ACCORDION

THE STATE OF THE PE SPONSOR & CFO RELATIONSHIP

2023 Survey Report

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 investment lifestyle and include foundational finance and accounting, CFO-led value creation events, transaction support, and turnaround & restructuring services when needed.

Across all of Accordion's services, clients are supported by deep expertise in data & analytics, CFO-specific technology, and finance-led transformations. Accordion is headquartered in New York with eleven offices around the globe.

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 March 30th and April 10th, 2023, using an email invitation and an online survey.

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.

Executive Summary

Our third survey on The State of the PE Sponsor & CFO Relationship finds us in an uncertain economic environment. Interest rate fluctuations, erratic equity markets, and sustained geopolitical conflict laid the ground that a recession could be triggered at any time. A generation of CFOs who had never experienced anything like the current conditions—few were in senior positions during the Global Financial Crisis of 2008—face the daunting task of not just maintaining, but growing, a business.

For private equity sponsors and their management teams, the dynamic nature of this environment places greater emphasis than ever on alignment of strategic and financial interests, investment, and effort.

Conventional wisdom would hold that these factors would strain the PE sponsor & CFO relationship, but we found that PE teams and their portfolio CFOs are strongly aligned in many areas. This should be good news and set up an optimistic report full of best-in-class lessons from which any sponsor or CFO could learn.

However, despite the myriad areas where we see alignment, CFOs are standing on shaky ground, feeling less secure in their roles. In fact, PE-backed CFOs are more worried about their jobs than ever before.

Something needs to change. And this report identifies where that change is needed.

The State of the PE Sponsor & CFO Relationship identifies three areas of misalignment, serves as a roadmap to bring sponsors and CFOs closer together, and surfaces actionable advice from experts on how to build more effective relationships.

We understand the pressures facing PE-backed CFOs. Here, you'll find a go-to resource for identifying problem areas and initiating resolutions. Dive in. A better way to work in finance awaits.

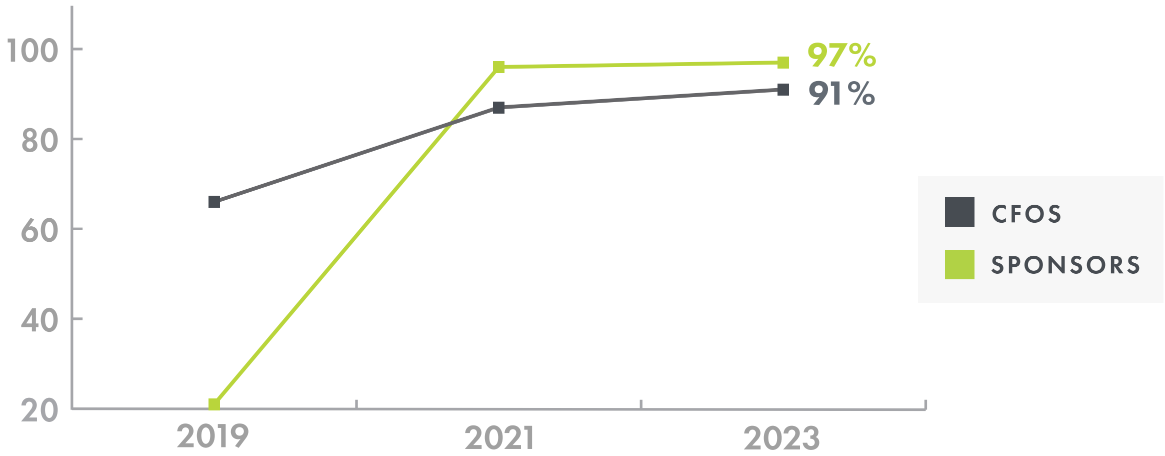
NICK LEOPARD
Accordion CEO & Founder

Key Findings

We've got a problem. PE-backed CFOs, put simply, are more worried about their jobs than ever before.

CFO JOB SECURITY CONCERNS

Agree that CFOs have become more concerned about their job security since their company received PE investment.

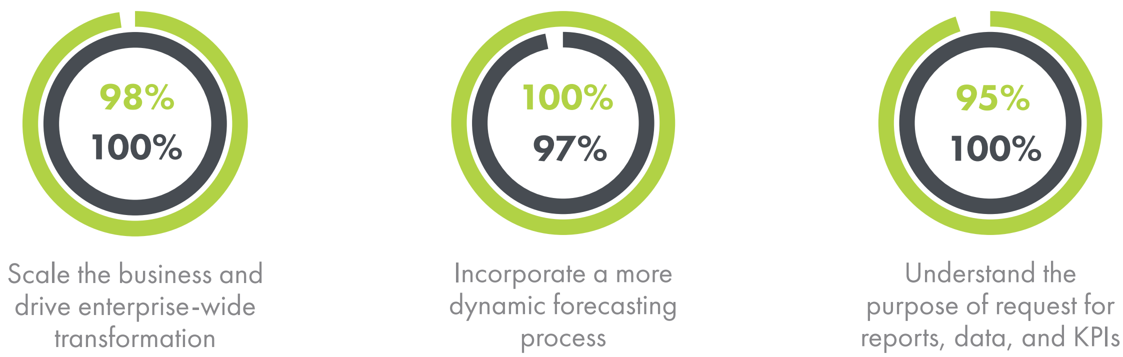


This concern is particularly stark because the 2023 report revealed a great deal of alignment between CFOs and sponsors on key areas of job expectations and capabilities, including:

