Cover Story
CFO to CEO
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News stories about CFOs are rarely positive. One only has to look at the departures of Alison Reed at Marks & Spencer, Howard Dobbs at Boots and Christopher Rogers at Woolworth's in March to grasp the type of articles that journalists like to write about finance executives. But March also brought a number of 'good news' stories about CFOs – where they stepped up to the top job. Although these pieces might have generated smaller headlines, they tell us more about the role and skills of contemporary CFOs than any 'City pushes out...' article does.

In the past month, James Bell, CFO of Boeing, was appointed as interim CEO after the departure of Harry Stonecipher, Jose Luis Duran was promoted from CFO to CEO of French retail giant Carrefour, Bertrand de La Noue became CEO of Total Holdings (see box), James Ziener stepped up as CEO of Harley Davidson, Harry You took over as CEO of consulting and integrations firm BearingPoint (leaving the CFO role at Oracle) and Trevor O'Hoy became CEO of Foster's.

Although recruitment consultants say it is too early to call it a trend, over the past 18 months an increasing number of company boards have decided that in order to best serve shareholders it is prudent to promote the CFO to CEO. CFOs themselves remain reticent about any personal ambitions beyond the CFO role – at least in public. But given this recent string of high profile promotions there is an increasing recognition that they have what it takes to take over the CEO role. How and why has the CFO become a contender for the top job?

Dynamic bean counting

To understand why CFOs are more frequently getting the top job it is important to know what the contemporary holder of the post does with his time. "The Monty Python image of an accountant sitting in a corner counting beans has disappeared," says Ian Graves, district director of continental Europe, at recruitment agency Robert Half International. Bluntly put, CFOs are now a much more exciting breed.

In the 1990s, the CFO role became more dynamic and strategic, moving from being merely a functional head to also being a corporate leader. "The best CFOs acted like mini-CEOs," explains Neal Kissel, partner at management consultants Marakon Associates.

Nowadays when someone reaches the position of CFO he has two qualities: first is a comprehensive knowledge of finance and internal controls; second an understanding of the operational and commercial aspects of business. Both are attributes demanded of CEOs.

Concerning the first quality, Nick McCall, chair of the London chapter of The Financial Executives Networking Group (Feng) explains that: "Business is becoming increasingly complex – and deal making highly technical – [so] CEOs need to have a sound financial background."

More recently, the CFO has had to pick up responsibility for responding to regulatory changes. And with regulation, compliance and corporate risk at the forefront of everyone's minds, the CFO makes the perfect choice for CEO says Deborah Thomas, head of treasury at recruitment consultancy Michael Page International. "We are becoming more control oriented. There is such an emphasis on it that you can see why a finance background would fit well with the role of CEO."

But Kissel believes the situation is more complex than simply assuming that an understanding of corporate governance and Sarbanes-Oxley (SOx) will land a CFO the top job. "The jury is still out as to whether the emphasis on SOx, corporate governance and compliance is working in the CFO's favour," he says.

"It must be asked," he adds, "how much time is left for the CFO to do other things? The CFO must work hard to continue to wear two hats. He must make sure that the increased focus on SOx doesn't stand in the way of developing the other skills a CFO must have in order to make the transition to CEO."

Boards, says Kissel, want to ensure that they get a CEO candidate who is capable of managing the complexities of corporate compliance without limiting the opportunities associated with managing a large company for profitable growth. "There is no reason why a CFO can't rise to that challenge but it puts enormous pressure on how he must think about conducting his job, managing his time, and organising his team," he says.

The right stuff

Financial prowess alone is not enough to secure you the CEO title. McCall points out that vision and leadership are also prerequisites. But, he says, the CFOs' exposure to a wide range of areas can develop such characteristics. "A CFO has experience of accounting, treasury and HR, he is the key to setting up a company's business strategy and he is the link with the market, creditors and shareholders." And understanding the company's business strategy and market should give a good CFO that all important second attribute – operational skills.

Andrew Lynch, CEO of Compass Group's international retail and travel concessions business, took his job in January 2004 after seven years as Compass Group's FD. He says that the FD role was a great platform because he got to do and see "pretty much all of the company's issues" and understand the things that can impact business.

Nevertheless, he appreciates that as CEO he has to embrace the broader aspects of the business and develop other skills. "It is a much wider role. Instead of looking at business from the finance perspective, you look at it from all perspectives," he says. "It was easier for me because it was a move into a general management role in a group I knew very well which minimised some of the risk."

