



## Looking Ahead to Your Next Fortune 500 CFO?

### Why finding a successor is often tougher than anticipated

Leading a Fortune 500 company and thinking about a change in the CFO position, or planning for a CFO's retirement in the next few years? Finding a new CFO with previous big-company experience in the position won't be as easy you may hope. Spencer Stuart research on the position found that only 61 of the Fortune 500 CFOs (12 percent) in 2019 previously held the position at another Fortune 500 company.

That stat did not elicit much surprise during recent conversations with former and current CFOs at Fortune 500 companies. The CFO has emerged as one of the most strategic jobs on the executive team, a right hand to the CEO, and there are often plentiful opportunities with that experience to ascend to a higher position — as a CEO successor or an operational or divisional lead. Add in the role's high level of difficulty, in particular its increasingly prominent position and its exposure to activists, and ultimately most who experience the position one time won't do it another time somewhere else.

"These are not easy jobs," said Brian Gladden, the former CFO at Dell and Mondelez who is now an operating partner at Bain Capital Private Equity. "It's a limited pool of folks that you're going to find who are experienced and super-capable CFOs and are also going to be looking for a similar position elsewhere."

To better understand the current state of the CFO role, the career path of those who hold the position and the challenges companies have in finding the best person to fill the job, we interviewed several past and current CFOs who have filled the position two or more times with Fortune 500 companies. The interviews offered insights into the CFO experience, the demands of the job and how the position fits into their longer career trajectory. We also look at how the leading companies and their finance leaders are approaching CFO succession planning.

12%

Fortune 500 CFOs in 2019 who previously held the position at another Fortune 500 company

28%

Fortune 500 CFOs in 2019 with any previous CFO experience

4%

Outgoing CFOs in 2019 who took a CFO position at another Fortune 500 company

20%

Outgoing CFOs in 2019 who were promoted to CEO or general management

## The CFO challenge

Considering the CFO's important and highly visible role communicating with boards and investors, it's not surprising that many Fortune 500 boards and CEOs rate "past CFO experience" as the top criteria for a possible replacement. More than ever before, the CFO is a strategic operational partner and perhaps the executive position under the brightest spotlight after the CEO.

However, that prominence is a key reason it's so hard to find experienced people to fill the position. CFOs almost by definition find themselves in the crosshairs of both investors and boards. Indeed, not only does a CFO have to have strong financial chops, but he or she must also be skilled in effectively communicating the company's financial well-being and its strategic context to the board, investors and the broader public, while also influencing decision making with the CEO and executive team. It's a rare skill set that comes with a lot of pressure.

"Helping the organization achieve good results for investors is the most important long-term indicator of success in the role," said Steve Bramlage, CFO of Casey's General Stores, who served almost five years as CFO at Aramark after a three-year stint at Owens-Illinois. "However, that does not eliminate the need to productively manage relationships with the CEO, the board, shareholders and operating peers. If you struggle to influence these stakeholders, you will likely struggle in the role regardless of how much technical expertise in areas like accounting or treasury or operations someone has had previously."

Furthermore, when the CEO faces pressure, much of that cascades down to the CFO as well; our research has found that when a CEO leaves, more than half the time the CFO is out within two years.

"You've got to add value pretty quickly in this role," said Fareed Khan, the former CFO at Kellogg, U.S. Foods and United Stationers who is now COO and CFO at Parallel (formerly Surterra Wellness). "If you miss quarters, or you have controls issues, it's one of those things where a company just can't live with it."

The pressure is particularly acute for new CFOs hired externally into already-difficult situations, said Dave Anderson, the former CFO at Honeywell. When the numbers come in short of expectations, the CFO often bears the brunt of the questioning, putting that person into what he called a "vulnerable position."

And as activist investors become a more common presence, CFOs' ability to position their companies both strategically and financially to drive the most value and to communicate with all stakeholders has become critically important. A new CFO does not get a long honeymoon period.

“As CFO, you are often carrying a lot of the weight of that company’s world on your shoulders,” Anderson said. “There may be marketplace reputation risks, and confidence and morale issues inside the organization. All eyes are on you, and you have to get up to speed and gain confidence and credibility from the organization while also reestablishing confidence and credibility from investors and others.”

## The CFO role and the career path

Of the 90 outgoing Fortune 500 CFOs in 2019, 18 (20 percent) either became a CEO or were promoted to general management positions. Only four (4 percent) moved to a different CFO position within another Fortune 500 company.

A key reason these moves are so rare is that successful CFOs are often looking upward for their next position. It is not uncommon for the CFO to be a leading internal candidate for CEO — 18 percent of Fortune 500 CEOs in 2019 previously held the CFO role — or alternatively in a top operational or divisional role.