ALIGNMENT ON EXPECTATIONS

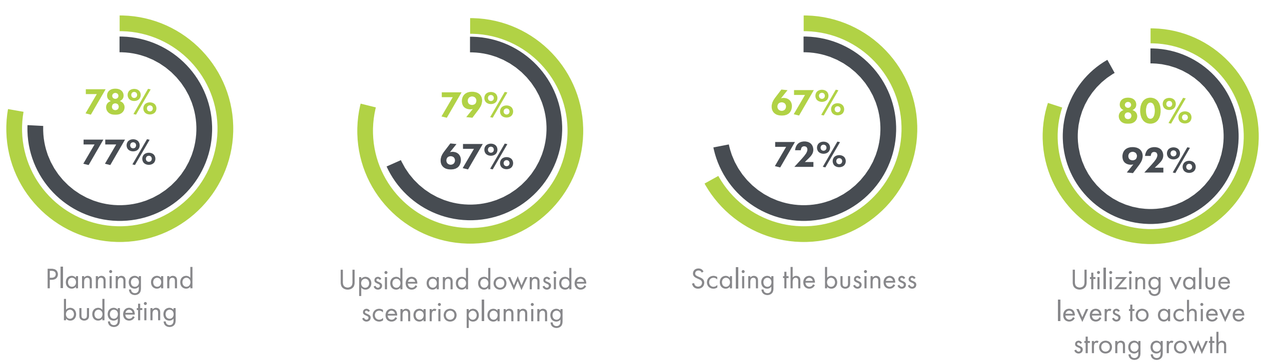
Sponsors and CFOs agree that CFOs should:

CFOS SPONSORS



ALIGNMENT ON CAPABILITIES

Sponsors and CFOs agree that CFOs are “completely” or “very” effective at:



So it begs the question: Why, with CFO and sponsor agreement about the role of the CFO increasing, are job security fears not reducing?

This report reveals that faltering CFO & PE sponsor relationships splinter around misalignment in three core areas. What follows should serve as a roadmap to both PE sponsors and their CFOs for how to work together across these areas, navigate friction, and build lasting partnerships that drive value creation.

Key Takeaways

1 CFOs, get a bigger closet. Make room for all the hats CFOs need to wear.

There was a time when a CFO's focus was purely managing financials. Today's CFOs are expected to oversee areas that used to be the sole domain of other C-suite members. In this inflationary period in particular, CFOs have had to optimize cash flow, enhance liquidity and profitability, and—current economic conditions notwithstanding—digitally transform their companies. CFOs are companies' lighthouses, shining the way to value creation opportunities.

Don't be confined to the traditional CFO box. Those walls need to come down.

2 Get the priorities straight. Sponsors & CFOs must align on business objectives.

No one can spend time working on the most important things if they don't know what the most important things are. Only if CFOs and sponsors align on the investment thesis can they be sure to work in service of the right KPIs and value creation levers. A shared mandate goes a long way to ensuring a value-driving PE sponsor & CFO relationship.

This starts with aligning with the sponsor, but reaching consensus on priorities is an ongoing and pivotal part of the CFO's role. Today's CFOs need to lead and collaborate with the rest of the C-suite to set a strategic course to drive value creation.

3 Bring data up to date. It's the foundational thing to nail.

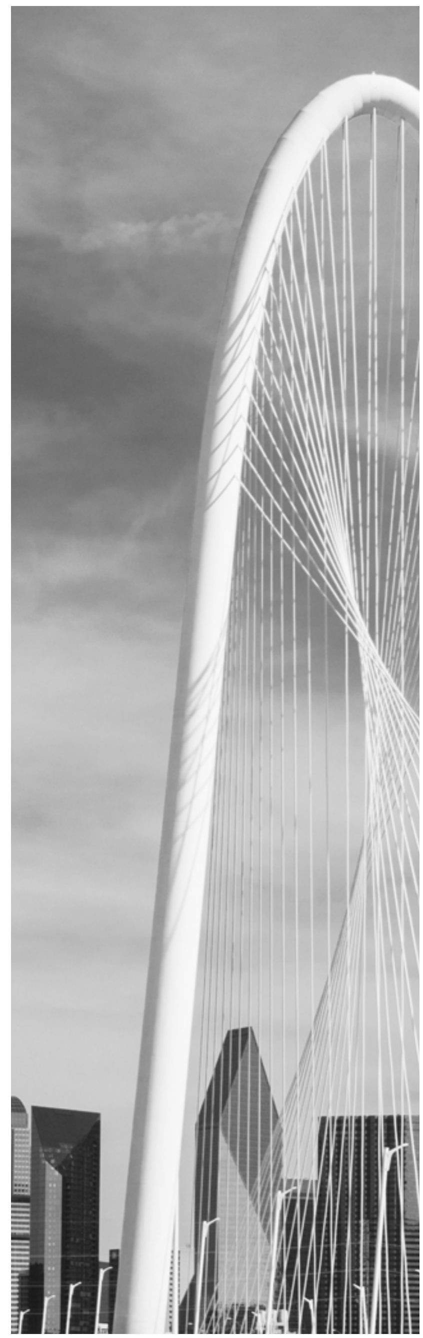
A strong data and analytics foundation is increasingly table stakes for more informed CFO decision making, as CFOs remain challenged in bridging the gap between data and business decisions. Sponsors are significantly less positive than CFOs about the job their CFOs are doing to ensure they are identifying and leveraging clean and reliable data to inform actionable insights. They are similarly less sanguine that portfolio companies' operational and financial KPIs allow them to understand the data in an appropriate, meaningful way.

Meaningful fidelity to data begins with the core question, "does the team have access to the right data?", and cascades to KPI alignment, insight creation, and reporting cadence.

Make room for all the hats CFOs need to wear

CFOS, GET A BIGGER CLOSET

CFOs in today's business environment are under more scrutiny than ever. Economic uncertainty, growing regulatory requirements, and increased investor involvement are only a few of the challenges they are facing. Since the pandemic, pressure on CFOs to cut costs and grow revenue, while maintaining overall financial control, has intensified. At the same time, CFOs at PE-backed companies have broad, strategic responsibilities that extend far beyond managing the books.