It is the early development of these skills that mark out those CFOs who make it to CEO from those who do not. "Those that make the step can demonstrate a skillset that is broader than the CFO's normal remit including strategic, entrepreneurial and sales and marketing skills as well as strong man management skills and the ability to take the troops with him/her." says Jeremy Rickman of recruiter Russell Reynolds.

All change

Although there are many skills that a CFO can bring to the CEO role, as Lynch at Compass notes above, the way you reach decisions as chief executive is necessarily different. The big challenge is to demonstrate that you can go beyond a methodical decision-making process while not compromising the quality of decision making. CEOs need to be able to make decisions on an intuitive basis as well as based on analytics. The practicalities associated with limited time make this a reality of the job.

Another, more practical, area of CEO responsibilities that can keep CFOs from becoming top dog is sales and marketing. "The market is moving in to growth mode again," says Russell Reynolds's Rickman. "Three years ago I could have seen more CFOs moving in to CEO roles because of the focus on cost cutting, but in growth mode boards require sales and marketing skills so it is less likely that the CFO will be the obvious choice."

In September 2004, Richard North stepped down as CEO of InterContinental Hotels Group after discovering the importance of these skills to his detriment. He had become CEO in October 2002 following the company's demerger from Six Continents. At the time, the focus for the company – reducing capital intensity and setting a new strategic direction – suited North's skillset as a former FD.

But despite North's success – the company was in the process of selling $2.2 billion of assets and had increased EPS by 86% when he stepped down – when the company changed focus to growing its global brands it decided that they required a CEO with brand development and operations background, which he lacked.

Marketing is something Lynch at Compass is currently learning: "There's nothing you have done before becoming CEO that takes you to that," he says. His solution has been to appoint people who have strengths where he has weaknesses. "One thing above all else is surround yourself with very good people," he adds.

Structural advantages

CFOs perturbed by the challenges of mastering leadership and strategic skills outside the financial arena – and who still want to be CEO – can take heart from recent research by **Peter Crist** of US executive search firm Crist Associates highlighting the widespread disappearance of the COO. In the Crist Volatility Report 2004, only 14 of the top 50 market cap companies in the US had a COO.

Crist's survey revealed that 51% of companies hiring two or more CEOs over the past nine years have done so through internal promotion. Of this 51%, 52% came from the COO position which, following the COO's promotion, was not backfilled. The benefit to the CFO is obvious: with no COO he becomes the number two and a potential heir to the CEO, says Crist.

"Once you take the COO out of the company, the CFO – who is very practised at dealing with external demands – steps in to fill the vacuum. Of course, you get an intermingling of skill sets," says Crist. "And because the CFO is occupying the strategic and operating elements of a company, when boards consider [the next] CEO, the CFO is included in the pool of candidates."

More generally, CFOs continue to have an advantage over almost all other candidates for the top job – access to both people and knowledge. Not only do they have insight into the drivers of company value, they also have privileged access to the CEO and the CEO's agenda. "The CFO's role is continuing to become more closely aligned to the CEO role," says Rickman of Russell Reynolds. "The CFO must know the answer to a question before the CEO is even aware of the question so [he] is naturally seen as someone who is capable of stepping in to the CEO's shoes."

Grooming the CFO for CEO the EMI Way:

According to a 2004 study by **Crist Associates**, CEOs are – marginally – more likely than not to be recruited internally. In a survey of Fortune 500 and S&P 500 companies over the past nine years, the study showed that in those companies which had changed CEO two or more times, 51% came from internal promotion: and of this 51%, 52% came directly from the COO chair. The figures demonstrate the importance of succession strategies – especially as the length of CEO tenures continues to fall and an amazing 71% of US CEOs now leave their posts involuntarily.

And there is no better example of a succession strategy than the one EMI Group has put in place at EMI Music Publishing. By promoting Roger Faxon from CFO of EMI Group to COO of EMI Music Publishing, the group has secured itself not only a future CEO but a future chairman as well (see box opposite). Faxon became COO in January 2005. In April 2006, he will become joint CEO of EMI Music Publishing, in April 2007 sole CEO and in March 2008, chairman. EMI Group chairman Eric Nicoli explains.

"I was looking at the long-term strategy for EMI Group. I always start with management on the basis that if you don't get that right no amount of financial resource or clever strategy will make a difference.

"In the EMI Music Publishing group, I didn't have an urgent problem at all. If you look at its track record in terms of revenues and their profits, it is impossible to tell that the recorded music market – from which it derives about 50 % of its revenue – has had any kind of problem at all, even though over the past five years it has declined by 25%.

