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AMBITIOUS TARGET

Most see the CFO as a key candidate for CEO, but behind the change to that one letter in their title are years of careful career planning. **Shaun Drummond** looks at what it takes.

James Fazzino recounts the day he walked into his office after he was handed the chief executive reins at fertiliser and explosives manufacturer Incitec Pivot. "I shut the door and it just dawned on me: here I am, the most senior person in the company, but I have never been less able to do something myself than in any part of my career." If there is one difference to being a CFO it is that it *really* is all about people, he adds, and you need to pick the right ones and be ready let them do their job.

Most say chief financial officers should always be a prime candidate for CEO, but while they may deputise it is by no means a sure bet they'll get the gig.

Given their complementary role to the CEO – to be a brake to the CEO's accelerator – it can be a stretch to switch sides. "There are a bunch of CFOs who just can't make that next step," says Dieter Adamsas, former finance chief at Leighton Holdings.

"They don't have that entrepreneurial spirit that a CEO needs. It is one thing to be the financial watchdog. The CEO has to have that entrepreneurial flair."

More often than not, a CFO doesn't make the grade as CEO if they can't connect with people and communicate their vision and strategy to their staff and the wider world. And of course they have to be comfortable with the buck stopping with them. "Be careful what you wish for," says Fazzino. Many CFOs

will covet the CEO position, but while there are similarities, he says "it is a very different role" with much greater scrutiny and ultimate responsibility for the performance of your team.

Mark Hooper agrees. He took over as managing director and CEO of the troubled Sigma Pharmaceuticals in September 2010. He says the job was pretty much what he expected, in part because he had been keen to be a CEO for several years but also because he knew Sigma very well, having been CFO there from 2001 to 2006.

But what struck him was how many people really do want a piece of your time. "What caught me a little by surprise was the visibility of the role," he says. "As CFO I had always thought of myself as being reasonably visible within the business and externally, but it steps up exponentially as CEO."

Personality and emotion

Emotions play a bigger role when you're at the top. You are the public face of the company, so a CEO's success will be more based on the type of person you are. The demands are such that how you feel about the role and the business is also important, says Fazzino. "You have to have a passion for what you do. There is no opportunity to kick the decision upstairs and one of the key things the CEO needs to be is very decisive."

But he warns that many in this position wrongly try to change themselves. "Don't fall in love with the title," he adds. "You need to be careful with the way you react. You are more visible, but you need to be authentic or people will see through it."

Although it will help if people like you, an outgoing nature is not an essential element. Some very effective leaders are understated. "There are some people who are charismatic leaders and some who are very quiet," says Michael Keevy, head of CFO recruitment at Korn/Ferry. "Dick Goss was CFO of SABMiller and then led the company for nearly 20 years. He was a CFO who did an excellent job. He was understated, but very astute as a people leader and commercially."

There is no question that you can make a leader, Keevy says, but you must have the right raw material and that then needs to be identified and moulded. "Companies need to identify people that can be nurtured and developed, and without that they might not rise to the top," he says. "First of all they need the communication skills and style to inspire confidence, then commercial acumen, be a communicator to get your message across, and have integrity and generate trust."

Hooper has been CEO of Sigma Pharmaceuticals for a year now after many roles as CFO in listed companies, including at Sigma itself from 2001 to 2006. As chief executive,

he says, you need to be more aware of your demeanour. "For staff, it is a little more important as CEO that you remember who people are and where they fit," he says. "You are the face of the business and you're the one who is going to impact their lives the most."

Failed accountants

Quite often finance people talk about "the business" or "operational roles". It illustrates a barrier that is less evident than in the past, but is still there to overcome.

Gavin Houchell, managing director of finance and accounting at recruitment firm Ambition, puts it another way, joking that any who have made it to CFO and beyond would be happy to be called a "failed accountant" and their pure accounting days are likely to be a distant memory. "They might have been a chartered accountant, but they won't have done pure accounting for a long time," he says. The path to CFO and CEO might include starting at a large accounting firm, then "moving through strategy, commercial, a sales role, then come back to a CFO job".

