Surviving CFO Turnover: Lessons from Companies that Nailed Succession Planning

Failing to plan for succession poses significant risks

While all C-suite changes influence organizations' financial and operating performance, CFO departures are perhaps the most impactful. As an integral executive management team member, the CFO serves as a business partner to operational leaders, a trusted advisor to the CEO, and an active participant in the board and investor community. Accordingly, as referenced by the Wall Street Journal, hasty CFO departures **can cause an organization's share price to decline**, as it can be a bellwether to investors about its stability.[1]

Mitigating the risk of an unforeseen departure has become increasingly important. Russell Reynolds Associates' H1 2023 Global Leadership Monitor found that **40% of sitting CFOs are very likely/likely to make a career change today**. Yet despite its importance, many organizations are not approaching succession planning effectively. Our monitor also found that organizations are **2x more likely to have an informal, reactionary approach to succession planning** than a formal, proactive one.

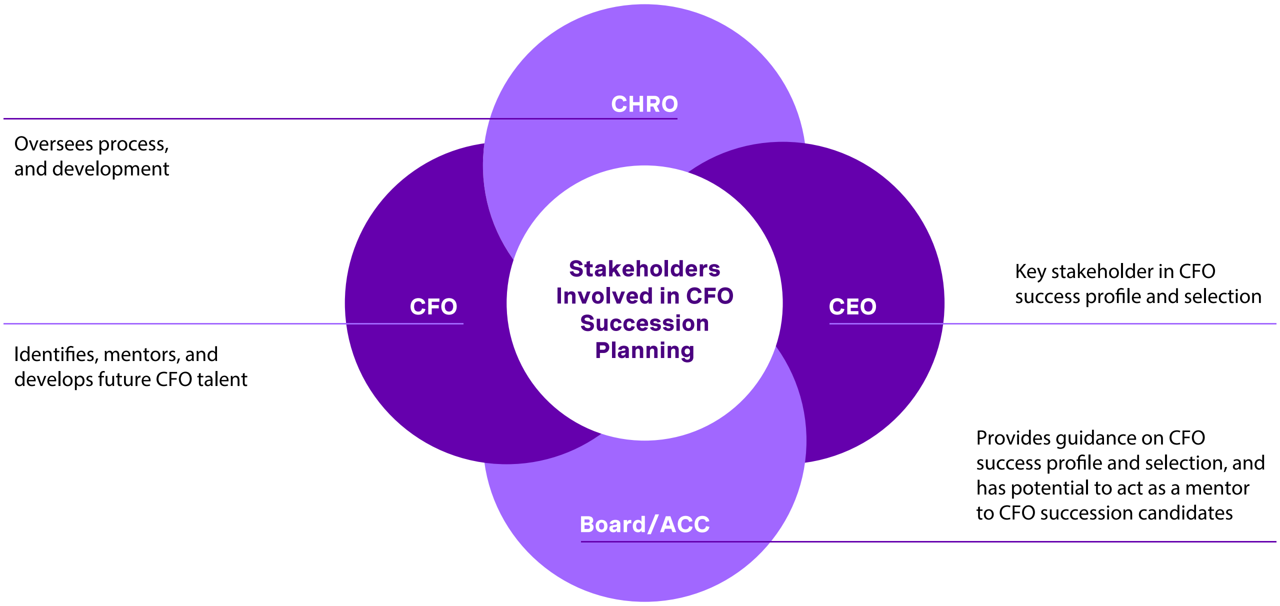
This lack of planning opens organizations up to inordinate risk, given the connection between the CFO and market, financial, and operating performance. To better understand best-in-class succession transitions, we interviewed ten current and former executives and board members whose organizations have developed robust CFO succession plans. Read on as we delve into their methods for assessing, identifying, developing, and transitioning potential CFO successors, as well as their advice for boards and the C-suite beginning their succession planning journey.

CFO succession planning — better late than never

Formal succession planning is started three to five years before a contemplated transition and, at a minimum, two to three years prior. The new CFO's arrival is a trigger for an organization to evaluate its finance function, focusing on bridging existing gaps and formalizing development plans.

Remember, CFO succession planning doesn't just fall to the CHRO; numerous stakeholders are involved (Figure 1). The CEO and board—notably, the audit committee chair—have a duty to contribute to succession efforts, given the importance of their relationships with the CFO. In fact, public company CFOs themselves should be involved not only to benefit the organization but also to benefit their own development, helping them achieve their career goals on their personal timelines.

Figure 1. Key CFO Succession Planning Stakeholders



The 5 key CFO competencies you can't ignore

The ideal CFO success profile is iterative and should be reviewed annually (best practice is quarterly). While success factors are unique to an organization's strategy and context, interviewees consistently identified five competencies as critical to becoming a CFO (Figure 2):

- Foundational finance skills to execute
- True business partner to the CEO
- Ability to manage and influence stakeholders
- Disposition to lead with gravitas
- Lifelong learner

Figure 2. The top five competencies of CFO successors

A succession plan outlines a clear plan, but also provides an opportunity to adjust

Just as the success profile is iterative, the CFO succession planning process outlines a clear plan within talent management practices but leaves space to adjust. Interviewees shared their best practices when it came to assessing and selecting both internal and external succession candidates:

Assess against the success profile

> "The best assessment tools are the ones that provoke the right discussion about the candidate and not where you run the test and its thumbs up or thumbs down"
>
> **- Former Fortune 1000 CFO and Board Member.**

There are a variety of assessments to choose from. Regardless of the type, ensure they **aren't used as criteria for promotion and to disqualify succession candidates from the process**, but to be foundational and informative to mentoring and development plans.