With this in mind, a sitting Fortune 500 CFO may not be attracted to an outside CFO opportunity unless it offers at least a more strategic role, if not a path to CEO. Attractive and lucrative opportunities have also arisen in the past decade in private equity, where experienced CFOs can take a more operational position without the public scrutiny.

“To entice someone to leave a sitting CFO role, the value proposition has to be very compelling, in terms of getting to play a role in creating the strategy and driving the growth of the business,” said Starbucks CFO Patrick Grismer, who previously held the position at Hyatt and Yum! Brands. “They’d have to see the opportunity as being more substantial — including a much larger company — or providing the opportunity to play a broader role or participate in a significant turnaround.”

The steep learning curve that comes with joining a new company can also give external candidates pause about taking a new job, even within a familiar industry. Long experience at a company gives one a certain level of intuition about how things are going that is harder to understand when you start somewhere new. Joining a new company can mean making a leap of faith that the new situation will be one where you have sufficient time to learn the company and its culture.

Companies have their own “internal languages” and a way of doing things that make sense for them but might not for another company,

said Dave Denton, who took both the internal and external paths to his two CFO positions. He spent more than a decade at CVS Health before taking the CFO job there; after eight years at CVS, he became CFO at Lowe's.

"A job at a new company doesn't have a technical learning curve as much as it requires you to learn the specific dynamics of the business," Denton said. "There's a balance when you come in. You bring some best practices that can be applied, but there are also best practices at your new company, and you have to try to understand how it works and why."

## Finding your next CFO from the outside

If you need to go externally for a CFO, where do you look? Of the externally sourced Fortune 500 CFOs hired in 2019 with previous experience as a CFO, 76% moved to a larger company. Further, nearly half (47 percent) had previously managed a company or division before becoming CFO. While traditional finance backgrounds like divisional and deputy finance (82 percent of externally hired CFOs), FP&A (38 percent), accounting/control (35 percent) and treasury (35 percent) remain common backgrounds, it's clear that strong CFO candidates have profiles that go much wider than mere finance acumen.

"You need some level of breadth across the finance discipline," Grismer said. "But as important, if not more important, is that you have the leadership impact to be able to influence the executive leadership team as well as the interpersonal skills to form an effective partnership with the CEO."

Skills are only part of the puzzle of finding an external candidate, however. When considering the challenges of the positions discussed earlier, an external candidate's interest in and availability for a new CFO role ultimately may simply come down to individual factors that are difficult to pinpoint at a broad scale: a recent empty nester who's far from retirement but open to a relocation for the first time in years; a previous CFO who lost the job after a merger; an internal candidate for the CEO job who didn't get it; someone in semi-retirement who can't resist the opportunity for one last challenge.

Grismer was drawn to Starbucks' iconic global brand and turnaround opportunity, and had reached a point in his life where he had the flexibility to make a physical move. Khan moved to Parallel because of an interest in the health and wellness sector coupled with the opportunity to play a more leading role in a fast-growing company. Anderson,

who has held the CFO position at five different companies in five different sectors, says he has been drawn by the challenge of joining companies in need of transformation.

“I’m a big believer in the role — I view it as an opportunity to support an organization that’s in need,” Anderson said. “You’re providing more than just the tourniquet, but actually developing a path forward, helping to stabilize the organization.”

When looking to hire your finance lead externally, personal relationships (or a search partner with those relationships) and a knowledge of their relative openness to taking on a different CFO job can be key. Several CFOs we interviewed said they were drawn to their CFO positions at least in part because of some type a connection to the CEO or the board.

“You absolutely will weigh internal factors at a particular company — its mission, values and culture, the CEO, board dynamics, company performance and value creation potential,” Steve Bramlage said. “But CFOs are like anyone else making a career decision — personal and family situation, financial position, how you want to keep working, etc.”

## Internal succession planning for CFO

The challenges of finding experienced external candidates may only increase in the wake of the COVID-19 pandemic. On one hand, the growing acceptance of remote work arrangements may help draw candidates not interested in relocating. At the same time, there could be an acceleration of retirements as CFOs bow out following one of the most tumultuous years on record.

As a result, a greater spotlight is shining on internal succession plans. Similar to what we commonly see in plans to fill the CEO position, more companies today are committed to developing an internal bench of future CFO candidates who can also push the overall team to perform at a higher level.

Several CFOs told us that selecting the internal candidate whose weaknesses you already know — and can address with development and team support — can be a more effective path than seeking out outside candidates.

“Internal succession has to become more important,” Gladden said. “There has to be a willingness to find the right step-up candidates, and for the CFO to own the grooming of a successor and spend a lot of time working with them.”

As CFOs, CEOs and CHROs develop internal succession strategies for the finance function, they can embrace three strategies to better prepare their current talent for the CFO role.

## Identify successors with strong leadership and interpersonal skills

With leadership and communications skills both so important to a CFO's success, identifying future leaders with strong interpersonal relations and helping them to cultivate those skills must be a central consideration.

