2021

SURVEY REPORT

# The State of the PE Sponsor-CFO Relationship

Measuring, Managing, and Scaling the PE-Backed Business

ACCORDION

# Methodology & About Accordion

## METHODOLOGY

The State of the PE Sponsor-CFO Relationship survey was conducted by Accordion, in conjunction with Wakefield Research, among 200 total participants – including 100 private equity (PE) sponsors (senior executives) and 100 chief financial officers (CFOs) at private equity-backed companies with $50 million or more in annual revenue. The CFO and PE sponsor samples were collected between August 31 and September 13, 2021, using an email invitation and an online survey.

The results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 9.8 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

## ABOUT ACCORDION

Accordion is a private equity-focused financial and technology consulting firm. Rooted in a heritage of serving the office of the CFO, Accordion works at the intersection of sponsors and management teams to maximize value. The firm's services span the entire CFO function – including operational and technical accounting, strategic financial planning and analysis, CFO-related technology, transaction execution, public company readiness, interim leadership, and following its 2021 acquisition of Mackinac Partners, now include turnaround and restructuring solutions for the broader private capital markets. Across all of Accordion's services, clients are supported by deep expertise in CFO-specific technology and finance-led transformations. Accordion is headquartered in New York with nine offices in Boston, Charlotte, Chicago, Dallas, Detroit, Los Angeles, San Francisco, and South Florida.

# Executive Summary

In 2019, in the introduction to our first biannual survey, we wrote that the PE industry was "undergoing a period of profound change." At the time, we were referring to a transition in the PE ownership operating paradigm: a shift from the traditional PE protocol, which invests in a business to accelerate its financial upside, and a newer playbook that takes a more institutionalized approach to portfolio operations and value creation.

The world has undergone massive disruption since that time – a disruption from which the PE industry is not immune. If we thought that the changes underfoot in 2019 were profound, the COVID-related impact since then has been almost unfathomably consequential.

The economic uncertainty of the past couple of years has forced PE firms to reassess their portfolios. What were once "green," stable, growth companies fell victim to pandemic-related issues, which quickly turned many of them a distressing "yellow," while some saw the flashing signs of being in the "red" for the first time. Conversely, other, sleepier sectors and companies were positively impacted by the COVID economy and underwent periods of unexpected and accelerated growth.

As PE firms reset to adapt to the new normal of certain uncertainty, they must also reevaluate the role the CFO plays in driving growth and value creation within their portfolio companies. This report, therefore, takes a fresh look at the responsibilities of the PE-backed CFO function and the sponsor-finance dynamic across three critical dimensions. It examines how PE-backed CFOs:

- **Measure the Business:**
  Collect clean data to inform insights
- **Manage the Business:**
  Turn clean data into analysis and then into insights to make informed business decisions
- **Scale the Business:**
  Utilize value levers to help the business transform to achieve strong growth and returns in a PE-backed environment

In doing so, this report examines PE firms' perception of their CFOs across each dimension of their role and across multiple areas of sponsor-CFO misalignment.

This report also explores how the changing nature of data, reporting, KPIs, measurement tools, and transformation initiatives has impacted the dynamic between PE teams and their portfolio company CFOs. Our research further reveals the types of CFOs that PE teams want and need at the helm of their portfolio company finance departments going forward. In addition, it uncovers areas of unexpected alignment regarding whether CFOs are meeting their PE firms' high expectations of them. Finally, it reveals the disconnect in core/prioritized focus areas that may serve to explain ongoing misalignment and perceptual inefficacy.

As noted in our last report, instead of viewing this misalignment as an alarming headline, we view it as helpful intel that can be used in service of CFO-sponsor expectations, communication, collaboration, and, ultimately, investment success.

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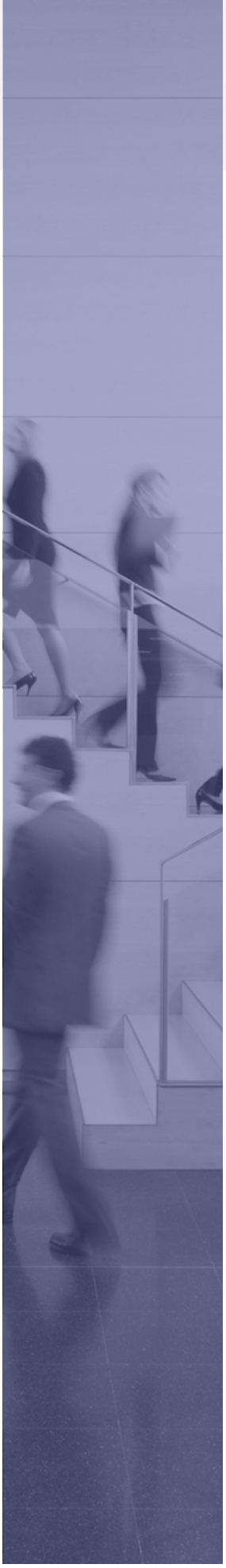


SUMMARY

# Key Findings

KEY FINDINGS ▶

# Portfolio Company CFOs Are Not Living Up to PE Firm Expectations

## MEASURE THE BUSINESS


of sponsors say their portfolio company CFOs are not completely living up to their "measure the business" expectations, and 81% of CFOs agree.

### 2 Reasons Why CFOs Are Not Meeting "Measure the Business" Expectations:

| | SPONSORS SAY | CFOs SAY |
|---|---|---|
| 1 System Inadequacy & Reporting Infrequency | The types of reporting systems CFOs are using are inappropriate and inadequate to meet reporting needs. They also believe finance teams are using the systems ineffectively. | The problem isn't the systems themselves, it's the cadence, or rather, the infrequency with which they are reporting financial statements and KPIs. |
| 2 Under-Resourced Finance Teams | Finance teams are most under-resourced in FP&A and the least under-resourced in procurement. | They feel the most under-resourced in procurement – indicating a significant disconnect in sponsors' perception of finance teams' resources. |

## MANAGE THE BUSINESS


of sponsors say their portfolio company CFOs are not completely living up to their "manage the business" expectations, and CFOs agree in the exact same numbers (91%).

### 2 Reasons Why CFOs Are Not Meeting "Manage the Business" Expectations:

| | SPONSORS SAY | CFOs SAY |
|---|---|---|
| 1 (In)Ability to Turn Clean Data into Insights | CFOs are not completely effective at turning clean data into insights (89%). | The same thing, with 12% admitting that they're not **at all** effective at turning clean data into insights. |
| 2 Finance Team Prioritization | CFOs should focus on technology enablement, improving working capital, and cost reduction – in that order. | Technology enablement is not one of their key focus areas. Instead, they are more focused on optimizing capital structure and entering new geographies. |

## SCALE THE BUSINESS


of sponsors say their portfolio company CFOs are not fully living up to their "scale the business" expectations, and 79% of CFOs concur.