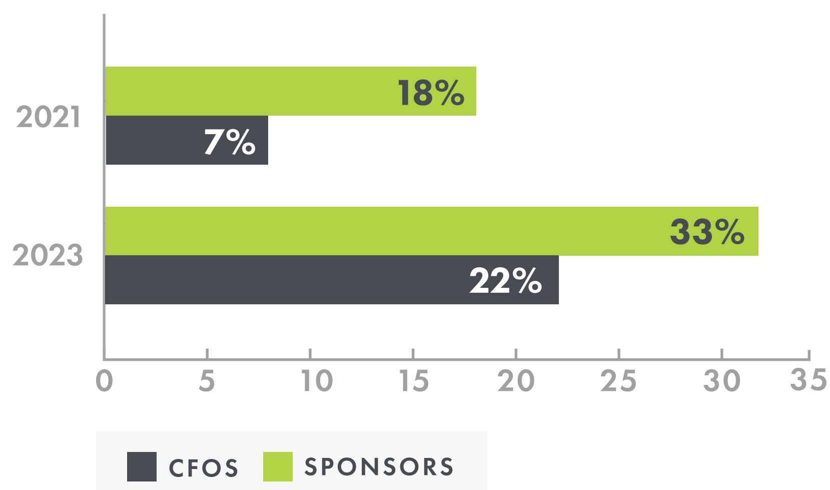


One of the most significant areas where the CFO role has evolved is with respect to transforming the business. Today, CFOs are largely seen as sharing responsibility with the CEO for this function—especially critical to PE-backed companies where sponsors are eyeing a profitable exit.

While there was already widespread agreement about this in the 2021 survey, the conviction in this belief intensified significantly:

CFOS SHOULD DRIVE TRANSFORMATION

Agree completely that PE-backed CFOs should play a role in scaling the business and driving enterprise-wide transformation.



There's a lot expected of the CFO. The requirement to drive transformation ultimately means leveraging data, identifying opportunities to shift strategy, sizing the opportunities, and gaining alignment with sponsors and other executives within the company. CFOs must see those decisions to fruition by monitoring progress and communicating up to the sponsor.

Where to start? Assume the mantle of responsibility as steward of the company's data to create a data-driven culture. Sponsors and CFOs alike want effective technology and platforms to create a single source of truth for the whole organization to access.

96% OF SPONSORS AGREE
CFOs digitally enabling the finance team is important

Unsurprisingly, the growing focus on digitization of the office of the CFO was emphasized by sponsors. 96% of sponsors agree that it is important for their portfolio company CFOs to digitally enable the finance function. As important as digital infrastructure is in 2023, three times as many CFOs as sponsors don't view it as a job responsibility.

3x CFOS AS SPONSORS
do **not** think it is important to digitally enable finance team

Why is digitization the number one area of focus for transformation? Experts from Accordion stressed that it's at the heart of achieving value creation goals:

EXPERT ANALYSIS

Done right, digital transformation drives efficiency to optimize the finance function, creates a single source of reliable data, and frees finance teams up to spend time on insight generation instead of compiling information. It presents enormous opportunities to reduce costs, provide predictive insights, and drive improved working capital.

But if CFOs are relying on manual pulls from Excel, using siloed or incomplete data, or stuck with fragmented processes across a decentralized workforce, it's almost impossible to transform an organization. But know this: organizations can get to an insights-driven approach across technology, people, process, and data that can lead to identifying areas for transformed and digitized processes. We've seen companies do it time and time again.

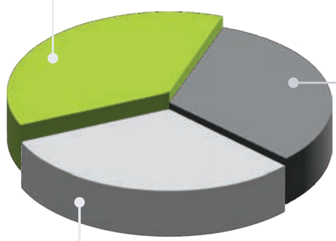
This conviction grew even in this turbulent economic environment. While CFOs most often said they thought their private equity sponsors want a strategic CFO, with a focus on turning data into informed business decisions, sponsors most often said they want a transformative CFO, with a focus on scaling the business for strong growth and returns.

CFO MODEL PREFERRED BY SPONSORS

Which type of CFO is preferred in a turbulent economic environment?

SPONSORS

37% **Transformative CFO**, with a focus on scaling the business for strong growth and returns

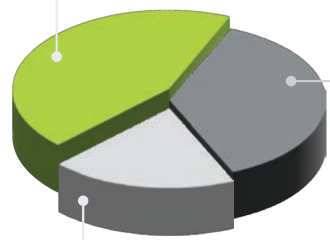


32% Strategic CFO, with a focus on turning data into informed business decisions

31% Data-oriented CFO, with a focus on ensuring clean data

CFOS

44% **Strategic CFO**, with a focus on turning data into informed business decisions



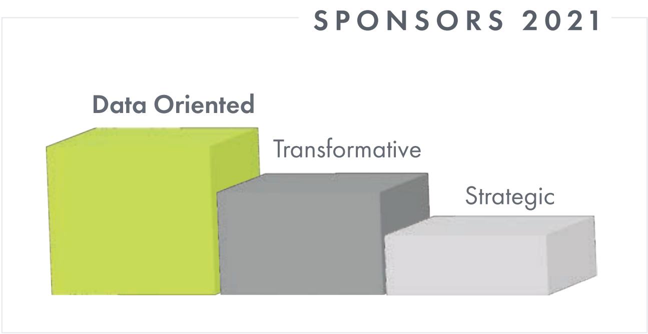
19% Data-oriented CFO, with a focus on ensuring clean data

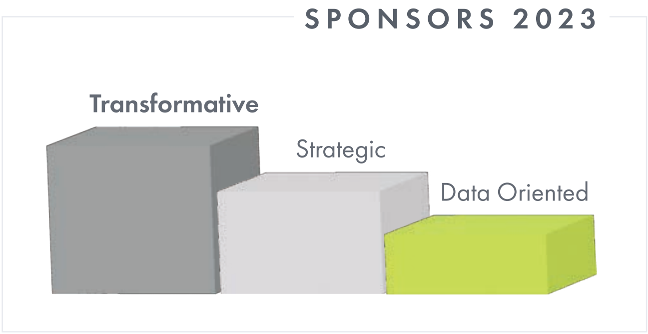
37% Transformative CFO, with a focus on scaling the business for strong growth and returns

This was a significant change from the 2021 survey when private equity sponsors most often said they wanted data-oriented CFOs, with a focus on ensuring clean data:

CFO MODEL PREFERRED BY SPONSORS

Which type of CFO is preferred?





