

Ascending to the Top: More Australian CFOs Becoming CEO

The past year has proven to be a year of change and ambiguity, with executives facing complex challenges and leading through uncharted territory. COVID-19 has had devastating impacts globally on both economic and community well-being. In Australia, this followed catastrophic bushfires and the ongoing fallout from the financial services Royal Commission.

Over the decades, the chief financial officer (CFO) position has evolved from a “back-office support function” to a key enablement role and strategic partner. During this unique time in history, many CFOs have been tasked with leading the charge for financial viability as well as the sustainability of their organisations’ business models and future growth. The prominence of the CFO in leading a business through significant events impacting organisational performance and strategy has meant that it is becoming increasingly common to see CFOs ascend to the top role — the chief executive officer (CEO).

Spencer Stuart has been exploring the backgrounds and demographics of CFOs in ASX100 companies for years. Based on this research, and in conjunction with our decades of work with global leaders, we have analysed the careers of ASX100 finance leaders and their rise to the C-suite.

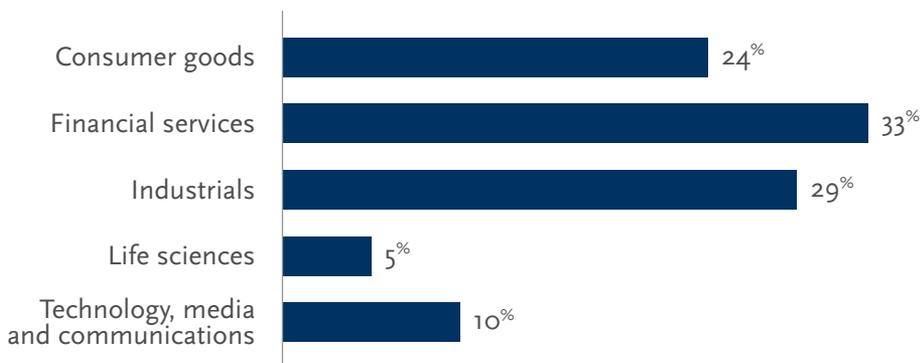


In 2020, we saw minor shifts and variance in functional experience and backgrounds in ASX100 CFOs from previous years. However, there was a significant uplift in gender diversity while industry experience was also a high priority. Although the share of CFOs with prior public company CFO experience did not shift meaningfully in 2020, as organisations face increased regulatory pressures, market volatility and uncertainty, it will be interesting to see whether a proven track record increases in demand. Most exciting is the increase in the number of CFOs that have become CEOs (30% of ASX100 CEOs have held a meaningful finance role during their careers), illustrating how far the CFO role has evolved and the critical impact it has on future leadership.

Rate of turnover is steady

FY2020 saw 21 CFO appointments in the ASX100, a small increase from the 18 CFO appointments made in FY2019. Analysed by industry, approximately one-third (33%) of financial services firms appointed a new CFO, as did 29% of companies in industrials. Other industries with a double-digit percentage of turnover were consumer goods, at 24%, and technology, media and telecommunications, at 10%.

Turnover Rate of CFOs by Industry

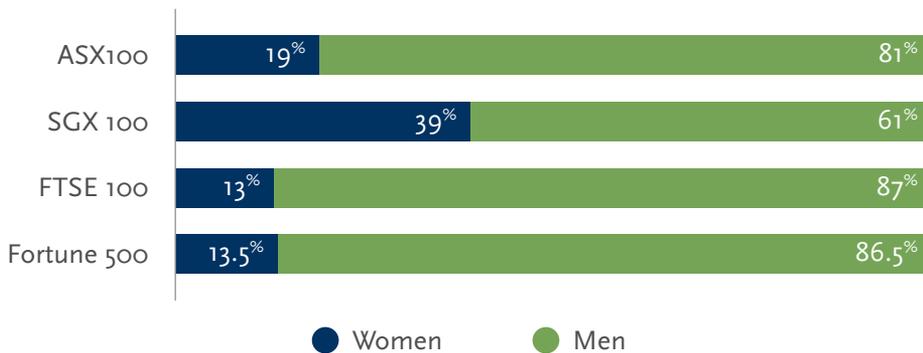


Gender diversity is on the rise

While most finance leaders in the top 100 organisations are men, we have seen a steady increase in female representation over the years. Today, 19% of ASX100 CFOs are women, compared to 11% in 2017.

CEOs and board directors are continuing to prioritize diversity, resulting in the ASX100 CFO role becoming an increased platform for gender diversity. Australia's largest companies lead their UK and U.S. counterparts in the representation of women in the CFO role, but trail Singapore's SGX 100.

