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Hot seat in the C-suite

Finance chiefs bail under heat from SarbOx, backdating scandal

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The CFO seat remains a tough place to stay. An astounding 2,301 chief financial officers left their jobs in 2006, up 23% from 1,867 CFO departures in 2005, according to new data compiled by Liberum Research in New York.

Why the ever-revolving door? For starters, the stock option backdating scandal has claimed its share of CFO casualties, while the intense pressure and increased workload related to implementing Sarbanes-Oxley has forced many more to leave their bean-counting gigs. Nearly 500, or 22%, of the total CFO changes in 2006 were due to retirement or resignation, said Liberum; only 11 chief financial officers—less than 1%—were fired last year. The report didn't disclose the reasons behind the terminations. "A lot of these CFOs are burned out," said Richard Jacovitz, senior vice president and director of research at Liberum. "So much of their time has been spent on regulatory issues."

Consider that despite a big demand by corporate boards for CFOs, only one-third of the Fortune 100 financial officers currently sit on an outside board, according to Stephen Mader, vice chairman of executive recruiting firm Christian & Timbers. "They'd love to sit on an outside board, but there's simply too much work."

One sector that's had its share of CFO turnover is banking. Since September 2004, four major banks—Citigroup Inc. (twice), Bank of America Corp., J.P. Morgan Chase & Co. and Wachovia Corp.—have replaced their CFOs. Most recently, Sallie Krawcheck stepped down as CFO at Citigroup earlier this month. She was reassigned to head the company's brokerage and private banking businesses, and her replacement has not yet been named.

Several big companies have churned and burned multiple CFOs in recent years. For example, since 2002, MeadWestvaco, the paper manufacturer, has replaced three CFOs, as have both Oracle and energy company Mirant. Coca-Cola Enterprises and Delta Air Lines, meanwhile, have each gone through two CFO replacements since 2004.

Also pushing CFO turnover, however, has been the robust competition for CFO talent from both the public and private domains.

"Private equity is incredibly aggressive at taking terrific talent out of the public arena," said Scott Simmons, an executive recruiter at Crist Associates. "For CFOs, there is the allure of getting out of the public arena, where there's more scrutiny than ever; plus there's the risk-reward scenario that public companies don't often have."

Indeed, according to Liberum, 836 CFOs, or 36% of the total departures, left their post to join other companies in 2006, to fill CFO and other top-level positions. Promotions within companies accounted for 451 of the CFO churn (20%).

And while there's been a slight dip in CFO turnover recently—down 20% in the fourth quarter of 2006 from a year earlier—recruiters see little sign of it slowing in 2007, thanks largely to the new Securities and Exchange Commission requirements for executive compensation disclosures.

Having largely battled through Sarbanes-Oxley, chief financial officers will now be partly responsible for pay strategy and fully accountable for the core reporting of compensation on company proxies.

“It's going to be a very difficult position,” said John Challenger, CEO of Challenger Gray & Christmas. “The more CFOs reveal about what's going on, the more they become a lightning rod for problems; the more they conceal, the more at risk they are for not doing their jobs.”

As a result, headhunters said they are seeing an increasing number of CFOs leaving the trade for good. “A lot of these guys have made a lot of money over the past four years,” said Mr. Mader of Christian & Timbers. “So they decide to join a non-profit, or sit on a couple of corporate boards. Engage in more things with less fury.”

Of course, the CEO chair remains the shakiest of the C-level suites to hold on to, according to Liberum. Last year, there were 2,743 CEO departures, a 30% increase over the 2,106 changes in 2005. Twenty-one CEOs were fired in 2006, up from 19 in 2005.

“The CEO job will always be the toughest because it's the coach,” said Crist's Mr. Simmons. “The team loses, the coach gets whacked.” FW

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