August 15, 2024

Legacy systems: Why companies need a formal CFO succession plan

It may seem unfair, but it's often the case: As a CFO, the full value of your tenure at a company may not be calculated until you've *left* the business. The effectiveness of your planned handoff to a successor is one aspect of your legacy that can't be weighed until after the fact.

Managing succession for key roles in the C-suite, including the CFO, can be a strategic enabler. Getting the right people in the right roles at the right time may serve as a potent differentiator. By preserving leadership continuity, careful CFO succession plotting can help prevent disruption to the finance function's operation or ongoing departmental projects. A good plan can also help allay shareholder concerns about a change in senior management. After all, a CFO's departure can affect the company's stock price in the short term.[1]

But demographic shifts and rising CFO turnover[2] now coincide with a change in expectations of what the CFO role entails. Quite simply, the job description has evolved, requiring leaders to perform at increasingly complex levels. Moreover, many CFOs now exert greater influence over corporate strategy. Given this growing influence of the CFO, it would seem prudent for boards to formalize a detailed map for CFO succession.

Yet in Deloitte's 2Q 2024 North American *CFO Signals*™ survey, about one quarter of 200 CFOs say that their companies do not have a formal CFO succession plan. Even more surprising, the highest proportion of such companies, 28%, come from the survey's highest revenue bracket ($10 billion and up). This raises the question: Why?

It's possible that, for some companies, the perceived value of the CFO may not have yet caught up with the *actual* value of their CFO. Devising and formalizing the plan can be painstaking work—and it requires follow through. Indeed, succession planning should be an ongoing process, a critical discipline that requires intentional forward-looking planning to cultivate a future pipeline of leaders. Better to confront it now than to have to identify the next CFO while scrambling to address a key departure.

In a dynamic business environment where priorities continually shift—along with customer requirements, competitor strategies, and technological advances—companies want CFOs who are future-facing and skilled at finding paths to cost-efficient growth. A company's next CFO had best be conversant in strategy, fluent in technology, and capable of thinking commercially.

If that sounds impossibly demanding, it's a reflection of what it can take to succeed in the role. But traditional approaches to succession planning can be rigid and slow-moving, favoring internal candidates and overlooking high performers who work outside finance (or outside the business altogether). Some companies, faced with unexpected CFO transitions, have resorted to so-called "boomerang" CFOs or made other interim arrangements,[3] which can increase risks.

In this edition of *CFO Insights*, we'll explore what part CFOs can play in facilitating a smooth transition of power. How can you confidently identify a future CFO when the nature of the job itself is continually shifting—reaching higher and higher levels of complexity?

With expectations building for ongoing corporate makeovers, driven by generative AI and other technologies, some CFOs may feel ill-equipped to lead another transformation—or tired of constant change.

Is demography destiny?
Expanded duties and a heavy workload may have some CFOs looking for the exits. Consider the numbers. The average age of CFOs at the top 1,000 US companies (based on revenue) is 54.[4] Among CFOs in the S&P 500, 4.8% of CFOs left their positions in the first quarter of this year, compared with 2.8% who did so during the same period last year. The number of new CFOs rose to 5.8%, compared to 3.8% a year before.[5]

Changes in demographics may account for some of those shifts. This year, a record number of Baby Boomers will hit retirement age, as will be true through 2027. This wave has been dubbed the "silver tsunami."[6]

Of course, not every departing CFO is planning to focus on lining up tee times (see accompanying story, "For CFOs, the next chapter may include board service"). Some are making a vertical move. Last year, 24% of S&P CFOs rose to CEO. That's down from 33% in 2022, but a sizable increase over 2021, when that figure stood at 8.8%. Among the S&P 500, 66% of incoming finance chiefs were internal candidates for the top spot.[7]

With expectations building for ongoing corporate makeovers, driven by generative AI (GenAI) and other technologies, some CFOs may feel ill-equipped to lead another transformation—or simply tired of constant change. That may be coupled with a creeping awareness that the next generation of leaders is ready to take over—and may take their leave if they don't see an opportunity for advancement.

In terms of external pressures, CFOs may have postponed their retirement once the COVID-19 pandemic hit. Unwilling to jump ship, they chose to help steer the company through the crisis. Now, with the company on firmer footing, they may feel it's time to resume their plans, given that the average CFO tenure is 4.7 years.[8]

Sweet sound of succession
As an indicator of just how much the CFO's job has changed in recent years, consider what CFOs say they are looking for in their successors.

In the Q2 2024 *CFO Signals* survey, participants were asked to choose the top three traits, skills, or experiences they regard as most important in identifying their possible internal successors. The three answers that drew the most respondents: operational experience (37%), familiarity with new technologies, and network leadership (both at 30%). Neither accounting skills nor FP&A made the top three (see Figure 1).

Figure 1. Fit check: What matters most in an incoming CFO

What three traits, skills, or experiences are most important when identifying your possible successors?

