THE STATE OF THE **PE SPONSOR-CFO RELATIONSHIP**

A survey conducted by **Accordion,** in conjunction with research partner, Wakefield Research.

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 in the first quarter of 2019, 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 survey respondents and the level of the percentages expressing the results. For the surveys 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, in either the CFO or PE sponsor sample, from the result that would be obtained if surveys had been conducted with all persons represented by the samples.

ABOUT ACCORDION

Accordion is the go-to partner to the private equity community—driving value creation through financial consulting services and portfolio operations technology. Focused exclusively within the Office of the CFO, Accordion works alongside sponsor management teams to support initiatives across the entire finance function. Channeling years of execution and insight into portfolio operations best practices, Accordion created Maestro: the first and only SaaS product built to maximize value creation in private equity-backed companies. Together, Accordion and Maestro serve the world's premier private equity firms and their portfolio companies from offices in New York, San Francisco, and Boston. www.accordion.com

EXECUTIVE SUMMARY

> *What we've got here is a failure to communicate.*
> **– Captain, Cool Hand Luke**

The PE industry is undergoing a period of profound change.

Given the current market landscape, operational improvement has become the en vogue strategy for driving value to equity within the portfolio. That strategic necessity has resulted in PE firm paradigm polarity: There's 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.

Accordion undertook a survey of both PE firm sponsors and portfolio company CFOs to understand how these shifting industry headwinds have affected the dynamic between firm and company management, specifically with the CFO, who sits at the nexus of that relationship.

The survey, *The State of the PE Sponsor-CFO Relationship*, revealed the good, the bad, and the confusing aspects of the firm-finance dynamic. It also found the telling: the discordant perspectives on PE firm contributions and CFO needs that read as headlines of a dysfunctional relationship.

Instead of alarming headlines, however, we prefer to view them as helpful insights to be used in service of improving CFO-sponsor communication, collaboration, and, ultimately, investment success.

This report examines the PE sponsor-CFO relationship across five critical dimensions:

01

THE FOCUS: PE-BACKED CFO OBJECTIVES

What are the critical areas the PE-backed CFO must focus on across the next year? Here, the survey found the good news: Sponsors and their portfolio company CFOs agree on CFO priorities and objectives. In addition to the expected (cost containment), the survey found the unexpected (tech enablement).

02

THE MODEL: PE FIRM ORGANIZATIONAL AND OPERATIONAL PARADIGMS

Who's the boss in the organizational hierarchy: the PE firm or the portfolio company? Are more firms traditional "investors" or newfound "operators"? And, which type of firm do CFOs prefer? Here, the survey found significant misalignment—the kind that invariably leads to firm-finance conflict.

EXECUTIVE SUMMARY

03

THE VALUE: PE FIRM CONTRIBUTIONS AND GUIDANCE

What are the contributions the PE firm is providing its portfolio companies? Are CFOs getting the guidance they want and need? If you're looking for the bad news coming out of this report, here's some of it: the survey found a substantive disconnect between the value that sponsors feel they provide their portfolio companies, and how that value is (or is not) received by CFOs.

04

THE WORK: CFO REPORTING AND RESOURCING

Are CFOs meeting the day-to-day demands and expectations of the PE firm? Are those demands appropriate and adequately resourced against? Here, the survey found a mixed bag. While there is universal agreement that the finance function is not adequately resourced to fulfill the demands of the PE firm, there is clear disagreement on what those demands are and their level of burden/distraction to the CFO.

05

THE FAULT LINES: BIG PICTURE PROBLEMS

What are the undercurrents of conflict within the CFO-sponsor relationship that threaten the success of investment? Here, the survey found that seeds of distrust are sown early in the relationship: CFOs have immediate, unrecognized concerns about job security, post close. As a counterpoint to the fault lines that threaten the stability of the PE firm-company dynamic, the survey also found a roadmap for an improved and productive relationship.

Finally, the survey also found an interesting and important subplot woven across all five dimensions: the evolution of the industry from private equity to private techquity (PT).

If PE is an industry that shies away from operational adoption of technology, PT is a sector that embraces it as the beating heart of efficiency. The survey found that both sponsors and CFOs are eager for, and receptive to, technology that streamlines firm-CFO communication, automates and enhances the reporting process, and standardizes operational guidance via a digital value creation plan.

Critically, both CFOs and sponsors also see technology enablement (via data analytics and "fintelligence") as a core priority on the CFO's near-term agenda.

01

THE FOCUS: **PE-BACKED CFO OBJECTIVES**

"If you don't know where you're going, you'll wind up somewhere else."

