How to Attract and Retain Portfolio CFOs in a Competitive Market

It's an incredibly competitive market for private equity portfolio CFOs.

After the bubble of high valuations and abundant transactions burst, the market's continued imbalance between exits and dealmaking shows that the private equity industry is not yet out of the woods.[1] However, investors sit on an increasing amount of dry powder and expected interest rate cuts suggest that the 'exit logjam' will finally open in 2025, potentially unlocking the tight portfolio CFO talent market. When this occurs, opportunities will increase for experienced portfolio CFOs, and investors and portfolio company CEOs will be tasked anew with retaining and attracting CFOs in this complex market.

To better understand CFO hiring trends in the US private equity landscape, Russell Reynolds Associates mapped 17 mid-cap to mega-cap private equity firms' portfolio companies. In analyzing a representative 150 portfolio companies (20% of the firms' portfolio companies across sectors), we identified their CFOs' journeys to the top, learning that:

- **Portfolio CFO turnover is twice as high as public company CFO turnover**
- **Private equity firms overwhelmingly look externally for CFO talent**
- **Competition for experience is the norm**

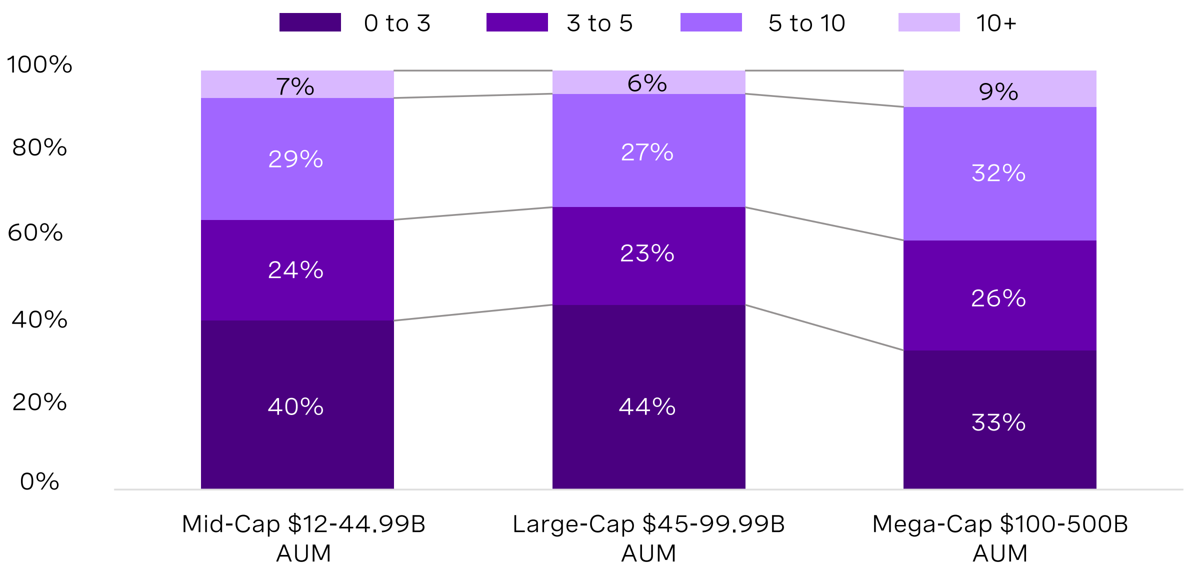
To create new talent pools, private equity firms will need to get creative to retain and recruit portfolio CFOs. Read on as we delve into these trends and what they mean for attracting and retaining portfolio CFOs in an increasingly competitive market.

Portfolio CFO turnover is twice as high as public company CFO turnover

It's perhaps unsurprising that most portfolio CFO turnover occurs after the deal, with 69% of these CFOs stepping into the role post-investment. On average, portfolio companies **have 2 CFOs per deal (LBO/buyout), with an average holding period of 5 years, resulting in an average tenure of 2.5 years.** In comparison, the average tenure for outgoing public company CFOs is 5.6 years.[2]

Specifically, as the portfolio CFO market grows more competitive, mid-cap and large-cap funds that rely on hiring externally have experienced increased turnover recently as they try to unlock value (Figure 1).

