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AGENDA

Grow Your Own: Boards Double Down on CFO Development
The market for finance talent is increasingly competitive

By Amanda Gerut
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Companies are looking internally to assess and nurture the skills of up-and-coming, diverse executives who could potentially serve as chief financial officers. In turn, sitting CFOs and CEOs are tapping board members to help mentor financial executives to give them more operational and strategic insight.

However, these executives are also alluring to other companies, and succession plans could be derailed if a sitting CFO is poached by a competitor — about a third of new CFOs this year were recruited from CFO positions at other organizations. Sources said directors should ensure the CEO and CFO have a keen eye on internal finance talent because of the fierce competitive landscape.

"The relationship between the CFO and the audit committee is so important," said Kathleen Cote, a former audit committee chair who currently chairs the corporate governance and nominating committee at VeriSign and serves on the audit committee. "We don't skimp on the steps to make sure what's in place is working for the organization and what's going to be put in place will work. It's definitely a top priority."

According to Cote, the boards that she's involved with delve deeply into CFO performance and succession planning. Directors have private one-on-ones with the CFO to go over current staffing and the CFO's potential internal successor. The audit chair meets with the CFO at every board meeting, and audit committee members also check in with external auditors on the finance team to discuss the CFO's strengths and those of other financial executives in key roles, such as the controller, chief accounting officer, treasurer and divisional presidents, she said.

"If the time comes that we know we have to look at the successor, we're involved in making sure that the criteria is the criteria that the board and the CEO believe we need for the company," said Cote, former CEO of Worldport Communications and an audit committee financial expert.

Oftentimes, the audit committee will have a role in the search process for the CFO, interviewing two or three candidates, she said. When there's a final CFO candidate, the audit chair will conduct a final review before the executive is hired.

“For us as audit committee members, we have a pretty good process on an ongoing basis to understand what that time frame might be for the successor, and we do a lot of thinking about whether it’s internal or external,” she said.

According to search firm CristKolder’s 2023 volatility report, there have been 75 CFO departures this year so far among 674 S&P 500 and Fortune 500 companies. About 33% of the executives hired to replace the departing CFOs came from outside the company, while 59% of CFOs were succeeded by an internal executive.

In Cote’s experience, the audit committee assesses all key financial positions, including the CFO’s succession, to determine who might be “ready now” versus who might be ready in two to three years.

Carol Coughlin, audit chair at several private companies and nom-gov chair at Electriq Power Holdings, said succession planning at the CFO level among mid-cap and smaller companies has become more common in recent years. In her experience, audit committee members often get a sense of talent beneath the CFO through presentations at meetings and from internal and external audits. Understanding the CFO’s strengths — for example, if the executive is stronger in accounting and less experienced in other areas — can help the board assess what kind of mentoring the executives one or two levels down might need, she said.

On boards she’s familiar with, the CFO’s management development plan resides either as a topic on the audit committee’s agenda or as a topic when the board reviews internal succession planning more broadly.

“It’s challenging right now for all financial positions,” said Coughlin. “Some key management people are in temporary positions while they’re trying to recruit someone — it’s very competitive.”

Succession planning among C-suite positions has become a more important area of focus for full boards given the increasing concerns over human capital management, she said. If a finance department has fewer people, the company might struggle to fill open roles, which has led boards to take a more active oversight role in ensuring that management has succession plans for internal candidates and assessing whether the board might need to look outside for the next CFO.

Understanding the areas a potential CFO successor might need more experience in also determines which directors on the board might be tapped to mentor a newly hired CFO or an internal successor, said Michele Bettencourt, executive chair at network cybersecurity company Corelight and board chair at Walkme.

Recently, after a CFO left one of the companies where Bettencourt serves as a board member, the company identified qualified external candidates. Then at an offsite meeting, Bettencourt met with the company's vice president of finance, who reported to the departed CFO. During the conversation, Bettencourt realized that the VP had the potential to step into the CFO role. Bettencourt then talked with the CEO and the board to make the case that the company needed stability in the role rather than bringing in an outsider.

"Had she ever been a CFO? No, but she's worked under a good one," said Bettencourt. She decided to mentor the VP in communicating with investors, and the VP is now the company's CFO. "When I talk to her, I've got to be on my best game. She is precise, and she's pretty infallible to me. She's our secret weapon."

One of the reasons boards and CEOs occasionally resist hiring CFOs from inside the company is that they don't know how internal execs will fare in communicating with investors and analysts. Yet "super-charming and freewheeling" CFOs can get can themselves in trouble on occasion, said Bettencourt.

For the company in Bettencourt's example, it was more beneficial to work with the CFO internally on communication rather than recruiting someone from outside who was stronger in the areas the CEO and the board were concerned about.

The hire also sent a message inside the company that "we promote from within," said Bettencourt.

Mentorship of diverse talent can also increase diversity in leadership roles. In the past decade, the number of women in CFO positions more than doubled, from 25 to 60, while the number of racially and ethnically diverse CFOs more than tripled, from 26 to 81.

Aligning with the CEO

While every board is different, Cote has observed the CFO succession planning process is a part of the audit committee's oversight. The CEO typically attends every audit committee meeting, so committee members and the CEO are aligned on how the CFO is working, she said. At companies she is familiar with, the CEO is straightforward with the board about the company's needs and the CFO's performance and runway within the company, she said.

Plus, the audit committee chairs have often sought to understand the various reasons a CFO or high-potential finance executive might want to leave a company. There are a lot of opportunities for CFOs currently, and executives at smaller companies might look to jump to a larger company or from a private company to a public one, she said.

"It's not always down to compensation," said Cote. "Where that person is in their career and whether by making a move they can enhance it in some way" also factors into whether a CFO will stay or leave a company. Some CFOs are looking to move into a CEO role, she added.

Indeed, the promotion of CFOs into the CEO role has risen during the past decade from 5.8% in 2013 to 8.2% so far this year, according to the CristKolder data.

The past five years have been “probably one of the toughest periods since 2008 to be a CFO,” said Tony Greene, senior vice president at executive benefits consulting firm NFP. Interest rate risk, currency risk and the resulting high-pressure environment have made the landscape such that CFOs are always looking for another opportunity, he said.

“They’re getting tired, and they’re getting beat up in their jobs,” said Greene.

In his experience, boards and CEOs have reviewed discretionary cash bonuses to retain CFOs who might be thinking about retirement and, conversely, signing bonuses that vest over multiple years in order to retain new executives.

Demographically, many younger executives witnessed the market volatility of 2008 as they entered college and are focused on cash, rather than stock or stock units, he said. Meanwhile, according to the firm’s 2023 survey of executive-benefits decision makers, nearly a third of respondents said executives are planning to retire later than they expected, while one quarter are planning to retire sooner than expected.

The effect of executives staying longer than expected is that the ambitious executives two or three levels below them who are looking to step up will leave, said Greene. Therefore, boards should seek to understand how CFOs are thinking about their own runway within the company and whether that could lead less seasoned execs to look elsewhere.

“I joke now that, since Covid, the toughest thing about getting a new job is making sure you’re at home to sign for your new laptop when it gets delivered,” he said.

Greene noted that he recently worked on a retention program for a company with three mid-level managers under the age of 50 who are at risk of leaving because several senior executives aren’t planning on retiring any time soon.

“It can be devastating,” said Greene. He counsels companies to think through the ramifications of certain employees’ resigning and how it would impact the next week, month and quarter.

“It could tank your entire year if they walk out at the wrong time,” he said.