– Yogi Berra, New York Yankees

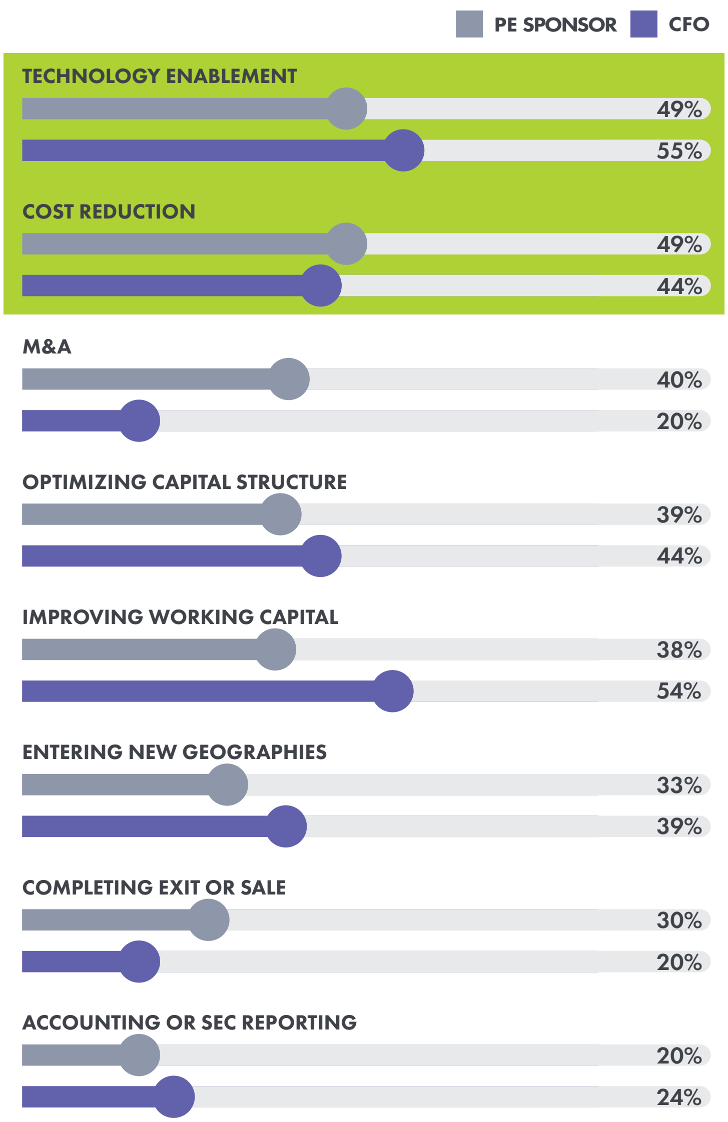
THE FOCUS: PE-BACKED CFO OBJECTIVES

> *If you don't know where you're going, you'll wind up somewhere else.*
> **– Yogi Berra, New York Yankees**

As with all Yogi quotes, we get the gist of what he's saying: If nothing else, you must start with a clear destination. A clear destination is exactly what PE firms and their portfolio company CFOs have. They both share a vision for what PE-backed CFOs must focus on across the next year: cost reduction and tech enablement (Figure 1.1).

FIGURE 1.1

Key Areas Of Focus: Where Should Finance Invest The Most Time And Resources Across The Next Year?



Both parties agree that finance should prioritize technology enablement and cost reduction in the coming year.

COST CONTAINMENT FOR THE WIN

The prioritization of cost containment should come as no surprise. Cost reduction has long been the go-to objective of the CFO community, particularly PE-backed CFOs. While PE funds have recently doubled down on value creation initiatives, in light of leverage limitations and high multiples, cost optimization has always been, and remains, a core focus.

PE GETS "WOKE" TO TECH

Technology enablement, on the other hand, is a surprising issue of alignment. On the CFO side, technology prioritization is a logical outgrowth of the evolution of that role. As has been well documented, the days of the controller-style department are long gone.

> **To be a real strategic partner to the business, CFOs must be as well versed in predictive analytics as they are in accounting.**

Whether in the form of enterprise resource planning (ERP), customer relationship management (CRM) or business intelligence (BI)—or more likely, a combination of all three and then some—technology is helping the finance function collect, organize, analyze, and contextualize data. This synthesized data can be used with predictive analytics to enhance forward-looking business decisions and strategy.

