

CFO Succession: Is Your Business Ready?

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The CFO is one of the most influential executives after the CEO, and perhaps one of the most visible—does your organization have the right person or a succession plan in place? While you may think it's not the right time to initiate a transition, *Steve Rosen* and *Charlene Bergman* explain the nuances and potential challenges that lie ahead when selecting a new financial leader.

Seismic changes are happening all around us, and the ground has been shifting beneath the CFO role for several years. Partly due to the pandemic, turnover has become even more common, new skills and sensitivities are required, and both responsibilities and compensation have increased. It's now more important than ever for CEOs and boards to get ready for CFO succession.

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Other considerations also come into play including external market forces, internal changes within your company, and the rapidly evolving nature and impact of the CFO role. Once there's a firm understanding of these trends, planning for a new CFO is a much smoother and predictable process.

External Market Forces

Executive search firms have chronicled the recent increase in turnover within the CFO ranks as boomer-aged finance professionals switching companies or [suddenly exiting the workforce altogether](#). Indeed, statistics indicate that incumbents now average [less than five years](#) in the CFO position before moving on—a significant shift in recent years. Talent migration is almost certainly on the horizon as CFO's look for increased flexibility and opportunities to grow their careers post-COVID. It's time for employers to respond by focusing on company culture, prioritizing employee career development, and ensuring the corporate mission aligns with the values of today's socially responsible workforce.

There have also been other big shifts in the skills required by CFOs. Supply and distribution chains have been turned upside down, and a CFO who can manage and optimize cost structures under these complex conditions is a must. Fortunes have also diverged by sector through the pandemic (think retail versus logistics) with corresponding changes in skill needs and career opportunities for CFO candidates.

Finance professionals are also finding their skills more portable in the post-pandemic world, spurring movement among firms. New freedom to work remotely has also opened career opportunities in geographies that didn't exist before. Not to mention, the changes in the recruitment process itself, including virtual screening, has enabled finance candidates to [test the market with relative ease](#). All these factors add up to increased movement amongst financial leaders.

Internal changes within your own firm

Macro considerations aside, growth and change in your own organization can also add to the demands on your CFO. With burgeoning sales, alternate channels, and growing infrastructure come the complexities of organic growth, more robust information systems, or higher reporting and assurance standards. But the skills, ambitions and capabilities of your current CFO might not be on the same trajectory.

For many business owners—whether individuals or corporations—a liquidity event is somewhere on the horizon. M&A transactions, IPOs, and spin-offs all invite the critical eye of third parties looking to scrub your financial info, necessitating CFO knowledge at a higher level. The ability to generate and analyze reliable data becomes crucial, as do skills in valuations, negotiation, and even defense under the scrutiny of in-depth due diligence.

The evolving nature of the CFO role

You may find the world of work has changed significantly since you last went to the well for a CFO. The pandemic has sped up trends like virtualization, the pace of work, and reliance on automation tools. Fluency in digital and data science languages and analytics is now a must.

Equally, there is also a [greater focus on soft skills](#). As a leader and influencer, your CFO must be sensitive to matters of culture and fit, empathy, openness, and compassion. However, it's more than personality and disposition—today's leaders need to be proactive in fostering inclusion within the team and developing equity, diversity, and inclusion (EDI) through recruitment practices.

The move to a more remote or hybrid work force may also call for modification in management style, especially if the CFO's accounting and systems staff are no longer just steps outside the office door. Financial literacy and education across your organization are becoming more important whether in sales, operations, marketing, HR, or other functions. Communication skills and methods could be in for an overhaul, and patience might be the watchword. It's a brave new workplace and the right leaders are needed to help guide companies into the future.

Putting the plan in place

Ideally, the route to CFO succession can be laid out internally, with the incumbent CFO grooming a strong number two to assume the reins. Such a plan has the decided advantage of easy acculturation, job familiarity, and general continuity. It also facilitates readiness for an immediate hand-off if the CFO leaves suddenly. However, it assumes the existing CFO has the necessary skills to impart on another and the inclination to do so. It also assumes enough size and scale to support a "one step from the CFO" position. For mid-sized or smaller organizations, the gap between the finance leader and their direct reports may be too large or a successor hasn't been contemplated yet.

For many firms, CFO succession requires a well-developed recruitment process. As mentioned, it's an employee's market now—where [candidates are enjoying the upper hand](#) in selecting opportunities and negotiating terms. This also has the effect of lengthening the timeline for firms looking to identify, recruit, screen, negotiate, and onboard new talent into the CFO position.

If your current CFO has been in the role for a long time, you may be in for a surprise when it comes to compensation for a new hire. Potentially your current CFO has not been keeping up to market for pay and overall compensation, or your new position requirements are at a level higher than the current incumbent, necessitating higher pay.

The quest for your next CFO is likely to require substantial lead time, market knowledge and access to eligible candidates. Add to that, the time and ability to screen and select a suitable candidate and you may find the project is beyond the capabilities of your internal talent acquisition group. The guidance of an outside advisor or search firm who deal with these

challenges daily can simplify and enable the process.

As you can see, CFO succession can be a long journey and planning today will get you where you need to be tomorrow.

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