# Why investing in the current CFO – and their successor – could yield big returns

Building a better working world

The chief financial officer (CFO) role can be regarded as the pinnacle of a successful finance leader's career. Aspiring CFOs work hard, master financial acumen, build experience across many areas of the finance function and, after decades of leadership, make it to the top echelon in finance – and enjoy a long-term, tenured future in the organization's C-suite. The capstone to an accomplished career.

While many of the CFO career characteristics remain true, a new study from the EY Center for Executive Leadership (CEL) points to a dramatic shift in both the makeup of the CFO's role in an organization and the career trajectory of today's CFO, changes that both financial leaders – and the organizations that rely on their expertise – need to prepare for.

In this article, we share the results of this study, starting with insights on the increasing rotation in the CFO role and its impact on the business. We also explore what it takes to develop future CFOs as well as the future trajectory of current CFOs as they prepare for their next step. Finally, we provide some actions that CFOs as well as CEOs and chief human resources officers (CHROs) can take to adapt to shifts in tenure, responsibilities, and characteristics of the modern CFO.

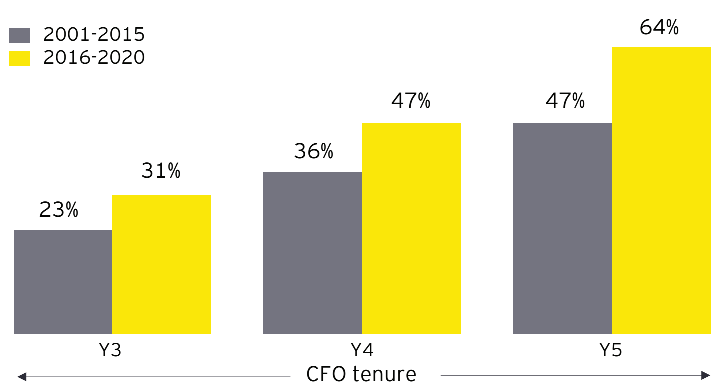
# CFO rotations are increasing — and that is not necessarily good for business

Analyzing a thousand executives who held the CFO role in a Fortune 250 company over the last 20 years, data shows that the velocity of CFO rotations continues to increase. Almost two-thirds (~64%) of Fortune 250 CFOs who were appointed to the role between 2016 and 2020 had exited by year five compared to only 47% of CFOs who were appointed between 2001 and 2015, with the same tenure (Figure 1). The long-held custom of financial leaders being in their role for more than five years is tumbling, as almost half of CFOs now depart within the first four years.

As attrition rises, succession planning is becoming more important than ever, yet many organizations face these CFO transitions unprepared. Many appoint an interim CFO during a transition to bridge the gap until a full-time successor is found. In fact, the number of interim CFO hirings per year has almost doubled in the last decade in Fortune 250 CFO transitions, with less than a third of those interim CFOs moving into a permanent designation in the company. As a result, many of these companies end up managing two CFO transitions in less than a year, intensifying instability.

The combination of shorter tenures, higher attrition and an increase in the appointment of temporary CFOs is not a recipe for long-term success for any organization. For most, this churn may inhibit the stability required for growth and lead to lower total shareholder returns. Correlation does not imply causation, but organizations must consider the impact that shorter CFO tenures have on their strategic progress, operational execution and financial results. The data shows that longer-term CFOs (defined here as those that have been in their role for at least six years) have delivered average excess total shareholder return (ETSR)[1] that is 2.75 times higher than those CFOs with shorter tenures (in role for one to three years).

**Figure 1:**
Percentage of CFO attrition by year since appointment




Note:
1) Based on analysis of 567 CFOs appointed from 2001-2015 and 221 CFOs appointed from 2016-2020. For 2016-2020, CFOs whose tenure is greater than three years and are still serving in the role (e.g., appointed in 2020) were excluded from the analysis as departure year is not defined yet.

Source: EY Center for Executive Leadership analysis

[1] ETSR is defined as the incremental return compared to the S&P index during the given period.

# Developing a CFO requires more effort but also yields higher organizational return

The trajectory of rising attrition and declining CFO tenure on organizations is further exacerbated by the increasing challenges associated with hiring or developing CFOs, which can be complicated and time-intensive due to the complexity of the evolving role.