Tech enablement also automates what had been laborious, manual reporting tasks, freeing up resources to tackle the business advisory functions of the finance role. That said, technology has, historically, never been one of the more popular tools in the PE toolbox, at least as it relates to the finance team.

THE FOCUS: PE-BACKED CFO OBJECTIVES

Financial software and systems implementations can be lengthy and costly, making it difficult for fund sponsors to see real return on investment given the short hold time of their investments.

Recently, however, a new wave of tech-centric PE firms has enlightened the industry to both the short- and long-term benefits of technology, in general. As a result, many PE firms have actively recruited technologists and tech industry veterans to serve as operating partners.

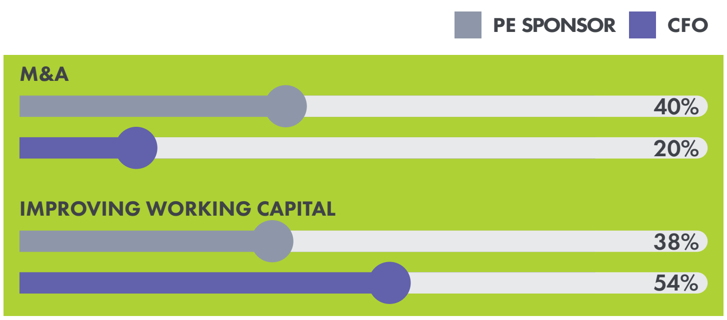
These executives, in turn, have fully embraced the role technology can play to help finance teams find and mine the data at their disposal to inform accelerated decisions and enhanced value creation.

THE SOMEWHERE (AND SOMETHING) ELSE

The two notable exceptions to sponsor/finance alignment on prioritization are around M&A and working capital (Figure 1.2).

FIGURE 1.2

Areas Of Misalignment: PE Sponsors More Focused On M&A; CFOs More Focused On Working Capital



On the former, PE firms see M&A as a much more important objective than do their portfolio company CFOs. It's a concerning disconnect, though not necessarily a surprising one. For fund sponsors, M&A is a critical (and growing) part of a fulsome value creation plan.

As a result, PE firms tend to take the lead on acquisition strategy—so much so that it's often at the expense of CFO involvement (at least in the early strategic planning stages).

> **While it's no surprise that CFOs, who haven't been included in the M&A process, don't see it as a key area of focus, it's nevertheless troubling: CFOs are the ones tasked with merger integration and must live with its consequences. They, therefore, should be the real drivers of M&A strategy, and their PE team sponsors should substantively involve them more often and much earlier.**

In respect to the latter, the reverse is true: CFOs see improving working capital as a more important area of focus than do sponsors. As with M&A, this disconnect is logical. While working capital is a daily concern and priority for CFOs, it has historically risen to the surface for PE firms only when faced with portfolio company liquidity issues. That said, PE firms have begun to understand the critical connection between liquidity and value creation. Therefore, we're seeing the beginning of a PE awakening to the importance of portfolio-wide working capital optimization.

02

THE MODEL:
PE FIRM ORGANIZATIONAL AND OPERATIONAL PARADIGMS

"We follow orders, son. We follow orders or people die. It's that simple. Are we clear?"

**– Col. Nathan Jessup,
A Few Good Men**

THE MODEL: PE FIRM ORGANIZATIONAL AND OPERATIONAL PARADIGMS

> *"We follow orders, son. We follow orders or people die. It's that simple. Are we clear?"*
> **– Col. Nathan Jessup, A Few Good Men**

No sir, we're not clear, at least as it relates to the PE chain of command.

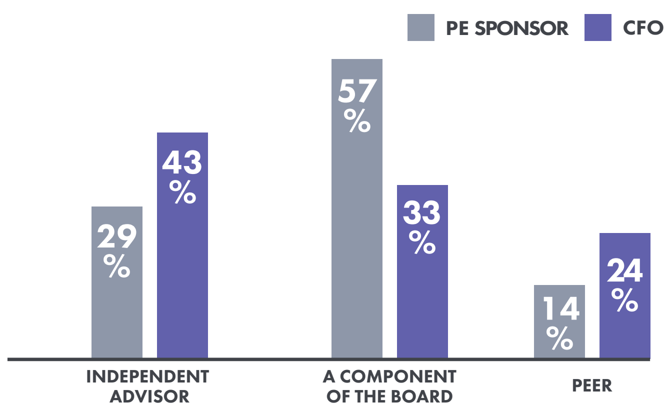
WHO'S THE BOSS?