Source: 2Q 2024 *CFO Signals™*, US CFO Program, Deloitte LLP

Certainly, a firm grasp of companywide systems and processes enables finance leaders to accurately assess, and get ahead of, operational risks. But the importance placed on technology fluency, as seen in the survey, also likely reflects the expected impact on finance of advanced technologies—particularly artificial intelligence. In listing their top three internal risks, 48% of participants chose generative AI adoption (lack of GenAI talent, execution risk, etc.). Technology transformation drew 45% of respondents. While CFOs may work closely with the chief technology officer or chief information officer, a finance chief's ability to bring a big picture perspective to choosing use cases for generative AI appears to be paramount. The level of investment required only ups the stakes.

Heir care

Although CFOs help cultivate potential successors, about 75% of respondents to the 2Q24 *CFO Signals* say that primary responsibility for the creation and upkeep of the CFO succession plan is in the hands of the CEO (29%), CHRO (24%), or full board of directors (21%). The CFO's role, then, is to build a strong bench, consisting of three or so possible successors.

So how can CFOs prepare a potential successor to take over the reins? Here are some steps to consider.

- **Update your succession criteria.** Make sure the company's CFO role profile looks ahead at least three years. Then intentionally cultivate a succession pipeline that is ready for the future. Taking stock of how well-aligned the pipeline is with the CFO profile enables the company to put in place a readiness strategy and plan.
- **Execute your succession strategy.** Identify and fill skill gaps at the individual and cohort level. CFOs should give each internal candidate coaching and feedback, finding ways to accelerate readiness by putting them in situations where they can learn. This may mean setting up a job-rotation system so a potential successor can gain the experiences necessary to be considered CFO-ready. They may need to be assigned to high-profile projects where

As formal a process as it may be—and as vital as it is to a company's long-term performance—leadership succession invariably contains an emotional component.

they can demonstrate leadership ability. They might require mentors—perhaps experts from within the company—to get up to speed on, say, the mechanics of bond refinancing. Experience in, and exposure to, other parts of the business can be critical, as an increasing number of finance leaders may be called upon to act as enterprise leaders. The effectiveness of such efforts depends on finding out, from the start, how a person learns best. The next generation may prefer online courses to one-on-one meetings or formal training classes.

- **Show them the ropes:** Ultimately, CFOs don't want to leave successors figuring out the job on the fly. That means providing documentation on performing various aspects of the role, as well as instructions about getting additional information. It's also important to expose them to experiences with the C-suite and the board, preparing them for the kind of interaction required at that level. CFOs also want to make sure a possible successor fully appreciates the value the finance team brings to the organization, and how the work of the department supports vital decisions management must make.
- **Leave a clean slate.** Once a new CFO has been chosen, use your last 100 days or so to wrap up your own legacy (see "Leaving a legacy—for your company, your team, and yourself," *CFO Insights*, Feb. 2019). That may mean making tough calls—decisions on people and budgets, as well as delicate portfolio-pruning—so you can leave the next CFO with a *tabula rasa*. Avoid entering into any game-changing M&A deals, or at least make sure to involve your successor, who will have to live with it. Your ultimate parting gift: once you've done all you can do, get out of the way. You want your successor to feel free to make decisions that reflect changing priorities.
- **Prepare for the transition openly and honestly.** The new CFO's job, remember, is not to be the next you. With an internal successor, in particular, it's important to make clear that they have license to carry out the job as they see fit. Role clarity is vital; employees need to know who's in charge of finance. After a six-to-nine-month interim period, which serves as a safety net, it's critical for the incumbent to step back, offering solicited advice from afar. That means discouraging any board members, investors or members of the C-suite who call looking for guidance on how to navigate the new finance chief. As well-intentioned as you may be, your successor needs room to run.

Separation anxiety

Preparing someone to take over your job can generate mixed feelings. There's typically some awkwardness—and possibly anxiety—on both sides (see "Solving the succession paradox," *CFO Insights*, March 2019). A leadership transition can have far-reaching implications, sending ripples that extend through the organization, the function, employees, and even customers. As such, it serves as an opportunity to earn trust and demonstrate commitment, which makes intentional planning that much more consequential.

As formal a process as it may be—and as vital as it is to a company's long-term performance—leadership succession invariably contains an emotional component. CFOs should keep that in mind when identifying potential successors. For instance, it's wise to avoid telling staffers too early in the process that they're on the short list of possible successors. Failure to heed this guideline can lead to rifts among team members, trigger lobbying, and weigh down an otherwise high-functioning department. It's also generally unwise to designate a deputy CFO or heir apparent. Doing so can lead to confusion about who is making finance decisions. Plus, it may lead highly valued employees—particularly those who thought they might be up for the job—to seek employment elsewhere.

