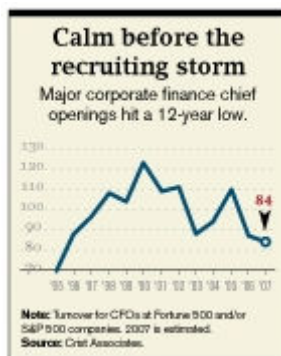


The Home Page of Corporate Finance Financial Week

Top finance exec turnover slows

Not for long, though. Recruiters predict uptick due to CFO job pressure. Plus: Most Fortune 500 CEOs over age 58 don't have successor named.

By Jeff Nash
September 3, 2007



CFO turnover at the largest U.S. public companies is dropping like a rock, on pace to hit its lowest level in a dozen years. That's no reason to get complacent, however, because indications are that the revolving door to the finance chief's office will regain speed any day now.

According to a study to be released this week by executive recruiter Crist Associates, an estimated 84 CFOs will leave their large-company posts this year. While that number is only three fewer than last year, it's a far cry from 2000, when CFO turnover peaked at 123 job changes, and it marks the lowest level since 1995, when 70 CFOs switched gigs.

In comparison, 75 big-company chief executives are expected to leave their jobs in 2007, down from 83 last year; CEO churn seems to have peaked in 2005 at 95 job switches. For the study, Chicago-based Crist analyzed the 657 companies included in both the Fortune 500 and Standard & Poor's 500 stock index.

Meanwhile, the study found that the average tenure for big-company CFOs has jumped to more than five years, nearly one year greater than in 2006. (The average CEO tenure remained the same: slightly less than five years.)

The authors of the study, however, see the dip as nothing more than that—a dip—before C-suite volatility creeps back up.

For starters, the workload for CFOs isn't getting any easier: While Sarbanes-Oxley was blamed for many casualties in the past, the study authors point to new pressures that have quickly filled the void, like reporting on executive compensation and running operations that were once the chief operating officer's domain. Large-company CFOs, they say, are also always looking for shots at the CEO suite, or an opportunity for bigger bucks in the private equity world.

"This is really just a natural pause, like all things in the market when they're going up," said Crist Associates founder and CEO Peter Crist. "Everything is now revolving around five-year cycles. If I'm a CFO in my early 40s, I'm not going to be a CFO in my early 50s. At the very least, I'm going to leverage upward to a larger platform or consider a private equity play. The job has gotten too difficult to do for a longer period."

Recent headlines would indicate CFOs aren't staying put. Last week, Kraft Foods nabbed CFO Timothy McLevish from Ingersoll Rand to replace retiring CFO James Dollive on Oct. 1. James Lawrence, previously CFO of General Mills, started his job Sept. 1 as finance chief at Unilever. And Google and McDonald's both recently began high-profile searches for their next CFOs.

Many CFOs may also soon depart their posts for the top job. The Crist study found that almost 40% of Fortune 500 companies have a CEO who is 58 or older, but less than half of these companies have a COO. For these companies lacking COOs, CFOs are often the No. 2 and a top contender for CEO, or at least COO along the way. For example, of companies with CEOs who are 62 and older, 58% have a COO.

"Ten years ago, a CFO reporting to a COO was not a big deal," said Scott Simmons, a partner at Crist. "Today, it's almost a non-starter for a really talented CFO to think about going into a chair that has to report to a COO. CFOs want to work directly for the chief."

And while external CFO hiring remained steady at roughly 40 placements annually for the past few years, there has been a dramatic decrease in outside hiring for CEOs. As of July, there had only been two external CEO hirings, compared with 19 in all of 2006 and 25 in 2005.

While it's too early to draw conclusions from the data, Mr. Crist said it's possibly a sign that corporate boards are more open to promoting insiders, following the recent high-profile failures of outside CEOs, as well as the fat pay packages needed to lure them away from their old jobs.

That theory, however, contradicts a recent academic paper by professors Kevin Murphy of the University of Southern California and Ján Zábajník of Canada's Queen's University. Their study suggests that the so-called CEO market has come to value "general managerial ability," or skills that translate across companies and industries—the outsider—over "firm-specific managerial capital," or knowledge and experience that's recognized as valuable only within a company—the insider (see "Why More Companies Look Elsewhere for CEO Talent," *FW*, Aug. 20). **FW**