*Select two or three internal succession candidates**

Using the information you've gathered from your assessments and performance reviews, host **calibration sessions** with key stakeholders to identify two to three internal successors and understand their development needs and time to readiness.

Identify an emergency succession candidate. No matter how much you plan, things can always go awry. Ensure an emergency succession plan is in place for an interim CFO in the unfortunate event you have an unexpected departure.

*While ideally, you want two to three internal successors, sometimes your bench strength isn't as robust as desired. In that case, assessing whether you have the runway to develop those gaps on your team immediately **or whether you must hire externally** is paramount. RRA's turnover data suggests that hiring a CFO successor less than two years before the succession is often too short of a window to onboard and appropriately develop an external hire.

From planning to action: How to ensure a seamless transition

From the identification of candidates to a successful transition, your biggest hurdle will be consistently recognizing, empowering, and coaching your internal candidates to the top seat. Below are the top five points of advice to ensure success from development to transition.

1. Execute and monitor development plans

Once gaps are identified, create individual development plans and identify critical trends for potential cohort development opportunities. Expose internal candidates to situations where they will build these competencies, then coach them to success.

The top developmental experiences across our interviewee's approaches included:

- **Business rotation outside of finance:** Business acumen is foundational to being a partner to the CEO. A rotational role outside of finance in sales, internationally, or operations can fast-track a succession candidate's knowledge.
- **Board exposure:** Having candidates present to the board can be great exposure to the board and a learning experience for the candidate.
- **Rotational roles within finance:** Create rotational roles where successors need to develop. For instance, a stint in investor relations is often considered an essential rotation to gain experience with the investor community.
- **A CFO mentor:** A newly appointed CFO will be challenged beyond anything they have experienced earlier in their career. The value of a trusted, independent mentor who brings specific executive experiences and has faced similar challenges is invaluable.

2. Engage and retain your succession candidates

Your CFO succession candidates should know they are being considered for the top job. Consistently **recognizing, empowering, and coaching them** is critical for retention.

"Be especially cautious with your ready-now successors: If they are truly ready now, they are better off going elsewhere if they aren't being engaged in a thoughtful succession process."

- Former Fortune 100 CFO and Fortune 50 Board Member

3. The future CFO's skillset may not look like the current CFO's

When selecting your CFO successor, **the next CFO may need a different skill set than the current CFO**. When defining the success profile, be clear on where the company is today, and ask if the focus is on what is needed today or what is needed in the future. For example, our recent research found that big four accounting experience—once the gold standard for top public company CFOs—is becoming less prevalent, as CFOs with an investment banking background are trending given the focus on capital allocation and financial strategy.

4. Communicate your career plan with intention

Engage in **ongoing development conversations** with your CFO and continuously plan based on their career goals and timelines. **Open communication** with key stakeholders (the board, CEO, CHRO, and investors) will ensure the transition **goes as seamlessly** as possible.

5. While an overlap might sound good on paper, it doesn't always work in practice

Ideally, a thoughtful overlapping period enables the incoming CFO to quickly get up to speed. However, a **prolonged overlap** can be hard for the incoming CFO if it goes on too long, as it prohibits them from taking the reigns and could impact the new CFO's credibility with key stakeholders.

If an overlap is deemed necessary, the prior CFO should **act solely as an advisor in the background and should not be involved in the day-to-day**. If the departing CFO is remaining at the company in another position, make introductions with all key stakeholders and have the incumbent fully transitioned into the role to avoid confusion amongst the leadership team.

Invest in a CFO succession plan today

Neglecting CFO succession planning carries many risks for organizations - engaging an experienced partner to **meet you where you are in your CFO succession journey can prevent costly business disruptions.**

A proven methodology to identify and assess your succession candidates and the success profile needed for tomorrow can ensure you find the best fit for now and **that your future company's financial steward can navigate what's yet to come.**

Our verifiable process for identifying a successful CFO

Align on success factors
Estimated duration: 1-3 months

1. Establish roles and engage stakeholders

Engage key stakeholders and develop a point of view on succession planning

Understand the company's context and challenges

Sharpen insights on the industry CFO marketplace

Outline scope, roles, responsibilities, and decision rights/delegation of authority

2. Develop CFO Success profile

Conduct due diligence interviews to develop experiential and leadership criteria for the future C-suite leader(s)

Review profile and process annually

Create and align with stakeholders on a job description and target profile

Define the talent pool
Estimated duration: 13-30 months

3. Identify and assess internal candidates

Identify and communicate with viable internal successor candidates

Assess internal candidates against Leadership Span framework and CFO success criteria