Figure 1: Portfolio CFO tenure by private equity fund size

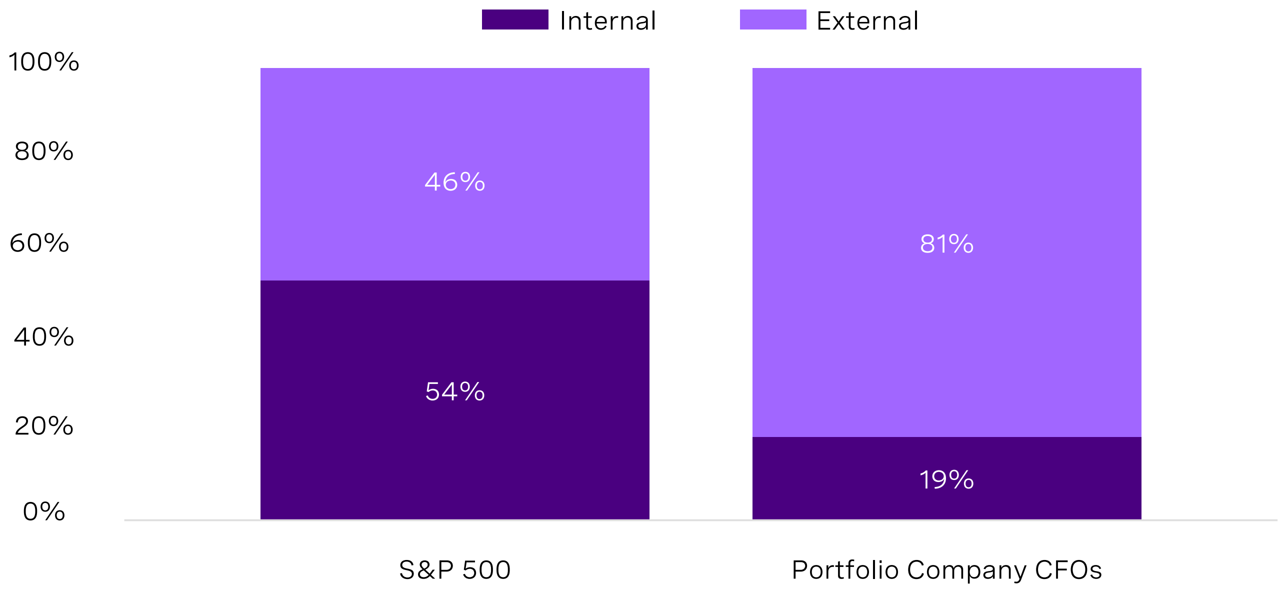


Source: Russell Reynolds Associates proprietary analysis of 150 US portfolio company CFOs, 2024

Private equity firms overwhelmingly look externally for CFO talent

Over 80% of portfolio CFOs are external hires—almost double the percentage of S&P 500 CFOs (Figure 2). While public companies are starting to see succession planning's positive impacts, most portfolio companies don't have the luxury of deep talent benches. One factor impacting portfolio companies' bench strength is the lack of equity as a component of compensation incentives for more junior talent on the team. Without these equity incentives, developing and retaining top talent is difficult.