Why the shift towards a desire for transformative CFOs? Experts from Accordion identified the economic conditions that dictated this change:

EXPERT ANALYSIS

In an economic environment like this one, when deal making has slowed so significantly, there is more pressure on CFOs to be transformative. In a transaction-heavy environment, sponsors want data-oriented CFOs to integrate transactions, master the foundational essentials, and provide key data points. But in this deal-starved economy, sponsors are spending more time partnering with CFOs to optimize the business and improve performance. Right now, that is a sponsor's best lever for driving value.

Therefore, CFOs need to focus on aspects of the job like reducing costs, optimizing working capital, and increasing cash flow. A transformational CFO meaningfully affects those areas.

As conditions change, sponsors will have different points of emphasis that will be reflected in future surveys. When transaction volume increases, the pendulum may swing towards asking CFOs to get the books closed and focus only on data. However, experts from Accordion were clear: There are significant advantages to being asked to be transformative that CFOs should carry with them on the journey out of this uncertain economy:

EXPERT ANALYSIS

The best part of being asked to be a transformative CFO is that it gives you a seat at the table for value creation. A CFO who has that seat would be wise to not give it up too quickly. Instead, solidify your place at the table. Be a partner to the CEO and the board to drive action on agreed-upon initiatives. Take stock of the actions taken and transformations undergone. The cost and cash flow levers activated in this environment should become table stakes to continue to transform and improve the function.

When deal volume increases—and growth, M&A, and market expansions become sponsors' areas of focus—CFOs should still dictate data-enriched transformation strategies.

Don't let transformation be an episodic undertaking. Persistently take a transformative approach.

Sponsors & CFOs: align on business objectives

GET THE PRIORITIES STRAIGHT

The message from sponsors regarding where CFOs should focus their efforts moving forward needs to be clearer. CFOs and sponsors ranked key areas of focus, revealing a chasm of misalignment.

AREAS OF FOCUS GOING FORWARD

Which of the following will be key areas of focus for your department going forward?

CFOS 2023

Technology enablement	**46%**
Cost reduction	**45%**
Optimizing capital structure	45%
Accounting or SEC reporting	44%
Improving working capital	36%
Entering new geographies	34%
Completing exit or sale	26%
M&A	**24%**

SPONSORS 2023

Accounting or SEC reporting	46%
M&A	**43%**
Improving working capital	43%
Optimizing capital structure	41%
Technology enablement	**38%**
Entering new geographies	34%
Cost reduction	**28%**
Completing exit or sale	26%

The stark disconnect between sponsors and CFOs about the importance of mergers & acquisitions is notable. Sponsors ranked M&A as the second highest priority area of focus for their portfolio companies going forward, but CFOs ranked M&A dead last with less than one quarter naming it as a priority.

Why the gulf between CFOs and sponsors? Experts from Accordion who sit at the connection point between sponsors and CFOs understand the natural tension:

EXPERT ANALYSIS

Sponsors see M&A as a means for growth and synergy. And while it's true that M&A has a lot of upside, M&A is also a hard path to drive value, requiring a lot of work and additional attention, which could distract CFOs from other foundational aspects of

their roles. For CFOs, the significant integration required for M&A is almost always a special additional project. It's natural for sponsors to be more focused on and excited by M&A than CFOs.

CFOs have consistently ranked M&A as their lowest priority. In the 2021 survey, sponsors also ranked M&A last:

AREAS OF FOCUS GOING FORWARD

Which of the following will be key areas of focus for your department going forward?

SPONSORS 2021

Technology enablement	47%
Improving working capital	41%
Cost reduction	39%
Completing exit or sale	39%
Accounting or SEC reporting	38%
Optimizing capital structure	36%
Entering new geographies	32%
M&A	**28%**

SPONSORS 2023

Accounting or SEC reporting	46%
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Cost reduction	28%
Completing exit or sale	26%

Right now, there is a major shift happening in the ways sponsors want their finance teams to focus on M&A moving forward. What changed for sponsors so drastically and why might CFOs have missed it? Experts from Accordion suggested this may be an inflection point that CFOs can learn from:

EXPERT ANALYSIS

This is a fascinating moment to capture that shows sponsors looking forward to a future economic state, while CFOs are still thinking about value creation levers for this economy, like cost reduction.

With the revelation that sponsors are already thinking about M&A, CFOs need to be proactive. Think ahead. If M&A is coming (and if sponsors are focused on it, M&A is most definitely coming), right now is the moment to design a playbook for finance to handle integration and synergies.

