

CFO

Lords of the Brass Ring

The time may be right for financial chiefs to ascend to the CEO post.

[Kate O'Sullivan](#) - CFO Magazine

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Your phone may be about to ring, and you may want to answer it. Executive turnover, which usually proceeds at a brisk pace, ground to a near-halt last year as many CFOs and CEOs chose to stay put rather than risk moving to a new and possibly worse-off company. Boards also hesitated to replace top management in the midst of the crisis.

Now, however, with the worst seemingly behind them, executives – and the boards that hire them – are once again looking around. Some 64% of executive recruiters said they are confident or very confident that the number of C-suite openings will increase during the next six months, according to a late-January poll by networking group ExecuNet, representing a 10-point spike in optimism compared with just a month earlier. "The whole market continues to open up a little bit more," says Lorraine Hack, a partner at executive recruiting firm Heidrick & Struggles.

For finance chiefs who have spent the past two years with their heads down, what prospects will this postrecession market present? For some, it may be the chance of a lifetime, thanks to the higher profiles they have developed by navigating their companies through harrowing circumstances. In particular, CFOs wanting to ascend to the CEO position may find that their battle scars have earned them new opportunities.

But despite all the points in CFOs' collective favor, some experts warn that those yearning for the top spot shouldn't assume that making the leap will be easy.

Right Skills, Right Time

The challenges of the recession have, in many ways, whipped CFOs into shape for broader leadership roles. For one, as budgets and forecasts have been revised again and again, finance chiefs have typically spent more time with department heads and other functional leaders than most other executives, which gives them a particularly

holistic view of operations. "CFOs have had such an opportunity to get a full look at the landscape of the enterprise that they make very natural candidates for the CEO chair," says Tom **Kolder**, president of recruiting firm **Crist Kolder Associates**.

The recession and the credit crisis have also reshaped the CEO role to require more finance-related savvy — in particular, the ability to manage liquidity. Five years ago, proficiency in handling the capital markets "was probably last on the list of priorities for boards seeking chief executives, but now it's first," says Ed Heffernan, CEO and former CFO at Alliance Data, a company with more than \$2 billion in annual sales that operates customer-loyalty and direct-marketing programs. He became CEO in 2009 and has overseen several major initiatives to ensure the company's access to capital since then, including a \$300 million offering of convertible senior notes and the negotiation of a new credit facility.

In some cases, CEOs can't hand off banking relationships to CFOs even if they want to. "These days, the big banks want to deal with CEOs," says Heffernan. And as companies once again begin to weigh various growth plans, it's important for a CEO to have an appreciation for how the company's bankers or investors will react to a given strategy, he says, because "analysts, rating agencies, and banks are going to Monday-morning-quarterback you on these decisions."

Former CFOs may even be particularly well qualified to lead growth in this environment, thanks to the rigorous frameworks they typically use to make decisions. A CEO with a marketing background, for example, "may have 25 ideas and decide to do them all," Heffernan says. "A good CEO today needs to know which 2 or 3 ideas are the ones that will provide the biggest bang for the buck."

The new and relentless focus on working capital and cash management also makes many CFOs ideal candidates to take the reins at a distressed company, where such a perspective is critical. Ken Hall was promoted in 2008 from finance chief and treasurer to CEO at troubled NexCen Brands, a franchiser of retail and restaurant chains. He says his finance background has been invaluable in leading the firm during the past year. "When you're going through a turnaround, managing by GAAP [generally accepted accounting principles] takes a backseat to managing for cash, cash, cash," he says, "and who better to understand that than a CFO?"

Many boards have recognized the value of a finance background during the past year, and some notable former finance executives have made the move to the CEO chair. Michael White, a former CFO at PepsiCo, was recently named CEO at DirecTV after serving as head of Pepsi's international business. John Greisch, former finance chief and president of international operations at Baxter International, just took over the top job at Hill-Rom Holdings, a medical-equipment maker. Last spring, Revlon promoted Alan Ennis from head of finance to CEO. And Chris Liddell, who left his

post as CFO at Microsoft to become finance chief at General Motors in December 2009, is said to be a contender for the top spot at the struggling automaker.

Slow Going

Despite these newly appreciated credentials and an uptick in executive turnover, there is hardly a stampede to recruit finance chiefs to the top job. "We haven't seen even a mild increase in requests for CFOs to take CEO seats," says Chuck Eldridge, a senior partner at recruiting firm Korn Ferry International.

Indeed, the number of finance executives ascending to the chief executive post has increased but slowly over the years. According to data compiled by Crist Kolder, 15% of Fortune 500 and S&P 500 companies had CEOs with CFO backgrounds, up from 7% in 1999. While that represents a twofold increase, the overall number is smaller than one might expect given the finance chief's growing stature. And CFOs who move directly into the CEO chair remain rare, making up just 8% of new CEOs at large companies in 2009.

Eldridge, in fact, wonders whether companies' renewed focus on growth will prompt boards to look at marketing or sales executives instead of finance experts. "Companies are turning all their attention to growing the business. Does the CFO bring that to the table?" he says. "My hunch is that boards might look to get that skill set from another position."

Kolder also acknowledges that the pace of CFO-to-CEO transformations remains slow. "We are seeing continued acceptance of this transition, but it is rare for it to happen as an external hire," he says. It's much more likely for a board to promote a valued CFO when he or she is a known quantity.

Not for Everyone

One reason for the relatively small number of former finance chiefs in the CEO seat is that many don't want the job. Many CFOs are more than happy serving as a valuable and trusted deputy to the CEO and prefer being the company's second-most-visible executive. And the CFO's job, especially at large public companies, is certainly broad and varied enough to keep an executive engaged and challenged throughout his or her career.

There are also elements of the CEO role that some finance chiefs might be glad to forgo – for instance, constantly being in the public eye. Heffernan says he spends 25% of his time meeting with analysts and the media and speaking at investor conferences, and another 20% to 25% meeting with employees around the country. "Public speaking is essentially half the job. You need to not only be comfortable with

it, you need to want to do it," he says, noting that many CFOs he knows do not enjoy presenting to large groups.

The role can force CFOs out of their comfort zones in other ways as well. In communicating so frequently about the company, adds NexCen's Hall, "you almost take on a bit of a marketing or sales role, and that is a skill set not all CFOs necessarily have or are comfortable developing."

There's also a hefty psychological weight that comes with the top job. "CFOs have divisions or departments that they lead and inspire, but when you're in the corner office, the buck stops with you," Hall says. "It's a greater responsibility and burden than I felt as CFO, and I take it very personally."

Now or Never?

For CFOs who have the skills and believe they are up for the challenge, the chances of becoming chief executives are better now than ever before. "CFOs have been at the point of the spear during all of the recent events in the markets," says **Kolder**. "There are certainly boards that would not previously have had finance executives on their radar that are now saying the CFO is definitely in the mix as far as succession planning."

Whether or not a CFO decides to reach for that final rung of the corporate ladder, the hard-won experience of the past two years should serve him or her well. Says Hack of Heidrick & Struggles: "Given the constant emphasis on finance, it's certainly a very good thing to have in your background."

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