

# A Peek into CFO Transitions - 2020

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CFO Transitions is one of our core specializations. In 2017, we analysed trends in CFO Transitions by analysing 200 such transitions, focusing on the individuals who made the transition. For the 2020 edition, we have changed the focus to firms and expanded our search to include all private companies in BS1000, totalling to 850+ companies in this study. It is our pleasure to share the insights on the changing trends.

## Trend 1: ~30% of the companies changed their CFOs within the last 2 years

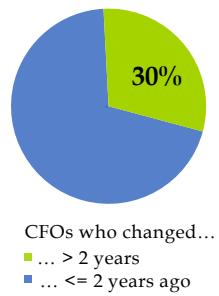
Of the 850 plus companies in the BS 1000 (excluding PSUs), nearly 30% changed their CFOs within the last two years as on January 2020. This is similar to the trend observed in 2017.

Of this 30% CFO Change Rate, 9% is driven by retirements with the remaining 21% driven by replacements.

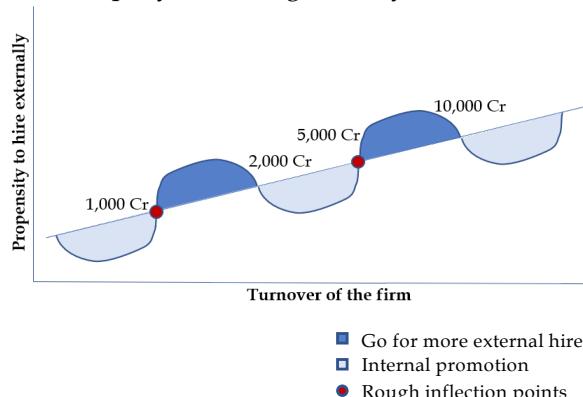
The CFO change rates are very similar across the geographic regions within the country. With both Indian and MNC firms trending similar CFO change rates (31% for MNCs vs 28% for Indian companies), the effectiveness of “leadership pipeline” comes into question, especially for MNCs who were traditionally believed to be stronger in this area.

## Trend 2: 47% of the CFO changes are external hires

Around half (47%) of CFO changes were due to external hires, as compared to 72% in the study two years ago.

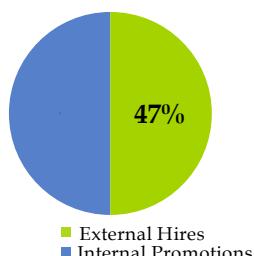


More companies are filling the CFO role internally except when firms reach a specific size - INR 1000 Cr and INR 5000 Cr - where there is a clear preference for outside talent. Why? Our hypothesis is that this is related to the company business growth cycle.



When the companies grow to INR 1000 Cr, the management focus shifts from growth to profitability. This calls for an external CFO with a different perspective, and a business partner who can help focus and re-channel investments towards the core competencies of the business.

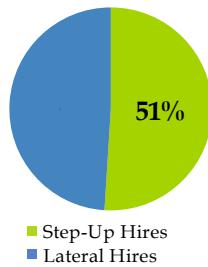
Again, when the firm approaches INR 5000 Cr, business complexity becomes much larger and portfolio decisions around businesses to grow, acquire or divest become important but also difficult. The CFO needs additional competencies and the leadership quotient to influence management to take and execute critical business decisions to preserve and enhance ROCE/ shareholder value. In-house CFO talent, in general, fall short, driving the firms to look externally.



Saroja Ramadhurai, an ICWA, leads the **CFO Practice** at Resource Bridge and has to her credit, a large number of CFO transitions. Ganesh Shikhare and Prathamesh Dabhekar contributed to the insights. Jatin Sachdeo and Amruta Babu contributed to the analysis and research.

### Trend 3: 51% of the external hires are in step-up roles

Our analysis shows that 51% of the external hires are in step-up roles. Of course, as expected, the internal promotions are almost entirely (97%) in step-up roles.



Our study two years ago found the step-up hire to be 51% of the total external hires, suggesting that this is perhaps a secular trend.

It is interesting to note that, when it comes to hiring for *lateral* roles, firms prefer older incoming CFOs while the preference for younger CFOs to be higher for *step-up* roles:

Age of incoming CFO	Amongst <u>step-up</u> hires, % in age group	Amongst <u>lateral</u> hires, % in age group
35-45	40%	16%
46-55	48%	74%
55+	12%	10%

Why would firms hire from external market for a lateral role in 49% of the cases? As we suggested earlier, perhaps the underlying issue of inadequate internal talent pipelines persist.

The following may not be backed by data at the moment, but it is our belief that firms spend inordinately on growing internal talent for CEO and commercial roles, but do not spend adequately on grooming the CFO or the next in line. If this is true, this needs to be corrected and firms need to beef up the succession plan for CFO and invest in grooming the internal talent.

### Trend 4: Step-up CFOs hired from external market are ~5 yrs younger to a typical CFO

Average age of the CFOs in the 850+ companies in the BS1000 list is 51.4 years. Clearly, despite anecdotal evidence to hiring younger, the average Indian CFO, today, is grey haired.

However, there is some merit to the anecdotal evidence of hiring younger, as the table below indicates:

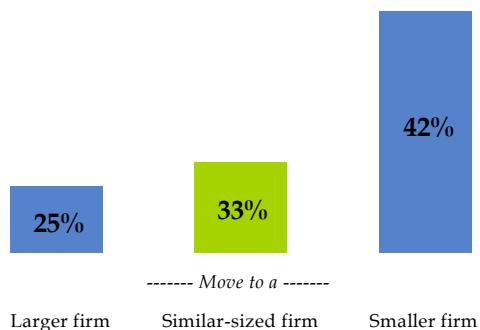
Situation	Avg Age of CFO	$\Delta$ from Ind Avg Age of 51.4 yrs
Age of those who were appointed as CFOs in the last 2 years (A)	48.7 yrs	2.7 yrs
Of (A) above, in case of only those hired from <i>external markets</i> in last 2 years (B)	47.9 yrs	3.5 yrs
Of (B) above, in case they were hired for <i>step-up</i> roles	46.5 yrs	4.9 yrs
Of (B) above, in case they were hired for <i>lateral</i> roles	49.1 yrs	2.3 yrs

The CFOs who were hired from the external market are 3.5 years younger than the typical CFO in the industry.