CFOs are no longer solely financial leaders and technical experts but key business and operations leaders involved in far more complex and cross-functional projects, including business transformation, digital initiatives and addressing critical business challenges such as investor activism. EY analysis of Fortune 250 CFOs shows a number of critical areas where CFOs are taking a broader, more involved leadership role:

- **Corporate strategy, including cross-company business transformation and restructuring:**
  Most CFOs play a critical role in strategy development, restructuring initiatives, business transformations or cost-reduction initiatives. And as this type of effort continues to increase, so does the requirement for more strategic and dynamic CFOs. Data shows that recent CFOs are 3.5 times more likely to get involved in a restructuring initiative by year three of their tenure compared to the previous decade (2001-2010). Restructuring initiatives on their own can create instability for an organization, but combining that with rising CFO attrition could further destabilize a company if not properly managed.

- **Transformative digital initiatives:**
  CFO involvement in digital initiatives has increased steadily over the last decade given the increasing impact of these capabilities across many sectors. Of the total digital initiatives implemented by Fortune 250 companies in the last 20 years, ~70% were implemented in the last 10 years or so, reflecting the accelerated pace of technological change. In more recent years (2016-present), that acceleration has continued, with 36% of digital initiatives implemented, including organizational transitions to cloud infrastructure and computing. As generative AI and data analytics emerge as transformational themes for the future, CFOs will play an even bigger role in complex digital initiatives, requiring them to master their digital understanding to ensure that these investments capture strategic growth opportunities and deliver clear returns across the enterprise.

- **Investor activism:**
  Data shows that investor activism in organizations has sharply increased. From 2001-2015, an average of 21% of CFOs experienced some level of activist investor exposure compared to 2016-present, where the number of CFOs experiencing investor activism more than tripled. CFOs are also now facing investor activism pressure earlier in their tenure than the previous decade. This type of pressure early in a CFO's tenure requires CFOs to exude confidence, display superb communication skills and demonstrate a solid understanding of the organization's value proposition to respond quickly and effectively to activists.

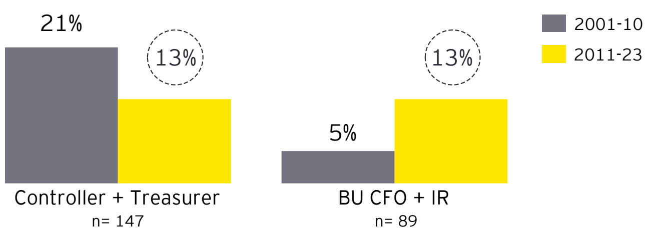
As a result, organizations are hiring CFOs with broader experiences, including recruiting executives with strategy, investor relations or other functional leadership backgrounds beyond the more traditional CFO disciplines of accounting, reporting, treasury and planning. Of those CFOs appointed from 2001-2010, the ratio of executives appointed directly from the role of controller or treasurer compared to those appointed directly from the role of business unit (BU) CFO or Investor Relations (IR) was 4:1. In other words, for every BU CFO or IR executive appointed as corporate CFO during that time frame, there were four controllers or treasurers appointed as CFO (Figure 2). From 2011-2023, this trend reversed, and appointing a BU CFO or head of IR as corporate CFO is now equally as common as appointing a CFO from a more traditional background such as controller or treasurer.

While ensuring succession planning and developing viable CFO candidates is critical, investing in the current CFO is paramount as companies may also be developing a future BU president, a chief operating officer (COO) or potentially even a CEO. Analysis of the path taken by all of the 1,000 executives who were CFOs of a Fortune 250 company in the last 20 years reveals that about two-thirds of CFOs – after their first CFO role – move into another full-time role, while only 9% go into full-time retirement (the rest opting for semi-retirement as a board director or advisor.)

Of those who do continue full time:

- Almost one-third become a CFO in another organization, a number that is evenly divided between joining a new industry or remaining in the same one.
- Half of the CFOs shift into a different business leadership role, which can include COO or a business unit president either at the same company or a new company.
- Reflecting on the expanding role of CFOs today, about one-quarter of CFOs transitioning into a business leadership role (or about 10% of all CFOs transitioning to a new role) assume the role of CEO immediately after the CFO role, and this number doubles if you consider two future moves (e.g., CFOs transitioning to COO and then to CEO), making CFOs an increasing source of future CEOs (Figure 3).

