

A Peek into CFO Transitions

Saroja Ramadhurai

We work extensively in the CFO & Financial Leadership hiring space and of late, we have noticed that the movements have picked up pace. Who are these CFOs that move? Where do they go? These and some of the other questions get answered as we probed the movement of over 200+ Finance Leaders in the last 18 months. This is the first of a multi-part series and we hope that you find this piece interesting.

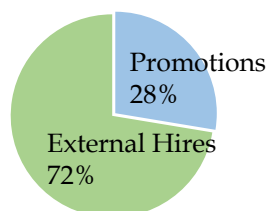
Trend 1: Only ~30% of CFOs are from internal promotions, rest ~70% are hired from outside

The demand for talent was known. Yet, the extent to which companies would go out to hire CFOs has been surprising.

This is all the more so, given that the finance function has historically been well staffed.

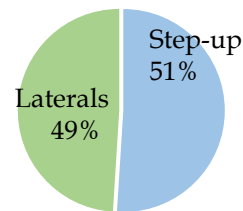
Our conversations with clients indicate that the homegrown talent, despite best succession planning practices, is less adapted to the forward-looking challenges and hence the need to hire 'arrived' CFOs from other firms and sectors that have been through similar challenges before.

If you are managing a conglomerate with a mix of firms, you could potentially expose the home talent to multiple environments, but for most stand-alone firms or smaller groups, this luxury does not exist, explaining the spurt in external hiring.



Trend 2: Only 51% of these external moves are step-up in nature - remaining 49% are lateral moves

At an overall level, including the internal promotions, only 57% of the CFO transitions can be considered 'step-up' i.e., increased role and responsibility or larger business size.



If we consider only the 'external hires' ("72%" pie in Trend 1), 51% of the external hires are for step-up roles. This indicates again a dearth of internal talent pipeline within the finance function. This is surprising.

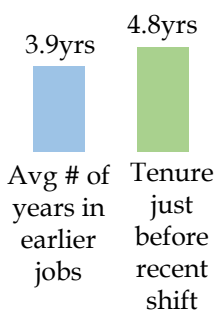
Did the firms slip up in adequately planning for top level attrition and succession planning in a high growth environment? If that is so, assuming the next decade turns out to be high-growth, how well prepared are the firms with adequate talent pipeline?

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Shubham Kumthekar and Shreya Patel, both analysts based out of our Mumbai office, contributed significantly to the research.

Trend 3: Surprisingly, those who moved are those who spent longer in the last job than their historical average would suggest

It is commonly believed that those who have spent longer years in the job are those who are 'settled' and hence less likely to move, while those who have been moving quickly (and hence shorter average historical tenure) would continue doing the same.



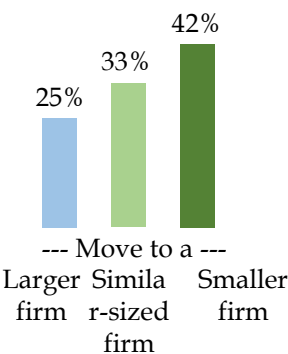
Current data for external hires, however, suggest that those who moved in actually spent *longer* in their last job than their historical averages i.e., if they typically would spend 3.9 years in a job before moving, in their last job, they spent 4.8 years before moving. CFOs are moving at a time when they were believed to have *settled down* in their current jobs. This is also supported by anecdotal data, where we have seen CFOs, having spent 4-5 years in their current role, seek newer pastures for a variety of professional and personal reasons.

Attrition planning for CFOs cannot be based on the assumption that CFOs who have stayed on long, will continue to stay and are not going to move.

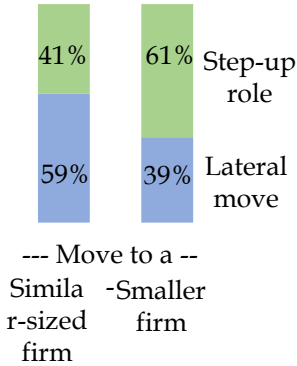
We have to look at this differently. Given that CFOs seem to have spent ~1 year more in their last job as compared to the earlier ones, which could be a useful number to use in attrition/ succession planning – take the average tenure of your current CFO in his previous jobs and add a year, to get a likely tenure in his current job.

Trend 4: Talent has been moving to similar-sized and smaller firms, not necessarily because they got a step-up role

Only ~25% of the moves is to a larger firm, with half that being for lateral moves and the remaining half for a step-up role. A whole 75% of the moves is to a similar-sized or smaller-sized firm.



While it is indeed true that several factors, in addition to business size, go into a final decision to move, it is still interesting to note that such a large proportion of the CFO talent decided to move in this direction.