### 2 Reasons Why CFOs Are Not Meeting "Scale the Business" Expectations:

| | SPONSORS SAY | CFOs SAY |
|---|---|---|
| 1 Transformation Initiatives | CFOs should prioritize finance process optimization first. | They rank finance process optimization last on their list of priorities. Instead, they prioritize profitability improvement. |
| 2 Not Meeting Pandemic Needs | It is more important for their CFOs to be transformational CFOs now than it was prior to the pandemic (75%). | They overwhelmingly agree (80%). This alignment underscores the transformational necessities of the moment. |

## ACROSS ALL DIMENSIONS AND OPERATING MODELS

### The Three Types of CFOs:

**The Controller CFO**

Sponsors believe their CFOs are this and want their CFOs to be this.

**The Strategic CFO**

CFOs believe their sponsors want them to be this.

**The Transformative CFO**

CFOs believe they are this.

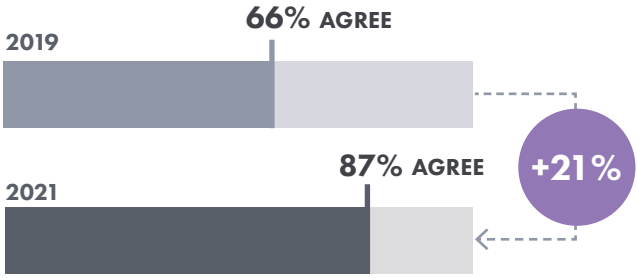
What Does This Really Mean?

The PE preference for controller CFOs may seem contrary to other findings that indicate that PE firms currently place a priority on transformation, but it's not. In fact, there's a very clear explanation.

Measuring the business is table stakes, but critical table stakes. The COVID economy has made this part of the CFO role more important, but also significantly harder. As a result, CFOs are not currently performing table stakes tasks up to sponsor expectations. For that reason, PE firms want to first ensure they have a CFO who can do the fundamentals effectively, before they look to find the transformative CFO they really need to scale the business.

### CFO Job (In)Security:

"As a CFO, I'm more concerned about my job post-PE deal."




What Does This Really Mean?

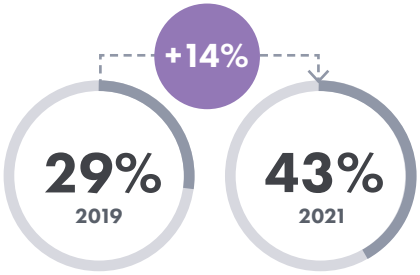
The overwhelming statistic and substantive 2-year increase underscores the fact that the PE-backed CFO role is more difficult than it's ever been. It also again suggests that CFOs are losing confidence — recognizing that they're not performing even the foundational "measure" and "manage" aspects of the role up to sponsor expectations.

## ACROSS ALL DIMENSIONS AND OPERATING MODELS

### PE Operating Models:

Two types of PE firms:

1. Investor firms that allow management to drive strategy
2. Operator firms that are more involved in managerial decisions




of CFOs are **not** working with their preferred model of PE firm.

What Does This Really Mean?

It's not just sponsors who are disappointed in their CFOs; CFOs are also disappointed in their sponsors. CFOs know they need more help shepherding the company through crisis and volatility — causing them to have a deepened interest in meaningful operational guidance. However, despite CFOs wanting this guidance from their sponsors, few believe they're actually getting it.

ACCORDION INSIGHT ▶ UNHAPPY SPONSORS, UNHAPPY CFOs

The COVID economy hasn't fundamentally changed the hard work at the core of being a PE-backed CFO. Rather, it has exposed and exacerbated long-existing foundational issues that have been masked by company progress and economic prosperity.

For years now, CFOs and their finance departments have struggled to gather and identify clean data given the amount of disparate systems and their lack of appropriate integration. The pandemic-influenced marketplace intensified this issue. Initial market volatility followed by accelerated pockets of recovery meant that CFOs needed quick, almost real-time visibility into the data that explained both positive and negative variances and rapidly changing corporate performance.

A hyper-evolving marketplace highlighted finance's inability to harmonize both financial and operational data and present succinct, strategic findings to sponsors. Moreover, it not only exposed a foundational technology problem at the root of "measure" and "manage" deficiencies, it revealed a critical people problem as well. CFOs are fundamentally under-resourced in general, but particularly as it relates to executives who understand the nuances of existing systems, can identify the critical gaps, and can extract and reconcile data from multiple sources.

The past year and a half has also shined a light on the ongoing misalignment between sponsors and CFOs. While many companies pivoted from their initial value creation plan (VCP) as a result of volatility, sponsor reporting demands remained the same. This reporting inertia meant that sponsors, too frequently, didn't step back to reassess, realign, and recommunicate with CFOs. These fractures in communication and micro-misalignments on changing sponsor goalposts grew bigger and deeper, leading to a more notable break (and breakdown) in the post-COVID sponsor-CFO relationship.

PART 1

# Measure the Business

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Collecting clean data to inform insights.

**Introduction:**

"Measuring the business" is defined broadly as collecting clean data to inform insights. More specifically, it is collecting accurate data, having the systems integration capabilities to produce reports in a timely manner, and having the appropriate leading and lagging KPIs to understand the data.

Measuring the business may seem routine, but it is the yeoman's work of being a CFO. Those PE-backed CFOs who do it well have mastered the controller-related skills of their job. While these skills are critical to performing the function effectively, they are now considered table stakes for any PE-backed finance leader (or at least, they used to be).