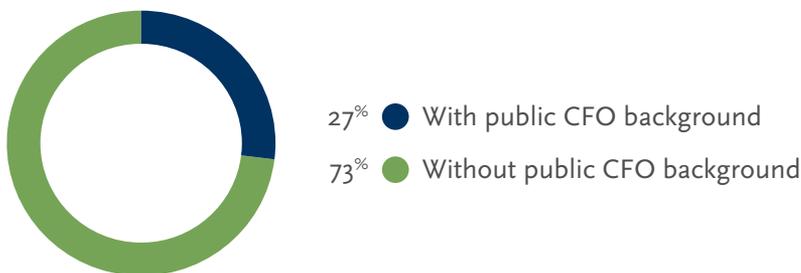
Gender Diversity in the CFO Role by Country



Public company CFO experience is still not essential, but may be increasing in importance

In ambiguous market environments, it is not unusual for CEOs and boards to seek more certainty by appointing CFOs with prior CFO experience. Today, 73% of ASX100 CFOs were appointed as first-time public company CFOs — similar to 74% in 2017. With ongoing uncertainty facing industries through FY21, it will be interesting to see if a bias toward proven experience emerges moving forward, and how this might impact diversity.

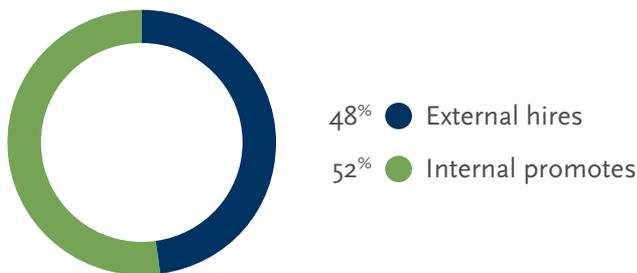
Prior CFO Background



Internal versus external appointments: a slight shift

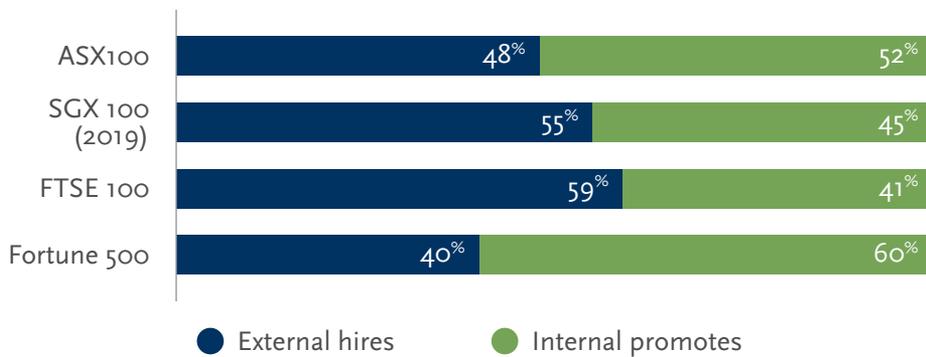
The overall split between internally promoted CFOs and externally appointed CFOs has shifted slightly towards internals: 52% of ASX100 CFOs were promoted from within, while 48% were hired from outside. In 2017, the dynamic favoured external appointments, 51% versus 49% for internal appointments.