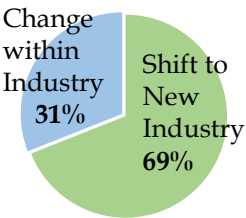
This pattern will get stronger if we factor in that there are, and will be, more smaller firms than larger firms at any given time.

Do talent move to similar-sized and smaller firms because they get a step-up or meatier role? Not necessarily. Nearly 60% of the moves to a similar-sized firm were for lateral moves, which decreases only to 39% for smaller-sized firms.

Was there a push factor that prompted such moves? If so, while the organizations were hiring outside talent to fill roles, did the internal talent move because they did not envisage a future with the current organization? Is the succession planning really as robust as was thought to be?

Trend 5: More talent moved out of their industry than within the industry and e-com was not the main driver

Nearly 70% of the CFO moves were outside their current industry with the remaining 30% CFOs moving within the same industry.



The proportion of industry change is more or less the same within the lateral CFO movements and the 'step-up' CFO movements, although a higher proportion of CFOs changed industry when accepting step-up roles.

Industries prone to hiring within the same sector include BFSI, Pharma, Telecom and Utilities, surprisingly e-com start-ups as well! All these sectors tend to highlight the uniqueness of their industry and that they have achieved a level of maturity that offers depth of talent to enable hiring within the industry. If the economy picks up and enters a rapid growth phase like China did in the 1995-2012 period, would these sectors be able to continue hiring from within the industry? Or would they still hire from within the sector but from outside the country?

Industries that continue to be open to talent from other industries include ITES, Auto, Electrical & Electronics (both B2B and B2C), Mining & Metals, and to some extent, Retail and Realty. Again, if the economy enters the rapid growth phase mentioned above, these sectors will continue to rely on talent from outside the sector. More importantly, firms in these sectors will need to have a strong talent pipeline as well as a retention plan ready.

Trend 6: Talent is moving to Indian companies

Over the last 18 months or so which this analysis covers, Indian

From	To	
	Indian	MNC
Indian	54%	8%
MNC	22%	16%

companies have been the net gainers of talent with MNCs losing talent at an overall level.

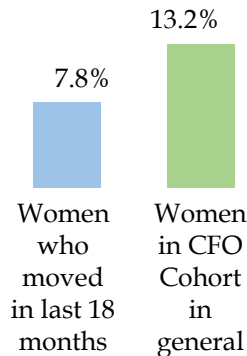
While we have not yet explored the reasons for this move, based on the numerous client and candidate conversations that we continue to have, we find that Indian companies are well into the transition from treating CFOs from 'financial protector' to 'business partner' i.e., someone who is primarily meant to protect your financial interests ('financial protector') to someone who is business driven ('business partner').

The fact that the Indian firms are able to offer a meatier role along with a compensation that more often than not trumps the MNCs seems to have influenced the on-going shift of talent from MNCs to Indian companies. The fact that MNCs have been largely in consolidation mode rather than investment and growth mode also seems to have contributed to this.

When the economy starts the rapid growth phase mentioned earlier, how will this flow be affected? Will the talent flow start reversing, from Indian companies to MNCs? If so, how will the Indian companies plan to retain their talent? On the MNC front, how are they going to restructure the role and the compensation to ensure that they can indeed hire the 'returning' talent?

Trend 7: Diversity hiring is yet to pickup

Despite the emphasis on diversity hires, at least by MNCs, it appears that diversity hiring is yet to pick up momentum. The data is not robust to be certain but only ~8% of the ...



... moves studied are diversity hires, while in the overall dataset, women comprise 13% of the finance leaders. An alternate interpretation would be to conclude that women are more stable in their jobs and tend to switch less often. This, however, requires more probing to be certain of the trend.

Key take-aways

- Key facts - 70% of the CFOs are hired from external market, only 51% of these are step-up in nature, finance leaders are moving just when everyone believed they have 'settled in', MNCs are losing talent to Indian companies.
- Role of CFO is moving/has already moved from 'finance protector' to 'business partner'.
- Above numbers are surprising given the traditional belief in finance bench strength.
- It appears that the internal succession planning and finance bench strength is not as robust as believed – there is an urgent need to review methodically the finance bench strength and succession planning, with future in mind.
- If GDP growth rate picks up, the issue will grow more acute and hence better to act early.

About Resource Bridge

Resource Bridge is a specialized executive search firm with offices in Mumbai and Chennai, with exclusive focus on 4 leadership roles – CEO, CFO and Finance Leadership, CTO/CDO and Head of Strategy. CFO Transitions is one of our core practices, where we have delivered on a wide variety of mandates, across sectors, geographies. To know more about us, reach out to saroja@resource-bridge.com.

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