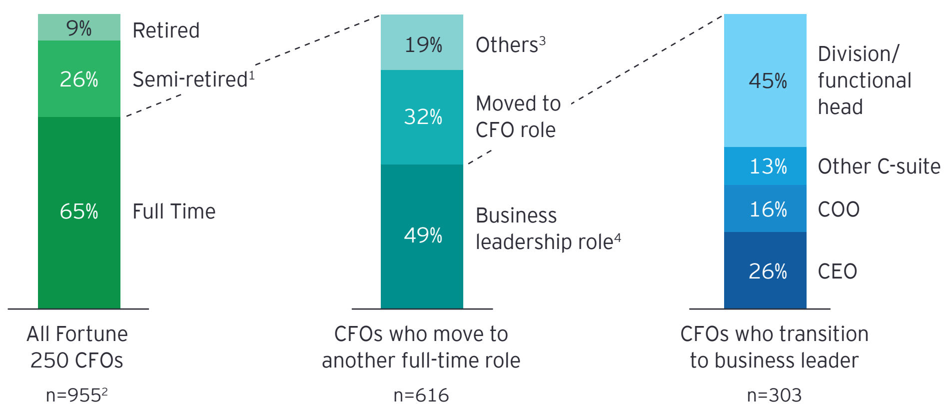
**Figure 2:**
Percentage of CFO appointments following immediately previous role




Note:
1) Based on the analysis of ~900 individuals who held a CFO role between 2001 – 2023. The remaining 70%+ of CFOs not included in the chart come from other sources such as previous CFO role, Corporate Finance Vice President (VP)/ Senior VP and other functional/leadership roles, and percentages for each of those sources have remained stable across the two periods.

Source: EY Center for Executive Leadership analysis

**Figure 3:**
Next role for CFOs after first CFO role — percentage of CFOs by destination




Note:
1) Semiretired CFO roles include vice-chairman (VC)/chairman, advisor/consultant and board member.
2) Based on the analysis of 955 individuals who were Fortune 250 CFOs from 2000–2022.
3) Others include CFOs with roles like founder, senior executive, executive VP and various positions.
4) Business leadership roles include CEO, COO, and other C-suite and divisional/functional heads who are heading a business unit/division, region or business function.

Source: EY Center for Executive Leadership analysis

# What CFOs as well as CEOs and CHROs should do

As attrition continues to increase along with hiring challenges, it is now time for organizations to strategically prepare in two ways. First, make plans to develop the current CFOs for their expanded roles – both the current and potential future ones – and second, lay the appropriate groundwork for succession planning and processes to maintain a healthy future CFO candidate pipeline.

Let's take a more in-depth look at the actions each executive in the C-suite can take.

## Actions for current CFOs

Most CFOs do not finish their career after their first CFO role. With a median age of just 48 at appointment and a median tenure of four years, these executives are often building experiences and reputations that take them into other C-suite roles, such as a business unit leader, CEO or the top finance position at other organizations. If you, as a CFO, are in this group, you may feel like the "next step" is not as clearly defined as the ones that brought you into the CFO role. Based on our experience working with seasoned CFOs, as well as interviewing CFOs as they transitioned to other executive roles, we have distilled insights that will help you reflect on how you want to shape the rest of your executive journey.

For what may be your last career transition, reflect on what you intend to achieve through the lens of your professional ambitions and personal considerations. Then, it is imperative to demonstrate your track record for that future role, enhance your personal brand and strengthen your network.

Here are five themes that we identified as common through our interviews and experiences with seasoned CFOs moving to their next role:

1. **Define what truly matters to you:** Those who have attained the CFO role of a leading company have achieved much in their careers. But what is the last box you need to check on your executive journey? Be deliberate on the underlying goals that motivate you and ensure you can answer why you want to transition. It is important to take a targeted approach when identifying the next move rather than pursuing every opportunity that comes your way. Practice your transition talk track with a trusted network that can provide honest and discreet feedback.

2. **For a future within finance – codify your CFO playbook:** CFOs who transition to other CFO roles should have a CFO playbook that clearly outlines a finance functional vision, leadership structure and functional improvement opportunities. From strategies to streamlining operations, CFOs can effectively drive strong results quickly by applying a recipe used in the past though tailored to the new context. The EY CFO in Residence Patrick Grismer — who served as a public-company CFO at three different companies — shared that "the playbook that I developed as CFO at Yum! Brands enabled me to 'hit the ground running' and bring immediate value to the CFO roles at Hyatt and Starbucks." Grismer further stated that "my ability to articulate that playbook — coupled with a track record of success — played an instrumental role in landing two compelling, follow-on CFO roles."