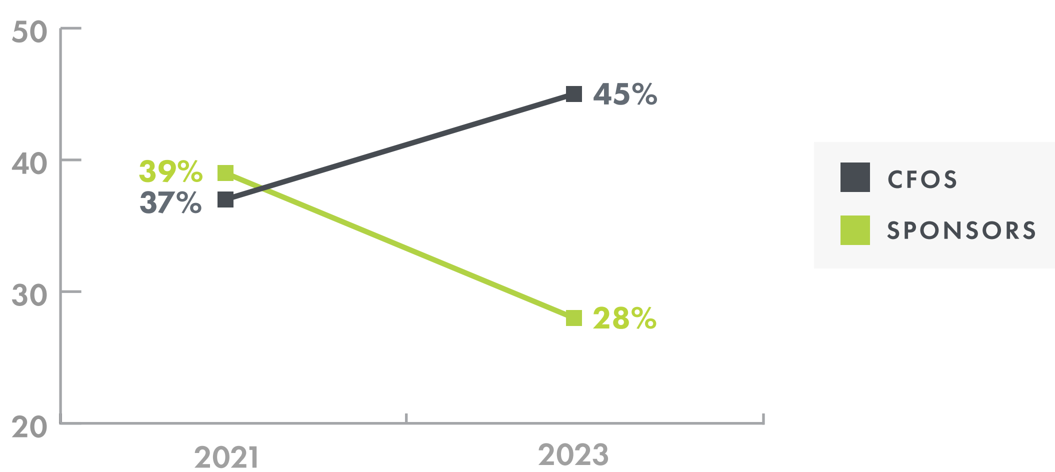
If a CFO isn't creating that plan now, they may end up scrambling to try to incorporate 4-5 transactions all at once. Reacting to M&A and playing catch-up for add-ons or tuck-ins is a path for frustration and failure. CFOs who don't get out in front and integrate properly find that M&A snowballs into bigger, more complicated, and distracting initiatives over time.

If a CFO doesn't know the sponsor's investment thesis, now's the moment to figure out how M&A is part of the sponsor's plan for value creation. Don't get stuck at the back of the line making things happen. Jump in now and shape the plans.

Correspondingly, cost reduction is another area of significant misalignment. It was the second-highest priority for CFOs moving forward, but the second-to-last priority for sponsors. Even more telling, the focus on cost reduction moving forward grew for CFOs since our last survey. Over that same time period, it waned for sponsors:

FOCUS ON COST REDUCTION GOING FORWARD

Agree that cost reduction will be a key area of focus going forward.



This level of priority divergence can be disorienting for the PE sponsor & CFO relationship. In this uncertain environment when cash flow is king, one might have assumed that the importance of cost reduction would increase for both CFOs and sponsors. Here too, the data shows that sponsors are moving forward and planning for a future economy while CFOs are projecting today's conditions to continue into the future. Experts from Accordion summed up sponsors' points of view:

EXPERT ANALYSIS

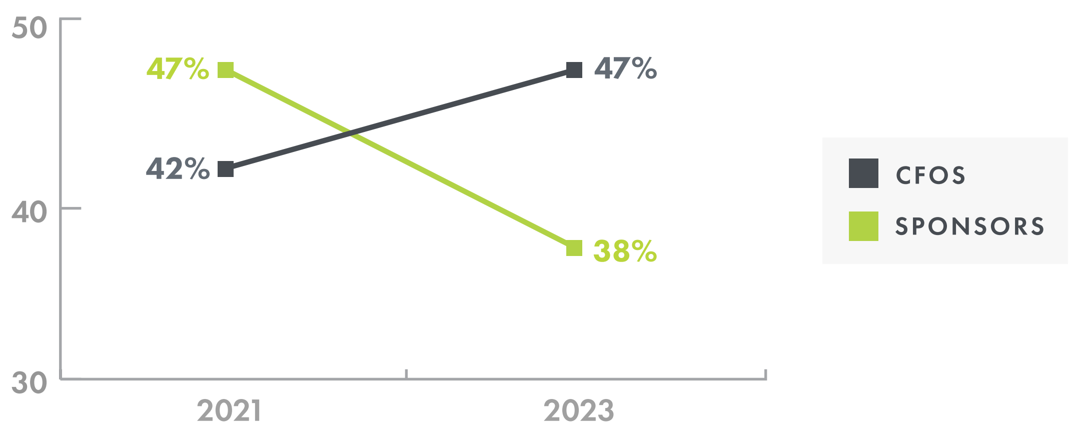
Sponsors are looking at today's activity and thinking, "We've done the cost reduction phase and it's on to the next." Future value levers will focus on growth.

This is the moment for CFOs to re-orient their thinking as well.

A final case of misalignment is technology enablement, ranked number one by CFOs but only in the middle of the pack for sponsors. Again, CFOs and sponsors have gone in opposite directions since the 2021 survey:

FOCUS ON TECH ENABLEMENT GOING FORWARD

Agree that technology enablement will be a key area of focus going forward.



This opposing shift in tech enablement between CFOs and sponsors is unmistakable. Why did CFOs and sponsors diverge so drastically? Experts from Accordion had suggestions:

EXPERT ANALYSIS

Here again, sponsors are looking to the future—specifically their upcoming exit. In the previous survey in 2021, focusing on tech improvements made sense for sponsors. Due to the residual impact of the pandemic, companies couldn't continue operating without better tech for remote workers. But technology requires monetary investment and sponsors want CFOs' efforts spent positioning their companies for exit right now. Sponsors are eyeing all the dry powder. The timeline to realize value for technology investments is longer than the exiting horizon.

So what can a CFO who wants to invest in technology do? Make the investment about improving the sponsor's exit. Have a clear rationale for why this technology investment is valuable. Articulate the ROI; there is much to be said for having an accurate and reliable single source of insight. The coming deal environment is likely to be incredibly competitive, as many potential transactions will present themselves at once. Diligence can set a company apart. Tools and technology can differentiate a company as an asset and increase the multiple it can get.

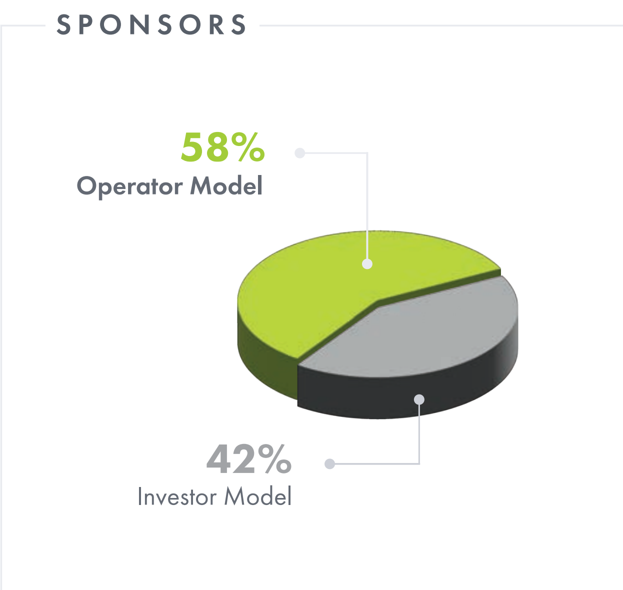
Yes, CFOs must align priorities with sponsors, but they do not have to give up the fight for data.

