

> Six Questions for CFOs

Conversations with Top Global Life Sciences CFOs

CTPartners' CFO²⁰¹⁰ provided a blueprint of the experience, expertise, and leadership attributes a company should seek when selecting a CFO.

To find out how some of the leading life sciences CFOs think about current and upcoming challenges in their professions, CTPartners' Life Sciences & Healthcare Practice spoke with a select group of biotech and pharmaceutical CFOs from Europe and the United States. The companies they represent range from start-ups to Fortune 100 multinationals. We kept the conversations confidential and talked about everything from the potential of CFOs making the leap to the CEO role to their insights about mentoring staff.

Following is a synopsis of the questions and answers, along with an assessment by CTPartners' Life Sciences & Healthcare Practice Partners. In the conclusion, you will find the CFO²⁰¹⁰ summary of the five key areas of expertise recommended when hiring or mentoring life sciences CFOs.

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Question #1

CTPartners' CFO²⁰¹⁰ holds that CEOs will increasingly look to their CFOs to provide forward-thinking financial strategies directed at the core of their business rather than the "running of the company." We asked, "What is the next logical role for most CFOs on the executive management teams? Are CFOs more often being considered viable as CEO candidates?"

ANSWERS

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- **Answers ranged from "CFOs are logical candidates for the CEO role", to "rarely," to "It depends upon the circumstances."** They all said that many CFOs have the skills and experiences necessary to perform the role, but the board and shareholders did not perceive CFOs as logical candidates.
- **One who stated the CEO role was "logical" said a topflight CFO understands all aspects of what drives the business.** "They have a deep appreciation of the research process, of the characteristics of the product portfolio and the pipeline. People who really understand finance, economics, and pricing dynamics are becoming increasingly critical to driving a successful operation."
- **Those who stated the CEO role was an unlikely path said that shareholders, Wall Street, and board members want to feel the leader has strong scientific knowledge and vision, which is rare for a CFO.**
 - "Also, in a small biotech company, the CFO's role is primarily as a fund-raiser. You are often seen as a commodity."
 - "It is a contradiction because the CFO position is more global, more business oriented...kind of a small CEO role...but I've seen examples where a CFO wanted to replace the CEO, and the board decided on another solution."
- **Those who said, "It depends upon the circumstances" offered some specific scenarios where a CFO might make the leap:**
 - "As the industry changes, product cost is going to be more of a factor and, therefore, a CFO's experience will be valuable."
 - "I have seen a CFO with a scientific background morph into a CFO with a business development role—and then go on to the CEO role, but not a CFO with classic accounting background."
- **One who said, "It depends" is currently a CEO who is offering his perspective as a former CFO. He offered additional insights:**
 - "It's a pity [that it's a rare move] because when I moved from CFO to CEO, it was not difficult. I was well prepared for the CEO role."
 - "Given the growing emphasis we are seeing in the industry on cost...a pharmaceutical company will be less skewed toward marketing and you'll need more experience in management and economics...so maybe in the future more CFOs will go into the CEO role."

CTPartners' Assessment

The survey results confirm what we in the CTPartners' Life Sciences & Healthcare Practice have experienced when placing CEOs. Board members frequently do not consider CFOs as logical candidates for the CEO role even though many are well qualified. The common perception is that CFOs are too far removed from the mainstream of the business, particularly the sciences. While this perception will likely continue, we do see the potential for more CFOs to rise to CEO levels under the following circumstances:

1. In biotech companies, we occasionally see CFOs who have grown through the scientific ranks and have thus earned credibility with scientists and stakeholders. Leaders with such credentials are usually considered more likely for the top role.
2. Due to factors such as less productive pipelines, pricing pressures, and reduced patent protection, the pharmaceutical industry is experiencing many changes that are placing an increased emphasis on cost reductions, financial accountability, and shorter product life cycles. As a result, many companies are restructuring into therapeutic markets with scientific people at the top of each line. Since business skills are so critical at the CEO level, our recommendation is to consider CFOs and senior commercial executives for the top role and have scientific people lead the therapeutic markets.
3. As generic drug companies continue to proliferate, we believe more CFOs will take the lead roles. With generics and pricing pressures, the cost containment and global distribution skills a CFO can bring to bear are likely to be of similar value as a scientific background.



Question #2

When comparing life sciences companies to other industries, there are some significant commonalities: Like most manufacturing companies, big pharma produces a high volume of products that require sophisticated technologies to create and distribute, often on a global scale. Added to that, life sciences companies are highly regulated, similar to financial services. We wanted to know, "Compared to other industries, what different skills are required of a life sciences CFO? What are your most important contributions?"