An understanding of (and alignment around) the role of the PE team in the context of the broader decision-making structure of an organization is critical to creating and maintaining a productive working relationship between management and fund sponsor.

Tellingly, however, sponsors and CFOs have vastly different perceptions of where the PE team sits within the hierarchy of the organization (Figure 2.1).

FIGURE 2.1

All About Perception: Where Does The PE Firm Sit Within The Hierarchy Of The Organization?



CFOs perceive PE sponsors as independent advisors; PE sponsors see themselves as components of the board.

To CFOs, the PE firm is an independent advisor. That perspective would suggest that CFOs see PE team guidance as advice, not mandate. Sponsors, meanwhile, see themselves as components of the board. They view their role as integral and internal to the organization.

It may seem a subtle difference, but it's one with real consequences for company governance. Given the misalignment, it's also a perspective that will inevitably lead to sponsor-CFO conflict.

MATCHMAKER, MATCHMAKER, MAKE ME A BETTER MATCH

That conflict may come to a head as it relates to where the PE firm sits, but the root of the issue is not actually the where—it's the who.

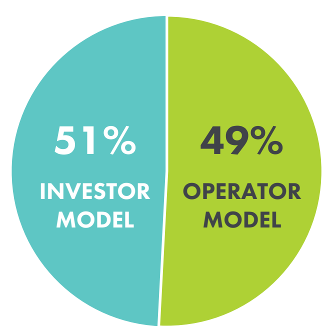
Let's set some context. There's a traditional PE "investor" model. These investor firms seek businesses with financial upside and management teams who, with sponsor guidance, can help exploit that upside.

Then, there's the newer wave of firms, which follow more of an industrial or "operator" playbook. This playbook tends to be less concerned about management strength, given its reliance on an institutionalized approach to business operations.

About half of CFOs describe their PE firm as an investor model, with the other half describing a more operator-like approach (Figure 2.2).

FIGURE 2.2

Models Matter: How Do CFOs Describe Their PE Firm's Operational Model?



Half of CFOs describe their sponsor's model as an "investor" model; the other half describe as an "operator" model, but...

THE MODEL: PE FIRM ORGANIZATIONAL AND OPERATIONAL PARADIGMS

But, the problem is that almost a third of the CFOs who prefer a more hands-off approach to firm involvement are actually working with PE firms that are prescriptive in nature. "Operator" model firms are working with CFOs who favor "investor" model firms (and vice versa).

In other words, there's a meaningful mismatch, which breeds conflict from the start.

29%

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

So what's the so what? As the ultimate common link between the portfolio company and the financial sponsor, CFOs must work to get their voice heard within their internal management team when it comes to selecting a PE firm. Once aligned, portfolio company management must then conduct reverse due diligence on the sponsors courting them. This will ensure they are setting expectations up front and partnering with a PE firm that shares their vision, first about the chain of command, and then about how much (or how little) operational involvement the PE team should have.

HOW DO YOU LIKE IT? MORE, MORE, MORE

All that said, just because a CFO may prefer an investor model to an operator model doesn't mean they don't still want, seek, and need PE firm attention. Quite the contrary: CFOs don't want to hide. They are interested in PE firm involvement and alignment and hungry for guidance (just, perhaps, with a lighter, less prescriptive touch).

In fact, a full 80 percent of CFOs believe that increasing PE firm operational involvement would promote a more productive and successful working relationship.

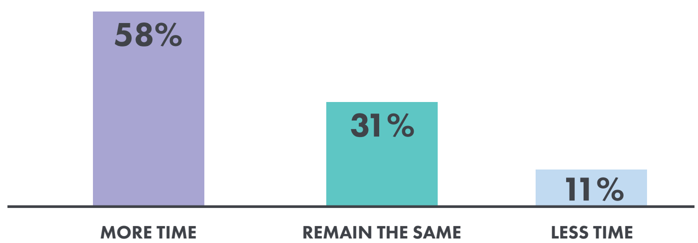
80%

of **CFOs** believe that increasing PE firm involvement would strengthen their working relationship.

That's a sentiment underscored by the fact that most CFOs would like their PE team to spend more time with the finance function (Figure 2.3).

FIGURE 2.3

Talking Time: How Much Time Do CFOs Want From Their Private Equity Team?



CFOs want their PE team to spend more time with the finance function.

That collaboration, they believe, can be aided and supported by better use of technology. Almost 90 percent of CFOs believe that tech-enabled communication tools would promote a more productive relationship between PE teams and the finance department, a view that sponsors overwhelmingly share.