Very rarely will someone manage to reach CEO by sticking to finance roles, unless it is in an investment vehicle or a funds manager.

"If it is a commercial entity, they have got to get lateral business experience," Houchell says. "Once you have reached the \$400K CFO



JAMES DAVIES

Are CFOs in the box seat for the top job?

Michael Keevy, head of CFO recruitment at Korn/Ferry, calculates that of the 32 CEOs appointed to S&P/ASX 100 companies since the first quarter of 2009, six were CFOs, or about 19 per cent. He says it was very common for finance chiefs to be made CEO in his native South Africa, but less so in Australia. But there's been quite a few in the past year.

In an orderly transition, Greg Robinson, director of finance for five years at goldminer Newcrest, gained the throne there in July when managing director Ian Smith stepped down.

At Toll Holdings, Brian Kruger is now stepping into the shoes of long-standing CEO Paul Little after two years as finance chief.

Several of the other appointments have been under more difficult circumstances, including Grant Fenn taking over at engineering firm Downer EDI, Mark Hooper being brought

back from PaperlinX to turn around Sigma Pharmaceuticals and Kevin Campbell elevated to CEO to do the same at Transpacific. At the height of the global financial crisis, finance chief Richard Allely took over printer PMP and had a big task ahead of him to fix the company.

Some think there may be a pattern to some recent choices. In tough times, boards tend to pick a safe pair of hands that know the business well, the argument goes, as long as they aren't seen as part of the problem, of course.

"When times are like this, for a lot of companies keeping a close eye on their costs – I have seen quite a few cycles – if they're not looking to grow their business, they tend to promote finance people into the top role who tend to be risk averse and just run things nice and tightly," says Stephen Moir at finance recruiter Moir Group.

Others see no particular trend, just coincidence, as at any one time you would expect there to be some CFOs becoming CEOs.

Like most, Keevy says CFOs should be in the box seat to take the role, as they would be just as well known to the board as the CEO. But that close tie can work against them. Often a CFO gets tied to the tenure of the CEO and will go not long after them, especially if the board is looking for renewal when the business is in trouble and some fresh faces to turn around investor sentiment.

Most say CFOs that land the top job almost invariably are already working in the same company and many feel any business that is capital intensive and reliant on keeping a sound and diverse cost of funding will favour someone with a finance background – and that's certainly true for many of the recent appointments.



Mark Hooper, Sigma Pharmaceuticals:
As CEO your demeanor is more important:
"The more chaotic it gets, the calmer and more sensible you need to appear."

role, the \$200K financial controller under you is a much better technical accountant than you are. And so they should be, because the CFO has to manage 10 things and the financial controller has two technical things to manage."

Simon Bird has been CEO of mining company King Island Scheelite for three years. He hasn't worked in divisional CEO or managing director roles, but he found the transition from finance roles fairly easy. He puts it down to a number of factors. He started out in a big four accounting firm in Zimbabwe, but the practice was small, exposing him to a wider range of different sectors. He says most of his career before senior executive level was in management accounting, rather than technical accounting roles.

In addition, he has had several CFO positions, in different sectors, including roles at Wizard Home Loans, GrainCorp and Stockland. The GrainCorp post was his first at a listed company and the one that prepared

him most for being CEO. "I had a very strong relationship with the CEO and I watched everything he did," Bird says. "In fact, I prepared most of his presentations for investors and analysts. So that's where I saw first hand how to deal with all the stakeholders."

Many say there are some sectors where CFOs are very unlikely to make CEO. Media, for instance. Fazzino, however, reckons a CFO in any business will be well placed to be CEO and like Bird he says they can stick to finance roles, but they have to do their time in different parts of a business to understand it well. Finance, Fazzino says, is "the language of business" so a career in finance is akin to an apprenticeship for running a company. It gives a grounding for a CEO to know how to turn business goals into financial results. "The essential skill set you have as a CFO is to understand how to make money and that is what business is all about," he says.

