

Can a CFO be a Good CEO?

CFOs don't often get to be CEOs. However they can do it if they can achieve the necessary self-awareness.



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Do You Want to be the Top Dog?

Can a CFO move on to become a good CEO? Can a CFO even become a CEO? Often CFOs are seen as being too technical and narrow to take over the strategic and non-technical aspects of a CEO's job. And, in fact, at least in the US, although some CFOs do become CEOs, they only represent a small percentage of all CEO appointments, say 10-15%.

So how did the CFOs who became CEOs achieve this promotion? What do you have to do to increase your chances of becoming a CEO? That is, presuming that you even want the CEO job!

Model CFOs

There are some examples of CFOs who became CEOs. As we shall see, not all of them were good. But the good models are instructive.

Coleman Mockler, the CEO of Gillette 1975-1991 was good enough to become one of the top CEOs quoted in Jim Collins' famous book "Good to Great". Mockler was seen as being practical, caring and honest, all of which are the virtues that Collins saw as being

the hallmark of a "Level 5" leader, the very best CEOs. Yet Mockler was quiet, unassuming and humble. His CFO background was critical to Gillette being able to ward off financial people who were trying to take over the company.

Another successful CEO who had been a CFO was John Dasburg of Burger King. He was brought in to turn Burger King around, which he did, and then sold the company. Yet another was Edward Liddy who was brought in as a key CEO when AIG started to have massive problems in 2008. He was instrumental in stabilizing the company which was in grave financial trouble.

But we should note that all 3 of these successful CFO-turned-CEOs were brought in because the company at that particular time needed a financial specialist. Generally they were not brought in because of their ability to lead strategy, product or innovation. And, as we shall see, below, there have been some notable failures by ex-CFOs.

Benefits and Weaknesses of a CFO Background

You can see why a good CFO would sometimes be an excellent fit with the needs of a company for a CEO. They have a strong understanding of finance, cash flow, stockholder equity, ROI, and profitability. Many CEOs from other backgrounds such as sales or products don't have this understanding. So CFOs can often be excellent CEOs when there is a need for a turnaround, or there are cost or profitability issues, or the company is going to get sold.

As companies go through their lifecycle and as markets go through their cycles, CFOs are an especially good fit at certain points of time. In a company an ex-CFO might be the best fit when a company is in a late-stage market where margins are low

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and there is a need for financial discipline. A CFO might be a good fit also in a commodity market where no-one has an advantage and only cost discipline can lead to survival and possibly market leadership.

But it's possible that the very strengths of a CFO can also be weaknesses in other company or market circumstances. The infamous CEO of the American company Sunbeam was an ex-CFO. He totally destroyed the company through indiscriminate cost-cutting which destroyed products, customer's service and morale.

Robert Allen the CEO of the old AT&T, who had formerly been a CFO, presided over a catastrophic loss of market share because AT&T was not able to compete against smaller and nimbler competitors, and he was not a product-focused leader. Roger Smith of General Motors, formerly a CFO had the same problem when General Motors could not innovate its way out of its market share losses, a common problem with executives with a CFO background. And he wasn't even able to cut costs, which was supposed to be his strength as a former CFO.

Henry McKinnell of Pfizer, another ex-CFO, was initially a good CEO but destroyed his reputation completely by overpaying himself. He simply lacked the sensitivity to relationships with the board, stockholders and the public which are essential qualities in a CEO and again are often a problem with people with a CFO background.

One of the companies of which I was CEO at one time had a partner in the printing business, whose CEO (let's call him Tom) was formerly the CFO. He had done a great job as CFO but when he became CEO, the company cut costs too much, product quality dropped sharply and their customers deserted them. The company went bankrupt. So we have to acknowledge that the benefits of a CFO background often do not outweigh the disadvantages.

Differences between CEOs and CFOs

What are the differences between the requirements for a CEO and CFO? It's obvious that one is usually seen as a technical job whereas a CEO usually requires being at least somewhat strategic, and having good management and interpersonal skills.