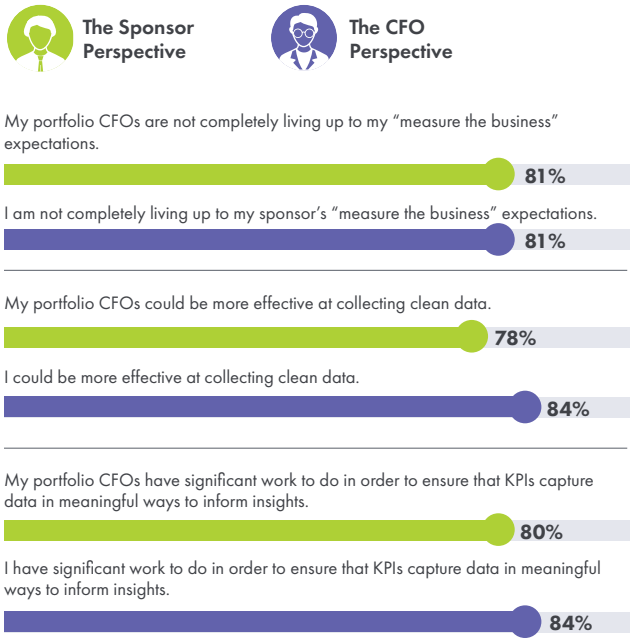
Given that industry-wide perspective, the findings from this survey are notable, as they signal sponsors lack confidence in their CFOs' abilities to do the table stakes well. Eighty-one percent of sponsors say that their CFOs are not completely living up to their expectations for measuring the business. The same percentage (81%) of CFOs agree. Further, both sides of the sponsor-CFO dynamic recognize issues with the individual components that are critical to effectively measuring the business (Figure 1.1).

**Collecting the Data:**

The very first step that CFOs must take in order to measure the business is to collect the clean data. Currently, neither CFOs nor their sponsors believe that finance departments are doing it quite as well as they should be. Seventy-eight percent of sponsors believe their portfolio company CFOs could be more effective at collecting clean data. Eighty-four percent of CFOs also acknowledge they have work to do in order to be completely effective.

**FIGURE 1.1**

**Unmet Expectations: Sponsors & CFOs Agree There's Room for Improvement (with Respect to "Measuring the Business")**




**KPIs:**

Once data is collected, it must be measured. Finance teams must build and use KPIs that enable the data to be easily and meaningfully understood. The good news is that PE firms and CFOs are aligned. The bad news is that they are aligned on the relative inefficacy of their KPIs.

Both CFOs and their sponsors believe that the KPIs they currently use are not as effective as they must be: 80% of PE teams believe that their CFOs have significant work to do in order to ensure that KPIs capture data in meaningful ways to inform insights. Likewise, only 16% of CFOs believe current KPIs are completely effective (Figure 1.1).

Both parties acknowledge that KPIs represent a critical area for improving how CFOs measure the business. The important questions to ask are: Why are they ineffective and how can they be improved?

While PE firms and CFOs rank order the reasons for KPI inefficacy a bit differently, they both agree that the two main culprits are the measurement volume and the adequacy of underlying data (Figure 1.2). In other words, sponsors and their PE teams believe that there are not enough substantive KPIs to provide the business with real value, and that too often the business data supporting those KPIs is inexistent or inaccessible.

Where CFOs differ from sponsors is in their belief that KPI cadence must be prioritized. CFOs say that the primary problem with KPIs is that they simply aren't produced frequently enough to adequately inform decision-making.

**FIGURE 1.2**

**KPI Complications: Why Are Current KPIs Not Effective for Understanding Data in a Meaningful Way?**

| Sponsors Rank Rationales | CFOs Rank Rationales |
|---|---|
| Ranked #1 (Tied) Too few meaningful KPIs | Ranked #1 KPIs are not measured frequently enough to provide real value |
| Ranked #1 (Tied) Business data does not exist or is not accessible | Ranked #2 (Tied) Too few meaningful KPIs |
| Ranked #2 (Tied) Too many KPIs to derive useful insights | Ranked #2 (Tied) Business data does not exist or is not accessible |
| Ranked #2 (Tied) KPIs are not well-aligned to business drivers | Ranked #3 KPIs are measured too late to be useful |
| Not Ranked KPIs are measured too late to be useful | Ranked #4 (Tied) Too many KPIs to derive useful insights |
| Not Ranked KPIs are not measured frequently enough to provide real value | Ranked #4 (Tied) KPIs are not well-aligned to business drivers |

> **"The two main culprits for KPI inefficacy are measurement volume and adequacy of underlying data."**

ACCORDION INSIGHT ▶ KPI KALEIDOSCOPE

CFOs and PE sponsors are both right. The fact that CFOs want KPIs to be measured with more frequency should not be a surprise to anyone who has sat in that seat. The CFO needs constant visibility to granular metrics in order to understand performance variances and feed the sponsors higher-level analytics around the root cause of performance or underperformance.

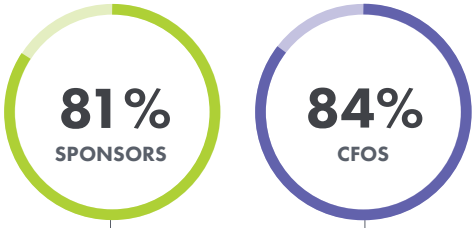
While PE firms don't want or need that granularity, they need to understand that their CFOs do – at least in order to provide them with the meaningful analysis and KPIs they desire and require.

For that reason, it's critical that sponsors recognize the importance of supporting their CFOs by investing in the IT infrastructure that closes system gaps and drives optimized reporting to ensure that finance gets the data granularity and real-time visibility they need to do their job effectively.

**Systems/Systems Integration:**

Of course, measuring the business effectively means more than collecting and measuring data. It also means having the system integration capabilities to report on that data in a timely manner.

Here, again, CFOs and PE sponsors are aligned in all the wrong ways. Both audiences (81% of sponsors and 84% of CFOs) acknowledge that they have more work to do in order to optimize system efficacy. More concerning than this overall recognition of enterprise-wide issues is that 1 out of every 10 PE-backed CFOs actually believes that their systems are not effective, at all.




Both sponsors and CFOs say that their systems (and system integration capabilities) **are not adequately effective** to produce reports in a timely manner.

As for why systems issues exist, both CFOs and PE sponsors agree that finance departments are not using the right suite of systems (ERP, CRM, data warehousing capabilities), or at least not in the right way (Figure 1.3). That's where the system similarities end and the real disconnect begins.

CFOs further believe that their primary systems problem is that they have been saddled with antiquated technology. PE sponsors, on the other hand, don't believe it's a system modernity issue as much as they believe it's a lack of integration and a system personnel issue.

The latter is critical. Said more directly, PE firms believe their finance team is simply ineffective at utilizing the systems at hand properly.

