

by J. Robert Tillman and Kelly Carlson

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The Next CFO Wave

"Public company seeks proven leader with previous public company CFO experience and a strong accounting and control background."

How many companies have replaced their CFOs over the last five years with these very same objectives? As public company boards and private equity investors have reacted to the demands and risks of the Sarbanes-Oxley (SOX) era, financial leaders without control or previous experience as a CFO simply haven't been selected.

But today, the trend is shifting and the next wave of CFOs will reflect four major factors driving the market for talent.

TillmanCarlson is pleased to introduce the first in a series of articles relevant to executive level talent recruitment.

Retirement of a Generation

The baby boomer generation continues to shape all markets; whether it's real estate in Florida or the senior management ranks in Corporate America, the direction of the generation moves markets.

During the run-up of the markets prior to the stock market correction, portfolios swelled and retirement calculators delivered the news. Retirement at 50 and certainly by 55 was a real possibility. However, irrational exuberance was followed by conservative risk aversion and the generation has remained largely engaged; great news for corporate boards but not so great for the next leader aspiring to ascend.

And the hard work has paid off; portfolios have rebounded and the gains in real estate and private equity investments have once again allowed baby boomers to dream of retirement and improving their golf games. And retire they will in record numbers; many CFOs never to return to the stresses and responsibilities they have experienced in our most recent cycle.

CEO Succession

Ask a Board Member about his or her greatest concerns as a Director and you're likely to hear, "CEO succession and the integrity of the company's financials"...enter the CFO. The role of the CFO has never been more important and CFOs are playing a greater role in succession everyday. Just over the last three years companies such as International Paper, BearingPoint and Lowe's have named former CFOs as CEO, and PepsiCo's Indra Nooyi serves as President.

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As CEOs and CFOs certify financials together, both have been held more accountable during the SOX era and this is unlikely to change.

Increased accountability is here to stay. In fact, the CEO and CFO have been drawn closer together as the emphasis on corporate governance and managing expectations has required the CEO to get more involved in operations or risk being surprised. Removing layers to streamline decision making has been the mantra and the role of the COO has in large part faded into history. Whether it returns will be debated but CFOs now serve as today's COO in many companies.

The expectation of succession to CEO is likely to heighten as CFOs deliver as leaders and as the demographics of retiring baby boomers simply deplete the ranks of qualified successors. As a result, CEOs and Boards will increasingly add "CEO potential" to the list of requirements when selecting their next CFO.

CFO to CEO

Gerard Arpey – *AMR*

John Chidsey – *Burger King*

John Faraci – *International Paper*

Larry Kellner – *Continental Airlines*

Greg Maffei – *Liberty Media*

Robert Niblock – *Lowe's*

Stan O'Neal – *Merrill Lynch*

Harry You – *BearingPoint*

Jim Ziemer – *Harley-Davidson*

equity firms have cleaned up their portfolios and raised significant investment capital poised and ready to be deployed. The signs are all there as the era of risk aversion prepares to give way to growth, consolidations, higher valuations and more growth. While continued risks associated with potential inflation, rising energy costs, a growing federal budget deficit and an increasingly unpopular war in Iraq loom over the market, the cycle will inevitably turn.

The pendulum has already swung on the cost/benefit analysis of compliance with SOX as healthy, small cap companies cry for relief from the SOX related costs of being public. Many would argue these companies should never have been public in the first place, but it doesn't really matter. The markets are shifting and the risk aversion of the SOX era is giving way to emphasis on growth as the role of the CFO evolves and expands once again.

The Rise of the Super Controller

While the emphasis may have already shifted to growth, the requirements related to SOX will not go away. The shift is likely to be subtle, unlike the race to go public and invest in technology which occurred during the pre-SOX era. Accepting the reality that SOX related responsibilities are here to stay, the role of Controller has also evolved; seen best in the emergence of the "Super Controller" and the trend of CFOs becoming Chief Administrative Officers.

CFOs recognize the demands of SOX require every CFO to have an outstanding Controller. In fact, many CFOs tell us they keep two to three leading Controller candidates in their sights at all times. Right along with the expanding role of the CFO, Controllers and Chief Accounting Officers have become highly sought after

Risk Aversion Steps Aside for Growth

Clearly the CFO's role has expanded during the SOX era and the emphasis on risk aversion has dominated corporate decision making. Not surprisingly, as the stock market punished companies who failed to produce consistent and dependable results or were slow to comply with today's corporate governance requirements, risk taking took a backseat.