ANSWERS

- **This was a very rich topic for the CFOs. While some differences between big pharma and biotech emerged, all agreed that there is tremendous complexity in life sciences, and CFOs bear significant responsibility in helping their CEOs make the right decisions.**

—“Every single aspect of the business, right from the early discovery stages through our commercialization and manufacturing, involves regulation to a greater extent than many other industries.”

—“We also deal with the science dimension and multiple channels for our customer base—globally. So we’re dealing with all sorts of different health-care delivery models around the world.”

- **One CFO summed up the role of finance perfectly: “I believe that finance is the common language of business. Therefore, the primary role of finance is to help distill complex business problems into a framework that enables management to make good decisions.”**

–“You must think about resource allocation, acquisitions decisions, or licensing decisions. You make decisions about R&D, or handling foreign exchange exposure, or differential pricing around the world...all of those dimensions, if you get the answers right, help drive the enterprise forward.”

- **Others reinforced the message that their primary value was to help the CEO make the right business decisions rather than the “blocking and tackling” of running the company itself.**

–“The biggest contribution is making sure that your CEO is informed. Recently, I was looking at all the pipelines from the larger pharma companies...one-third of all the pipelines on the development side are in oncology products. So oncology within the next couple of years will be the main driver.”

- **One pharma CFO summed up some of the important decisions in the coming years:**

–“**One of the most important aspects of our role is making decisions around resource allocation**, such as where you spend money and how you bet on the good commercial products.”

–“**Deciding upon the productivity and the real throughput of R&D**—this is a big question. Pharmaceutical companies are spending more and more in R&D and the throughput is diminishing...so we’ll probably see the model evolving from research to ‘should we buy a biotech? Should we co-develop?’ This requires very strategic skills from the CFO.”

- **According to the two biotech CFOs, following are some of the challenges of the role:**

–“[An ideal candidate for CFO is] someone who has raised money before and has been around a lot of deals and can think about creative ways to finance the company. This isn’t a cookie-cutter industry.”

–“When a scientist tells you something will or will not work, you have no way to contradict him or her. No one knows whether that person is right or not. That constant tension is hard to live with.”

–“Mother Nature can be revealed not only in the side effects in people, but in the stability of your product. For some reason, everything worked fine in the lab level but not in real life.... It has nothing to do with people cutting corners. The by-product of this is constant tension. You find it in other industries, but there’s obviously this huge tension [in this industry for the CFO], since you are supposed to control costs.”

CTPartners’ Assessment

The CFOs reported marked differences in the skills and contributions required between big pharmaceutical and biotechnology companies. For instance, biotechnology CFOs cited the ability and connections to raise money as paramount. However, both they and the pharmaceutical CFOs agreed that their primary role was to help their CEOs make informed decisions. When it comes to hiring your next CFO, we recommend you look for candidates with the following:

1. The experience and inclination to step far beyond basic running of the financial side of the business and managing Wall Street expectations.
2. A CFO with the record of leading an IPO is highly regarded in the biotech environment.
3. A proven background of providing valuable insight at every level, from the drug discovery stage to R&D, manufacturing, marketing, sales, and distribution. Global experience (European and North American) also brings strong additional value given the evolving global markets.

Bottom line, it is just about impossible for a CEO of any competitive life sciences company to succeed without a strong CFO. So, hire accordingly!

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Question #3

CTPartners knows that it is a common assumption that CFOs are most concerned with managing Wall Street expectations. We asked if that were true. If not, “What is the most significant industry issue affecting your career as the CFO? How will this issue affect your role over the next five years? How have Wall Street’s expectations affected the way you run the business?”

