Preventing Business Failures (Back to **Table of Contents**)

Most, if not all, of the hundreds of failed construction firms I analyzed as a surety consultant could have been prevented if the contractors had listen to their CFO. The annual financial statements clearly indicated distress two or three years prior to failure so the CFOs knew of the pending exposure well in advance. Most understood the potential for a serious problem and reported that they advised top management of the danger. The question is why didn't they listen?

Research suggests that there are major communication barriers between the typical personalities of CEOs and CFOs. Readers are probably familiar with the standard DISC test that breaks personalities into four categories; Dominant, Inspiring, Supportive, Cautious. Observation of hundreds of CEOs indicates they are primarily Dominant with some Inspiring. CFOs are primarily Cautious with some Supportive. The differences are further complicated by some being people-oriented and others task oriented. It is generally accepted that people with similar personality traits communicate better with each other than they do with people with different traits. For example a Dominant will communicate fairly well with an Inspiring, less with a Cautious and even less effectively with a Supportive.

People also differ in how they process information, speech patterns, body language, and how assertive they are. These can create miscommunication, misunderstanding and even distortion of the message. Dominant usually place a lot of emphasis on what they consider more important while some Cautious place the same emphasis or lack of emphasis on both important and less important material. The Dominant personality can miss the seriousness of information that is presented without special emphasis.

There are also potential trust issues. It is human nature to trust people with similar personalities more than those with different personalities. Trust of a person with a different personality may not be immediate or may lack full confidence. My experience suggests that many CEOs do not have unconditional trust in the numbers they are given which suggests that they will make their own determination as to what the numbers are and what they mean. Less than 100% trust can exist without being recognized which makes solutions more difficult.

Both communication and trust may also be affected by the fact that the CEO is ultimately responsible and has greater authority than the CFO. It is fair to say that CEOs are successful because of their dominant or inspiring style and that CFOs are successful because of their cautious or supportive style. However, some CEOs considers the CFO in a "service" role and expect to receive the numbers with limited comment intending to determine the meaning themselves. This is a critical error in our industry which is too widespread to be ignored and a significant finding of this research.

The critical importance of the CFO in every size construction enterprise needs to be more fully understood, more clearly defined and elevated to top management (where that is not already the case). All complex organizations require three equal leadership disciplines to operate profitably. The complete management team is made up of:

- The Strategist: The big picture person, the visionary, usually the CEO.
- The Operator: The manager, the person who executes the vision, usually the COO.

- The Verifier: The person who measures the vision and the plan by reducing the business to financial statistics, usually the CFO.

Experience has taught us that no one possesses all three skill sets in equal measure and that the exceptional may possess two. It is a mistake to expect the CEO to interpret the numbers the same as it would be a mistake to expect the CFO to create the vision. The CFO is responsible to develop the numbers, produce the financial reports and should be the most qualified to interpret what the reports mean. Some CEOs argue that they should interpret the reports, but they usually evaluate the meaning of the numbers from an entirely different perspective than the CFO. I am not suggesting their interpretations are in error, just that they are not equal to the CFO's interpretation. The typical CEO evaluates financial reports as to their meaning about operations; while the CFO evaluates them as to their impact on the future financial health of the company. The numbers are historic FACT. The reports are mathematical FACT and the meaning is a financial issue. The future financial health of the company trumps everything else.

The CFO of the successful contractor of the future will be a senior top manager involved in all strategic decisions of the organization, a member of the executive committee and of the Board of Directors if there is one. (I strongly recommend Boards for any size contractor) The CFO will be the primary interpreter of the financial reports and respected by all concerned for his critical contribution to the company.