Figure 2. CFO hiring - Internal versus external



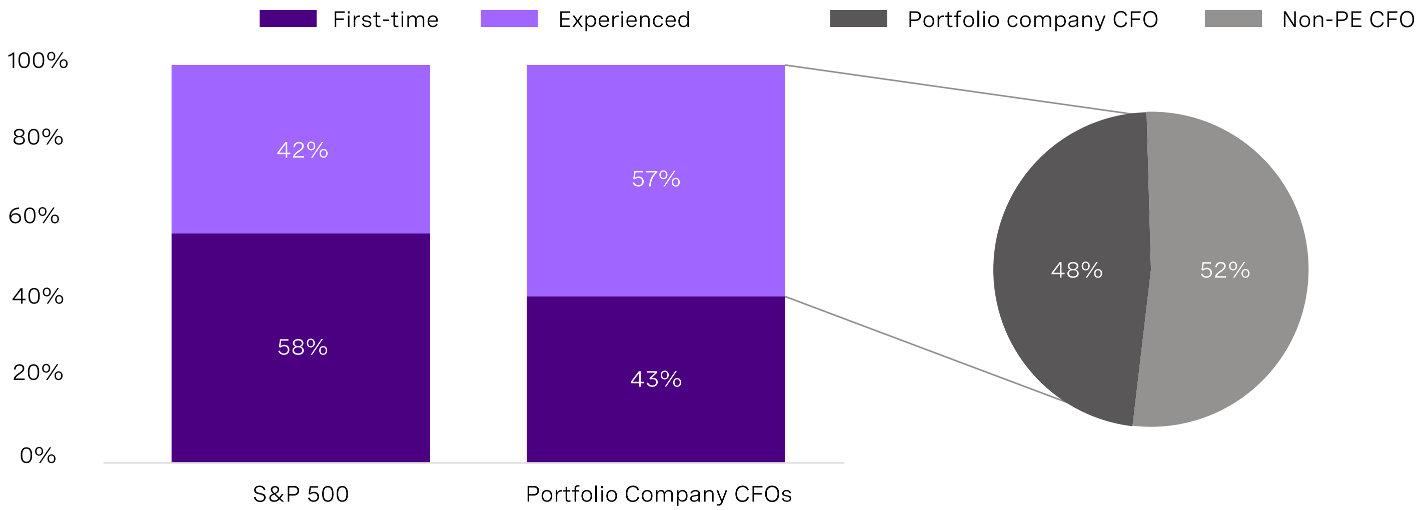
Source: Russell Reynolds Associates proprietary analysis of 150 US portfolio company CFOs, 2024 and S&P 500 CFO analysis, 2024

Competition for experience is the norm

The majority of portfolio CFOs (57%) have previous CFO experience, while the majority of S&P 500 CFOs are in the role for the first time (58%) (Figure 3) , aligning with the external-internal dynamic mentioned previously (Figure 2).

In 2022, 73% of portfolio CFOs had previously been a portfolio CFO[3], compared to only 48% in 2024. Yet as demand for proven portfolio CFOs increases, these leaders have become harder to attract, due to persistent lack of exit activity.

Figure 3. CFO experience- First-time versus experienced



Source: Russell Reynolds Associates proprietary analysis of 150 US portfolio company CFOs, 2024 and S&P 500 CFO analysis, 2024