90% PE SPONSORS

89% CFOS

Both **PE sponsors** and **CFOs** overwhelmingly believe tech-enabled communication would strengthen the PE firm-CFO working dynamic.

03

THE VALUE:
PE FIRM IMPACT AND OPERATIONAL GUIDANCE

"So you want the good news, the bad news, or the worst news?"

**– Jackie Dorsey,
The Cutting Edge**

THE VALUE: PE FIRM IMPACT AND OPERATIONAL GUIDANCE

"So you want the good news, the bad news, or the worst news."
– Jackie Dorsey, The Cutting Edge

Let's start with the good: This report found notable alignment on CFO objectives across the next year. Moreover, it found near universal agreement about the guiding role PE firms must play to help meet those objectives. Here's the not-so-good news: There is a meaningful disconnect between the value that sponsors feel they provide their portfolio companies, and how that value is received by CFOs (regardless of PE firm model preferences).

IT'S ALL ABOUT THE BENJAMINS

That disconnect is on display as it relates to the most important contributions PE firms make to their portfolio companies. Sponsors rank strategic guidance atop that list, followed by value creation. Funding ranks a distant fourth (Figure 3.1).

CFOs, on the other hand, rank funding as number one—suggesting that when it comes to scaling the company, CFOs value PE money more than PE guidance (at least, more than the guidance they're getting).

FIGURE 3.1

Calculated Contributions: What Is The PE Sponsor's Most Important Contribution To The CFO?

PE SPONSORS SAY:	CFOS SAY:
#1 Strategic Guidance	#1 Funding
#2 Value Creation	#2 Strategic Guidance
#3 Financial Discipline	#3 Analytical Horsepower
#4 Funding	#4 Financial Discipline
#5 Analytical Horsepower	#5 Value Creation

PE sponsors believe strategic guidance is their most important contribution; CFOs say funding.

That's not necessarily surprising: money is usually the foremost motivator behind any deal. The fact that money talks, should not, however, minimize the importance of strategic guidance. Indeed, CFOs list strategic guidance as the PE firm's second most important contribution. (The problem, as we'll discover later in this report, is that the guidance they want is often different from the guidance they get.)

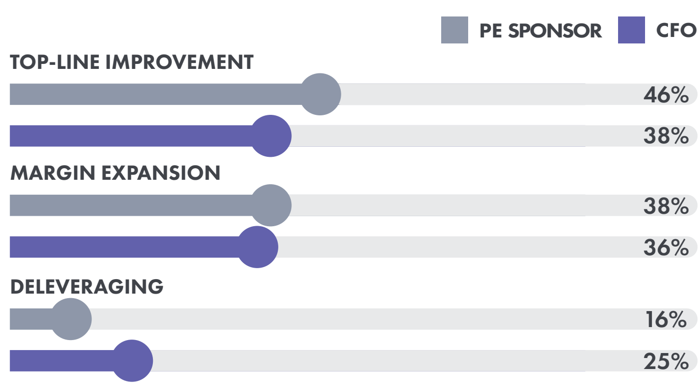
DEVALUING VALUE

Beyond funding and guidance, the fundamental disconnect on value creation is among the report's most surprising findings. Sponsors rank value creation second among firm contributions, but CFOs list it last (Figure 3.1). This finding is not only surprising; it's illuminating. The fact that CFOs deprioritize value creation, or feel that their PE team is not really contributing on that front, is antithetical to the shifting headwinds of an industry that has embraced value creation as a meaningful tool to increase exit multiples.

That said, while PE firms and CFOs are not like-minded on the importance of value creation contributions in general, they are in agreement about which value creation strategy is most important. There, both cite top-line improvement, followed by margin expansion (Figure 3.2).

FIGURE 3.2

Vital For Value: What Are PE Sponsors' Most Effective Value Creation Strategies?



Both CFOs and PE sponsors view top-line improvement and margin expansion as the most effective value creation strategies.

THE VALUE: PE FIRM IMPACT AND OPERATIONAL GUIDANCE

They are also in overwhelming agreement about the role technology should play vis-à-vis those value creation strategies. Eighty-six percent of CFOs and 88 percent of sponsors believe having a digital value creation plan would improve their working relationship.

88% PE SPONSORS

86% CFOS

Both **PE sponsors** and **CFOs** believe that a digital value creation plan would improve the PE firm-CFO working dynamic.

YOU CAN'T ALWAYS GET WHAT YOU WANT

Sponsor-CFO alignment extends to PE firm involvement in portfolio company operating challenges: There is near universal agreement that PE teams will play a key role in addressing operational concerns.