Such an eventuality is the last thing a departing finance chief wants, next to leaving the finance function in the hands of an under-qualified and/or overwhelmed successor. Avoiding such a legacy requires a genuine concern about the colleagues—and company—you leave behind.

For CFOs, the next chapter may include board service

For many CFOs, retirement doesn't have to mean giving up long meetings or staying out of conference rooms. In fact, in Deloitte's 2Q 2024 North American *CFO Signals*™ survey, only 3% of the 200 respondents say they would not like to sit on a corporate board.

The expansion of the CFO role—encompassing operational knowledge and strategic analysis—may make it more difficult for sitting CFOs to take on such external duties. In the 2Q24 *CFO Signals* survey, 78% of respondents say they spend between 10 and 20 hours a month on board-related activities. A 2023 study found that while active CFOs make up just 5% of audit committee chairs, retired finance chiefs comprise more than one-third of audit chairs.[9]

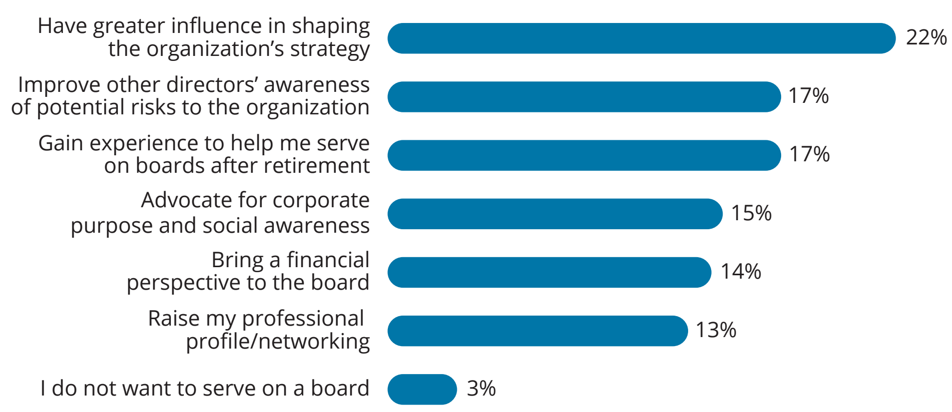
What's the appeal of sitting on a corporate board? Surprisingly, only 14% of *CFO Signals* respondents say they want to provide a financial perspective, and even fewer, 13%, seek to raise their professional profile or to network.

The same survey found that 22% of finance chiefs are most interested in having a bigger say in shaping a company's strategy. Another 17% say they want to gain experience to help them serve on boards after retirement. That same proportion say they want to Improve other directors' awareness of potential risks to the organization (see Figure 2).

Equally surprising is what CFOs say about the qualities that will enable them to land a board seat. Rather than financial or regulatory expertise, a plurality of respondents, 40%, say it's their ability to explain results to other board members in clear and simple terms.

While the demands on today's CFOs may make them less likely to simultaneously serve on many outside boards, the skills they develop—in such areas as leadership and communication—may enhance their appeal to external boards.

Figure 2. Purpose of service: Why CFOs say they want to serve as board directors



Source: 2Q 2024 *CFO Signals*™, US CFO Program, Deloitte LLP

End notes

1. "What a CFO's Departure Historically Means for Public Company Performance," Paragon Intel, Sept. 29, 2023.
2. "Why CFO turnover at public companies just hit a 3-year high," CFO Daily, Fortune.com, May 16, 2024.
3. "CFOs are among those 'boomeranging' back to former employers," *CFO Daily*, Fortune.com, Oct. 5, 2022.
4. "Age and tenure in the C-Suite," Korn Ferry, 2024.
5. "Global CFO Turnover Index," Russell Reynolds Associates, 2024.
6. "America is hitting 'peak 65' in 2024 as record number of boomers reach retirement age. Here's what to know," cbsnews.com, Jan. 28, 2024.
7. "Global CFO Turnover Index."
8. "Volatility Report 2023," Crist|Kolder Associates, Feb. 2024.
9. CFOs on Corporate Boards: The Latest Trends, Spencer Stuart, Nov. 28, 2023.

Contacts

Maureen Bujno
Managing Director
Leader, Deloitte Governance Services, Audit & Assurance Governance
Center for Board Effectiveness
Deloitte & Touche LLP
mbujno@deloitte.com

Erin Clark
Managing Director
US National Leader
Leadership Services
Human Capital
Deloitte Consulting LLP
eeclark@deloitte.com

Robert Lamm
Independent Senior Advisor
Center for Board Effectiveness
Deloitte LLP
rlamm@deloitte.com

Jessie Reese
Senior Manager
Succession Practice Lead
Leadership Services
Human Capital
Deloitte Consulting LLP
jjreese@deloitte.com

About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject-matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career—helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

LEARN MORE

Deloitte CFO Insights are developed by Josh Hyatt, Editor, CFO Insights, CFO Program; and John Goff, Senior Manager, CFO Program, both Deloitte LLP.