



404 INSTITUTE

Understanding CFO Turnover

New Research from the 404 Institute
April 2009

A Letter to 404 Institute Members



As the global economy experiences a period of unprecedented change, new research from KPMG demonstrates that companies are moving toward CFOs whose skills align with their corporate strategy.

In fact, the research indicates that companies recruit new CFOs based on their evolving needs—a move designed to help them successfully execute on their current strategy and, therefore, improve performance, particularly during challenging times.

According to KPMG's research, CFOs often develop one of several distinct skill sets that are typically aligned with certain corporate strategic priorities—growth, business transformation, or cost cutting, for example. As companies' strategies change, so, too, do their CFOs.

With this new perspective, KPMG's research has identified other reasons for CFO turnover, beyond termination or the demands of the job. Indeed, corporate efforts to preserve and create business value more often dictate what kind of executive fills the CFO's shoes.

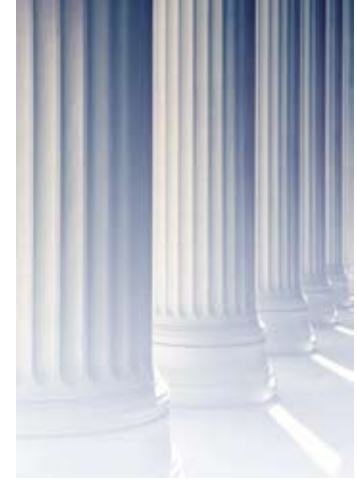
Understanding the evolution of the CFO role could help management choose the right executive for the current needs of the business as well as cultivate future leaders with the diverse capabilities the company may need—especially amid ongoing market volatility and uncertainty. In the past, boards instinctively focused their search on a "seasoned CFO"; now they may want to recruit from other areas of the organization as well as finance.

As you consider how the CFO role is and should be changing within your own organization, I hope you find these survey results useful. Over the coming months, the Institute will continue to explore issues affecting the CFO agenda as organizations take steps to respond to the economic situation, address issues affecting risk and controls management, and consider the broader finance function. As always, I encourage your feedback. If you have any questions or comments about the survey, please do not hesitate to contact me.

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What We Learned: CFO Turnover Aligns with Organizational Strategy

The KPMG 404 Institute's research shows companies recruit new CFOs based on their business needs at a specific point in the corporation's life cycle. This change marks a notable shift in an executive's career path, reflecting the most recent phase in the expansion and evolution of the CFO's role.



In short, as companies have faced increased challenges, the CFO's role has grown commensurately. CFOs are no longer responsible only for financial reporting and compliance; the new "CFO agenda" often includes efforts to lead or influence companies' growth strategies, regulatory compliance efforts, and IT governance. The research shows that 96 percent of CFOs have experience that extends well beyond the traditional finance function. What's more, while CFO tenure is shrinking, the implication is that during an executive's career path, the role of CFO no longer is the pinnacle, but, potentially, a stepping stone en route to other senior executive positions, including CEO.

The CFO's Evolving Strategic Role

The KPMG 404 Institute evaluated how the role of the CFO has expanded over the past few years to include functions not traditionally associated with the title. The Institute then examined the enhanced roles played by CFOs of FORTUNE 1000 companies. Researchers sought to determine if CFOs can be categorized by their alignment with key company strategies, their primary responsibilities, or areas of activity. Based on analysis of the sample population, researchers organized CFOs into six categories:

- **Internal growth leader:** works mainly toward achieving higher growth and is a proficient strategist in emerging markets, sales force optimization, and organic diversification. The analysis put 39 percent of the CFOs into this category.
- **Cost-cutter:** specializes in improving bottom-line performance by reducing costs through down-sizing, outsourcing, and restructuring. This described 23 percent of the CFOs analyzed.
- **External growth leader:** specializes in planning, executing, and integrating mergers and acquisitions. About 20 percent of the CFOs were in this category.
- **Business transformer:** identifies and oversees the execution of the company's reorganization plan, with a focus on corporate structure and process redesigns to enhance productivity. Of the CFOs analyzed, 12 percent were in this category.
- **Finance specialist:** focuses on financial planning and execution. Some 4 percent of CFOs fit this description.
- **Risk moderator:** identifies risks (including financial, operational, and regulatory risks) and helps to ensure mitigation with minimal impact on profitability. This category accounted for 2 percent of the CFOs.



The research shows a trend of companies changing CFOs with increasing frequency. As many as one in five FORTUNE 1000 CFOs were replaced in the 12-month period ending June 30, 2008.

CFO turnover has increased 19 percent year over year and by 36 percent compared with two years ago, according to the research—which analyzed company announcements and regulatory filings to identify CFO biographical data and corporate strategies as well as how CFO activities and responsibilities aligned with those strategies.

Analyzing CFO Turnover

According to the research, CFO departures occur for one of two reasons: CFOs either move to another company, usually in a more powerful role to solve a strategic challenge, or they move into a higher role at their current company—often the COO or CEO position.

The KPMG 404 Institute analyzed the turnover that has come to characterize the CFO role in recent years and found that:

- Thirty-six percent of current FORTUNE 1000 CFOs have held their position less than two years, and more than half were promoted from within (see figures 1 and 2).
- In the FORTUNE 250, almost 65 percent of CFOs were internal promotions.
- More than 70 percent of newly appointed CFOs have not held the position in the past (see figure 2).