Internal versus External Hires

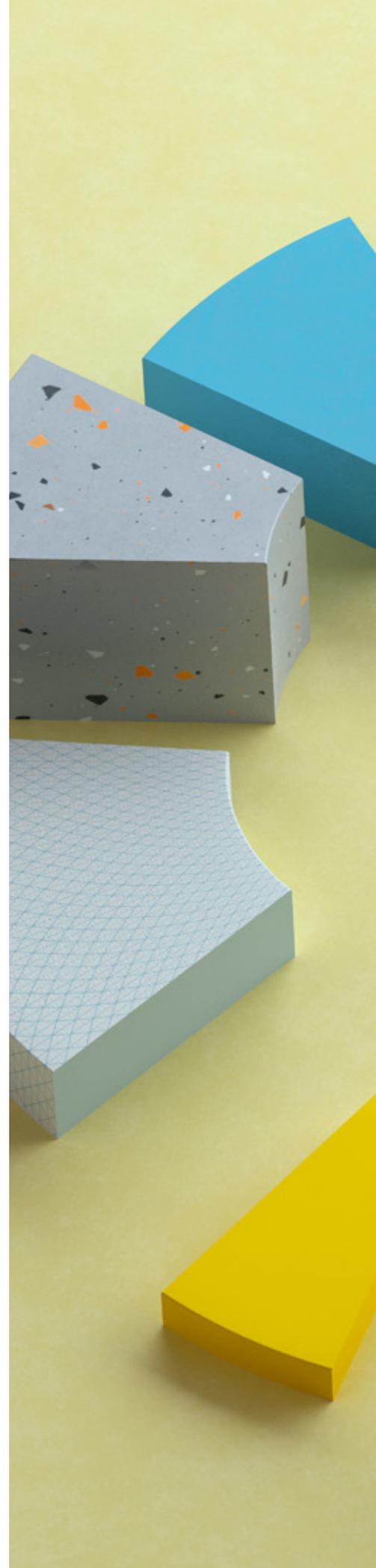


When looking across geographies, only S&P 500 companies in the U.S. have a higher share of internally promoted CFOs.

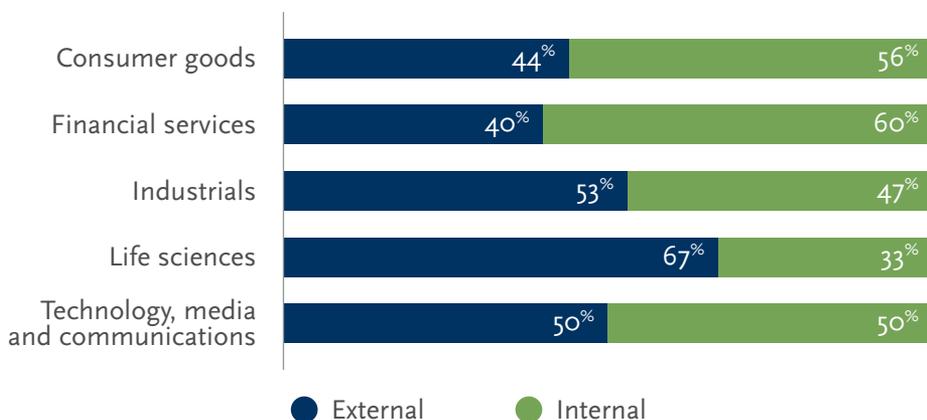
International Comparison: Internal versus External



We do see a wide variance across industries: 60% of CFOs in the financial services sector and 56% in consumer goods were appointed internally. In contrast, only 33% of life sciences CFOs and 47% of industrial CFOs were promoted within the company.



Internal versus External CFO Appointments by Industry Sector



Industry experience is valued

62% of externally appointed ASX100 CFOs came from the same industry. The preference for industry expertise is especially pronounced among industrial companies; half of the CFOs hired externally from within the same industry are in the industrial sector.

38% of CFOs in the ASX100 took up opportunities that were quite different from their previous industry.

CFO tenure average remains unchanged at five years

The average tenure of ASX 100 CFOs has not changed since 2017 and remains at five years. Broken down by industry, CFOs in life sciences companies tend to have the longest average tenure at 8.6 years, while CFOs in consumer goods have the shortest average tenure, 3.9 years.

Internally promoted CFOs tend to stay in the role longer, with an average tenure of 6.5 years, compared with the external hire average of 3.9 years. In addition, male CFOs are more likely to stay in the role for a longer period (5.5 years on average), compared with female CFOs (4.1 years on average).

International Comparison: Average CFO Tenure



CFO backgrounds and route to the top

Fifty-nine percent (59%) of all ASX100 CFOs have served in divisional or regional CFO roles prior to their current role, trending down modestly from 64% in 2017.

Historically, we have analysed CFOs' prior experience and how the various roles have helped them develop critical experience for the CFO role. As the expectations of CFOs broaden and the finance function has become viable stepping-stone experience for CEO succession, we have witnessed the backgrounds of ASX100 CFOs expand into different areas, for example:

- » 27% ASX100 CFOs have led businesses and possess track records as a managing director/general manager
- » 22% come from strategy consulting or led corporate strategy
- » 15% have investment banking backgrounds

Finance grows as a path to the CEO role

The position of CFO continues to represent a solid succession platform into the CEO role. Thirty percent (30%) of ASX100 CEOs have experience in the finance function at some point in their career, up from 25% in 2017. Notably, 25 ASX100 CEOs — up from 13 in 2017 — were promoted directly from the CFO role or two roles prior.

The impact of CFOs providing genuine options for CEO succession is considerable, touching on everything from gender diversity, industry diversity, to the balance of corporate governance and driving growth. Importantly, over time, it may also impact the route to the top for CFOs, away from traditional technical foundations to broader, strategic and commercial roles.

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