Arkansas Democrat-Gazette
ARKANSAS' NEWSPAPER

CFO turnover on rise, pressures of scrutiny cited

BY TOBY MANTHEY ARKANSAS DEMOCRAT-GAZETTE

1 April 2007

When he resigned as chief financial officer for Little Rock's Acxiom Corp. in February, Frank Cotroneo had been at the job just nine months.

Reasons for his departure from the data broker remain unclear. Acxiom maintains the change had nothing to do with Cotroneo's performance or the accuracy of its financial statements.

But at any company "it's always the sign of some kind of failure if a high-ranking officer leaves their employer very soon," said Dan Dalton, director for the Institute for Corporate Governance at Indiana University.

Cotroneo's tenure ended much quicker than even today's brisk rate.

In 2006, turnover of chief financial officers increased 23 percent, from 1,867 in 2005 to 2,302 last year for public companies in North America, said Richard Jacovitz, senior vice president of Liberum Research in New York, which tracks public announcements of such turnover.

Average CFO tenure was 4.5 years in 2006 for companies in the Fortune 500 and S&P 500, according to a report by Crist Associates, a Hinsdale, Ill.-based company that conducts executive searches.

More regulation has contributed to turnover, experts say. And higher-than-average turnover can draw more scrutiny.

"When I've studied firms that are charged by the SEC with financial misrepresentation, turnover of top managers or auditors is one of the triggers that attracts SEC attention," said Jonathan Karpoff, director of the CFO Forum at the University of Washington.

Generally speaking, Karpoff added, high turnover can warn of significant operational or financial reporting problems.

"A lot of times, the guy comes in and sees a bad situation, the best thing to do is jump ship," he said.

Even if there isn't a "bad situation," regulatory scrutiny stemming from accounting scandals involving WorldCom, Enron Corp., Arthur Andersen and other companies adds pressure.

Documentation to comply with the Sarbanes-Oxley Act of 2002 is "just a constant headache" for CFOs, Karpoff said. Sarbanes-Oxley financial reforms and regulations were enacted by Congress in the wake of high-profile accounting scandals.

Also adding to turnover are the increased independence of corporate boards, growing activism by shareholders, more complexity in the job, and more competition on domestic and international fronts, according to a Liberum report.

And when one company loses a CFO, Dalton said, that creates a domino effect at other companies, because he must be replaced.

More than ever, those companies aren't looking for just any CFO.

"As companies go through situations such as private equity firms knocking at their door to buy them, there are skill sets inherent in different CFOs that are more attractive," said Scott Simmons, vice president at Crist Associates.

When Delphi Corp. sought a new CFO in 2005, it needed someone who had experience "in really ugly situations, who can turn things around," Simmons said. Former CFO Alan Dawes had left the company when about $200 million in overstated cash flow from operations and other financial inaccuracies were found.

Other firms want officers with specialties in acquisitions and mergers or strong skills at solving balance sheet problems. Once such a problem is corrected, the company will likely need an officer with different skills, Simmons said.

FIVE FOR ACXIOM

Acxiom, which has had five CFOs in the past seven years, has faced most pressures cited in the Liberum report, such as increased complexity in its business and international competition. For example, the company is expanding from its core specialty of financial services into industries such as risk management and has offices in at least 10 countries.

It also recently faced shareholder activism and pressure on its financial leadership from its largest shareholder, ValueAct Capital, in a proxy fight that ended amicably in August.

During the conflict, ValueAct's managing partner, Jeff Ubben, now an Acxiom board member, attacked the "complete lack of financial sophistication" at Acxiom and called for expertise from outside the company. At one point, Ubben said a broken promise by chief executive Charles Morgan to hire a CFO from outside the company to replace Rodger Kline was a reason for the takeover bid. Morgan at the time denied making such an agreement.

Ubben attributed the hiring of Cotroneo, former CFO at H&R Block and MasterCard International, to pressure from ValueAct. But with Ubben now on Acxiom's board, the company's interim chief financial officer duties once again have fallen to Kline. Hired by Acxiom in 1973, he has become almost a default CFO, returning to the role three times since 1991.

Ubben and Cotroneo did not return calls for comment for this article.

Kline said ValueAct, a San Francisco-based hedge fund, has been "cooperative and positive" throughout Cotroneo's departure, helping Acxiom identify candidates in its current hunt for the next CFO.

Acxiom hasn't faced more scrutiny from regulators, investors or Acxiom's audit firm because of the recent CFO change, Kline said.

"With me stepping back in, the continuity was there."

A CHANGING JOB

Fundamental changes for CFOs have included a 2002 requirement to personally certify financial information for quarterly and annual reports.

"So you're going to be CFO of Dow Chemical, for sake of argument," Dalton said. "Well, Dow chemical does business in [about 175] countries. And yet you're going to sign a document sooner or later attesting not only to the risk, and your plans against risk, the financials and whatnot for your U.S. operations, but you're going to do it for South Africa, Asia" and dozens of other countries.

"If you think of that for a second, what the hell does that even mean?" Dalton said. "A blanket attestation with your name on it to that effect is pretty risky, isn't it?" Sarbanes-Oxley compliance alone sucks up about 15 percent of Kline's time, up to 10 percent of Bryan Nichols' workdays at Arkansas Heart Hospital in Little Rock, and about 5 percent of the time Richard Galanti invests as chief financial officer for Costco Wholesale Corp.