"If you have the luxury to put succession in place when you are winning it is much better than waiting until you have a problem. Most companies will change senior management when they have a problem. I take the opposite view. Address it when you are winning and have a smooth and relatively long succession plan.

"Roger [Faxon] came in a little over three years ago to be my group CFO. He had been the CFO of Music Publishing and prior to that he had been head of strategy for the group. He was ideally equipped to be my CFO at a time when I was turning the recorded music division upside down. His grasp of financial and strategic principles was really important as a senior partner for me in the corporate management team and he did a brilliant job.

"When Roger took on the Group CFO role just over three years ago, I had in mind that he would return to his native New York at some point and probably play a leading role in EMI Music Publishing. So, from a position of strength we were able to bring in Martin Stewart from BSkyB to succeed Roger and move him back to New York.

"Marty [Bandier, CEO of EMI Music] has huge respect for Roger's skillset and his strategic inclination is and will be important for music publishing as the world of music changes out of recognition. The fact that our shareholders know Roger well and rate him and trust him was also very important as they see the Music Publishing group as a resilient and dependable part of our business."

Roger Faxon, COO EMI Music Publishing In January 2005 Roger Faxon was appointed COO of US-based EMI Music Publishing. Previously CFO of London-based EMI Group, this is the first of three succession steps that will see him progress from COO to CEO to chairman.

With a lifetime spent in the entertainment business in a variety of guises – he joined EMI in 1994 but has held positions at Lucasfilm, Columbia Pictures and been a founding partner in motion picture and TV company Mount Company – he isn't, he says, your traditional CFO. Is this why he was approached to become part of EMI Music Publishing's ambitious succession strategy?

"When I came out of college I was more interested in public affairs and I spent 10 years doing that. It was serendipitous that I got in to the entertainment industry and I got in at the top. I was working in government as chief of the staff of a subcommittee in the US House of Representatives when a friend asked me during a break in the legislative session to help her out on a project she was doing for George Lucas. It was a pretty exciting time at Lucasfilm. George was generating new film ideas, gathering around him the most talented special effects technicians, researching the possibilities of digital effects and digital sound and building a creative centre for film makers. The creative energy was astounding. What it missed was the business discipline necessary to effectively harness that energy. I was lucky enough to be in the right place when George asked the question about who could help him instil a little of that discipline into his business.

"I have an affinity for the creative industry and a real appreciation of the people who make their living from providing entertainment for people. I love it. I love the business of it. If you look at my career you'll see that theme running all the way back. So when Marty [Bandier, CEO and chairman of the Group] and Eric [Nicoli, EMI group chairman] were looking at what would be the right way to ensure there was continuity in EMI Music Publishing, Marty's quick answer was me. I have worked with him for a number of years and have been a colleague for even longer [Faxon was appointed CFO of EMI Music Publishing in 1999].

"I have started in a very good place as I already have Marty's confidence and I have worked very closely with everyone here at EMI Publishing so I am a known entity.

"This is a business of relationships and so the handover has to be respectful of these relationships. They don't just happen, they happen over time as you earn the regards of people as Marty has done with the people he works with everyday.

"I've always come at the business from the side of the product. To be CEO, you need to understand and be analytical on one side but you need to understand the emotion that drives the creative process as well. In the last few years as CFO I have had to be more analytical. But our product is an emotional product so the transition for me is about regaining the balance I have had in the past – the analytical and emotional – and ensuring the balance is proper in the business as well. You can go in and sit there and say here is what the return on invested capital must be. But guess what. Having a songwriter write a song is not a return on investor capital process. Return on investment is a result of the creative process, not the causation. The causation is helping that songwriter to be the very best songwriter they can be, then helping them market their song.

For the business to be as successful in the future as it has been in the past everyone needs to create a balance between the analytical view, and understanding the economics of the business and the emotional and creative side. By doing this, we can forge a more effective decision-making team.

The world is getting more complex. There are many different uses of our music than when I started in EMI music. Artists and songwriter need to understand how this works so the people who speak to them most - the creative staff - need to know how it works also. And, if we can be of a greater service to them, the greater the likelihood they will continue to work with us in the long-term. We are a service business so people in the business need to be more rounded in their understanding.

The challenge for me is to build the relationships with the most important people, the people who produce the music and their representative as well as those who influence the development of our business. The mobile world is a huge opportunity for the music world and therefore for the publishing business. We also have the prospect of changing the way music is consumed and that sets in to motion the way our songwriters have to react.