**FIGURE 1.3**

**System Situations: What Are the Core Issues with Finance Team Systems/Systems Integration Capabilities?**

| Sponsors Rank Issues | CFOs Rank Issues |
|---|---|
| Ranked #1 (Tied) Not having the right suite of systems (such as ERP, CRM, and data warehousing capabilities) | Ranked #1 (Tied) Inappropriate or antiquated systems |
| Ranked #1 (Tied) Personnel are ineffective at utilizing the systems | Ranked #1 (Tied) Not having the right suite of systems (such as ERP, CRM, and data warehousing capabilities) |
| Ranked #2 (Tied) Inappropriate or antiquated systems | Ranked #2 (Tied) Effective individual systems, but poor system integration |
| Ranked #2 (Tied) Effective individual systems, but poor system integration | Ranked #2 (Tied) Incomplete or poor system implementation |
| Ranked #2 (Tied) Incomplete or poor system implementation | Ranked #3 Personnel are ineffective at utilizing the systems |

ACCORDION INSIGHT ▶ THE PEOPLE PROBLEM

Why don't finance teams have the right people to address system needs? There are two reasons.

First, they're often not looking to hire, because hiring/re-sourcing incentives are misaligned. CFOs are under a microscope to manage and control EBITDA. Hiring sophisticated talent impacts EBITDA. It's an incentive mismatch. In addition, those CFOs new to institutional ownership are used to a bootstrapped organization where leanness is prized and prioritized.

Second, even when CFOs recognize the need to hire (or are strongly encouraged to do so by their sponsor), the ongoing war for talent has made recruiting and retaining experienced FP&A and fintech experts difficult, at best.

**The Tech Stack:**

As noted earlier, CFOs believe the main reason they are not fulfilling their sponsors' high expectations is the infrequency with which they are reporting financial statements and KPIs. However, cadence is not where PE firms find fault with their finance teams.

PE firms are less concerned about cadence and more concerned about the reporting systems themselves. They believe the real reason that PE teams can't completely meet their expectations is that the types of systems they are using are inappropriate and inadequately integrated to meet reporting needs.

ACCORDION INSIGHT ▶ INTEGRATED IT

CFOs understand where an ERP system sits within the context of the financial system stack: It supports the back-end operations of finance. Equally, CFOs understand the need for accurate and timely information delivered by way of a data warehouse, data mart, and/or data lake.

CFOs' experience with ERPs and analytics solutions often leads to "shoehorning" close/consolidation and budgeting/forecasting capabilities into the ERP or Data Warehouse, augmented with spreadsheets. But, leveraging technologies to support functions for which they were not intended leads to complex architectures, data integration challenges, diminished functional capabilities, effort laden processes, and error prone solutions. As the survey indicates, it also leads to unhappy sponsors and unhappy CFOs.

There is an automotive analogy that can simplify the interactivity and criticality of multiple systems: The ERP system is the engine of the car. It makes everything run. The data analytics and reporting platform is the dashboard of the car. It tells you point-in-time information (how fast the car is going, the amount of fuel in the tank, etc.). A CPM solution is the GPS system. It understands where you are going, and helps you best and most efficiently get there, while re-routing for unforeseen obstacles.

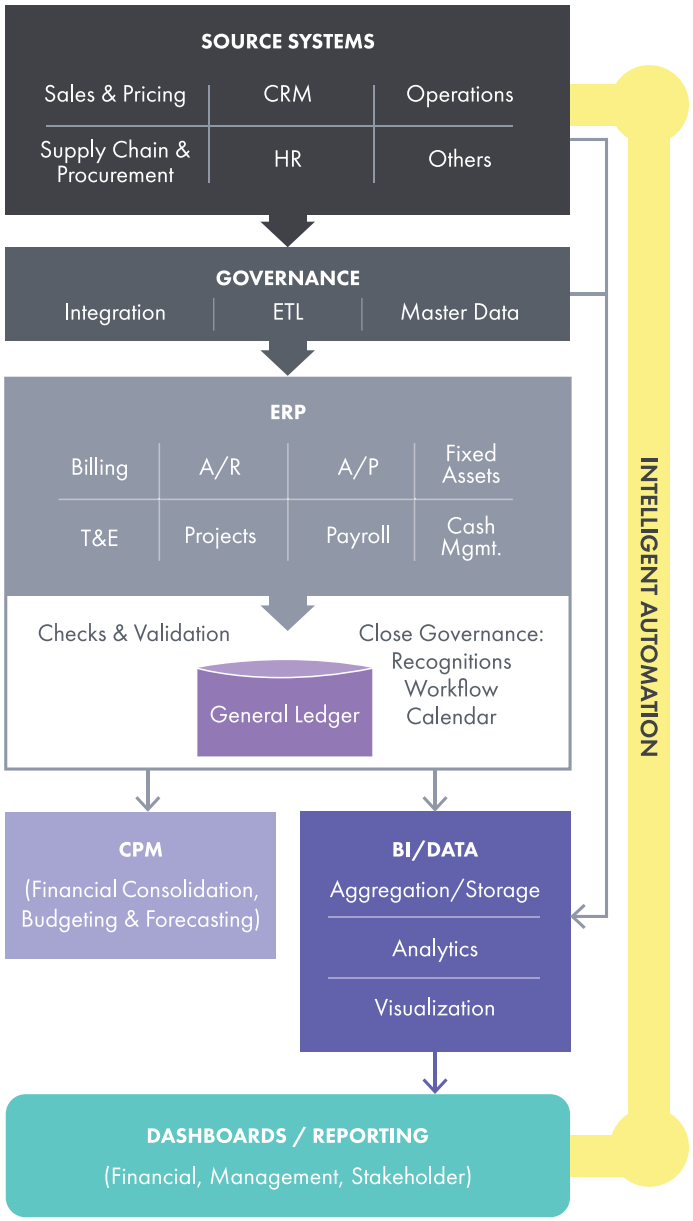
PE sponsors must support the CFO by investing in an ideally integrated technology stack that allows CFOs to realign their finance department work to higher value-add functions, make more informed business decisions, and more easily course correct in an uncertain economic environment.

CFOs, likewise, must support system integration by ceasing to think of technology in silos – a problem exacerbated by the fact that different systems have different jurisdictional stakeholders. CFOs must play the role of systems quarterback, asking critical questions: What is our global system and integration process? What's the data that should be housed in the CPM system, and how will that be translated into our ERP? How can we harmonize financial and operational data in the most efficient manner possible? And, while it's the PE sponsor's job to support the CFO with technology investment, it's the CFO's job to understand what that integrated technology stack should look like (Figure 1.4) – or at least turn to experts who know more.

