm investment and realization activity had exploded. They needed to stay on top of growing operational, legal and financial risk. Funds were getting more specialized and complex, limited partners were becoming more concentrated and sophisticated, and fundraising remained a continuous effort. Pay was on the rise, but scheduled vacations were growing shorter and shorter.

Job postings for new CFOs mirrored these concerns. Lots of firms seemed to be looking for a "high impact" CFO with wide-ranging experience, not just traditional CPA skills and fund accounting: a CFO who could take their small, collegial business model and transform it rapidly into a large scale asset management firm. Job postings cited lengthy corporate finance experience, strategic sourcing, and heavy tax specialization as desirable qualities, along with public company experience, SEC reporting skills and years of large cap

management experience. No wonder the average CFO lifespan at his or her position was less than four years.

In the face of such discouraging data, I wondered if Joanne's hopes for a "strategic role" were just a pipedream – that execution was king. Then I heard from a small group of CFOs who seemed to be swimming upstream, handling things from a different vantage point and building a radically different model. Although a few of them were in the early innings, and some had already experienced their share of missteps, their working lives shared a number of characteristics.

First, they approach their jobs differently. They act more like Chief Administrative Officers (CAOs) than traditional CFOs. Rather than take on a long list of extra responsibilities, they actively extend their firms' resources through outsourcing, off-shoring, near-sourcing, or near-shoring. For these CFOs, the traditional "field of dreams" approach of building infrastructure and retaining a substantial in-house capability does not work. Opposing a strictly tactical approach in favor of strategic and transformational thinking, they understand how to manage firm growth with less infrastructure by outsourcing processes that are non-core.



In fact, outsourcing is a popular strategy for many firms. 73% of U.S. private equity executives recently interviewed by a “big four” accounting firm presently outsource one or more business processes to external providers.\* These executives view outsourcing as a strategic tool that improves their firms’ efficiency, time management and cost control. In these firms:

- 20%+ of the budget is spent on technology outsourcing (information technology, applications development)
- Over 10% of the budget is spent on outsourcing overall (e.g. human resources, finance/accounting/ payroll, training, benefits, business process, procurement, deal research and due diligence, advertising or real estate administration)
- Two or more outsourcing firms are currently employed
- The firm is contemplating outsourcing more functions

Second, these CFOs have strong leadership and project management

skills. They realize that in managing multiple contractual relationships, they have to be vigilant in terms of costs and benefits. They are comfortable choosing the right partner, insisting on the right governance and managing internal employees effectively.

Third, they work very hard at measuring performance. They establish timelines, budgets, service levels and baselines to measure results, clearly delineating functions that remain in-house from those that are (or will be) outsourced. With due diligence, they set key service provider deliverables and negotiate benchmarks. They are not afraid to drive a hard bargain when outsourcing contracts are renewed, both in terms of scope and price. Most importantly, they are not opposed to bringing things back in-house if their performance objectives are not met.

Fourth, they report directly to the firm’s Senior or Managing Partner. They are at the decision table, able to fully commit resources. Their firm respects them as strategic members of the team.

Fifth and finally, these CFOs understand and learn from history. They have witnessed the shift of transactional, technological and administrative business processes from in-house to outsourced providers. They have learned from their portfolio companies who move their supply chains offshore to cheaper locations and delegate their personnel, IT and application development to outside vendors. They are increasingly comfortable with outsourcing their knowledge-based processes. Above all, they are willing to focus their in-house resources in areas where they excel.

\*PricewaterhouseCoopers, [http://www.coltexpress.com/files/Business\\_Process\\_outsourcing.pdf](http://www.coltexpress.com/files/Business_Process_outsourcing.pdf)