Figure 1: FORTUNE 1000 CFO Current Tenure

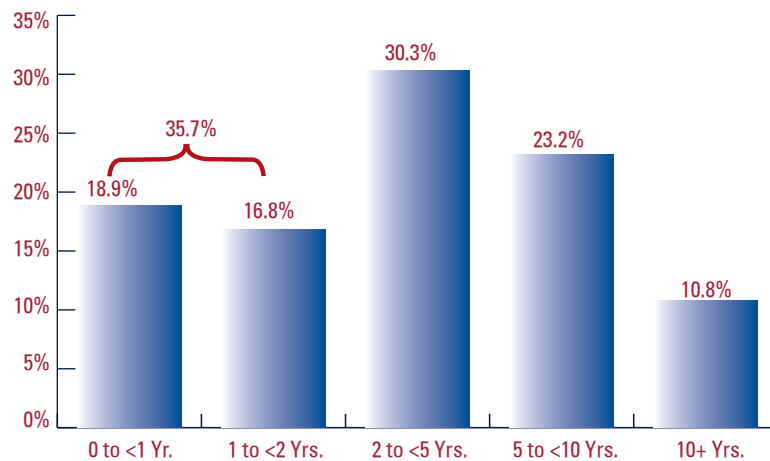
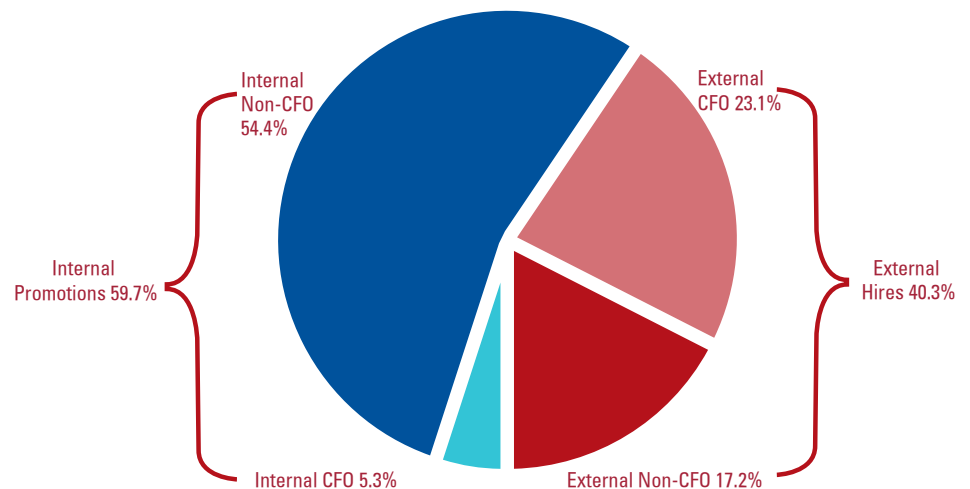


Figure 2: FORTUNE 1000 Internal Promotions versus External Hires (Previous Title CFO versus Non-CFO)



Sources: S&P Capital IQ, SEC Filings, Hoover's and CompanyWeb sites – 2008



Conventional wisdom would attribute the high CFO turnover primarily to the individual's underperformance, or even burnout—which the research had identified as a key reason for CFO turnover in the past. Yet this research supports a perspective that CFO change may align with shifts in company strategy. New CFOs with needed capabilities are brought in to carry out new strategies. New strategies = new CFOs.

The research also indicates that CFOs are moving on more quickly, and when they do, they typically migrate to comparable or more senior positions at either another company or within their own organization—not necessarily to other CFO jobs.

Historically, CFOs often emerged from the finance function, and while this career path remains in place, the research shows that new CFOs may also emerge from different parts of the organization, such as operations, corporate strategy, marketing, and risk, depending on the needs of the company. As organizational needs change, CFOs with the necessary skills play a growing strategic role. As organizations evaluate their teams' abilities to cope with challenging economic conditions, they must carefully determine which skills will most closely align with their current strategic priorities.

Finding the Right CFO Candidate: Research Implications for Management, Boards, and Investors

Research Methodology

404 Institute researchers reviewed secondary sources for biographical and corporate background, including company news releases and other related news articles, company annual reports, earning call transcripts, and SEC filings such as 8-K and 10-K forms. Using this data, researchers identified company strategies and determined CFO activities/responsibilities that aligned with these initiatives. Researchers then grouped that information into categories from which the six CFO types are derived.

One implication is that because the CFO role has become a strategic force for change, those filling the position must have capabilities targeted to current business needs. For example, a superstar CFO who excelled in acquisitions at one company may be the wrong fit for a company focused on organic growth. Similarly, a company facing severe cash-flow problems may first turn to a CFO steeped in uncovering and eliminating nonessential spending. But once the belt is tightened, the need to grow may require a different skill set.

This research shows that senior management and boards may be best served if they are able to anticipate the next phase of the company's evolution—and identify future CFO candidates outside the organization or groom internal candidates.

Corporate efforts to preserve and create business value often dictate what kind of executive fills the CFO's shoes. For the CFO's part, stepping into the role with the right skill sets offers a clearer path for future success. Careful deliberation to align executive skills with corporate needs can bring success in solving business challenges, and may produce a future CEO or COO.

About the Institute

KPMG established the 404 Institute (www.404institute.com) to provide a platform for members to learn about the challenges and opportunities related to section 404. Since then, 404 compliance has evolved to be an ongoing, integrated part of the finance organization's compliance structure.

The next evolutionary step in the Institute's growth involves integrating and optimizing a broader range of critical risk, control, and reporting issues. As a natural progression of our Institute, now 28,000 members strong, and to satisfy member requests for more guidance and thought leadership on financial management issues that affect them, we are expanding the Institute's mission beyond section 404 compliance. This effort will enable us to continue providing members with an open forum where ideas can be exchanged and leading practices developed on issues that are important to our member community.

Contact Us

For more information about the 404 Institute and membership opportunities, please visit www.404institute.com or contact:

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