> **"Think of the ERP system as the engine of a car. In this analogy, the data analytics platform is the driver's dashboard, and the CPM solution is the GPS system. All are critical for the road ahead."**

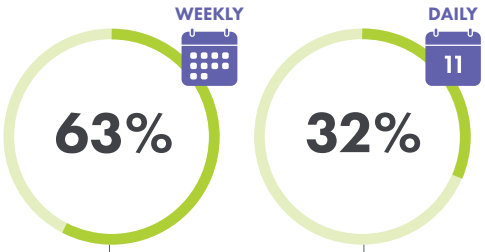
**FIGURE 1.4**

**The Ideal Tech Stack**




**Reporting Cadence & Tools:**

Since cadence is an acute CFO concern, it warrants a mention, particularly given the frequency with which it is happening. Most PE firms (63%) are getting/requesting reports on a weekly basis, minimally. In fact, almost a third (32%) are getting reports daily. Every firm surveyed said they receive reports on a monthly basis, at minimum. It's therefore understandable why cadence is not a primary sponsor reporting concern.




How often are sponsors receiving reports from their portfolio CFOs?

**Reporting Context & Requirements:**

Outside of systems integration, personnel adequacy, and reporting cadence, there is also a context disconnect. Only 19% of CFOs believe their PE team fully explains the purpose behind their requests for reports, data, and KPIs (Figure 1.5). Even fewer PE firms (11%) believe they provide completely effective context for reporting requests.

Perhaps this lack of context is what makes PE reporting demands burdensome. Only 10% of CFOs believe that their PE firms' reporting requests are entirely reasonable. PE firms seem to understand this sentiment, as only 17% believe their reporting requests can be met without placing a significant burden on the finance team.

**FIGURE 1.5**

**Reporting Rigors: Sponsors & CFOs Agree There's a Context Problem/Resourcing Burden**


**ACCORDION INSIGHT ▶ REPORTING REQUIREMENTS**

Why are reporting requirements burdensome?

It's everything we've already touched upon in this report: CFOs don't have the right architecture and suite of systems, they don't have the right people orchestrating those systems and, reporting inertia means that CFOs are measuring against an outdated investment thesis, which in turn means the sponsors will ask for more ad-hoc reporting requests without context.

These are fundamental root-cause issues that make the already difficult job of a PE-backed CFO immeasurably more difficult.

In terms of how those burdens are felt from a resourcing perspective, PE firms and CFOs see things quite differently. With respect to reporting demands, PE firms believe their portfolio company finance teams are most under-resourced in financial planning and analysis. PE teams rank procurement last in their list of resourcing needs. CFOs, on the other hand, rank procurement first (Figure 1.6).

The fact that CFOs feel under-resourced in procurement and PE sponsors believe finance is under-resourced in FP&A is a result that exactly mirrors survey findings from 2019. This continued misalignment suggests that PE teams and CFOs are still not communicating about the strain of reporting demands.

**FIGURE 1.6**

**Finance Focus: What Are the Key Areas in Which the Finance Team Should Focus Going Forward?**

2021

| What Sponsors Say Now | What CFOs Say Now |
|---|---|
| #1 FP&A | #1 Procurement |
| #2 Accounting | #2 FP&A |
| #3 Corporate Development | #3 Corporate Development |
| #4 Procurement | #4 Accounting |

2019

| What Sponsors Said Then | What CFOs Said Then |
|---|---|
| #1 FP&A | #1 Procurement |
| #2 Corporate Development | #2 Corporate Development |
| #3 Accounting | #3 FP&A |
| #4 Procurement | #4 Accounting |

**ACCORDION INSIGHT ▶ RIGHT-SIZED RESOURCING**

This disconnect is quite understandable.

What matters to the PE firm? Visibility, visibility, visibility. PE firms that are underwhelmed by the current state of reporting want to add FP&A talent who will increase and improve reporting output.

What matters to a CFO? Cost, cost, cost. Procurement is a stand-alone strategic cost function. In fact, in some sectors, procurement is likely the largest cost item on the P&L outside of wages.

PART 2

# Manage the Business

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Turning clean data into analysis and then into insights to make informed business decisions.

**Introduction:**

"Managing the business" is defined as turning clean data into analysis and then into insights to make informed business decisions. If measuring the business is the hard (but table stakes) work, managing the business is the harder work – the strategic work that is beyond a controller-type CFO.

The strategic CFO is a PE "need to have," not a "nice to have." Given that, it's telling how many portfolio company CFOs are struggling to meet the "manage" bar. Ninety-one percent of CFOs believe that they could be performing better relative to their sponsors' "manage the business" expectations. And they are right – in fact, sponsors agreed in the exact same numbers (Figure 2.1).

These findings indicate that there is significant room for strategic CFO improvement. Therefore, it is important to break down business management into its individual components in order to find the pockets most ripe for progress.

**Managing Expectations:**

That transition from measure to manage starts with turning clean data into insights. Eighty-nine percent of PE firms believe that their portfolio CFOs are not completely effective at doing so. Eighty-seven percent of CFOs agree, with 12% admitting that they are not effective at doing so, at all.

**FIGURE 2.1**

**Unmet Expectations: Sponsors & CFOs Agree There's Room for Improvement (with Respect to "Managing the Business")**


ACCORDION INSIGHT ▶ INFO INTO INTEL

If you can't measure the business well, you can't manage it effectively.

CFOs are ineffective at turning data into insights because they are spending too much time producing the data and not enough time analyzing it.

It's all a symptom of what we've noted again (and again and again): disparate systems and manual processes mean a laborious and ineffective means of collecting and synthesizing clean data, leaving little room to produce actual insights.

**Reporting, Budgeting, & Forecasting:**

One of the critical areas for improvement is the production of timely, insight-based reporting. Seventy percent of PE firms believe that CFOs could and should be doing a better job of producing and sharing these reports with their team. Seventy-two percent of CFOs agree with that statement (Figure 2.2).

These PE teams also see room for improvement with respect to the budgeting process. Seventy-eight percent of PE teams believe that their CFOs should be doing a better job driving business strategy and planning in cooperation with business unit leaders. Even more CFOs (80%) agree that they are not doing the best possible job actively stewarding planning cycles in coordination with multiple business leaders and the PE team.

If there is room for improvement with respect to budgeting, there is even greater room for progress in the forecasting that happens on a go-forward basis. The pandemic brought with it market uncertainty.

CFOs needed to adapt to address economic volatility, which many did, in part, by leaning into dynamic reforecasting. Findings indicate that many, however, still have a steep road to climb. Only 15% of PE firms consider their CFOs highly effective at leveraging dynamic forecasting to navigate change.

**FIGURE 2.2**

**Problems Producing Reports & Planning: Both Sponsors & CFOs See Shortcomings**

ACCORDION INSIGHT ▶ BUDGETING & FORECASTING FAILURES

On the budgeting and forecasting side, we have both a people problem and a technology problem.

