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CFO Compensation & Trends: June 2007

By William M. Sinnett

Skillsets Changing...AGAIN

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With CFO turnover still near record levels, Financial Executives Research Foundation (FERF) asked some in the executive search business to discuss the trends and what they are looking for in senior financial executive recruits.

The CFO role has been in flux in recent years, shifting from “bean counter” to business partner, to internal-control policeman. Trends show the CFO role changing again — this time to business partner and technology partner.



Michele C. Heid
Managing Partner, Heidrick & Struggles

The market for hiring CFOs is very robust right now, reports Michele C. Heid, managing partner who heads financial officer searches for executive search firm Heidrick & Struggles. One reason for the strong demand, she says, is CFO turnover, with the average tenure being less than three years. Consider, says Heid, “About half of all current CFOs got their new job within the last 18 months.”

Crist Associates, an executive search boutique, has been tracking the movement at the CEO, COO and CFO levels of public companies for the past four years. Crist Vice President Scott Simmons says that when a CEO is hired from the outside, a new CFO is named within a year over 50 percent of the time; when a CEO is hired from the inside, a new CFO is named within a year over 40 percent of the time.

These statistics are based on a sample of 658 companies listed in either the 2006 Fortune 500 or S&P 500. What makes these statistics even more compelling is that today's CEOs retain their positions an average of just over six years, the Crist research finds.

Liberum Research also tracks CFO turnover. Although turnover during the first quarter of 2007 was down from the same period in 2006, it is still quite high. The firm's statistics show that CFO turnover during the last quarter of 2005 and the first three quarters of 2006 was very high, and slowed during the last two quarters.

Liberum Senior Vice President Richard Jacovitz explains that the rise and decline in CFO turnover among larger companies is related to Sarbanes-Oxley compliance. “Over the past several years, when large companies had to install new systems and document and test internal controls to ensure compliance with Sarbanes-Oxley Section 404, the CFO role reverted to the old ‘bean counter’ role,” he says. That role was very stressful, and involved less of the strategic planning through which CFOs added value during the 1990s.

Now that most large companies are fully compliant with Sarbanes-Oxley, relieving CFOs of a lot of stress, they can once again function more as strategic partners, Jacovitz says.

Heid concurs that some of the many reasons for CFO turnover over the past several years have been compliance-related and include Sarbanes-Oxley violations, U.S. Securities and Exchange Commission (SEC) investigations and backdated stock options.

But in the midst of the turnover, the economy is doing well, and successful companies are stockpiling cash. As such, she says, these companies are willing to pay well for the right CFO.

What Companies Are Looking For

It is no revelation that the CFO position involves a lot more responsibility now than it ever did. CFOs have to understand and adapt to a steady stream of new accounting standards and interpretations issued by the Financial Accounting Standards Board (FASB), meet increasingly stringent SEC regulations, figure out how to accurately value employee stock options, certify the company's financial statements, be the CEO's strategic partner and simply do it all with less resources.

Heid says that companies are looking for an operational focus. "The right candidate needs to understand the business and be able to add value." She adds that companies are doing a lot more due diligence on CFO candidates and don't want to see any SEC violations, or what they refer to as "the taint factor."

Benny Romero, CFO of Vaco LLC, a specialized consulting and executive search firm, says that his clients don't want a traditional CFO, but rather, they want CFOs with soft skills. Romero, an FEI member, describes a winnowing-down process to find the right candidates.

It's a given, he says, that CFOs have the traditional technical skills, with many holding both an MBA and CPA. "Those without the traditional accounting and finance skills need not apply," he says. "Companies want solid experience from an equal-sized company in a similar industry. They also look for technology skills and experience with implementing and enhancing systems." Thus, he says, "Candidates with soft skills will have the final advantage."

The soft skills Romero refers to include "good communication and listening skills. CFOs must have the ability to lead, to persuade and to motivate. They must be able to work with leaders across the organization to drive change and deliver results." Companies, he says, are demanding of candidates: "show me your successes."

Many also want CFOs with technology skills, to partner with the CIO, since the CIO usually reports to the CFO.

Dave Palmlund, a partner with Heidrick & Struggles (and FEI member), explains that when the CIO function first appeared, it reported to the CFO by default, because more of the CIO's responsibilities were involved with servicing the financial function. As companies became more technologically savvy, they started using the CIO to provide services to operations, sales and marketing and other support functions. Then, there was a strong drive for the CIO to report to the CEO, especially in companies with more than \$5 billion in revenues.

More recently, CFOs have become more comfortable with technology, and have proven in many cases to be strong advocates for the information technology (IT) function; the trend now is toward bringing CIOs under the CFO leadership and organization.

This trend was accelerated by the requirements of Sarbanes-Oxley's Section 302, which requires the CEO and CFO to certify and sign the company's annual and quarterly reports to the SEC. As

a result, says Palmlund, “The CFO has developed a closer working relationship with the CEO, and in many companies, the CFO position has been raised to board level.”

Furthermore, he says that as the CEO becomes more confident in the CFO, it is more likely that the CIO will report to the CFO. Palmlund believes this trend will continue, except in companies that sell technology products and services or where technology is a major core competency. In those companies, the CIO may continue to report to the CEO.

Palmlund indicates that this trend is validated by the results of Financial Executives Research Foundation’s 2006 “Technology Issues for Financial Executives.” Palmlund serves on FEI’s Committee on Finance and Information Technology (CFIT), the committee that manages the annual technology survey.

Findings from the 2006 survey indicate that, by a substantial margin, the CFO is the most common reporting relationship for the CIO for companies with revenues under \$5 billion. Among companies with more than \$5 billion in revenues, the CIO is as likely to report to the CFO as to the CEO.

An interesting outcome in the latest survey is the number of CFOs who expressed an interest in taking on responsibility for IT (where they don’t currently have it). In past surveys, very few CFOs recommended changes in existing reporting relationships. This is the first time since this survey began eight years ago that, in all categories, the data show that the reporting relationship has moved or will move to the CFO.

CFO candidates looking for new jobs are not necessarily doing so because they are looking for more compensation, says Heidrick & Struggles’ Heid. “CFOs are looking for companies with integrity,” she says. “They assume that compensation will be competitive, but equally important is working for a company where the tone at the top supports solid corporate governance.”

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