But while he has had the benefit of many different roles, essentially they have been in

the same business. He had a new job every 18 months at the old chemicals business ICI, which became Orica, which then spun off Incitec Pivot. That he puts down to a healthy culture of rotating people with high potential through different parts of the company. "I was works accountant, working with customers in manufacturing," Fazzino says. "Yes, I was there as the finance guy, but it was my job to work with the management team to safely produce chlorine for as low a cost as possible. It is those types of skills that were vital."

As an accountant working at a plant, he says you learn to cost the product. "And in order to do that you have to understand how you make it and you have to try to do that as efficiently as possible. So you have to understand what drives the cost and therefore how you spend capital to either expand what you're doing or reduce the costs."

Other positions have included corporate accounting, technical roles; some time in tax and even trading currencies, which taught him a lot about balancing "risk and reward". From that he learnt never to trade without a "stop-loss", which applies to taking business risks as well. Take risks, but know "how long you have to be right for". If you are wrong, be sure to have a plan to limit your losses.

One of his most important roles, though, comes back to communication skills.

It is clear when talking to Fazzino and most CEOs that you need to become a good salesperson to maintain confidence in your company. A dab hand with a good quote always helps too. But there has to be something backing that up and he says the art is more distilling and clarifying than selling.

Fazzino learnt this when he was in investor relations at Orica. "If you can't tell an investor what your strategy is going from the 50th floor to the first floor in an elevator, then you're not going to get investors to buy into it," he says. That's a skill that is probably just as important to a board and certainly when fronting an analyst briefing or press conference.

Fixers

Kevin Campbell took over the reins from CEO Trevor Coonan at Transpacific in January, just four months after Campbell moved from Visy to become CFO at the listed waste disposal, recycling and manufacturing company.

As in Hooper's case, Campbell was part of an overhaul of the top brass to restore confi-



Simon Bird, King Island Scheelite:
He learnt the most about being CEO as CFO at Graincorp: "I had a very strong relationship with the CEO and I watched everything he did."

MICHELE MOSSOP

dence. Some suggest CFOs are more favoured as chief executives when a turnaround is needed. Campbell was also CFO at Visy, so he is used to difficult times. Then again it could be tradition. Transpacific's chairman was the former finance director of Wesfarmers and Coonan was also the former Transpacific CFO. He stepped down after four years in the role after profits tumbled in part due to a debt-fuelled acquisition spree prior to the GFC. Transpacific is still digging itself out of that hole, with EBITDA rising in the latest results, but a \$296 million loss reported last month.

Campbell says the resignation of Coonan came as a surprise to him, but he jumped at the chance to be CEO. "They said, 'we're going to make this change and we want to know where Kevin Campbell sits - does he want a temporary or a permanent role?' I said, 'are you crazy!?'"

As a rule, CFOs don't get a CEO job at another company. So Campbell is something of an exception. Fazzino reckons those that do rise to the top rather than helicopter in are more successful. Campbell says a new set of eyes can give a fresh perspective. Like

Fazzino, however, Campbell says it is vital to get out into the business to understand it. It is important as a CFO, he says, and he would do so every week while at Visy to keep in touch with what was going on.

But it is even more important as a CEO to be seen to be doing this. Campbell likes to drop in unannounced. "You don't run a business from an office," he says. "You learn about the business by observing and getting out." The chief difference doing this as a CEO is that you can make a decision about a problem there and then. "I just walked into a couple of sites in Melbourne unannounced and they go 'ooh!' But as a result, in the [former] Nylex division we're making some changes that I wouldn't have seen had I been up here. It is not because people wouldn't tell me, it was just that I saw it and asked, 'what are you doing about it?' I can say, 'go and get two salespeople', whereas as CFO I would have to make a suggestion."

Sigma Pharmaceuticals' Hooper returned to the company after a four-year absence (during which he was CFO at Symbion and then PaperlinX) to fix a troubled business. He

has mainly been in finance and CFO roles but says he had been preparing himself for CEO for some years. Like Fazzino, he remembers chances he had to prove himself outside pure finance jobs as important, including the responsibility he was given for diamond marketing while at Ashton Resources.

