

CFO

No Place Like Home

Executive recruiter Tom Kolder talks about the new career trend among finance executives: staying put.

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Holding tight to the devil that they know, CFOs are being conservative about switching employers during the recession. They do still leave — or lose — their jobs much more frequently than CEOs, though. When they do find a greener pasture, they're likely to get some help with housing costs. So says Tom Kolder, president of executive search firm Crist|Kolder Associates. Kolder spoke with CFO.com about the current state of the market for finance talent and the expansion of the top finance job. An edited version of the interview follows.

What are you seeing in your CFO search business right now?

Executive placement is much more difficult than in the past. Candidates are taking the approach of sticking it out in a safe port and delaying any kind of a risky move, especially in finance where many executives have more of a conservative mindset. I'm hearing people say, "Thanks for the call, but while I know I'm not going to stay with XYZ Company forever, I'm not sure that the time is right to move my family while the markets are so unsettled."

And what often happens when a person is lured away to Company B is that it creates a vacancy in Company A, and there's a domino effect. If that first person doesn't decide to move, you don't have all of those other blocks that will fall.

So it's all about people being less willing to relocate?

That's part of it. When you're going to a new company, you can do a tremendous amount of due diligence, but there's always going to be a surprise or two. And I think people believe the chances that that surprise could be a fatal one are greater now.

When we do get a deal in place, the relocation issue is rearing its head in another way, too, which is in real estate values. Every deal we work on these days has a real estate component that's testing the flexibility and the willingness of our clients to get creative about helping people get out of one market and into another. I've seen candidates with anywhere from \$100,000 to \$1 million of undervalued equity in a home. In certain instances, where previously a company might have used restricted stock grants or something like that to make somebody whole on an equity tranche that hadn't vested yet, for example, now they might do the same thing to help them get through a loss on home.

Your new Volatility Report, which tracks the movement of C-suite executives in 2008, shows that there was a decline CFO turnover, and other studies have shown that trend to have continued this year. That's a little bit counterintuitive, isn't it? I would think in an environment with so many companies seeing disappointing results, there would be a lot of turnover at the top.

It's true — you would expect to see that. And there is still plenty of movement that is totally driven by the other end of the equation, where, rather than the CFO deciding to leave for a better opportunity, the company says, "We're not satisfied, we're making a change, this person's gone."

Those companies that are most progressive in their thinking are using this as an opportunity to go out and recruit some talent, upgrade their organization, even though they're struggling mightily right now. So there is plenty for us to work on but it's taking calling, more interviewing, more execution steps than in the past.

Are people also reluctant to move because of a sense of loyalty, a desire to see their company through the tough times?

People aren't articulating it that way. It's more about risk aversion. There's a certain percentage of the population where loyalty to their company plays a very important part in their decision-making, but I think we would see that in good times or bad times. Still, even the most loyal of folks can be persuaded to look at a better opportunity.

What are some of the other trends pertaining to CFO movements?

First, even though volatility is declining, CFO changes are still greater than those in the CEO chair, and that's a trend that continues now for the 15th consecutive year.

If you look at the average length of tenure right now for a CFO, which is about four and a half years, and you look at the last big spike of CFO changes which took place in that 2007-2008 timeframe, we would predict that 2011-2012 is going to show another spike.

It's also interesting to note that three-quarters of sitting CFOs in the Fortune 500 and the S&P 500 were not CFOs in their prior job. When we get our instructions from our clients at the beginning of a search, they always start by saying that they want a sitting CFO. In reality, when you look at it, it's really only a quarter of the CFOs in the large-company population today who were CFOs before.

Does that mean there are a lot of internal promotions?

Forty percent of hires at the CFO level are from outside. So there are a lot of internal promotions. There are also external hires who come out of controller or treasurer or divisional CFO roles at another company.

I think it indicates that supply is behind demand. In the boardroom, everyone wants sitting CEOs. But there are just not enough sitting CEOs to go around. Somebody's got to take a flyer on the number-two guy who could one day become a CEO.

Another thing we found is that, in the CFO seat, it's not nearly so critical to have industry experience. On average over the last 10 years, 54% of external hires came from outside the industry.

Is that something companies ask for anyway, though? Do they want the industry experience?

I think clients are pretty savvy about the reality that industry knowledge isn't as critical for finance executives as it is for CEOs. In comparison, only 17% of external CEO hires in the last 10 years were from outside the industry.

It's interesting to note that when companies do go outside the industry, the consumer products and services industries seem to be great breeding grounds for CFOs. When people do go outside their industry for a CFO, they often hire candidates coming from those sectors.

Is that because of the finance development programs that are so well known at some of those companies, like Pepsi?

Yes, it's absolutely that. I think it also has to do with pace of change, and the dynamic nature of business in those industries. Those people get a lot of good experience.

Are you seeing any clues about the evolution of the CFO role? Are you seeing more CFOs getting CEO jobs?

The chief operating officer role continues to diminish. Yet again that number has fallen. There was a little bit of a blip in 2007 where it was back up, although not nearly to the levels of the late 1990s. But then in 2008 and 2009 it continued to drop. With that comes a ramping up of CFO-to-CEO promotions. We're predicting over next three to five years, you'll see 15% to 20% of chief executive roles filled by CFOs.

Will the current recession accelerate that trend, as CFOs are playing such a big role in keeping their companies afloat right now?

Yes. It's giving them greater exposure to the enterprise and preparing them much more for a chief executive chair. They're getting chances to oversee supply chain and getting to see and manage global P&Ls. Previously, when there were a higher number of COOs, they wouldn't have gotten those opportunities. Over the last 10 years, the percentage of new CEOs who were formerly COOs has fallen from over 50% to more in the neighborhood of 40%. The CFO is filling that gap.

Business unit presidents become chief executives in some cases, but they are missing a key facet that the CFO and COO share, which is exposure to the board, Wall Street, and the corporate office. The operating heads are typically a little more insulated from those elements. If you are choosing between a CFO and a group president, you might choose the finance chief if he has some operating experience.

What's driving the decline of the COO?

I think it is directly related to the rise of the CFO. The CFO's responsibilities have gone from those of a scorekeeper to those of a forward-looking business person. In order to be a good forward-looking business person, you've got to be engaged in the business units. Once you've got

a finance chief who's engaged in the businesses, there's less reason to have a COO. You're duplicating efforts in some respects.

In those instances when there is a COO, many times the company is using it as a succession role as opposed to an ongoing operating role. You'll see the COO become chief executive and then the company won't replace the operating chief. There's no need to, because in today's environment, you've got a CFO that's driving change and engaged with the businesses and their forecasting and budgeting and planning processes. It makes for a much more challenging and difficult job, that's for sure, but it does offer great opportunities for those who want to go beyond the CFO chair.