Building relations with the right people in the music business that will allow him to build the creative side of the business and understanding in a deeper way what the forces are that are going to change the business i.e mobile technology so he can anticipate them are two of the three factors Faxon has identified as determining his success going forward.

The third factor is to "be myself. I am not Marty. He is unique. Marty has been running this business brilliantly for a long time and stepping in to those shoes and trying to match that record of success is daunting. The great news is that Marty is not going away [Bandier will act as a consultant to EMI Music for three years after leaving his post in 2008]".

Andrew Lynch, CEO Compass Group's Travel Concessions Business

Andrew Lynch is CEO of Compass Group's International Retail and Travel Concessions business. He joined Compass in 1992, when the group bought Traveller's Fare where Lynch was FD. He had been part of the management buyout at Traveller's Fare.

Of his time at Traveller's Fare he says: "To get an opportunity to take a company, which had a £100 million turnover, and to grow it in to other market channels was a lot of fun and a great experience. It was where I got my first experience in concession catering so in a sense I have come full circle as CEO of the Group's International Retail and Travel Concessions business."

In 1992, when he joined Compass, it was a £300 million business – it is now a £12 billion operation in over 100 countries. "The CEO at the time had implemented a new strategy for growth which I was lucky enough to get involved in," says Lynch. In 1997 he was appointed group FD and seven years later, in January 2004, he was appointed CEO of the travel concessions business.

"I enjoyed the group FD role very much and there was no great career plan. Mike Bailey, the group's CEO, suggested the group would benefit by separating its retailing businesses - we would be able to grow faster. Structurally it was the right thing to do but it obviously created a CEO position. Mike said: "are you interested in having a go?" I thought about it and thought yes, why not?

"I have had no great career plan. There is an enormous amount of luck in this and being in the right place, at the right time. It is also about appetite for the challenge: I was lucky that the role of FD at Compass was a very broad role. It encouraged you to get widely involved. I enjoy the wider commercial aspect of business.

"Of course you have qualms. It's a much wider role and you have to question whether you will be able to cope. But it was easier for me because it was a move from finance into a general management role in a group I knew very well which minimised some of the risk. It also helped that I would be running a part of a group that I have a lot of empathy with and enthusiasm for and knowledge of in terms of the business and people.

"The FD role is a great platform from which to go into it because you do get to see pretty much all of the company's issues but more than that you have a commercial platform, you understand the drivers that can impact on business and that is always helpful. Obviously you have to embrace the other aspects of the business and develop other skills but it is a super and solid base."

Lynch began his tenure as CEO by putting together a new management team – a combination of internal and external hires with the full range of skills needed to run a business – a process, he says, which helped him manage aspects of the CEO role which his skillset as CFO had not prepared him for. "I have been lucky that the people I have brought in have gelled very quickly which has made it easier for me. One thing above all else is surround yourself with very good people."

Phil White, CEO National Express Group

Phil White found himself CEO of international transport group National Express, a listed company, in 1997, just 18 months after becoming MD of one of its subsidiaries. It was his first experience of working in a listed company and the learning curve was a steep one. "I had run a division for 18 months so I didn't have to learn how to manage the business but I did have to learn how to manage the City," says White.

White is something of a reluctant businessman. He wanted to become a Latin teacher but his Latin teacher sensibly, or not, advised him to become a chartered accountant instead. He took his advice and did an accountancy degree – something he wholeheartedly regrets. White doesn't believe in vocational degrees, a waste of time he says. He wishes he had studied a more creative subject such as History or English or Latin and it may be no coincidence that his FD at National Express has a Classics degree.

Accountancy took him in to an accounting firm and work in the public sector which is where he gained his knowledge of public sector companies. In the late eighties he found himself part of an MBO team at Yorkshire-based company Rider. "You learn a lot in a buy-out. It usually takes a year of highs and lows before a deal is complete and so in that time you learn to control your emotions. When you are doing an MBO you are purely focussed on that and there is a danger that you'll lose control of the day-to-day business. You learn to be wary of that."

He joined National Express in 1994 after it acquired the company he was working for. It wasn't an easy transition – when National Express asked him to stay on as FD he nearly said no. Why? "I was used to being main board," he says, by way of explanation.

A board change six months later saw him appointed managing director. A year later, in 1996, he was offered a place on the main board and shortly afterwards, in 1997, a propitious management shuffle saw him appointed CEO. How does he explain his meteoric rise to the top of the group?