Craft individual development plans and look for trends

4. Execute and monitor development

Activate development plans

Support with coaching and CFO-specific programs

Monitor development progress against development plan (every 6 months) and refine talent pool calibration

If more than 2 years, refresh formal executive assessment of internal talent

Consider an external market scan and search, if needed

5. External benchmarking & candidate selection Strategically source external candidtates

Conduct confidential strategic sourcing exercise of the global talent pool

Share intelligence reports of shortlisted executives

Conduct external market scan to benchmark internal talent versus external talent

Using experiential and leadership criteria, determine best candidate for the C-suite role

Determine internal and external communication strategy

Decide on the successor
Estimated duration: 1-4 months

6. Interview candidates

Evaluate candidates against CFO success criteria

Drive calibration discussion with key stakeholders

7. Decide on CFO and make appointment

Send signed offer letter

Announce successful candidate

Transition
Estimated duration: 3-12 months

8. C-suite leader onboarding and top team support Support the transition

Determine internal and external communication strategy

Set board-driven CFO scorecard and priorities

Support with detailed 12-month transition advisory program

Align senior leadership on roles during onboarding phase

Develop detailed transition plan

Ensure senior leadership team is clear on roles and strategic direction

Monitor team dynamics and relationships

Appendix

Our insights would not be possible without our esteemed participants' generous time and input.

Judy Bruner Retired CFO for SanDisk, Audit Committee Chair and Member for Applied Materials, Qorvo, Rapid7, and Seagate Technology

Andrew Clarke Former CFO for CH Robinson

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Dan Comas Retired CFO for Danaher, Board Member for Fortive and Veralto

Chris Hix Retired CFO and Current Advisor for Enovis, Board Member, ESAB

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References

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2. Russell Reynolds Associates' H1 2023 Global Leadership Monitor

3. The Evolving Academy Finance Landscape | Russell Reynolds Associates

About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 600+ consultants in 47 offices work with public, private, and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, sustainability, and political trends that are reshaping the global business environment. From helping boards with their structure, culture, and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

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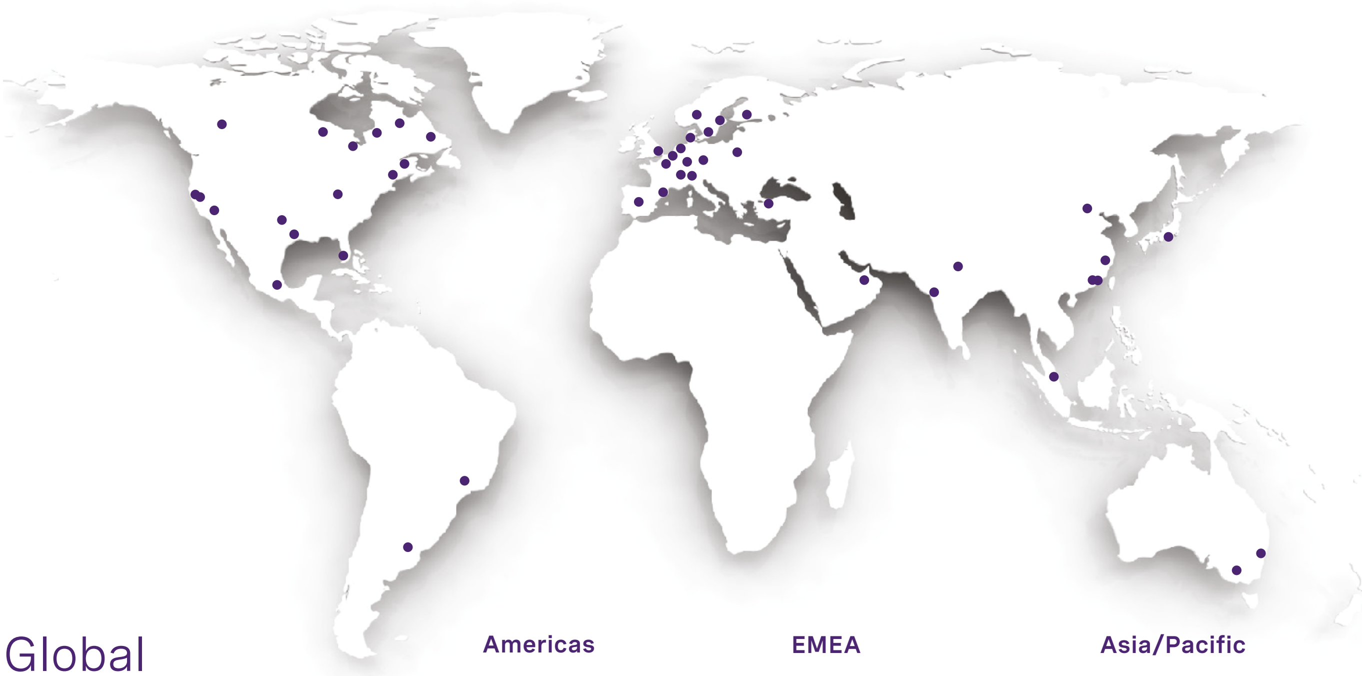

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