While that time may appear small, Galanti said it's "additive." "None of us works 40 hoursa-week jobs," he said. "At the end of the day, you're still doing all the things you did before." Downplaying the time and effort going into following Sarbanes is easy, Karpoff said, because companies in recent years have structured their "internal controls" to comply. Controls include steps to ensure accurate accounting such as audit procedures and limits to things like which employees have access to information or the ability to spend the firm's money.

"It was a huge change," Karpoff said. "Over time, the types of changes it has mandated will appear to most observers to be just a part of what it takes to be in business." Nichols at Arkansas Heart Hospital, part of the publicly traded Medcath Corp. of Charlotte, N.C., must juggle Sarbanes regulations with recent Medicare changes.

"Now if you don't meet quality standards, they can actually reduce your payment," Nichols said.

Activities such as attending meetings with the nursing staff to emphasize the accurate documentation of medical procedures, therefore, have become important parts of Nichols' job.

"You have to document what you're doing, procedure-wise, and if you don't document correctly, then you can't bill correctly," Nichols said.

Another drain on CFO time is staying abreast of new financial reporting literature apart from Sarbanes - changes in accounting rules by the Financial Accounting Standards Board and interpretations of the rules by the U.S. Securities and Exchange Commission. In the late 1980s, Acxiom's Kline expected such changes about once a year.

"In today's environment, there are new pronouncements coming out almost monthly, certainly several of them every quarter," Kline said. "Hopefully, that pace of change will slacken in the near future, but it's been very hefty in the last few years."

WAYS OF COPING

Karpoff said CFOs cope with the new duties in different ways: by leaving the field, by becoming "nuts-and-bolts" CFOs who focus less on business strategy and more on accounting and regulations or by delegating compliance by hiring a chief accounting officer or other employees.

Even at a firm as small as Arkansas Heart Hospital, Nichols can delegate many regulatory and number-crunching aspects of his job.

"I have a couple of CPAs here that do an excellent job," Nichols said. "I don't want to get to the point where I'm an accountant, so to speak. I don't want to do that, because I've been there, done that. I do like the strategic role, especially when you talk about growth and ... how do you handle the volume [of patients] and where we're going to invest our dollars and capital. I would much rather play that role." Often, his work consists of reviewing the work of others.

Delegation is a necessity at a firm as large as Costco, whose yearly revenue exceeds $60 billion. For Sarbanes-Oxley compliance, Galanti estimates at least 50 employees, including himself, were spending more than 20 percent of their time in the 18 months leading up to the company's full compliance in August 2006.

Costco hired workers, including certified public accountants, for its internal audit staff, a department that continues to grow today.

"All of those activities ultimately fall principally under the CFO," Galanti said.

Becoming compliant with Sarbanes-Oxley ultimately cost Costco an estimated $15 million.

Jacovitz, who monitors CFO turnover, believes the traditional role of such officers will return as more compliance is delegated or handled by information technology systems.

Reports of Sarbanes-Oxley leading to narrower, compliancebased jobs for CFOs ignore an "offsetting trend," Karpoff said - that the profile of such officers is growing at many companies.

A CFO now has liabilities, including federal criminal penalties, for improperly certifying financial statements. And, Karpoff said, the CFO now has a direct line of communication to the audit committee of the board of directors.

REASONS FOR LEAVING

While companies such as Acxiom have rapid CFO turnover, it's not always caused by internal problems or changes, like more accounting rules.

Caroline Rook, Acxiom's chief financial officer from June 2000 to October 2002, left the job because she wanted to return to Los Angeles, "to get back to a more cosmopolitan environment that I'm used to." Nichols, of Arkansas Heart Hospital, who has had three jobs since he first became a CFO in 2001, believes his tenure and trajectory are typical for hospital CFOs.

"You're trying to progress in your career, and you'll start in a smaller hospital and gain experience and move to a bigger one and a bigger one," Nichols said. "I've worked at bigger hospitals before I was a CFO, but to become one, I had to move down to a smaller environment." Ambitious CFOs today, Dalton said, will search for troubled companies, opportunities for turnaround to add to their resumes.

"There's going to be a subset of CEOs and CFOs who are going to move from spot to spot because they'll be seduced to do it," Dalton said.

But quicker turnover can upset the market.

"Whenever a CFO leaves, people get nervous because there may be something there that you don't see," Jacovitz said. "That raises a lot of issues about what might be going on behind the scenes." Some CFOs are using employment contracts to protect themselves from job turnover.

According to an SEC filing, Cotroneo's agreement with Acxiom specified he would receive 2.99 times his annual compensation if terminated for a reason other than for firing within his first year at Acxiom, and a reduced amount of money if terminated in the following two years. The same amounts would be paid if he resigned because of reasons including a demotion and significant change in responsibilities.

A settlement of some kind was reached when Cotroneo left Acxiom, Kline said, although Kline added he was unfamiliar with the details.

Longevity for CFOs - while important to a company - has become difficult to pull off.

"You can't keep these people," Dalton said. "But not always because they're failing; often because they're succeeding."

This article was published 04/01/2007