But financial professionals are usually chosen on the basis of their technical understanding and knowledge, not necessarily on management and interpersonal skills. In fact most CFOs are what we call "Discounters". These are naturally focused on reducing costs and avoiding risk, particularly the risk of introducing new products and services.

It's clear that this type of leader might be very good for tight cost management but not good for innovating or competing on any other grounds but cost. So this type of leader naturally is limited to only certain types of companies, namely those in trouble where the main focus is to significantly reduce costs. Al Dunlap was a great example of this type of leader.

The CEO I talked about earlier called Tom was also a Discounter. Discounters are good for the short-term, but usually not good for the long-term. CFOs who are Discounters and don't change as CEOs will usually have a positive short-term impact on their companies but a negative long-term effect, unless they change, as we show below.

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Note that these differences are nothing to do with intelligence, ambition, drive, or education. The decisions of all executives are driven by unconscious cognitive biases. These executives are generally not aware of their biases. The characteristics of CFOs we talk about are their own unconscious cognitive biases of which most leaders – not just CFOs but almost all executives – are not aware. So a CFO is not different to other executives in this regard. They just have a different set of vulnerabilities. But all executives have a characteristic type of behavioral vulnerability which leads to problems sooner or later.

The cognitive biases possessed by most CFOs favor safety, low costs, distrust of charisma and strong social skills, and discomfort with global thinking. It's quite possible for a CFO to change his behavior. But this means that he has to become more self-aware about his vulnerabilities, and to increase his level of mental agility so that he does not become defensive and therefore incapable of behavioral change. CFOs that do this can become very good CEOs. If they don't, then they will probably fail as CEOs, or never get to that position.

Mental Agility is The Secret

Let me give you an example. One of our clients in our leadership practice was the CFO of a Fortune 500 US company. Let's call him Fred.

Fred was unusual for a CFO. He was extroverted, social and had high interpersonal skills. But like most CFOs he avoided risk to an unhealthy degree. Unlike most CFOs, he used resources and expenses at much too high a level.

But he was totally unaware of these behavioral traits, even though he was an experienced and wise executive. When he was tested using our formal assessment instruments, this all showed up in his test results.

Some people when confronted with these results might have been defensive and rejected the findings, but Fred did the opposite. During the coaching sessions that followed the tests, he quickly realized what the test results showed was correct and made dramatic changes to his behavior. His performance quickly improved, not just in a quantitative sense, but also in a qualitative way. As a result his performance improved so much that he immediately became a viable contender for a CEO role.

Fred also did something else that was really important. Following his coaching, he had his financial team, including the financial controllers of all his brands, go through the same assessments, training and coaching. In that way he spread out the improved self-awareness and mental agility from himself to his other managers.

So the change that he had experienced also spread to his managers and most of them improved too. So he was able to disseminate the behavioral change to all his financial organization. His individual transformation thus became an organizational transformation. That is great CEO behavior.

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I think that Fred will probably soon be promoted to a COO role and then eventually a CEO position. So, as you can see, the important issue here was that he had enough self-awareness and mental agility to be able to realize his behavioral vulnerabilities and enough mental agility to actually make behavioral changes. And he disseminated the changes throughout his organization. That's the real secret to becoming a CEO if you are a CFO.

Business Acumen is not the same as Good Financial Qualifications

Almost all CFOs have good financial qualifications. They probably have an accounting or finance degree, or the equivalent of a CPA in the US. Maybe they have an MBA.

But you can't assume that having high financial qualifications means that you have a high level of business acumen. It doesn't matter if you have great qualifications if your behaviors are inappropriate for the particular circumstances you are in.

That is because generally you have unconscious cognitive biases that prevent you from making the right decisions, even if at a conscious level you might know what the right decision should be. What we know from the new disciplines of behavioral economics and behavioral finance is that knowing what is the right thing to do doesn't necessarily or even usually mean that you actually do the right thing in a real life situation.

So in fact, many, if not most CFOs have good financial qualifications but don't have high business acumen. By "business acumen" what we mean is the ability to be able to see the whole picture and to make the right decisions not just on the cost side but also on the gross margin side too.

