

Tougher oversight prompts turnover among CFOs

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By Len Boselovic, Pittsburgh Post-Gazette

The Sarbanes-Oxley Act, sweeping financial reforms enacted by Congress in 2002 in the wake of high-profile accounting scandals, have been a popular target for critics who bemoan the impact of costly, time-consuming government regulations.

The law also is being blamed for increased turnover among chief financial officers -- the top accountants at public companies whose performance has come under increased scrutiny.

"We could tell in our work levels it was increasing post-Sarbanes-Oxley," say Lorraine Hack, executive director of Russell Reynolds Associates' financial officers practice.

The executive search firm says turnover among CFOs at Fortune 500 companies has been on the rise, with almost one of every five Fortune 500 companies changing CFOs last year. That compares with 16 percent changing CFOs the previous year and 13 percent in 2003.

Resignations accounted for 32 percent of the changes, and promotions and retirements each accounted for 19 percent of the moves.

"It has been very difficult on CFOs. There's been a lot of pressure" on them, says Richard Jacovitz, research director for Liberum Research.

The New York firm's survey of securities filings, news reports and other public information indicates CFO turnover, in fact, increased 40 percent in the first nine months of this year. Liberum's estimate is twice the size of Russell Reynolds because it looks at more than 7,000 companies, including smaller companies where turnover in general is much higher than it is at Fortune 500 companies.



Stacy Innerst, Post-Gazette

Recruiters say Sarbanes-Oxley -- often referred to as SOX -- is by no means the only reason companies are changing CFOs more often. Other factors include opportunities at public companies, turnover at the chief executive officer level and mergers and acquisitions.

"I don't think we can blame everything on SOX," says Charles B. Eldridge, leader of Korn/Ferry International's financial officers practice.

Since Sarbanes-Oxley doesn't apply to privately owned companies, public company CFOs who are overwhelmed by the new regulations find working for a private company an attractive alternative.

CFO a-go-go

Companies have been changing chief financial officers more frequently since 2002, when the Sarbanes-Oxley Act imposed exacting new regulations governing the financial statements of public companies. But the demands of the new law only partly explain increasing CFO turnover. Executive search firms also cite demands from activist shareholders, mergers and acquisitions, and other factors.

Here's a look at CFO turnover this year vs. 2005 at more than 7,000 North American companies. The totals reflect CFOs leaving as well as CFO hires.

	2005	2006		2005	2006
January	136	229	June	128	207
February	136	158	July	80	176
March	185	232	August	180	179
April	167	198	September	145	179
May	131	244	Total	1,288	1,802
			Change		40%

Source: Liberum Research James Hilson/Post-Gazette

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In some ways, the exodus of talent is reminiscent of top executives leaving established companies in the 1990s to pursue the dot.com boom, says Scott W. Simmons, vice president at Crist Associates, a Hinsdale, Ill., search firm.

"Going into the private equity market has become a huge draw," he says.

Locally, Alcoa announced in December that CFO Richard B. Kelson, who had held the job since 1997, was leaving to pursue opportunities in private equity. Other Western Pennsylvania companies making CFO changes in recent months include:

- Kennametal, where CFO Catherine R. Smith left the toolmaker after just 18 months to take the same job at Centex, a Dallas home builder.
- American Eagle Outfitters, which named Joan Hilson CFO in April. She replaced longtime CFO Laura A. Weil, who left in August 2005 to become chief operating officer of Ann Taylor Stores, a position she relinquished in May.
- Allegheny Energy, which promoted Philip Goulding to CFO in July, replacing Jeffrey Serkes, who resigned.

Turnover among CEOs also has been high, reaching record levels in 2005 for the second consecutive year, according to Booz Allen Hamilton. The consulting firm says 15 percent of the CEOs at the world's 2,500 largest public companies left last year, up 4 percent from 2004.

CEO turnover promotes CFO turnover in two ways: Polished CFOs are prime candidates for the No. 1 job, and changes at the top frequently lead to the appointment of a new top accountant, according to Mr. Simmons. When a new CEO is appointed, 45 percent of the time a new CFO is hired within the next 12 months, according to Crist's study of Fortune 500 and Standard & Poor's 500 companies. The odds of a new CFO being appointed rise to 52 percent when the new CEO comes from outside the company, Mr. Simmons says.

Four years after Sarbanes-Oxley became law, Ms. Hack is surprised by how much CFOs are

still adapting to the new regimen.

"Many CFOs will argue that the job has become harder, not easier, with every passing year," she says.

Mr. Jacovitz expects compliance eventually will become routine, decreasing pressures on CFOs and increasing the chances of them staying put a little longer.

"As time goes on, it will level off," he says. "Systems are going to come into place, so it's going to be easier for them to do what they have to do."

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[Back](#)

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