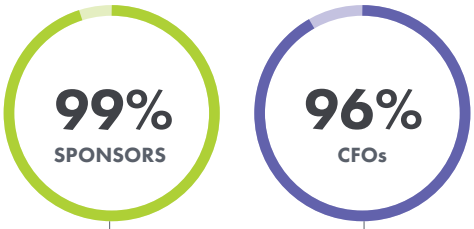
With respect to the latter, the bulk of this work is still, unfortunately, handled in Excel spreadsheets. Excel makes the budgeting process hard – it creates a "Wild West" environment where sheets are augmented by operational leaders without controls in place, culminating in a nearly impossible end-state synthesizing process.

If budgeting is hard in Excel, forecasting is simply impossible – and forecasting is at the core of managing the business. Dynamic forecasting can't just be trend-based. It must include more driver-based inputs to navigate volatility. You can't do that without the right technology in place.

But you also can't do that without the right kind of leadership at the helm of the finance department. For budgeting and forecasting to be effective, you need a strategic CFO who will rigorously challenge assumptions, hold the business accountable, and push to develop targets in line with historical trends and realistic drivers.

**Proactive Communication:**

Managing the PE business also means managing the PE sponsor. The good news is that most PE-backed CFOs play that strategic role quite well. Ninety-nine percent of PE firms agree that their CFOs proactively raise flags. Ninety-six percent of CFOs agreed.




Both sponsors and CFOs say that their finance teams are good at proactively flagging issues.

While only a handful of CFOs do not identify anticipated issues, their universal reason for not doing so is an interesting one: they do not feel that their PE firms welcome that kind of engagement from the finance department.

**Areas of Managerial Focus:**

Managing the business also means understanding the key areas on which the finance department must focus. Here, PE teams and CFOs are less aligned than in other areas of this survey. PE firms want CFOs to focus on tech enablement, improving working capital, and cost reduction, in that order (Figure 2.3).

**FIGURE 2.3**

**Finance Focus: What Are the Key Areas in Which the Finance Team Should Focus Going Forward?**

| | Sponsors Say | | CFOs Say |
|---|---|---|---|
| **2021 - NOW** | | | |
| #1 | Technology enablement | #1 | Optimizing capital structure |
| #2 | Improving working capital | #2 | Entering new geographies |
| #3 | Cost reduction | #3 | Improving working capital |
| #4 | Completing exit or sale | #4 | Technology enablement |
| #5 | Accounting or SEC reporting | #5 | Accounting or SEC reporting |
| #6 | Optimizing capital structure | #6 | Cost reduction |
| #7 | Entering new geographies | #7 | Completing exit or sale |
| #8 | M&A | #8 | M&A |
| **2019 - THEN** | | | |
| #1 | Cost reduction | #1 | Technology enablement |
| #2 | Technology enablement | #2 | Improving working capital |
| #3 | M&A | #3 | Cost reduction |
| #4 | Optimizing capital structure | #4 | Optimizing capital structure |
| #5 | Improving working capital | #5 | Entering new geographies |
| #6 | Entering new geographies | #6 | Accounting or SEC reporting |
| #7 | Completing exit or sale | #7 | M&A |
| #8 | Accounting or SEC reporting | #8 | Completing exit or sale |

While CFOs are also focused on cash-adjacent issues (optimizing the capital structure), they are far more focused on entering new geographies than sponsors would like them to be, and are not focused enough on technology enablement.

ACCORDION INSIGHT ▶ FINANCE'S FOCUS

CFOs want to be business partners to the CEO. PE firms, on the other hand, want their CFOs focused on enabling scalability via tech enablement and working capital cost management. They want to ensure they are prioritizing those areas that focus on optimizing the function, while leaving growth-related matters to the sponsor and revenue side of the executive leadership team.

Of interest is the one area that ranked last on both stakeholders lists: M&A (also notable because PE firms ranked M&A as a top 3 priority for CFOs in our 2019 survey). Given the heightened deal activity, its placement on the list likely has less to do with the number of transactions on the horizon, and more to do with the limited role the finance team wants to, and is expected to play, in those deals.

As we argued two years ago, CFOs' lack of engagement in early-stage M&A is troubling, as they are the ones tasked with merger integration and must live with its consequences. CFOs should, therefore, be the real drivers of M&A strategy, and their PE team sponsors should substantively involve them more often and much earlier.

PART 3

# Scale the Business

/skeil ðə biznəs / *action*

Utilizing value levers to help the business transform to achieve strong growth and returns in a PE-backed environment.

**Introduction:**

If a "measuring the business" CFO is table stakes, and a "managing the business" CFO is a need to have, then a "scale the business" CFO is the new PE paradigm.

Scaling the business is defined as utilizing value levers to help the business transform to achieve strong growth and returns in a PE-backed environment. This is, in many ways, the hardest of all three of the CFO's jobs.

**Transformation Trials:**

To be clear, PE firms want some version of a "scale the business" CFO: Both CFOs (93%) and PE teams (95%) agree that CFOs should play an important role in scaling the business.

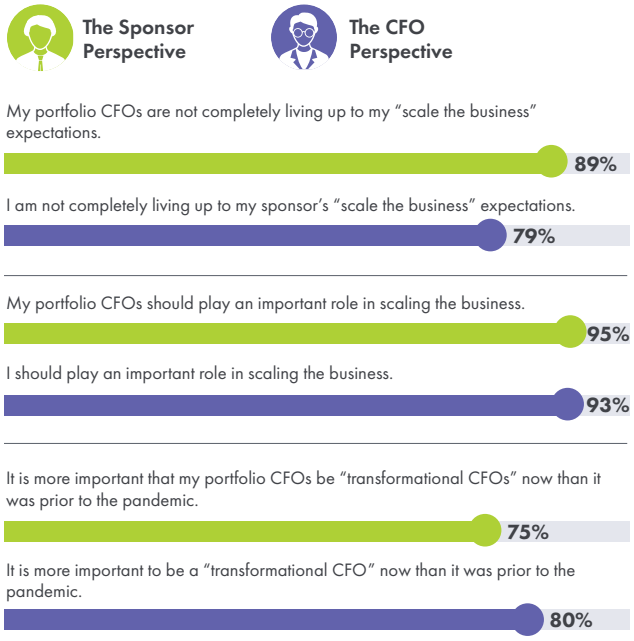
But, PE firms do not feel as though their CFOs are effective at doing so – at least, not yet.

Eighty-seven percent of PE firms say their portfolio company CFOs are not fully meeting their scale the business expectations, (79% of CFOs concur). Those are concerning statistics given that 75% of PE teams and 80% of CFOs believe it is more important to be a transformational CFO now, than it was prior to the pandemic (Figure 3.1).