95% PE SPONSORS

93% CFOS

Both **PE sponsors** and **CFOs** believe that PE teams are critical to addressing portfolio company operating challenges.

Where portfolio companies need operational guidance—and where they actually receive operational guidance—is, however, a more nuanced subject. On what subject do CFOs most seek operational guidance from their sponsors? Growth strategies. However, CFOs reported that they're getting less support in this area than they need (Figure 3.3).

FIGURE 3.3

In Which Areas Do CFOs Currently Receive Operational Guidance From Their PE Team?	In Which Areas Do CFOs Need More Operational Guidance From Their PE Team?
#1 Budgeting or Forecasting	#1 Growth Strategies
#2 Performance Improvement	#2 Finance Reporting / Protocols
#3 Growth Strategies	#3 Budgeting or Forecasting
#4 Acquisition Strategy	#4 Merger Integration
#5 Finance Reporting / Protocols	#5 Acquisition Strategy
#6 Merger Integration	#6 Performance Improvement
#7 Spin Out Execution	#7 Spin Out Execution

CFOs want more guidance around growth, reporting, and merger integration than they currently receive.

Sponsors, on the other hand, believe that they're already providing CFOs with guidance around growth. In fact, 59 percent of sponsors reported that they're currently providing operational guidance around growth strategies. This makes for a notable disconnect between the two parties.

59% of **PE Sponsors** believe that they are currently providing their portfolio company with operational guidance on growth strategies. (CFOs, however, report needing more.)

What other guidance do CFOs want, that they're not getting? Help with reporting and merger integration. On the former, reporting ranks second on CFOs' list of guidance they need from their PE firm, and yet only 31 percent of CFOs believe they're actually getting direction on reporting (Figure 3.3).

On the latter, merger integration is central to an acquisitive value creation plan.

THE VALUE: PE FIRM IMPACT AND OPERATIONAL GUIDANCE

For that reason, roughly 40 percent of CFOs cite the need for operational guidance on integration. Yet, only 27 percent of CFOs believe they get that guidance (Figure 3.3).

ONLY **27%** of **CFOs** report that they're receiving operational guidance related to merger integration.

Given how important M&A is as a PE tool, and how much of a deal's success hinges on management's ability to realize synergies, the absence of integration guidance is imprudent. At the same time, it's understandable: fund sponsors tend to own M&A strategy, often at the expense of CFO involvement.

> **This ownership is ill-advised; it means that PE firms are not only excluding CFOs from early and important strategic decisions, they're also undermining deal success by not providing the portfolio company with the tools to navigate a complicated integration process.**

So, if CFOs believe they're not getting the guidance they need, is there guidance they're getting that they don't necessarily want? In a word (or two): performance improvement. While sponsors believe performance improvement guidance is the most critical operational need, CFOs disagree with that assessment (ranking it a distant sixth) (Figure 3.4).

FIGURE 3.4

In Which Areas Do PE Sponsors Believe CFOs Need Operational Guidance?	In Which Areas Do CFOs Report Needing Operational Guidance?
#1 Performance Improvement	#1 Growth Strategies
#2 Budgeting or Forecasting	#2 Finance Reporting / Protocols
#3 Growth Strategies	#3 Budgeting or Forecasting
#4 Merger Integration	#4 Merger Integration
#5 Acquisition Strategy	#5 Acquisition Strategy
#6 Finance Reporting / Protocols	#6 Performance Improvement
#7 Spin Out Execution	#7 Spin Out Execution

PE sponsors vastly overestimate CFOs' need for operational guidance around performance improvement.

DON'T BELIEVE THE HYPE

Nowhere is the disconnect between getting what they want/giving what they need clearer—or more alarming—than when CFOs are asked a big-picture question about the impact of their PE firm.

Here's the long-awaited "worst news": While 92 percent of sponsors believe they are meeting the expectations of their portfolio companies, only 29 percent of CFOs agree. That means a full 71 percent of CFOs say their fund sponsor has not lived up to expectations.

71% of **CFOs** say that their PE team has not lived up to their expectations.

It's an ocean of misalignment that points to the need for clearer communication about roles, clearer consensus about operational guidance, and more informed collaboration to ensure a valued and productive partnership between PE firms and management teams.

04

THE WORK:

CFO REPORTING AND RESOURCING

"Bill, let me ask you a real quick question here: How much time would you say you spend each week dealing with these TPS reports?"