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ANSWERS

- **CFOs generally agreed that Wall Street and regulatory issues are challenging, but known quantities.** –
 - From a pharma CFO: “I’m a big believer in management setting goals for [Wall Street’s] expectations.... if you’re moving along the right line to drive profitable growth, there’s no disconnect with what Wall Street wants, what our employees want, and what our shareholders want. If you have clear disclosure and you deliver, you will gain Wall Street’s respect.”
 - From a biotech CFO: “Wall Street gives biotech a bit of a break [as far as revenue and expenses]. But you have to set out a clear path of milestones and hit them. For instance, did you complete a trial when you said you would?”
 - “You can control regulatory issues. You know that cost control is coming to the United States; you know the FDA is becoming more stringent.”
- **Of greater concern to the CFOs were the numerous changes in the industry. The overarching message was that their role was to help the CEO make well-informed decisions. Here are some of the specific industry challenges they mentioned:**
 - **The turmoil around the end of the blockbuster model** - “Because health care is an industry that nobody really fully controls or understands, you tend to have highs and periods of downturn. One day, it’s the blockbuster model. Five years later, companies have to be small and beautiful. And then suddenly a company will have a blockbuster drug hit and the model will become a blockbuster again.”
 - **Throughout of R&D** –
 - “The throughput of R&D is the key issue now in the pharmaceutical industry, especially with the pressure that Wall Street is putting on [pharmaceutical] companies.”
 - “In regard to research and development [in a biotech], a CFO can help the CEO and senior team assess product portfolios and figure out the best ROI. Should we put our money into a phase two trial? Or a pre-clinical candidate that’s more exciting? A CFO can add a lot value doing scenario planning like that.”

- **Price of medicine** - “I think that the major issue facing the industry is society’s view and willingness to allocate resources to pay for health care and for pharmaceuticals. All too often, a physician prescribes what he or she thinks is the right course of therapy. The patient takes the prescription to the pharmacy, looks at the bill and says, ‘I don’t want it.’”
- **Marketing** - “How do you make sure your product gets the right leveling, the right patient distribution, the right recommendation in most big countries?”
- **Generic products** - “There are more generic products on the market. The governments in Europe are really pushing generic products, which then decreases the price of the original drug.”
- **Competition from the emerging markets** - “The emerging countries such as India or China in the future might affect the industry especially in terms of price and cost. They have a very low cost base compared to the United States or Europe.”
- **Two of the CFOs (pharma and biotech) talked frankly about the sometimes-negative public perception of the pharmaceutical industry:**
 - “I know surveys rank us at the bottom with oil and tobacco, which is very troubling to a lot of us in the industry because we actually know that we are anything but that. We are helping transform the health of the world, but we haven’t done a very good job of explaining ourselves.”
 - “Ten years ago, when I joined biotech, people around me said, ‘Oh, that’s great, you’re doing something that’s good.’ Five years ago, my clients were big pharma. People would say, ‘Why do you work with a big pharma company? It’s evil.’ And honestly, the company didn’t really change overnight. There were always good and bad things.”

CTPartners’ Assessment

Given that we were talking to a very senior group, it was not surprising that they felt that the pressures of Wall Street and industry regulations were known quantities. Instead, they found the major changes in life sciences across the globe more challenging, such as the throughput of R&D, turmoil around the “end of the blockbuster model,” increasing pressures on cost, and the impact of generic products. The role of the CFO only becomes more important as the industry experiences these changes. We recommend that you look for candidates with the following:

1. A deep understanding of life sciences and the changes the industry is going through.
2. Strong experience in pricing and strategic planning. As product life cycles get even shorter, the ability to extract profit quickly becomes even more important.
3. The proven ability to attract and negotiate partnerships, so your company can immediately react to scientific opportunities and market dynamics.
4. Global experience is vital because products must compete on a worldwide stage, often with radically different methods of going to market.



Question #4

CTPartners' CFO²⁰¹⁰ states that future CFOs will possess functional expertise in other (non-finance) areas that provide greater business understanding, making the future CFO a more well-rounded business leader. We wanted to know how the CFOs were training their team members for the future, and asked, "How do you coach your team members to gain non-financial experience?"



ANSWERS

- **One of the CFOs of a large pharmaceutical company talked about actively encouraging senior staff to take assignments outside of finance.** "If they want to stay [outside finance] it strengthens the company. If they want to come back, it strengthens finance."
- **The other CFOs suggested additional ways to broaden their team's experience while remaining within finance:**
 - "I make sure they're included in strategy meetings. We do a fairly stringent budget review process every month and that forces my people to go out and talk to the people within our clinical and manufacturing groups."
 - "I encourage my director of finance to go to the American Bio Finance Organization, which is a network of finance people who discuss issues within the industry."
 - "As a CFO, you have to show the way. I make sure they talk to other departments. I push them to participate in meetings with marketing and salespeople."
 - "I have my people attend Monday lunch meetings where every department of the company presents what they're doing."
 - "I send my finance managers to two-day manager training meetings because they'll be working alongside managers from different departments."
 - "I assign some soft goals to my staff about being more open and curious about the company and the business itself."
 - "[They need to understand] the market dynamics, competitors, the mechanism of the products, and have some level of scientific knowledge about the products. I encourage them to be involved with the business people."