As with the other PE-backed CFO functions, it is critical to unpack the scaling role to identify the failings, perception gaps, and opportunities for improvement.

**FIGURE 3.1**

**Unmet Expectations: Sponsors & CFOs Agree There's Room for Improvement (with Respect to "Scaling the Business")**




**Transformational Levers & Initiatives:**

In terms of the performance levers where it is critical that CFOs play a role in scaling the business, both PE firms and CFOs share in the belief that evaluating and recommending investment opportunities, and creating a scalable operating model are two of the three most important scaling levers (Figure 3.2). But PE firms rank operational improvements (such as BPO or RPA) first, while CFOs rank it fourth, only higher than M&A (which both rank last). CFOs instead prioritize managing costs, through either cost cutting or ongoing cost management.

**FIGURE 3.2**

**Scaling Specificities: What Are the Most Important Performance Levers CFOs Should Use in Order to Scale the Business?**

| Sponsors Rank Performance Levers | CFOs Rank Performance Levers |
|---|---|
| Ranked #1 Operational improvements such as BPO or RPA | Ranked #1 Creating a scalable operating model: 46% |
| Ranked #2 Evaluating and recommending investment opportunities based on their ROI | Ranked #2 (tied) Managing costs through either cost cutting or ongoing cost management |
| Ranked #3 Creating a scalable operating model | Ranked #2 (tied) Evaluating and recommending investment opportunities based on their ROI |
| Ranked #4 Managing costs through either cost cutting or ongoing cost management | Ranked #3 Operational improvements such as BPO or RPA |
| Ranked #5 M&A and PMI | Ranked #3 M&A and PMI |

> **"Seventy-five percent of PE teams and 80% of CFOs believe it is more important to be a transformational CFO now, than it was prior to the pandemic."**

In terms of which transformational initiatives should be a key area of focus for CFOs going forward, we again see a major disconnect. PE firms believe their CFOs should prioritize finance process optimization. CFOs rank optimization (the effective and efficient execution of enterprise process building) last (Figure 3.3). Both parties believe there should be a strong focus on liquidity enhancement (cash flow management, working capital improvements, capital expenditure planning), but CFOs focus on profitability improvement (end-to-end supply chain reconfiguration to enhance business agility and structural costs) more than their PE firms want or expect them to, at least for scaling purposes.

**FIGURE 3.3**

**Transformation Techniques: Which Transformation Initiatives Should Be a Key Area of Focus for the Finance Department Going Forward?**

| Sponsors Say | CFOs Say |
|---|---|
| #1 Finance process optimization | #1 Profitability improvement |
| #2 Liquidity enhancement | #2 Liquidity enhancement |
| #3 Profitability improvement | #2 Digital transformation |
| #4 Digital transformation | #3 Finance process optimization |

ACCORDION INSIGHT ▶ **TRANSFORMATION WITHIN OR WITHOUT**

What we're seeing across both of these lever misalignments is a sponsor desire for CFOs to focus on initiatives that further optimize and automate the finance department. PE firms view CFO-led transformation as a tool to use within the department.

CFOs, on the other hand, want to play a role transforming the organization outside of finance (which they believe is already too lean to benefit from further optimization efforts). In their eyes, scaling the business is about leaning into and driving enterprise-wide transformation.

PART 4

# Across All Dimensions & Operating Models

**Introduction:**

Of all the sponsor-CFO misalignments uncovered in this survey, perhaps the most jarring is the disconnect around who CFOs are and what PE firms would like them to be. This survey has identified three main types of CFOs:

1. **The Controller CFO** measures the business, focusing on collecting the right data to measure performance.
2. **The Strategic CFO** manages the business, focusing on turning data into informed business decisions.
3. **The Transformative CFO** scales the business, focusing on stronger growth and returns

**The CFO: Who They Have vs. What They Want:**

Most PE firms think they have controller CFOs and actually prefer to have effective controller CFOs in-seat. Most CFOs, however, think of themselves as transformative CFOs, but believe their PE firm wants a strategic CFO.

**FIGURE 4.1**

**The Three Types of CFOs**


ACCORDION INSIGHT ▶ SETTING THE TABLE (CORRECTLY)

Lest we think these are contradictory findings in a survey that otherwise indicates PE firms place a priority on transformation, it is important to remember that measuring the business is table stakes, but critical table stakes. PE firms want to ensure they first have a CFO who can do the fundamentals effectively, particularly during uncertain and volatile times, before they look to find the ultimate transformative CFO they really need to scale the business.

That critical point is reinforced in another finding. PE firms consider their CFOs' biggest weakness to be measuring the business: collecting the right data to measure performance. This indicates a need to get the fundamentals perfect, before finding a CFO that can take on the more growth-oriented functions of the role.

It's also worth noting that CFOs agree that measuring the business is the hardest part of their work. This finding suggests that the explosion of data, the lack of adequate integrated systems, and the real-time requirements for driver-based metrics (not informed by now irrelevant historical trends) have together made a table stakes job far less routine than it used to be.

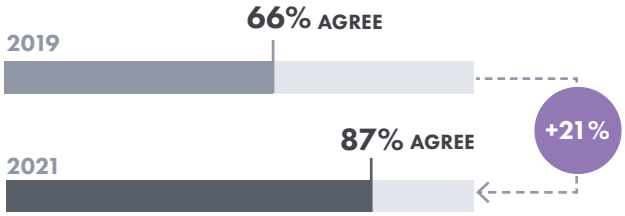
**Job Security:**

Given that their biggest weaknesses fall in such a fundamental and foundational category, it should come as no surprise that CFOs are concerned about job security (Figure 4.2).

A full 87% of CFOs are more concerned about job security post–PE deal. That represents a 21% increase from the same survey finding in 2019. Interestingly, even more PE firms (96%) believe that their CFOs are concerned about their job, a statistic that suggests the difficulty of the role, the palpable insecurity of those in-seat, and the potential legitimacy of their concern.

**FIGURE 4.2**

**Job (In)Security: CFOs Are Losing Confidence**
"As a CFO, I'm more concerned about job security post-PE deal."




**"This overwhelming statistic and substantive 2-year increase underscores the fact that the PE-backed CFO role is more difficult than it's ever been."**

Two years ago, most CFOs who were concerned about job security believed it was a "by default" issue – they thought the CFO was simply always the first to go. CFOs no longer believe that. In fact, being the "first to go" actually ranks last in the list of reasons why they are concerned about being fired. Instead, most CFOs are concerned about job security due to a belief that they are not perceived as effective at making informed business decisions (Figure 4.3).