– Bob Porter,
Office Space

THE WORK: CFO REPORTING AND RESOURCING

> *Bill, let me ask you a real quick question here: How much time would you say you spend each week dealing with these TPS reports?*
> **– Bob Porter, Office Space**

The PE-backed CFO's portfolio of responsibilities is broader, deeper, more substantive, and strategic now than it has ever been in the past.

That said, the position's core responsibility remains the financial stewardship of the company. That stewardship starts with the CFO's ability to produce timely reports—reports of current finances and reports forecasting future performance.

It's both the CFO's core responsibility and his or her cross to bear.

SHOW ME THE NUMBERS

Sponsors have a near insatiable hunger to see the reports.

Cadence and consistency are expected components of reporting in a company, whether at month-end, quarter-end or year-end (usually all three, with some additional mid-period flash reports thrown in for good measure).

Under private equity ownership, those deadlines for reporting become significantly accelerated. As a result, finance teams need to close the books faster and cater to enhanced reporting needs.

This report has noted the disconnect between the reporting guidance that CFOs want, what they get, and the (minimal) amount sponsors feel they should need. What hasn't yet been addressed is just how significant that disconnect is on the burdensome nature of PE firm reporting expectations.

Ninety-two percent of sponsors believe that the reporting demands of their portfolio companies are reasonable, but only 26 percent of CFOs agree (meaning that three-quarters of CFOs feel reporting places an unnecessary burden on the finance team) (Figure 4.1).

FIGURE 4.1

Reasonable Or Unreasonable: Are The PE Team's Reporting Demands Fair?

PE sponsors think their reporting demands are reasonable; CFOs disagree.

It's a conflict born, in part, from lack of communication. PE firms make many reporting demands, but don't necessarily explain the context for those requests. If fund sponsors were clearer about their need for the reports, the reasonability of those requests might well be interpreted differently. Similarly, if CFOs proactively sought clarity on the "why" behind reporting demands (rather than awaiting a sponsor explanation that may or may not come), the requests might be viewed more favorably, and the pushback could instill confidence in a finance team that is taking the time to seek clarity and ask the important, strategic questions.

SILVER LININGS AND SILVER BULLETS

However reasonable or unreasonable, CFOs are still eager to relieve the burden, and are looking for a solve in the form of digital assistance. Eighty-four percent of CFOs believe enhanced technologies that ease requests for financial reports would help improve the relationship with their private equity team.

Although sponsors do not feel their requests are overly burdensome, 91 percent still share the CFO view that technology to further minimize the reporting disruptions and distractions would be helpful to the CFO-PE firm dynamic.

THE WORK: CFO REPORTING AND RESOURCING

91% PE SPONSORS

84% CFOS

Both **PE sponsors** and **CFOs** believe that a reporting technology would improve the PE firm-CFO working dynamic.

MORE, MORE, MORE

Beyond the mechanics of reporting, CFOs also feel under-resourced in meeting the demands of their PE team more generally—although not necessarily in the areas one might suspect.

CFOs feel most under-resourced in terms of procurement and corporate development, in that order. On the latter, PE firms often see corporate development as an important avenue for portfolio growth, but CFOs, particularly those who are relatively inexperienced with institutional capital, may need additional fund sponsor guidance to navigate those growth opportunities as well as additional resources to execute against identified strategies (Figure 4.2).

FIGURE 4.2

In Which Areas Do CFOs Feel Under-Resourced (Relative To PE Demands)?	In Which Areas Do PE Sponsors Believe CFOs Are Under-Resourced?
#1 Procurement	**#1** FP&A
#2 Corporate Development	**#2** Corporate Development
#3 FP&A	**#3** Accounting
#4 Accounting	**#4** Procurement

CFOs feel under-resourced in procurement and corporate development; PE sponsors believe CFOs are under-resourced in FP&A.

Interestingly, and more consistent with a primary focus on financial stewardship, PE teams believe CFOs are most under-resourced in terms of financial planning and analysis. That bucket would include the resources devoted not only to reporting, but to forecasting, managing cash/debt, cost containment, and the ability to produce actionable financial data to inform business objectives (Figure 4.2).

There is one notable area of alignment on the resourcing front—or rather the under-resourcing front. Both CFOs and sponsors feel strongly that CFOs need more resources to meet PE firm demand across all dimensions of their department, suggesting that the finance function would benefit from a more robust team of experts, and the technology capabilities to support those experts.

94% PE SPONSORS

97% CFOS

In general, both **PE sponsors** and **CFOs** believe that CFOs are under-resourced and in need of additional finance support to meet the PE team's demands.

