

# THE CFO TRANSITION MOST AEC FIRMS START TOO LATE

♦ When it comes to a succession plan for CFOs at AEC firms, Jenifer Navard, Principal/Director of Finance at Eskew+Dumez+Ripple in New Orleans and a PSMJ consultant, preaches what she practices.

"We have a five-year succession plan for me that's already started," said Navard, who is in her early 60s. "I don't think you can do this job well unless you get some training underneath you."

So, three-plus years ago, she sat down with the other principals to talk about what needed to happen. They chose a successor who is now the Director of Operations, and the first step that Navard advised, given he's an architect, was to get an MBA. Which he did. In year two, Navard walks him through a deeper version of her job. By year three, he's joining her on many of her tasks.

"Then year four I'm somewhere in the mountains [she is an avid skier] or teaching a PSMJ class, and he's working on the really high-tech stuff," Navard said. "If something goes wrong, I'm there as counsel. Each year, I bring him in a little deeper to the decision-making and thought processes, and then by year five, I'm his shadow. In year six, I step out."

Navard realizes that such a perfect scenario might not be available for every firm. "If you wanted to do it quickly, you could do it in 1-2 years, but I wouldn't want to do it any faster than that," she said. "There are just too many things to learn. When I'm doing my work, I'm always conscious of leaving a trail behind me that someone could follow."

## ANOTHER VIEW OF THE BRIDGE

Hugh Glazer, managing director and founder of WinterView Group outside of Boston and a longtime management advisor to the AEC community, agrees that proactive succession planning for CFOs is essential.

"One of the challenges for somebody new coming in, particularly in larger organizations, is that there are probably three or four software systems that those firms are using," Glazer said. "And they tend to not be generic, so understanding the nuances takes time."

Architectural and engineering professionals do not enter the field to run a business, Glazer said. "But growth demands it. You start hitting a few home runs, and you grow. Now you've got people and responsibilities, and you need the right systems and guidance. As a category of business, particularly on the architectural side, firms chronically underinvest in their own business infrastructure."

At some point, Glazer said, AEC firm leaders have to choose between



working in the business, which means winning clients and doing the work, vs. running the business. That conflict often keeps firm leaders from setting a long-term vision. Bookkeeping and accounting are also more complicated in this space, Glazer said, given the project-centric nature of the work.

"Almost everything is delivered in the context of a project," he said. "There's timing among subcontractors, materials and staff. Getting that mix right is hard. And having people understand, particularly as a firm grows, that the person most competent to do a specific task isn't necessarily the person who should be doing it, especially if that person is the most expensive."

ERP and project accounting system options add another layer of complexity. The number of active projects, their average duration, and whether work is ground-up construction all affect what skills the financial team needs and the software they should have. "Many variables come into play when deciding on functionality and what your internal staff should look like," Glazer said.

*Continued on page 5*

Every firm has its own "secret sauce," he added. Knowing what that is can be the key to finding the right systems and talent.

## INSTILLING THE BUSINESS SIDE

Navard also emphasizes that understanding the business side of an AEC firm should be something that every employee knows a little about.

"In most firms, none of the staff has training in business and would rather do everything else but the business side," she said. "But they will acknowledge its importance, and that they have to do it. I prefer a trajectory where whoever's in charge of the business side starts familiarizing everybody with the language of the business world—terms

like direct labor multiplier and utilization, and what drives financial success in your organization.

"A lot of times, I use compensation as the tool for capturing their interest in the subject matter, because employees generally don't want to talk about money unless you use it in the context of compensation," Navard continued. "'In order for you to understand your compensation, you need to understand a little bit about how money works in our business.' That's a great way to start getting your audience to listen, so that as they mature in their career, they're a little more interested in the business side."

That will also help, she said, when they are running projects and need to understand the dollars to make better

decisions. Navard will meet with project teams regularly to go over these steps and the implications of the projects on their roles.

"Like everything, until you can connect it at a personal level, you sound like the Peanuts character [womp, womp, womp, womp, womp]," Navard said. "We need to be really careful about keeping to our project schedule because our project fees are very tight."

She agrees with Glazer that the AEC field has many unique aspects. "You've got to have some expertise in figuring out what the levers and knobs are, what you need to turn, and where you need to focus."



## HERE ARE NINE TAKEAWAYS FROM NAVARD AND GLAZER:

### 1. Don't get stuck doing things one way.

Glazer said he often suggests, "You're coming in the left door all the time. What if we come in the right door?" "After a brief pause, the reply is often, 'Okay, I see what that means.' Periodically challenge your assumptions."

### 2. Organize your data.

Raw data isn't always structured for good decision-making, Glazer said. "Often times when I'm interviewing principals, I ask, 'How do you make certain decisions?' And one of the responses is, 'I have this report.' From

the way the report is structured or the data presented, the decision they're making is probably the last decision they should be using that data set for."

### 3. Invest in finding the right CFO.

"It's a challenge to find good CFOs in this industry because of its uniqueness," said Navard. "Many organizations in our industry are practice-centered businesses as opposed to business-centered practices. And it requires you to embrace the practice side of it, which many accountants just aren't wired for. They're wired to drive profits."

### 4. Embrace your firm's mission.

If it's a community-driven mission, that changes how you do everything on the financial side, Navard said. If a CFO comes from another industry, he or she should be adaptable.

### 5. Have a vision.

Stay ahead of what's happening. "It's very important that firms have an ongoing look at cash flow for anywhere from 3-6 months," Glazer said. "Another blind spot in a less experienced organization is understanding the difference between profit and loss vs. cash flow. They're intimately connected but can tell different stories."

*Continued on page 6*

## 6. Look for people with broad knowledge.

The financial environment is changing all the time, Glazer said. There are new tax provisions that require interaction with certain types of client project owners. "It's also good to have someone whose knowledge is broader to not only mentor junior people but also to help principals be aware of emerging topics."

## 7. Consult an advisor with CFO experience.

"A firm's partner isn't necessarily the best person to articulate what the CFO role should be delivering, from a checks and balances point of view," Glazer said. "When a new hire comes in from the outside, their charge is generally, 'Do the job the way the person before you did the job, and we're going to give you 10 more responsibilities.'" Leadership may not be attuned to how the firm's needs are evolving.

## 8. Build a team.

AEC firms are typically light on business-side staff. A recent PSMJ Pro Forum post on staffing ratios found that business-side staff make up just 1-5% of overall headcount. Even so, Navard encourages having a team. She has two admins who, while not accountants, can handle the more clerical work.

Ideally, she would also like to have someone with more accounting expertise. 🚩