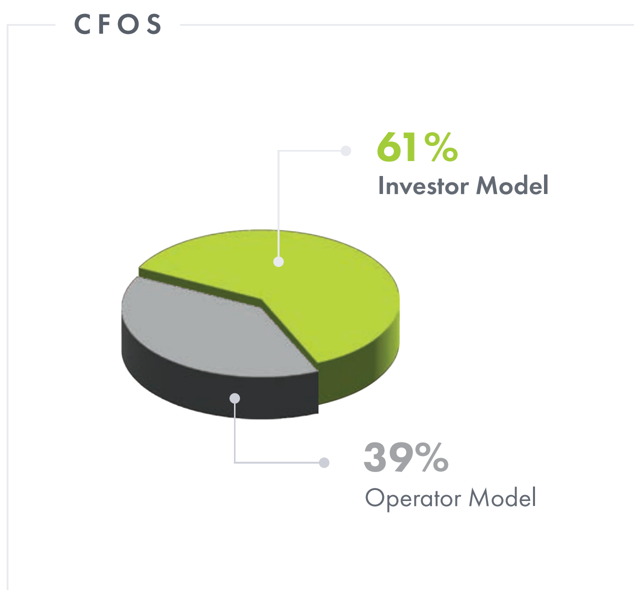
Even if CFOs succeed in their initiatives, will they be viewed as successful moving forward when they perceive their mandate so differently from the private equity team? Aligning business priorities is a key piece of the roadmap toward healthier CFO and PE sponsor relationships. These findings provide strong signals for where sponsors' attention will shift: in the direction of a deal-making economic environment, towards M&A and away from cost reduction.

Underlying the need for alignment may be the operational model of the private equity firms themselves. The majority of sponsors said they follow an "**Operator Model**" where they are involved in major decisions that drive strategy and value creation. CFOs, however, said their sponsors followed an "**Investor Model**", allowing management to drive strategy and value creation.

SPONSOR OPERATIONAL MODEL

Which describes the operational model of your private equity firm?





So, it's not just business priorities between CFOs and sponsors that are askew. It's the very core model of how they should work together that needs more alignment. The good news? There is potential for a huge leap forward in the PE sponsor & CFO relationship. 68% of CFOs say they prefer the operator model that PE sponsors profess to follow. Sponsors should be vocal about how they want to work with their CFOs and get more involved. CFOs want sponsors involved in strategic decisions. Both CFOs and sponsors agree: a valuable relationship is more likely to create value for the business.

It's natural to see a disconnect between sponsors and CFOs. CFOs may feel that sponsors are investors, not operators. Not having been in the seat makes it harder to understand what the job demands look like and what's needed for running the business.

This disconnect will always exist. But there are **two initiatives** we've seen PE firms undertake to lessen the impact of that disconnect:

1. Leading PE firms have built operational teams that include people who have come out of the industry, have been in the CFO seat, and have the credibility to coach finance professionals. Investors have likely not been on the industry side, so this gives a CFO an additional point of contact on which to rely.
2. Forward-thinking PE firms hold CFO offsites to bring all the CFOs who work with them together. It's a great opportunity for CFOs to learn from each other, and high-performing CFOs can coach CFOs who are newer to the portfolio. CFOs often walk away knowing the best ways to work with their sponsor and where to focus their time.

These initiatives have proven to be deeply impactful and well worth the investment. CFOs and sponsors who are feeling disconnected should try one or both approaches. One way or another, they must figure out how to align.

Bring data up to date

IT'S THE FOUNDATIONAL THING TO NAIL

While sponsors ultimately want a transformative CFO, that can't be achieved without solid building blocks in place. Strong data fidelity remains the foundational aspect of the CFO job and at the heart of the misalignment between CFOs and sponsors. Reporting and insights are two of the most important ingredients for CFO success. Sponsors are looking for CFOs who continually monitor performance to make better business decisions and drive improvements through every phase of the business lifecycle.

A poor data foundation causes cascading problems down the line. But establishing a better data practice can give the CFO and sponsor:

- The ability to turn data into insights
- Alignment on KPIs for agreed upon reporting metrics and cadence

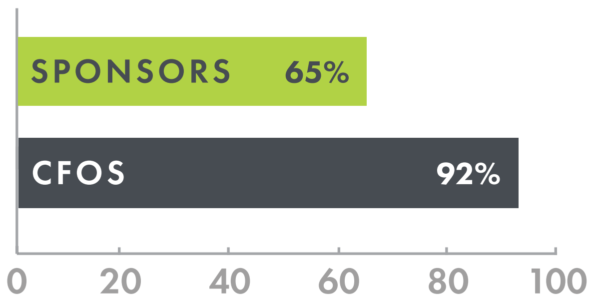
While related, each of these topics is crucial.

THE ABILITY TO TURN DATA INTO INSIGHTS

This is the white whale for sponsors looking to bridge the gap between data and business decisions. It all starts with good, clean data sources—about which there is a divide between CFOs and sponsors. Sponsors are significantly less positive than CFOs about the job their CFOs are doing to ensure they are identifying and leveraging clean and reliable data to inform actionable insights.

IS DATA CLEAN AND RELIABLE?