05

THE FAULT LINES: **BIG PICTURE PROBLEMS**

"Did I not clearly explain the circle of trust to you, Greg?"

– Jack Byrnes,
Meet the Parents

THE FAULT LINES: BIG PICTURE PROBLEMS

> *Did I not clearly explain the circle of trust to you, Greg?*
> **– Jack Byrnes, Meet the Parents**

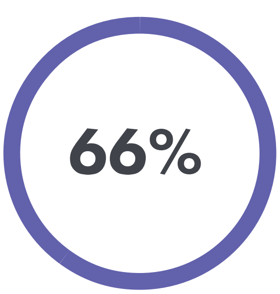
This report has noted those areas where CFOs and their sponsors are in alignment (CFO objectives) and those areas where the waters are a bit muddier (PE firm hierarchy, model, value, and CFO work). What it has not yet exposed are the major fault lines that threaten to become significant cracks in the sponsor-CFO working relationship.

Those cracks are predominantly personal (and personnel) in nature.

YOU'RE FIRED

There's noted misalignment around organizational hierarchy that inevitably breeds sponsor-CFO conflict. That conflict reaches its summit on the issue of job security. In many ways—as the survey illuminates—the CFO-sponsor relationship has been set up to fail. Not only are CFOs and PE teams on different pages in terms of organizational structure, but there's suspicion and conflict baked into the relationship from the start.

A full 66 percent of CFOs are more concerned about job security post PE deal. While that figure represents a significant majority of CFOs, the number is actually surprisingly low given industry reality. (Statistics indicate that PE firms replace the existing CFO in 75 percent of all investments. ***Source:*** Vardis 2016 Private Equity CFO Survey)



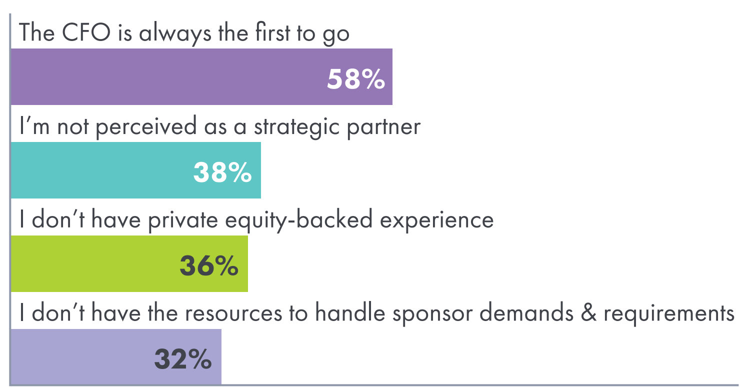
of **CFOs** reported that they are concerned about job security post PE deal.

It's a fault line in the relationship that's largely unnoticed by the majority (79 percent) of sponsors, who mistakenly believe institutional ownership breeds CFO confidence (or, at the very least, doesn't breed job retention concerns).

> **Why do CFOs feel targeted for replacement? It's not that CFOs believe they'll be fired for a perceived lack of strategy, limited PE-backed experience, or insufficient resources to handle the demands of the PE firm. Instead, most CFOs who are concerned about job security believe it's a 'by default' issue: The CFO is simply the first to go.**

FIGURE 5.1

Fueling The Fire: Why Are CFOs Concerned About Job Security?



Among CFOs concerned about job security, the majority feel that their position is always the first to go.

THE FAULT LINES: BIG PICTURE PROBLEMS

LISTEN, LISTEN, LISTEN (AND TRUST, TRUST, TRUST)

PE firms should take note of this fault line in the CFO relationship at its root: the early seeds of mistrust. Where they are inclined to retain the existing CFO, they should work to create a strong foundation of trust though constant communication and intentional collaboration.

Indeed, they can do even more than communicate and collaborate. They can listen.

PE firms can listen to their CFOs, who have tangible advice to provide: create clearer rules for engagement with the portfolio company—and where those rules have already been established, trust the finance function more fully (Figure 5.2).

FIGURE 5.2

Honest Advice From CFOs: How Can PE Teams Increase Effectiveness In Creating Value?

#1	Create clearer rules for engagement
#2	Trust the finance function more fully
#3	Add technology tools to improve communication
#4	Be consistent with requests
#5	Develop a more prescriptive approach for value creation

The majority of CFOs want to see their private equity team create clearer rules for engagement and trust the finance function more fully.

THANK YOU

We at **Accordion** would like to express our appreciation to 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, 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.

ACCORDION