CTPartners' Assessment

Other than the one CFO, the surveyed executives generally did not formally place their staff members outside finance for extended periods. Instead, they supported informal meetings in the course of daily business. However, we recommend making it more of a priority to send staff out into your business organizations. Even a short-term stint working directly with internal client groups can be a valuable learning experience for finance staff—and your company will reap the benefits.

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Question #5

Some industries are more open to out-of-industry talent than others are. Such industries seek outside talent as a way of broadening the organization's perspective. We asked the CFOs, "Do you hire staff from outside the industry? If so, which ones?"

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ANSWERS

All the CFOs said they freely hired junior staff from outside the industry and a limited amount of midlevel people:

- "If I'm looking for a junior position, then the industry is probably less important. It's more important to look for someone with potential. When it comes to a higher-level position, it's difficult to get someone from the outside."
- "We don't do mid-level or senior hiring outside the industry, but do a lot of MBA recruiting, college recruiting, and then quite a bit of the next tier. The best functional skill set is what is most important, and, after that, fitting with the culture of the company and the ability to learn the business."
- "I hired a director of finance within my group from the software industry. The software industry has many complex accounting issues. He wanted to make an industry switch, and worked out fabulously."
- "There aren't many people in the industry with both finance and science. I've tried many times to bring in the discipline of other industries like the aerospace industry, where people are used to big, complicated projects with many variables. [In aerospace] finance people often have good experience assessing costs—which is extremely difficult in our business."

CTPartners' Assessment

The CFOs all tended to agree that talent from outside the industry was welcome—up to a point. And that point was in the junior to midlevel employee. The CFOs felt it was more difficult to hire from outside the industry for the more senior roles, because the learning curve in life sciences is so steep. Our recommendation is to take advantage of those junior to midlevel roles by hiring people from outside the industry who can bring a fresh perspective into your company.

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Question #6

We asked our survey participants to consider the same question—only this time from the point of view of a CEO hiring a CFO. We asked, "Are board members and CEOs willing to hire CFOs from outside the industry? Are there any skills or attributes they might find missing in life sciences candidates that are more readily available in other industries?"



ANSWERS

- **One CFO said it is common to hire from outside the industry, but cited the value of having deep industry experience.** “There have actually been quite a few hires from outside the industry...but I think it’s invaluable for a senior professional, whether CFO or CEO, to have a visceral understanding of the business.”
- **The others said it was not common to hire outside the industry and reinforced the message that deep industry experience was necessary.**
 - “There’s a certain level of network that you bring to the table...you see people coming from pharma to biotech or from other areas of health care to biotech, but rarely completely from outside the industry.”
 - “I’ve seen a couple of CFOs join pharma companies [from outside the industry], and after a couple of months they were gone. It might work sometimes, but for a high-level position, it’s very difficult [to succeed] because you really have to understand the complexity of the industry. I don’t think you have enough time to retrain yourself and capture all of the complexity.”
 - “It could be a good thing to bring in some fresh blood, but if a company is in a hurry to get someone on board, that’s probably because they are facing a difficult period—and then they need someone who can be on top of everything quickly.”
- **One of the CFOs who said it was not common to hire from outside the industry at present suggested it might be time for a change.** “Given that the pharmaceutical industry will probably go through big changes in the coming years, maybe we should look for CFOs in other industries. In the last 30 years, the pharmaceutical industry has had a slow rhythm of change because product development was slow. Now, the pace of change is getting faster and faster. Maybe we’ll need people from different industries like the computer industry, where you have a new entry product every year or 18 months.”

CTPartners’ Assessment

The CFOs reported that in most circumstances, board members tend to recruit CFOs from within the industry. Given that the position is so vital to the company and that the industry is complex, this is not surprising. However, as the industry continues to evolve, we expect that may begin to change. For instance, further pressure on pricing, reduced patent protection, and globalization of the life sciences may make CFOs from other industries more viable candidates. Consider industries that have handled similar challenges, such as supply chain-driven companies like consumer product manufacturers and retailers.

A Guide for Tomorrow’s Life Sciences CFOs—Today

The CFO²⁰¹⁰ is a hiring guide for CEOs, boards, and chief human resources officers, as well as a professional development tool for CFOs, to use when conducting succession planning and providing career coaching. It identifies and details the five key areas of expertise required for today’s most competitive CFOs and serves as a blueprint for the next generation of financial professionals.