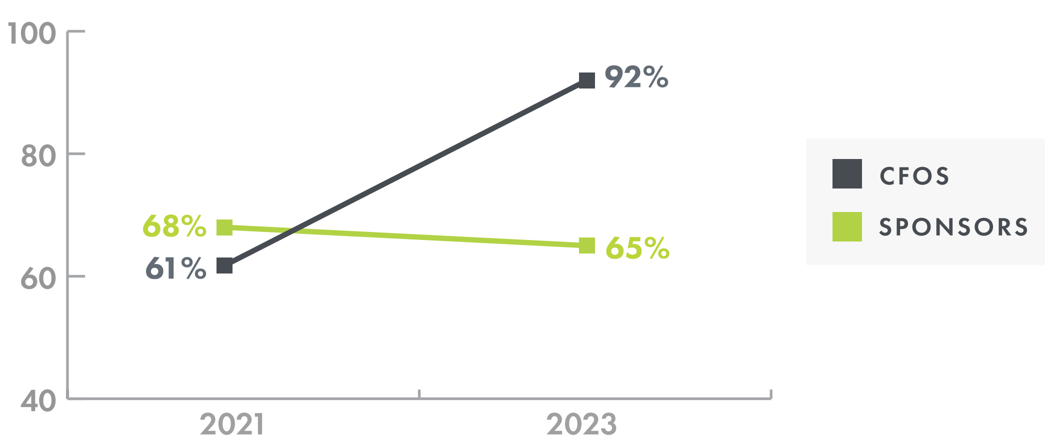
CFOs and sponsors agree completely/strongly that CFOs are performing to private equity team's expectations in terms of ensuring data identified/leveraged to inform actionable insights is clean and reliable.



Only 65% of sponsors said they "completely" or "strongly" agree that CFOs are meeting expectations, compared to 92% of CFOs on this issue. This comes into a starker light when compared to data from the 2021 survey.

IS DATA CLEAN AND RELIABLE?

CFOs and sponsors agree completely/strongly that CFOs are performing to private equity team's expectations in terms of ensuring data identified/leveraged to inform actionable insights is clean and reliable.



In other words, CFOs believe they've made significant progress, but sponsors disagree. What might be the disconnect here? Why do sponsors feel that CFOs have not made progress? Subject matter experts from Accordion expressed caution here for CFOs:

EXPERT ANALYSIS

In the current environment with fewer new deals, sponsors are spending more time in the trenches with CFOs understanding and unpacking performance. This has given sponsors a lot more context on how things work within the finance function. That closer collaboration may lead CFOs to believe sponsors are understanding of data limitations and conclude they are meeting the requirements for reliable data.

But a sponsor's empathy for a CFO's position does not equal acceptance or approval. The data is clear that sponsors believe there's still work to do. Anecdotally, we see that many CFOs' data foundations are not where they want it to be, leaving them struggling with manual processes.

CFOs believe they've come a long way in the last two years, and in an economic environment with a slower deal flow, some have undoubtedly made progress on closing the books and reconciling financial data. But sponsors want more. They are still looking for trusted data that can lead to meaningful insights into performance.

Decentralized data will not yield actionable insights. Only 17% of sponsors say CFOs are performing "extremely" well when it comes to turning data and analysis into insights to make informed business decisions. The vast majority of CFOs are still working on formulating meaningful business insights from data.

17% OF SPONSORS say CFOs turn data & analysis into insights extremely well

In fact, both sponsors and CFOs agreed that turning data into business decisions is the single biggest area for improvement:

BIGGEST GROWTH AREA

Which of these is the biggest area for growth/improvement?

	CFOS	SPONSORS
Managing the business: Turning data into informed/actionable business decisions	**38%**	**39%**
Scaling the business: For strong growth and returns	36%	32%
Measuring the business: Ensuring clean data	27%	29%

Everyone agrees that they want insights that can shape the business. Without clean data, insight formation is dead on arrival. But even CFOs, 92% of whom completely or strongly agree that their data is clean and reliable, believe turning data into insights that can rally business partners around the right metrics is a challenge.

EXPERT ANALYSIS

A good starting question for a CFO to ask themselves: "Can I confidently say what matters to my business? Do I definitively know the key drivers of value?"

If so, a CFO can start to identify levers to pull to drive more value. These levers vary from industry to industry. A manufacturing lever may revolve around plant managers' daily focus, while a healthcare industry lever may focus on revenue cycle management.

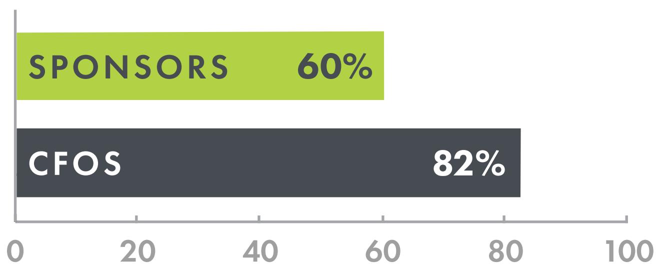
Clarity around industry-specific levers is a great place for CFOs to lean on their sponsors. Sponsors often invest in a specific vertical and therefore have a broader purview for benchmarks, baselines, and industry expertise. If a CFO is struggling, the sponsor or operating partner can likely help.

ALIGNMENT ON KPIS

A lack of KPI alignment impedes sponsors and CFOs from getting on the same page about data. Sponsors say KPIs allow for meaningful data understanding a full 22 percentage points less than CFOs.

DO KPIS HELP DATA INTERPRETATION?

How effective are your operational and financial KPIs in allowing you to understand the data in an appropriate, meaningful way?



Without alignment on the right KPIs at the outset, sponsors report opposite causes of KPI frustration.

CORE ISSUES WITH KPIS

What are the core issues contributing to your CFOs' underperformance in ensuring data used to inform reporting insights is clean and reliable?

55% OF SPONSORS
say CFOs report too few KPIs

48% OF SPONSORS
say CFOs report too many KPIs

With opposing responses such as this, it is likely not a numbers issue of too few or too many. The truth may simply be that the right KPIs are not being reported.