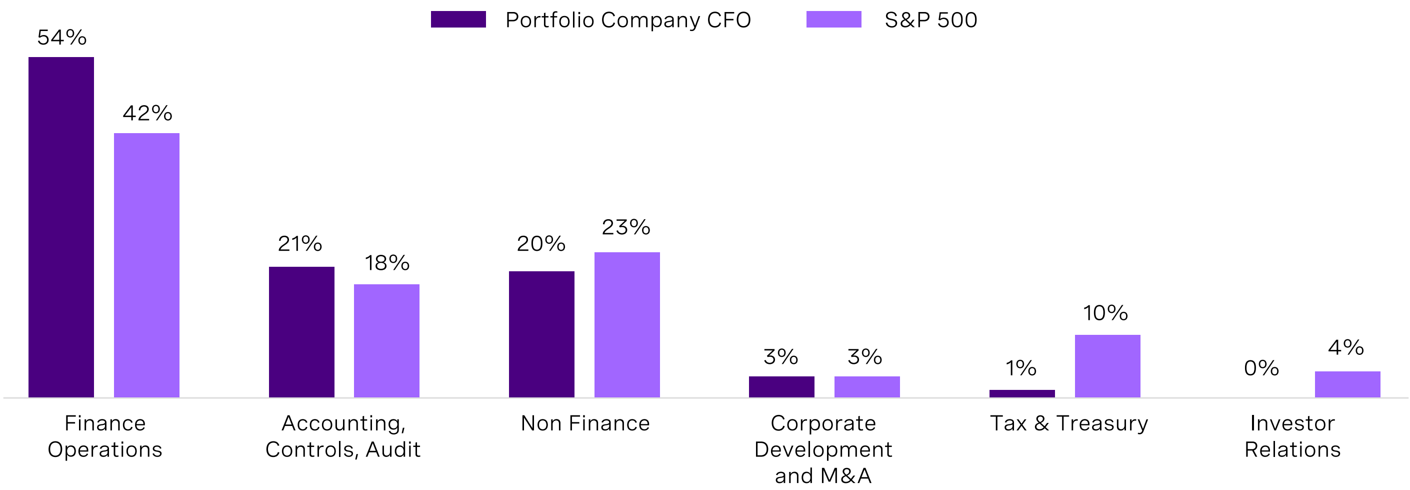
While S&P 500 organizations tend to promote first-time talent from within, when portfolio companies embrace first-time CFOs, the majority (59%) are hired outside the organization due in part to the aforementioned lack of bench strength. Of the first-time CFOs hired externally, only 24% bring portfolio company experience, while the majority (76%) bring significant public company experience; this is a tradeoff organizations are willing to make for the rigor of public company experience.

Portfolio and public CFOs follow similar routes to the top

Though portfolio CFOs are more likely to be external hires and tend to have more sitting CFO experience than S&P 500 CFOs, the two groups' career paths are largely the same.

For both portfolio and public company first-time CFOs, **finance operations** is the most commonly held prior role, with 54% and 42% respectively hailing from these backgrounds (Figure 4.) Interestingly, a sizable portion of first time CFOs (20% of portfolio company and 23% of S&P 500 CFOs) come from a non-finance roles, such as investor, strategy, COO, or divisional CEO roles.

Figure 4: Role prior to first CFO role (Portfolio company vs. S&P 500)



Source: Russell Reynolds Associates proprietary analysis of 150 US portfolio company CFOs, 2024 and S&P 500 CFO analysis, 2024

Despite some surface-level differences—portfolio CFOs are, on average, two years younger than public company CFOs, and are slightly more likely to hold CPAs (39% vs 33%)—both populations follow similar routes to the top. As such, while the market will continue to be competitive for experienced CFOs, considering first-time talent from public companies, where their role scope and scale is often larger in size, offers an attractive alternative.

How to attract and retain portfolio CFOs in a competitive market

Get creative around the CFO profile

As the CFO market remains tight, reconsidering must-haves—including previous portfolio experience, location, or IPO experience—may allow for an expanded talent pool that offers the opportunity to access more diverse candidates. Additionally, **selectively considering and appropriately assessing first-time CFOs may help to broaden the talent pool** and offer the opportunity to access a more diverse slate of candidates.

Differentiate the firm's and portfolio company's value proposition

Be clear about the organization's value proposition, strategy, and potential. Being open and transparent about key financial metrics and growth targets can help attract high-caliber candidates. Not only is the organization's value proposition important, but the CFO's potential partnership with the sponsor can offer similar, or even greater selling points for your candidate.

Get competitive about compensation

In a competitive market with many CFOs waiting to meet their liquidity event, compensation remains key to extracting and retaining seated talent—particularly as CFOs assess both VC and PE opportunities and the potential equity value. **Great talent is listening for the right value proposition and competitive compensation package, including cash.**

You've landed your next CFO. Now what?

Once you hire your next CFO, how can you ensure that they will be successful in role?

Unprecedented increases in CFO turnover and hasty transitions, have produced leadership gaps that continue to impede a talented financial executive's success in the role. **These gaps include poor communication, inability to establish as a strategic and trustworthy partner to the CEO and investors, and an inability to modulate with different operating cadences.** Invest in assessing and developing your new CFO to ensure they gain immediate traction and are empowered to achieve long-term success in your organization.