The CFO²⁰¹⁰ was first published in the Fall of 2005 as a guide for hiring CFOs across all industries. The following model reflects the findings of the new life sciences survey. For example, according to this survey, most life sciences CFOs do not perceive themselves to be on a direct track to becoming CEOs. However, they do cite examples where they believe opportunities are more likely, such as in generic drug manufacturing companies in which being a scientific visionary is not generally considered as necessary as it is in traditional life sciences companies.

On balance, the survey results confirmed that four of the five areas of expertise identified by CFO²⁰¹⁰ ring as true in life sciences as they do in other industries. As you will see below, expertise in life sciences is generally regarded more highly than being a technology adopter. Here are the specifics:

Business Insights

As an enabler of the business, Life Sciences CFO²⁰¹⁰ will drive growth and innovation. He/she has an acute understanding and respect for company operations and lines of business. This CFO can decipher complex financial data and provide interpretation and guidance to all of his/her key stakeholders. This was reinforced in this survey by the CFO who stated that finance was the common language of business, and “... the primary role of finance is to distill complex business problems into a framework that enables management to make good decisions.”

International Expertise

Life Sciences CFO²⁰¹⁰ is fluent in many currencies. He/she is culturally literate and respects the financing practices of partner organizations around the world. He/she understands the complexities of business in different lands including partnerships, regulatory issues, reimbursements, and the different product delivery systems in different countries. Ideally, he/she has lived abroad or traveled extensively. Furthermore, he/she has the technical expertise to oversee the financial analysis in different countries—and languages—all around the world.

Life Sciences Expertise

Across all industries, CFO²⁰¹⁰ states that tomorrow’s CFO is a technology adopter. However, with Life Sciences CFO²⁰¹⁰ an understanding of the intricacies and scientific aspects of the business is even more relevant. Because life sciences CFOs are involved at every stage of the product cycle (including the value and throughput of R&D, manufacturing, marketing, distribution, and globalization), they will need to bring a significant level of understanding to the role. This includes being able to work with scientists, earning their respect, and translating their findings into solid business decisions.

Impeccable Reputation

Life Sciences CFO²⁰¹⁰ is bulletproof. He/she has a spotless personal, professional, and financial record. This CFO is honest, forthright, and proactive. This CFO knows that he/she is under greater scrutiny, has more accountability than ever before, and is up to the challenge. He/she will never be anything but a source of pride for your company.

Multi-Faceted Expertise

Life Sciences CFO²⁰¹⁰ was not always the “finance guy/gal.” In fact, he/she has held a variety of executive positions and has a handle on the complete landscape including R&D, manufacturing, distribution, finance, legal, IT, compliance, HR, and governance. Depending upon the size of the company, raising money may be a primary function of the role. This CFO’s cross-functional work history has qualified him/her to lead many significant initiatives, including cross-selling, developing joint ventures, and identifying M&A targets.

Identifying an individual who encompasses all five areas of expertise is admittedly a tall order. However, by using these criteria when identifying your next CFO, you will significantly improve the caliber of person hired today and propel the growth of your life sciences company.

About CTPartners

CTPartners is the performance-driven executive search firm serving clients across the globe. Committed to a philosophy of true partnership with clients, the firm offers a proven record in C-Suite, top executive, and board searches, as well as private equity and venture capital services.

With origins dating back to 1980, **CTPartners** serves clients with a global network of more than 300 professionals offering unparalleled expertise in technology, media and telecom, financial services, life sciences, professional services, retail, and manufacturing.

CTPartners' focus is simple: Place the right executive in the chair. With a commitment to delivering exceptional performance, quality and results, its audited successful placement rate during 2006 was 80%. In 2006, the firm was the first in its industry to measure its candidate stick rate of 94%. **CTPartners** had an average days to placement in 2006 of 125 days, and 90% of our placements took an average of 101 days. These statistics are believed to be the highest in the executive search industry.

Methodologies used include state-of-the-art technology, such as ClientNet™, a password-protected extranet service that renders a search transparent and facilitates client communications. Other tools include Candidate Central™, which shortens the recruitment cycle by efficiently engaging candidates, and a 40-day Audit™ process.

Headquartered in New York, **CTPartners** has offices in Bogotá, Boston, Caracas, Chicago, Cleveland, Columbia, Geneva, Hong Kong, Jerusalem, Lima, London, Menlo Park, Miami, Paris, Singapore, and Washington, DC.

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