“An internal candidate must have really strong communications skills,” Denton said. “They have to be able to think dynamically on their feet. Try to get them some experience doing that, even if they're not talking to investors. It's a good skill set to develop, because they have to do that actively every day as CFO.”

Some of this can be trained or taught; our interviewees cited executive coaches and special business school classes as valuable investments, as well as internal experience working across units and geographies.

## Offer experience in a variety of roles

While traditional finance backgrounds such as accounting and treasury remain common pathways to CFO, working across disciplines can give internal successors a breadth of experience that builds their strategic capabilities and helps them gain credibility within the organization as they ascend to lead the function. The finance leaders we spoke with also pointed to the importance of giving rising candidates exposure to communicating with both the board and with investors.

Bruce Besanko, the former CFO at Supervalu who also held the position at Kohl's and OfficeMax, said that a variety of roles early in his career helped him prepare for the CFO role.

“I got used to moving from unit to unit, and each unit had its own culture as well,” Besanko said. “You figure out how to get along with a variety of different communication systems and cultural systems.”

## Prepare candidates for exposure to investors

Investor relations is a primary skill for CFOs, yet giving internal successors access to that experience can be difficult to achieve. It's not uncommon to bring a direct report into earnings calls or other investor meetings, and it's also possible to give a potential successor responsibilities related to a specific investor relations initiative.

"Part of what CFOs need to think about with their own teams is creating opportunities where they can get in front of investors," Khan said. "You need to help accumulate knowledge in many areas."

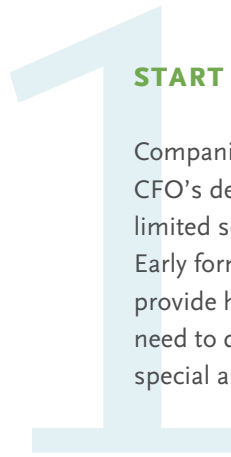
Of course, there's no preparation better than finally being the CFO and facing investors for the first time.

"It's hard to build those skills without being in front of investors and drinking from the fire hose," Gladden said. "And as much experience as you can get beforehand, it's different when you're the one. The buck stops with you in terms of those communications with investors. That's the hardest thing to learn until you have the job."

## OUR APPROACH TO CFO SUCCESSION PLANNING

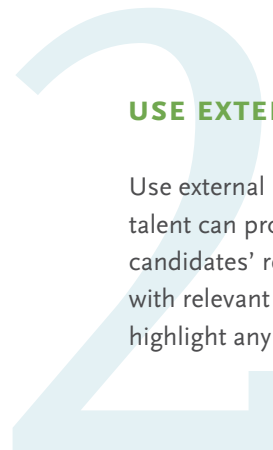
As more companies see internal succession as the path to filling the CFO role, it is critical to develop a strong bench of internal candidates with well-developed leadership capabilities and the ability to adapt and grow with the job and the business.

Building on work we've long done assisting in CEO transitions, Spencer Stuart helps companies as they approach succession planning in functional roles like CFO. Our approach includes three key elements:



### START EARLY

Companies can find themselves in a bind when a CFO's departure is rapidly approaching, yet there is a limited sense of which internal candidates are ready. Early formal assessments of internal candidates can provide high-potential internal talent the time they need to develop new skills and experience through special assignments or developmental roles.



### USE EXTERNAL BENCHMARKS

Use external benchmarks. Benchmarking external talent can provide a sense of internal CFO candidates' relative strength compared to executives with relevant experience at other companies, and can highlight any important experience gaps.



### BUILD A DEVELOPMENT PLAN

A robust assessment can identify individuals' development needs and their ability to step into a more complex role and demanding role, and can suggest specific opportunities for development and support. Many companies find it useful to tap an outside expert, who can provide an appropriate process for a specific set of development needs.



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## ABOUT THE AUTHORS

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**Tricia Clifford** (Chicago) is a core member of the firm's Financial Officer Practice. Her search work focuses on chief financial officers and other senior-level finance leaders for a broad range of companies.

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## ABOUT THE FINANCIAL OFFICER PRACTICE

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We are a global, dedicated team of consultants, including many former finance and industry executives, with experience finding the finance leaders required to succeed in a variety of roles, including chief financial officer, accounting, audit, controls, corporate development, financial planning and analysis (FP&A), investor relations, risk, tax and treasury. We have conducted more than 1,200 senior-level finance searches over the past two years for clients that include Fortune 500, FTSE 100, DAX 30 and HS 100 companies, as well as private equity firms and their portfolio companies, emerging companies and nonprofit organizations.

## ABOUT SPENCER STUART

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At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 70 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness. For more information on Spencer Stuart, please visit [www.spencerstuart.com](http://www.spencerstuart.com).

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