**FIGURE 4.3**

**Problematic Perceptions: The "Why" Behind the Insecurity**

| Why Sponsors Believe Their CFOs Are Concerned About Job Security: | Why CFOs Are Actually Concerned About Job Security: |
|---|---|
| #1 The CFO is always the first to go | #1 Not percieved as effective manging the business |
| #2 Not perceived as effective managing the business | #2 Not perceived as effective scaling the business |
| #3 Not perceived as effective measuring the business | #3 Not perceived as effective measuring the business |
| #4 Not perceived as effective scaling the business | #4 The CFO is always the first to go |

**ACCORDION INSIGHT ▸ CAUSE FOR CONCERN**

That finding and directional change seems to suggest a recognition of the growing difficulty of the PE-backed CFO role and a CFO acknowledgement that they are not fulfilling the role as adequately as they should be.

The job of the PE-backed CFO has only gotten harder. They are shouldering the majority of the 'measure the business' data burden, at least during COVID. And for that reason, they're also the subject of intense stakeholder scrutiny.

If the finance house wasn't fully in order prior to the pandemic, then the volatility, the lack of modeling expertise, the disparate systems, the under-resourcing and the other almost innumerable obstacles, have all made the fundamentals of the job go from difficult to (almost) downright impossible.

**Firm Operational Model:**

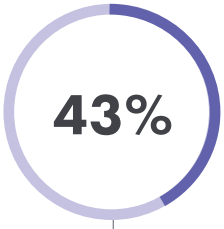
As noted in the 2019 survey, there are two types of PE firm models:

1. **The Investor Model:** Firms that allow management to drive strategy and value creation
2. **The Operator Model:** Firms that are more prescriptive and involved in managerial decisions

Two years ago, CFOs and PE teams described their firms' approach as evenly split among investors and operators. The same trend continues in 2021, without any meaningful change.

However, what is notable, and what may account for a fair amount of the misalignment underlying all the measure, manage, and scale dimensions, is the mismatch between the type of PE firm the CFO works with and the type of firm the CFO would prefer to work with.

Forty-three percent of CFOs are not working with their preferred PE firm model – an increase of 14% from 2019. (Twenty-five percent of PE-backed CFOs work with an investor-model PE firm, but would prefer an operator sponsor. Eighteen percent of PE-backed CFOs work with an operator but would prefer an investor.)




of CFOs are **not** working with their preferred PE firm model.


of portfolio CFOs work with an investor PE firm, **but would prefer** an operator.


of portfolio CFOs work with an operator, **but would prefer** an investor.

**ACCORDION INSIGHT ▸ REPAIRING THE RELATIONSHIP**

Those statistics suggest two things: First, there's a meaningful mismatch that breeds conflict from the start of the CFO-sponsor relationship. While that mismatch may serve to explain some of the perceptual and expectation misalignment within the dynamic, it also underscores the criticality of constant communication, guidance setting, and ongoing reassessment in order improve a relationship that may be less than ideal from the start.

Second, the fact that more investor-led CFOs prefer an operator model suggests that COVID has created a notable, deepened interest in meaningful operational guidance. CFOs know they need more help shepherding the company through crisis and volatility, and they're asking for it.

# Conclusion

PE firms are not entirely happy with their CFOs – and their CFOS know that.

PE-backed CFO performance has proven underwhelming in all three core areas of the function: measure, manage, and scale. While PE teams ultimately want a strategically inclined, transformative CFO, the current market disruption has made even the very basics of the job that much more important and that much more difficult.

CFOs are struggling just to collect clean data and turn insights into informed business decisions. Why? Disparate technology systems, poor system integration, the mythology surrounding cost and implementation requirements for creating a more ideal tech stack, reporting inertia that no longer tracks to meaningful KPIs, a talent shortage with respect to finance tech proficiency, and the insatiable sponsor need for real-time data, uninformed by now irrelevant historical trends. (And we haven't even addressed the DNA of the functional finance lead. The sponsor desire to get the basics right has been met with conceptual resistance from CFOs who want to advance from being a controller and flex their strategic muscle.)

The lack of foundational/functional excellence, an inability to align on core focus areas, and the underlying tension inherent in a mismatched pairing all leads to a dysfunctional CFO-sponsor relationship.

And that, in turn, leads to significant (and justified) job insecurity. It's not just that the overwhelming number of CFOs are worried they will be fired. It's that it is a full 21% more than in 2019. The directional winds are blowing the wrong way.

The question is: Is this a moment-in-time issue that is the result of massive pandemic-related disruption? Or, is this state of discontent the new normal?

While we do not think it's the former, we do believe we have time to prevent it from becoming the latter. The key to doing so, however, is to address the root of measurement requirements and misfires. Sponsors and CFOs must undertake a significant assessment in order to have an open and informed conversation about:

- The new value creation plan for the post-pandemic company
- The KPIs required to understand progress against that VCP
- The current state of the technology stack and the requirements for new systems, new system integration tools or overlays, and new system expertise in order to harness clean, accurate data
- The resourcing requirements demanded by an optimized but superior finance department
- The finance department priorities beyond function optimization, once measurement and management have been mastered
- The new cadence and mechanisms for Sponsor-CFO collaboration and operational guidance during an elongated state of certain uncertainty
- The importance of appropriate and targeted Sponsor investments in the finance function to ensure it is the best possible enabler of value creation, particularly in an era of high multiples
- The increasingly important role of the Finance Operating Partner to help portfolio company CFOs diagnose and support finance function deficiencies and opportunities

Having that conversation, supporting CFOs with the right technology infrastructure and resources, and providing sponsors with the meaningful real-time insights they require – these are the things that mitigate against the kind of CFO underperformance that will inevitably lead to more CFO unemployment. These are also the bare minimum requirements needed for PE sponsors to put their CFOs in a position to succeed.

And CFO success is absolutely critical – not only so that they can effectively measure, manage, and scale the business, but so that all stakeholders can benefit from their proficiency at doing so in order to realize high value at exit and maximum return on investment.

# Thank you.

We at Accordion would like to express our appreciation to our research partner, Wakefield Research, as well as the 100 CFOs and 100 sponsors who offered us their insights and observations. This report's objective is to shed light on the relationship between the CFO and the firm sponsor, illuminating the preferences and perceptions of each party and revealing where there are notable differences between the two. While this report does unearth some significant areas of misalignment, it is our hope that both sponsors and CFOs will leverage these findings as actionable insights to help improve communication and foster collaboration for a more productive relationship and a mutually beneficial exit.

## KEY CONTACTS

Reactions to this report? Let's talk.
We'd love to further the findings through discussion.

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