"I changed things there [at the subsidiary], I had changed the culture and I had delivered everything that was required of me and I guess at the end of the day they had confidence in me." How valuable was his time as FD in his broader management role? "Accountancy gives you the ground work in understanding the technical side of business but you have to move on and learn through your own experiences and mistakes. I was also lucky to work for people who taught me a lot.

"My first boss taught me how to read a set of accounts. He used to say: 'Read me the story, Phil,' and you had to sit and explain the business to him without ever mentioning a number. To do this you really have to understand what the business is all about. In budget meetings I will ask the same. My second boss taught me how to listen and work as a team; the third how to speak but not be abrasive; the fourth taught me about preparation and presentation and my last boss taught me that the best deal is the one where everybody wins. Share it and let people come back to you."

White says you can't close your mind off and must continue to learn. The greatest lesson he has learnt as CEO is that business is about people. "I delegate a lot, I trust people. One of the companies I worked for was run through management by fear. You don't motivate people that way so when I was appointed MD of that business I decided to change the philosophy. Half of the managers thought it was brilliant but half were terrified because they weren't use to how to make decisions. I didn't spot that. I thought everyone would welcome the change. What that taught me was that no matter how long someone has been around they always welcome advice and assistance."

White doesn't concur with the view that being CFO is a natural route to CEO – the CFO role is not one that nurtures people skills, he says. What advice then, would he give to an ambitious CFO? "Learn how to deliver bad news quickly," he says. "It is something you cannot avoid. Also, don't look for the next job because the minute you do, the minute you stop focussing on your own job, you'll get it wrong. If you do your job well, the next job will come to you."

Bertrand de La Noue

Total Holdings USA

Bertrand de La Noue joined Total Petrochemicals in 1985 as area manager for Total Oil Great Britain. Twenty five years later he is CEO of Total Holdings USA, the parent company of the group operational subsidiaries in the US. He is also CFO of Total Petrochemicals USA.

Total Holdings' CEO position has always been linked with a CFO position in one of the main subsidiaries, says De La Noue. "That way a CEO can keep contact with the day-to-day operations in a subsidiary, see what the challenges are and how he can use the examples set within that subsidiary to benefit others in the group. It helps me a lot to play, on one side, the shareholders role and be in touch with the CEO of the subsidiaries, and on the other the CFO role, talking with the business managers and staff on the ground. My CEO position helps me with the CFO position and vice versa."

From his dual perspective, De La Noue can see clearly that both roles have changed. Corporate governance demands have put pressure on the CEO to be more aware of financial controls that in the past he would have left to the finance team. "Having financial experience as CEO is vital," he says. "It is critical that a CEO understands the complexity of the financial world, the complexity of handling tax, control and Sarbanes-Oxley. Having contact with the CFO and the financial communities will help a CEO to ensure it is dealt with in the proper manner."

At the same time a CFO has had to take a broader view of his role within a company. A good example is the link between HR and the CFO. "Pension plans and health issues used to be handled by HR, but they have such implications for the finances and the future of a company that CFOs need to fully understand the impact of them and influence the group's decisions in these respects. The CEO's role has always been involved with HR and that helps me a lot in my CFO role," he adds.

Can I be CEO?

As a future CEO, you need to be able to understand not only the financial results but also what drives them. This requires insight into the sources and drivers of intrinsic value across the organisation – a capability that not all CFOs have, says Neal Kissel, partner at management consultants Marakon Associates. In addition to the mastery of finance, his advice to any CFO angling for the top job is to be:

»A strategist – one of the main reasons CFOs don't get the CEO's job is because of a gap in strategic thinking.

»An information specialist – being able to organise financial and strategic information in a way that provides guidance to an organisation about decisions on where and how to compete and how to invest the firms resources. The CFO must work with line managers to create a fact base to support the company's long term development whilst still delivering in the near term.

»A communications expert – a CFO should see his role as not just reporting the numbers but as being an integral part in communicating what the company's strategy is; he must also exercise judgement in determining what, when, and how important information should be communicated externally to investors and the media.

»A corporate leader – providing guidance on how to accomplish the company's goal and direction, nurturing a strong and constructive relationship internally with business unit leaders and fellow executives.

And, if you can't yet tick all of these, don't be downhearted says Kissel. "Great CEOs are not born, they are developed. There is no reason why a CFO doesn't have the inherent capabilities to expand his horizon and to become the CEO."

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