That is, a good CFO must have the ability to be able to grow the company, not just cut costs. And that means some tolerance for the types of risk that result in great products and services which you can get a very high price for and which therefore yield a high gross margin relative to your competitors. Most CFOs can't do that.

This is usually the main vulnerability of most CFOs and why so many CFOs can't make it to a CEO position. We call this type of person a "one-trick pony", that is a person who can do one thing really well, but isn't able to do most things well at all. So a CFO might be good at turnarounds but if you need someone to grow the company, or reposition it strategically, many CFOs might not be able to do this.

But as we have seen, there is an answer to do this. It's either getting or improving self-awareness and mental agility. If a CFO can do this, like Fred, he can get past the trap of being a one-trick pony.

But many CFOs might not be able to do this on their own. Often they need coaching or mentoring to be able to identify their behavioral vulnerabilities and cognitive biases that are preventing them from making the right decisions and achieving a high level of business acumen and managerial capability at the level of CEO.

Culture Impacts Agility

Behavioral change is difficult not just for CFOs but for any executive or any person. For a CFO to become CEO will probably take behavioral change for most so that they can achieve the necessary level of control over their own cognitive biases. Sometimes with just some minimal briefing both individuals and teams can achieve this without any further intervention, but

that is fairly unusual, Most times it requires at least some more intensive training and coaching.

But often senior executives are resistant to being coached. Sometimes they feel that they are senior and don't need to be coached because they know enough anyway. In the US though, coaching is a common practice amongst senior executives. Often it is even regarded as being prestigious to be coached because it shows that the company sees you as having enough senior-level potential to make it worthwhile to spend their money on coaching you.

I believe that for many senior executives, not just CFOs but any C-level position, changing behavior is difficult.

We also have to recognize that amongst senior executives, including CFOs, there is a range of mental agility. It doesn't matter where you come from, most executives don't have high mental agility. CFOs with high mental agility will be more likely to want to receive coaching, simply because it represents a great learning experience for them. Executives with low mental agility, who are in the majority, will not want to be coached.

And we also have to recognize that having a professional qualification such as an accounting or finance degree can sometimes be a huge disadvantage. This is because it often tempts people to think that their technical expertise provides them with the right tools to address any task instead of realizing that often they might have to leave behind their financial training in order to make true advances in managerial understanding and vision.

Often in order to gain true mental agility you have to regard prior learning as something to be left behind so that you can advance to a higher level of understanding. Indeed, for many CFOs, moving forward to new types of behavior might be the only way they can learn enough to gain the necessary tools to become a CEO. For many CFOs doing this is something they might be afraid to do. If so, it's unlikely they can ever get to a CEO position or, if they do, they will probably fail in it.

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No Pain No Gain

It's hard to change behavior because you have to move out of your comfort zone. Being assessed behaviorally to confront your vulnerabilities can sometimes be painful. But it's precisely the pain that allows someone to make advances in their ability to address the challenges of a senior role such as CEO, or for that matter any other type of more senior general management role. The improved mental agility this brings is going to help a CFO not just in his professional role but also in his personal life too.

In the US it has become common for senior executives such as CFOs, to reveal their own assessment results to their staff. This demonstrates their openness and transparency. It also shows their staff that if the top person is prepared to do this, they will have to do it too so it forces everyone to be more open and transparent and thus for everyone to increase their own level of mental agility.

That's why, if a CFO wants to increase their own level of mental agility, the best approach is to involve their staff too so that everyone gets involved and it becomes a team and company effort rather than just a private effort. A private effort will provide a framework for a CFO to change his behavior so that he can become a CEO.

However that private effort in itself won't impact his team or the company. If everyone in a team or a company participates in this effort, then the behavioral change by many people will result in transformational change for the team and the company.

That's really what a CFO should be trying to achieve; transformational change. If he can do that, he can definitely be a great CEO.

Recommendations:

If you are a CFO and want to become a CEO:

- **Get assessed behaviorally to see what behavioral change you need to make**
- **Undergo coaching**
- **Preferably involve your team and maybe even your company, so that you can have a transformational impact.**

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