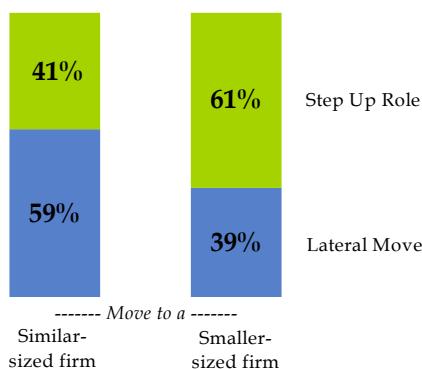
When the CFO is hired from the external market in a step role, he/she is younger by 4.9 years than the Industry CFO, while those hired into lateral roles are younger to the Industry CFO by 2.3 years. Clearly, the industry prefers younger CFOs for step-up roles, as compared to lateral roles.

## Trend 5: 75% of the external transitions are to Smaller or Similar-sized Companies

Among the 100+ CFO appointments hired from the external market, nearly 42% are transitions to smaller firms and another 33% are to similar sized firms i.e., 75% or 3/4<sup>th</sup> of the transitions when hired from external market, is to smaller or similar sized firms. CFOs seem to prefer role expansion or promise of role expansion over “announcement value”.



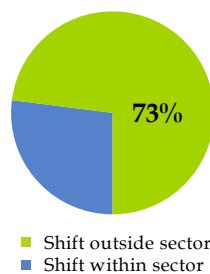
When the transitions to smaller and similar sized firms is analysed further, nearly 59% of the moves to a similar-sized firm were for lateral moves, which decreases only to 39% for smaller-sized firms.



Does this mean that Indian companies are more conservative while hiring talent from outside? Was there a push factor that prompted such moves? i.e., 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 6: 73% of CFOs hired from external market are from other sectors

As with the earlier study, 70%+ of the CFOs who moved, shifted out of their current sector - for instance, a CFO moving from Consumer to Auto.



As in the earlier study, some sectors like automotive and engineering continue to be open to CFO hiring from other sectors, perhaps reflective of the changing industry dynamics that necessitate fresh thinking. Other sectors like FMCG & Retail, Infra and TMT show a proclivity to hire within the sector – could be either due to strong availability of talent within the sector itself (FMCG, Retail) or the inability to attract talent due to stress faced by the sector (TMT, Infra).

To ➔ From ➔	B2B	B2C
B2B	40%	20%
B2C	15%	25%

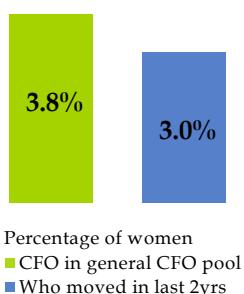
Sliced differently, 65% of the transitions are within the respective B2B/B2C buckets i.e., moves are either within the B2B ⇔ B2B bucket or B2C ⇔ B2C buckets. Remaining, a substantial 35%, are across the B2B/B2C barrier. Even here, B2C companies are more forthcoming.

At a broader level, firms are today giving higher priority to strategic capabilities and leadership abilities than pure functional/domain understanding than earlier.

## Trend 7: Diversity hiring, at 3%, is at all time low

Diversity hire has been a constant topic of discussion in the leadership circles for the past few years.

Though the spoken word is always favoring diversity, the ground reality seems to tell a very different story.



In the last 5 years, only 4% of the overall transitions have been diversity hires despite management focus as well as commitment. This is corroborated by our experience that the few good Women CFOs seem well settled and do not want to move.

There is a lack of strong talent pool of women CFOs to sustain even the current demand of just replacement. As Women CFOs move on to general management leadership roles or retire, the need to find diversity replacement is going to be difficult to meet.

### Key take-aways

- The strong trend of CFO movement continues unabated:
  - 30% of the 850+ firms in BS1000 changed their CFOs in the last 2 years – 9% due to retirement and 21% due to replacement
  - Average age of the CFO in BS1000 list is 51.4 years – CFO of India Inc is grey haired
  - Pace of hiring from external markets has come down to 47% from 72% 2 years ago
  - 51% of the external hires were in step-up roles, but the other 49% were in lateral roles – what happened to the succession planning?
  - Firms reach inflection points, first at NR 1000 Cr in turnover and next at INR 5000 Cr, when they turn to external market for CFOs
  - Step-up CFOs are typically ~5 years younger than the CFOs they replace – CFO of India Inc is slowly getting younger
  - Diversity is still only 3% of the BS1000 pool – there is just not enough depth in the diversity market to fuel greater diversity hiring; in fact, even to replace existing ones
- In our belief, firms have not invested adequately to review their internal talent pipeline and invested adequately to groom the internal pipeline. This needs to be addressed quickly.

Resource Bridge is a specialized executive search firm with offices in Mumbai and Chennai, with exclusive focus on 4 leadership roles – **CEO, CFO, Chief Digital Officer/CIO and Head of Strategy**. **CFO Practice** is one of our core practices, where we have delivered on a wide variety of mandates across sectors and geographies. To know more, reach out to [sarjaj@resource-bridge.com](mailto:sarjaj@resource-bridge.com).

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