



Crisis Demands New CFO Skills

Rather suddenly, companies aren't any longer looking to make accountants into finance chiefs. In their fight for survival, they need a different breed.

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The preferred skill set for CFOs is shifting quickly in the heat of the economic turmoil and the credit crisis. For many companies seeking finance leaders, the accounting and financial reporting acumen deemed so crucial in the early years of the Sarbanes-Oxley era has slid down the wish list over the past 12 months — and especially recently, executive recruiters told CFO.com.

That realignment was gradually taking hold anyway, with many companies having gotten their hands around Sarbox compliance. Now, with events dictating a faster pace of change, what they're looking for instead in CFO candidates depends on how the crisis is affecting them.

Those for which raising capital is an urgent priority want someone with proven skill at managing a balance sheet and who understands the capital markets. Those that need to restructure flagging businesses are going for people with operating backgrounds. For many financial services firms, adeptness at valuing assets is everything right now.

These demands may be contributing significantly to the continuing high rate of CFO turnover. It's common these days for a CFO who was the perfect person for the job last year to fall victim to this year's circumstances. Holding onto the job often demands nimbleness.

"I feel sorry for the CFOs. They need to be chameleons," said Chuck Eldridge, managing director of the financial-officers practice at Korn/Ferry International. "One day they're focused on growing the business, the next day on the credit crisis or on how to turn around the company."

It may be that the most valuable trait a CFO can possess today is flexibility and responsiveness to significant swings in the dynamics of the market. "A lot of them will tell you that right now it's all about being calm and measured," Eldridge said.

A marked shift in companies' CFO preferences began to take shape in late 2007 and early 2008, he noted, away from the certified public accountant and controller background. Depending on the company, in greater demand now are MBAs, with their broader education and finance perspective, and people with treasury or financial analysis backgrounds.

Finding Funding

Several headhunters told CFO.com that capital-markets skills are emerging as perhaps the most commonly pursued capability. "It's not as easy today as calling in some bankers and having them pitch the business — you actually have to go out and make things happen," said Tom Kolder, president of Crist|Kolder Associates. In kicking off recent CFO searches, he noted, CEOs have made a point of saying they need somebody who can "come in and be creative about getting funding for growth opportunities."

Kolder continued, "The pendulum swung to the controllership skill set with Sarbanes-Oxley, and now it may be that treasurers are going to have their day in the spotlight."

The focus on capital skills represents a return to basics, according to Steve Scroggins, a managing director at Russell Reynolds who does much of his recruiting work in the financial services sector.

"Not long ago, the cost of capital was so low that you didn't worry about the structure of your balance sheet," he said. "Now, the assets that were created by that low cost of capital don't have the value everybody thought. So it's back to basics: What is your capital structure? What is the true risk-adjusted return on that capital? How do you value the assets you're creating with it? We're seeing a

demand for CFOs who can manage a balance sheet, who know the debt markets and are strong on valuing assets, as opposed to accounting and financial reporting."

Scroggins said he recently completed a CFO search for a highly leveraged company that had structured a large amount of high-yield debt a few months ago. The new hire's first priority, he told Scroggins, was to make sure that compliance with all the debt covenants was "absolutely nailed down and locked, because there is no way I'm going back and renegotiating that debt structure."

Another recruiter, Gregory Carrott of Chicago-based Cavoure LLP, said one client recently winnowed its CFO search down to two candidates, one with a controllership and accounting background, the other a capital-markets history. The client had entered the search not sure what it was looking for, but gained clarity in the course of making the final selection.

"When they saw these people in the flesh and began to work it through and understand the implications of hiring them, they came to grips with what their real issues were, and capital markets won the day," Carrott said.

Such a choice is increasingly common these days, he noted. "Even in companies where the treasury function historically has not been viewed as strategic, we see capital markets experience weighing more heavily in CFO selection," he said.

The priority on fund-raising may not be long-lived, though. "Clearly it's an accommodation to a market situation and people will get back to an equilibrium where they realize they need a more broadly developed skill set," Carrott said.

Pushing the Buttons

In many cases companies are opting to hire CFOs with heavy experience in operations. So many companies have undergone such dramatic changes in the past year, they're looking for people who can manage a restructuring and cut costs. "There's a real operational focus for the CFOs we're being asked to find right now," said Michele Heid, co-managing partner of the finance practice at Heidrick & Struggles.

Operations backgrounds will become even more coveted to the extent the financial-markets turmoil lengthens and deepens, according to Korn/Ferry's Eldridge. In that scenario, companies will be pressed to make dramatic moves just to survive.

"If you have a CFO who, for instance, came in to take you public, and doesn't have the experience or appetite to divest businesses, cut staff, and turn the business around, you'll make a switch," Eldridge said.

But it's not just knowing how to push the operational buttons that's important. There's also having the vision to make a link between operations and strategy. "Financial executives who can not only drive cost reduction, but also provide broader insights on opportunities to improve margins, manage capital more efficiently, and identify business opportunities that result from changing economic conditions, will be in demand," Carrott said.

Indeed, if a company is de-emphasizing accounting in its mix of desired CFO traits, it's likely to want someone who can be a strategic force. It is not known how long the financial mess will last, but companies surely will look to their CFOs to be on the forefront of assessing the potential impacts on the company, and driving and implementing the strategies that follow, according to Carrott. In other words, companies want CFOs who can be leaders.

And not to be overlooked is the invariably high priority being placed on international experience — a trend that has been gaining force in recent years and shows no signs of abating. The headhunters said few CFO searches today come without that requirement.

On the Other Hand

There is a rather imposing caveat to this topic, however. Companies' wish lists for CFOs, taken in their entirety, sound about as fanciful as those posted on dating sites by singles seeking the perfect mate. Finding someone who fits all the criteria is not easy, and in some cases not possible.

Exacerbating that problem greatly is the lessened emphasis on financial reporting and accounting backgrounds, which until recently were a chief feeder of CFO candidates.

"Many CFOs and controllers are so much in the weeds with all the Sarbanes-Oxley, compliance, and risk requirements that in many cases they don't have an opportunity to demonstrate strategic abilities," said Christine Rivers, a vice president of Hay Group, a talent and leadership management consulting firm. "Some of them become very successful, but usually only if they've had developmental experiences that have allowed them to be at the table doing strategy formulation and helping to use financial data to make business decisions."