3. **For a future beyond finance, start showing your chops:** Transitioning to a role outside of finance requires you to demonstrate broader business acumen; for example, covering elements of corporate strategy, IT, supply chain, risk and procurement. It also requires the development, and testing, of your emotional quotient (EQ). Be flexible in adapting to a new culture and CEO style. CFOs who successfully transition to other business leadership roles can effectively develop people and create followership by being accomplished visionaries who balance rational thought with emotional considerations. Showcase your ability to develop and motivate people and create a positive culture.

4. **Be deliberate with your brand and intentional on your network:** Whether you want to remain in finance or move beyond, it is imperative that the brand you cultivate showcases you as an ideal fit for the role you seek. Determine what you want to be "known for" and highlight your track record. Consider supplementary activities such as media relations or external speaking opportunities to further solidify your brand, raise your profile and highlight your accomplishments. From a networking perspective, seek out mentors – including your current CEO – who can help you navigate organizational and business challenges while partnering with other C-suite executives. Additionally, do not underestimate the importance of forming a strong relationship with the CHRO, who typically has direct accountability for succession planning.

5. **Lay the foundation for a frictionless transition:** Succession planning is a critical element of a frictionless transition. Take the time to identify and invest in potential successors who will support a seamless transition as you prepare for your next role. Investing in your successor now and leaving the CFO role in a time of organizational stability will be good for your reputation and sense of professionalism as you move on to your next role.

## Actions for CEOs and CHROs

Given how prominent and impactful – as well as dynamic and complex – the role of the CFO is, CEOs and CHROs must devote significant time and thought to CFO career development and succession planning. This includes preparing the current CFO for success in their current role as well as potential trajectories for that executive in the future while also owning the development of future successors to the role. As CEOs and CHROs ready themselves for this critical effort, here are a few aspects they should consider:

- How to build a path for a CFO to grow into the role over time to ensure that executive may be retained in the role for a minimum of five years. Are there functions such as IT, strategy, operations, supply chain or shared services that can be added to the CFO remit over time? Expanding the scope of a CFO over time promotes retention and rounds out the executive's skill set with functional experience outside of finance so they can potentially fulfill roles outside of finance within the company.
- How to build a healthy pipeline of potential CFO successors. CHROs can play a leading role, together with the CEO and current CFO, in building a strong succession plan, including owning the development of a few potential future CFOs. This plan should include the following:
  - **Providing clear understanding of development opportunities for each candidate.** This includes providing direct feedback regarding improvement opportunities (ideally both from the CFO and CEO point of view) that must be addressed by the candidate to land the CFO role, with a particular focus on leadership ability, interpersonal style and communication skills. Additionally, building and implementing an agreed-upon personal development plan with specific actions to address the improvement opportunities, including targeted coaching/training.
  - **Creating opportunities to round out the candidate's full CFO skill set.** This includes gaining exposure/experience in CFO responsibilities that are new to the successor and can be activated and "tested" through special projects or temporary assignments. It also includes supporting participation in "CFO programs" that exist in the marketplace or curating a curriculum exclusive to that candidate.
  - **Elevating the leadership profile of the candidate, both across the finance function as well as across the enterprise and with the board.** This includes opportunities to lead a company-wide effort or other opportunities to establish credibility and a track record beyond finance with the C-suite; also, ensuring that there are opportunities to increase visibility with the board and audit committee as well as efforts to spend time with the business to deepen company knowledge and forge critical relationships.

Based on the increased rotation of CFOs as well as correlation with shareholder returns, investing in the current CFO – as well as their successors – should not only be a high priority but also a high-return investment of a CEO's time.

As the CFO role continues to evolve during this age of transformation and disruption, it is critical that CFOs continue to broaden and round out their skill sets to not only satisfy the growing demands of their current role but also prepare themselves for their next career step, which may be outside of finance. For CEOs and CHROs, the priority is clear: invest now in developing your current CFO to better meet the needs of their complex role and, at the same time, begin succession planning for your organization’s next financial leader. Without being intentional about these efforts, organizations may find themselves seeking temporary solutions, which can destabilize the company and yield suboptimal business results.

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