Identifying and reporting on the right KPIs should be a central focus. KPI misalignment is often a sign of bigger data issues. In fact, of the 21% of sponsors who say their CFOs are not meeting overall data expectations, not reporting the right KPIs on time is one of the top reasons.

CORE ISSUES WITH KPIS

What are the core issues contributing to your CFOs' underperformance in ensuring data used to inform reporting insights is clean and reliable?

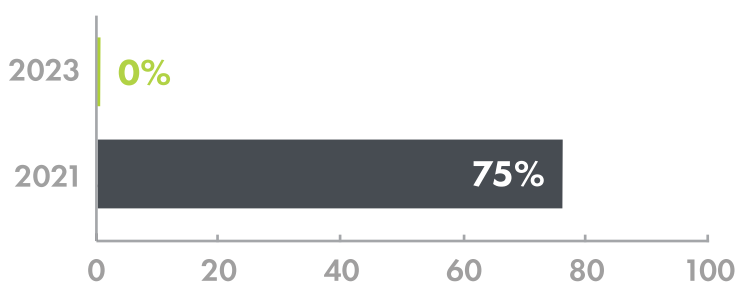
They are not reporting financial statements or the right KPIs in a timely manner	**34%**
We are not getting the granularity on operational data we want or require	34%
They are reporting financial statements or KPIs with too much frequency	31%
They have the correct systems, but they are not capturing information and data correctly	26%
It's a CFO oversight problem: The CFO does not effectively pressure test data and/or have a high enough bar to identify decision-grade data	26%
Raw data is inaccurate	20%
They are not reporting financial statements or KPIs with enough frequency	17%
Systems are inadequate to meet reporting needs	--

Only one answer on that list received no votes. Not a single sponsor viewed underperformance in data used to inform insights as a systems issue.

This is a seismic shift from the 2021 survey when 75% of sponsors felt CFOs' shortcomings were a systems issue.

ARE SYSTEMS INADEQUATE FOR REPORTING NEEDS?

"Systems are inadequate to meet reporting needs" is a core issue contributing to CFO underperformance in ensuring data used to inform reporting insights is clean and reliable.



It's clear that sponsors now believe that the right system is not what is chiefly holding finance teams back from clean and reliable data. The biggest issue is something else. It may be the ability to work with data, it may be a perceived lack of effort, or it may be a breakdown of communication. At the very least, CFOs and sponsors need to align on KPIs and reporting. A shared destination is a prerequisite for a successful journey.

Accordion experts offered suggestions on how sponsors and CFOs can get on the same page:

EXPERT ANALYSIS

Sponsors and CFOs need to come together shortly after the investment and align on financial drivers, value creation drivers, and operational management drivers. They must then establish KPIs around each to create goal posts and focus high-quality discussion and analysis.

Clear KPIs communicate not only what should be measured but also where efforts should go. Strategic KPIs go beyond illuminating what data is most important and help formulate the "so what?" about that data: the operational action plans that can transform the business.

It's no wonder then that with a disconnect on KPIs, there are also contrasting views about other aspects of reporting, particularly general reporting cadence.

REPORTING CADENCE

What is your general CFO/sponsor reporting cadence?

This wide gap did not exist in previous surveys and suggests that there are fully differentiated inclinations about reporting and the level of communication each party would like. Unsurprisingly, with sponsors wanting to receive regular weekly reporting, 75% of sponsors said that measurement is not happening frequently enough. Zero sponsors named this as an issue in the 2021 survey.

75% OF SPONSORS said that measurement is not happening frequently enough

The bottom line: sponsors want (1) the right KPIs measured (2) more often (3) with an action plan around them. Achieving these steps puts CFOs firmly on a path that satisfies both sponsors and CFOs: using data to identify insights that can meaningfully shape the business and drive value creation. It's not an easy thing to accomplish, but it is achievable.

Conclusion

The role of the CFO has expanded and trends suggest it will only continue to do so. Managing the financials and closing the books no longer cut it. This report makes it clear: **Sponsors want CFOs who drive value creation.**

How does a CFO drive value creation? By explaining not just what is happening in the business, but why it's happening, and what the business should do about it moving forward. Formulating that level of insight is always challenging. Without clean data, formulating strategies and establishing KPIs to drive meaningful transformation is a near-impossible task.

Put simply, a strong data foundation is the bedrock of today's CFO. Both sponsors and CFOs agree that the area that most needs transformation is the digitization of the finance function. That starts first and foremost with data.

It's telling that CFOs self-reported having clean, reliable data—while sponsors disagreed. In our work with PE-backed CFOs, we find that data is almost always an issue. Significant underinvestment in data platforms—both in technology and data warehouses—can create low-visibility data environments that don't allow CFOs to extract and synthesize data to tell an enterprise-wide performance story.

Establishing a great data platform, on the other hand, can transform the business. CFOs who embrace their leadership hat can create a data-driven culture that shifts an organization's decision-making process. These CFOs earn a seat at the table to align with sponsors on value creation levers. We know these can feel like industry buzzwords, but we work with CFOs who take this on, and we see how transformative it is for their businesses.

"The State of the PE Sponsor & CFO Relationship" is a snapshot of a moment in time. We are on the bleeding edge where the technology and sponsor relationships with CFOs are evolving. Robotic process automation, advanced analytics, generative AI, and more are all raising their heads into the horizon. We can't predict all the trends to come for a CFO, but we can underscore the importance of embracing these new hats, committing to data-driven business decisions, and staying aligned with sponsors for whatever comes next.

This report started by identifying a problem: Despite significant alignment in many areas, CFOs feel more insecure about their roles than ever before. The roadmap to better CFO & sponsor relationships starts with data. Clean, reliable data gives leading CFOs the confidence to play offense, show others where the business is going, and identify what needs to be prioritized to get there. CFOs who act as data-driven leaders stand on much more solid ground.

It's not a simple journey, but it's worth it. A better way to work in finance stands on the other side.

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