



DO YOU LIE AWAKE AT NIGHT

## TOOLS AND RESOURCES FOR FINANCIAL EXECUTIVES

## Embracing Change

**There is an upside to the high CFO turnover rate these days: lots more opportunities for those looking to make a move.**

Kate O'Sullivan, CFO Magazine  
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In case you haven't noticed, times are tough for finance executives. In public companies nowadays, those in the top finance chair shouldn't count on staying for long. Just under 25 percent of current *Fortune* 500 CFOs have stayed more than five years at one company, according to a March study conducted for *CFO* magazine by Chicago-based recruiter Spencer Stuart. New reports also show high levels of turnover in the CFO slot. (In *The Crist Volatility Report*, a study of more than 600 *Fortune* 500 and S&P 500 companies between 1995 and 2003, Chicago-area executive-search firm Crist Associates found an average 17 percent per year turnover, with 16 percent of CFOs moving on this year.) (That figure peaked at 21 percent in 2000.) In a Financial Executives International survey of 15,000 members, which include CFOs and other senior finance executives at companies of all sizes, 27 percent changed jobs in the past two years. And E. Peter McLean, vice chairman and head of the global financial officer practice at Spencer Stuart, confirms the volatile environment, noting that 45 percent of the *Fortune* 500 have replaced their CFOs since January 2001.

That's the bad news. The good news? Because of this volatility, there are more opportunities, whether you're a sitting CFO looking to move to a bigger business or a big-company controller ready to move into the top finance post at a smaller enterprise.

In part, the churn has been fueled by companies' high standards for new hires in the tough regulatory and economic environment. (Crist Associates president Peter Crist) says that in the past two years, he has found that many more clients will consider only candidates who already hold the title of CFO. "They want the person to come in on Day One with the complete skill set," he says.

In October, he received a call from a billion-dollar company looking for a new finance chief; the board wanted to meet only candidates who were sitting CFOs at companies with a minimum of \$500 million in revenue. Although (Crist) hasn't studied smaller businesses, he says he expects there's a domino effect as companies lower on the food chain fill the holes made in their executive teams.

John Challenger, CEO of outplacement firm Challenger, Gray, & Christmas Inc., in Chicago, cites another source of turnover: CFOs are on the hook for the downsizing decisions of the past three years. "If you don't meet your numbers on the revenue side, you have to make up for them on the cost side. Often the CFO leads the charge, so he can also be the scapegoat," says Challenger. A third factor: seasoned executives may be choosing to bow out, rather than struggle with the requirements of the Sarbanes-Oxley Act of 2002 and the shaky economy. "People considering retirement may be motivated to pass the baton a bit early to let the new talent deal with the pressures and challenges," says Spencer Stuart's McLean.

For controllers, this means the glass is half full, or half empty. (Crist Associates) found that executives regularly looked outside their companies when they needed a new finance head. The number hovered around 40 percent for the eight-year period studied, but in 2002, 56 percent of new CFOs came from outside.

Again, (Peter Crist) cites the increasing complexity of the role as a factor. "The [CFO] role has become so much more complex, so much more demanding than it was," he says. "Companies look at that CFO chair and say, 'We need a silver bullet here.'"

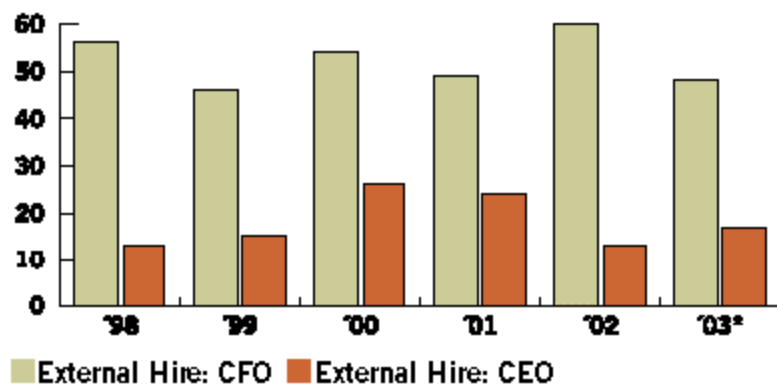
Then there is the scandal factor. Businesses tarnished by any kind of impropriety are working to restore their images, especially public companies, which want a pristine face with which to greet Wall Street. "I'm a big believer that the best companies grow their own succession candidates," says Andrew Stern, CEO and former CFO of USInternetworking Inc., an Annapolis, Maryland-based application service provider with \$107 million in 2002 revenue. "But sometimes you can't, because the change you need is so great that you really have to have someone from the outside."

For private enterprises, this is less of an issue, says John Challenger, who notes that public companies may have pressure from analysts and shareholders to bring in an outsider if they've had financial problems. While some businesses have strong internal candidates, [Crist](#) says they may still check out external contenders. "There's an attitude of, 'We owe it to ourselves to make sure we're playing with the best hand,'" he says. Still, Spencer Stuart's McLean points out that nearly 60 percent of the *Fortune* 500's new CFOs since 2002 come from within. (His numbers vary slightly from the [Crist](#) research, which also included S&P 500 companies.) "Larger companies have more talent to choose from," he says. "Companies in the second tier of the *Fortune* 1,000 [numbers 500 to 1,000] probably use external recruiting to a greater level."

CEOs are more likely than CFOs to rise through the ranks to the top job, according to the [Crist](#) study, which found only 18 percent of new CEOs in 2002 came from outside. Although McLean says he has the sense that finance heads and chief executives are promoted at the same rate, a Challenger study of new CEOs in January 2003 showed that nearly all came from inside the company. This is in part because it's more important for a CEO to be "embedded" in the business and its culture, according to Stern. "There's an awful lot of how a company works that isn't formalized, and a CEO coming in from outside can take a very long time to learn that and to be effective," he explains. "That's less true of a CFO." [Crist](#) speculates that companies may have learned from their experiences with outside CEOs in the 1990s, many of whom didn't last long. For CFOs, this creates new opportunities; the number of internally promoted CEOs indicates that some finance chiefs may be rising to the top spot. So, as it turns out, all this change may be good.

**THE IN CROWD**  
External hiring at the CEO and CFO levels.

▼ Number changes, 2003 *Fortune* 500 and S&P 500 companies



\*Total of 659 companies  
Source: [Crist Associates](#)

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