Meanwhile, corporate profits have never been stronger and companies have returned to basics and core operations. In addition, private

technical experts. It started with CFOs in many companies feeling like glorified accountants in the early days of the era. Today, CFOs see the trap and while willing to roll up their sleeves, the most talented CFOs have groomed a "Super Controller" while playing a broader role as partner to the CEO. CFOs can't be expected to be strategic and grow as potential CEO successors while also serving as the company's de facto chief accountant. Companies increasingly recognize this is the case and the evolution of the Super Controller is likely to continue.

Here Comes the Wave

Future CEOs?

Ed Bastian - *Delta*
 John Bryant - *Kellogg*
 Wes Bush - *Northrop Grumman*
 Jeff Clarke - *Cendant*
 John Greisch - *Baxter*
 Jeff Henderson - *Cardinal Health*
 Nathan Jones - *Deere*
 Sallie Krawcheck - *Citigroup*
 Jim Lawrence - *General Mills*
 Richard Nanula - *Amgen*
 David Shedlarz - *Pfizer*
 Keith Sherin - *GE*
 Tom Staggs - *Walt Disney*
 Bob Swan - *eBay*
 Todd Thomson - *Citigroup*

So what does all this mean? Few would argue the fact that retiring baby boomers, CEO succession, the emergence of the Super Controller and shaking off the SOX era are major factors impacting the market for CFOs. But how will these factors shape the next wave of CFOs?

First and foremost, the objectives of recruiting "been there done that" CFOs and developing CFOs who can ascend to CEO will be increasingly difficult in the face of the retirement of a generation of leaders. For the public company CFOs who have at times questioned whether the stress and workload have been worth it, their talents and experience will only become more valuable as fewer and fewer will possess them. But as

supply fails to meet demand, something has got to give and evidence points to two trends in the next wave: reentry of the free agents and the elevation of the operator.

One More Time

Baby boomers are opting out every day but some are being lured back to "do it one more time". For example, Mike Lehman just returned to Sun Microsystems as CFO after a four year hiatus. While Lehman continued to serve as a Board Member and Audit Committee Chair, the decision to reenter highlights the challenges and desires of a generation of leaders to remain relevant and engaged. Who's next and who will successfully

Free Agents

Peter Bible - *Former General Motors*
 Amy Butte - *Former NYSE*
 Robert Davis - *Former CA*
 Dave Deno - *Former YUM! Brands*
 Dave FitzPatrick - *Former Tyco*
 Christine Mead - *Former Safeco*
 Sandra Wijnberg - *Former Marsh & McLennan*

attract free agents such as Sandra Wijnberg of Marsh, Dave Deno of YUM! Brands and Dave FitzPatrick of Tyco?

Private equity investors with highly lucrative incentives and their corporate counterparts will certainly attempt to recruit proven CFOs who have semi-retired and found that retirement isn't all it was cracked up to be. Whether it's the young CFO who has joined the world of private equity or venture capital investing or the senior statesperson who has simply retired, many will realize they miss the excitement. Returning for one last challenge will be viewed as "fun" and the reentry of these free agents will make up a relatively small but high profile aspect of the next wave.

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Operating CFOs and Succession

The more lasting and widespread impact on the profile of future CFOs is likely to be that of the operator. As companies plan for succession and address SOX related concerns with technical specialists, operating oriented CFOs with CEO potential will emerge. In addition, succession candidates with financial backgrounds will be groomed while rotating through the CFO chair.

For example, Limited Brands just named Ken Stevens CFO who previously served as CEO of two of the company's largest brands. Kellogg also utilized the CFO chair to develop a key leader and potential CEO successor when John Bryant served as CFO prior to returning to operations as President of International. In addition, leading investors such as Texas Pacific Group are beginning to emphasize leadership and operating skills over control experience evidenced by naming Ken Hannah, formerly SVP of Store Operations at Home Depot, as CFO of a \$1B public technology company.

The markets move through cycles and the market for CFO talent is shifting. While the demands placed on the CFO in our most recent era have served to elevate the role, the demographics associated with baby boomers and the renewed war for talent may result in...

**"Public company seeks
operating oriented leader with
CEO potential to serve as CFO
and focus on driving growth."**

To learn more about TillmanCarlson and our focus on tracking financial talent visit our website at TillmanCarlson.com.

About the Authors

J. Robert Tillman and **Kelly Carlson** lead TillmanCarlson and focus on the recruitment of CEOs, CFOs and CIOs for a broad range of companies from venture-backed start-ups to large, global corporations.

Having previously worked in two of the largest executive search firms and having successfully built and sold one of the nation's leading boutique firms, Rob and Kelly bring a breadth of experience to executive search. As owners of TillmanCarlson founded in 2002 as Blackbird Partners, they work together as a team on every assignment and present a unique value proposition to the firm's clients.



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