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Sources

1. Q3 2024 US PE Breakdown | Pitchbook
2. Global CFO Turnover Index, | Russell Reynolds Associates
3. Portfolio Company CFOs: Rethinking the Hiring Blueprint | Russell Reynolds Associates

Appendix

Private Equity Firm	Capital Invested in Private Equity (Billions)
The Blackstone Group	747.74
KKR	510.08
The Carlyle Group	251.97
Apollo Global Management	241.72
Bain Capital	195.96
TPG	174.18
Advent International	147.94
Thoma Bravo	143.83
Warburg Pincus	140.04
Hellman & Friedman	133.72
Clayton, Dubilier & Rice	126.50
General Atlantic	105.40
Platinum Equity	64.93
TH Lee	50.76
Onex	46.80
New Mountain Capital	27.83
American Securities	27.06

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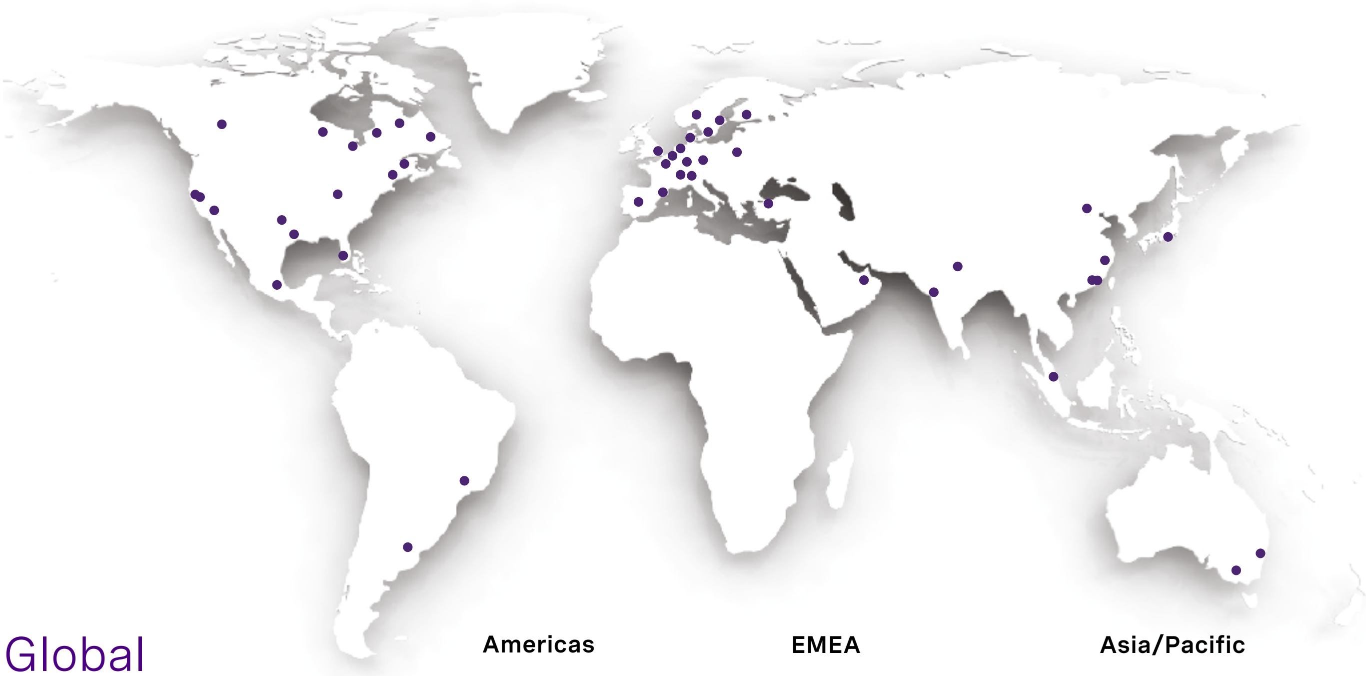

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