You have to be patient though, to break into the CEO club. "It is one of the more frustrating elements" that you're always going to have to overcome others that already have CEO experience, Hooper says. "There are lots of aspiring CFOs, but whenever there is a CEO search there is almost always going to be another CEO in the mix. You have either got to know somebody or you have got some sort of outstanding industry experience."

But his own opportunity came to him in a way he could never have predicted. Prior to Hooper being offered the position, the CEO, chairman and CFO of Sigma had all resigned in quick succession after reporting a net loss of \$389 million for their full-year results in March 2010. This was due to a more than \$400 million write-down in goodwill, which saw them breach their banking covenants.



Kevin Campbell,
Transpacific: He
jumped at the chance
to become CEO of the
waste management
company when the
opportunity arose not
long after he arrived.

Brave face

Hooper says he had to present a picture of calm competence, but that is not just the case when there is a crisis – it's needed at other times too. "The most important thing for me was to give all the stakeholders, internal and external, a sense that we could manage the challenges we had," he explains. "Another way to think about it is a tangible sense that we controlled our own destiny. When you get into those positions it is that lack of sense of control that really stresses people out. So one of my early focuses was to get around and see people and talk about how we were going to manage the challenges we faced."

Sometimes you're not that certain about that, he admits, but you must look as though you are confident. "It is fascinating, I have worked through a few businesses where you go through challenging times and as a senior person you have got to be really conscious about your behaviour," he says. "If you look like you're stressed then the impact is magnified down through the business. The more chaotic it gets, the calmer and more sensible

you need to appear. You need to create this sense that there is a challenge that can be dealt with, and as a collective group, and we do control the outcome of that."

Vision thing

Everyone talks about the need to have vision. Fazzino says CFOs need to think a lot about strategy, but usually it is shorter term than the CEO's outlook. Finance chiefs are focusing on meeting their financial targets over the next year or two. As CEO, the question Fazzino has to ask is: "Where do I want the company to be in five or 10 years and how do I put the strategies in place?" But CFOs can bring financial discipline to that, which he says is often lacking.

"Historically, the companies that have gone broke are those that invested below their cost of capital," he says. "The skill that you have got with a financial background is, at the end of the day, you have to implement the strategy to make money. It is surprising the number of companies that say they are doing an acquisition for strategic merit. What

The difference

"You need an entrepreneurial spirit."

Dieter Adamsas, former CFO, Leighton Holdings

"CEOs and psychopaths have a huge overlap. You need to be intellectually and emotionally robust. You need to be calm and confident, even more so in a crisis. And you need to be able to deal with an exponential increase in demands on your time."

Mark Hooper, CEO, Sigma Pharmaceuticals

"The organisation needs to buy in to the vision of where you are going and then you need to step back and let go of the day-to-day running of the business. Don't fall in love with the title."

James Fazzino, CEO, Incitec Pivot

"You do need to have a bit of vision as CEO. You need to be able to look past the cold hard facts of, say, the price. If you have got vision and you can see what it can be worth on the other side then you can make those [important] decisions."

Kevin Campbell, CEO, Transpacific

"The communication skills and style to inspire confidence; commercial acumen; and you have to have integrity and generate trust."

Michael Keevy, Korn/Ferry

that says to me is the numbers don't add up. So it is not untypical for someone that is trying to drive a strategy that they end up not achieving the returns to shareholders."

As CFO, Fazzino is used to long-term capital investments, with some stretching over 20 or 30 years. You can never predict what's going to happen in that time. Instead, he says, you need to have a clear view of how long it will take to get the return required on the asset. "What is really vital is I have got a view. How long do I need to be right? Then if I am wrong, [how do I limit the damage?]"

Fazzino says he gained many of his views from former CEOs of his, and he recommends keeping in touch with trusted mentors outside your company. For him they include Malcolm Broomhead, former CEO of Orica now chairman of Asciano. Another was his former boss at Incitec. "I went to the University of Julian Segal," he jokes. "I would regard him as one of the leading strategic thinkers in business." Segal is someone he regularly has contact with. "You need to have that network of others who aren't close to the business to bounce off." ☒