FROM CFO TO CEO

New leadership opportunities for senior financial executives in the Asia Pacific region
Executive Summary

The role of CEO has never been more demanding. In addition to managing and growing the business, CEOs today are expected to be adept at tackling corporate governance issues, navigating complex regulatory and compliance matters, and ensuring that the financial foundation of the business is sound and sustainable — all the while keeping an ever-widening array of stakeholders content.

It’s a more challenging job than ever — and chief financial officers are increasingly being seen as logical CEO candidates. Although not as extensively as their counterparts in the U.S. and the U.K., companies operating in the Asia Pacific region are more frequently moving senior financial executives into the CEO office, a position once reserved almost exclusively for executives with sales, marketing and business development credentials.

A number of factors are driving this trend, according to our discussions with top business leaders across the Asia Pacific region. First and foremost is the region’s dynamic economic environment. In India, Singapore and other nations, opportunities abound for exponential business growth, opening the CEO door to senior financial executives who can successfully harness the resources needed to leverage the opportunities — and sustain growth. Meanwhile, as the economy in China remains resilient and Japan looks to reinvigorate its economy, companies are placing higher value on those executives who can identify and navigate new paths to growth.

To be sure, all CFOs are not destined to become CEOs, especially those who are unwilling or unable to step outside the traditional role of financial gatekeeper. To move to the top, senior financial executives must have exceptional commercial skills, particularly the ability to communicate effectively with investors, customers, employees and other key stakeholders. They must be open to change and eager to experiment. They must understand that the world around them is changing.

Above all else, companies are looking for CFOs they can trust to be strategic business partners. The most coveted executives are those who can provide vital insights into all aspects of the business, instead of just company finances. Prospective CEOs who have had significant face-time with the outgoing CEO — not just as a sounding board but as a “sparring partner” in making critical business decisions — will have a distinct advantage over those who have not.

In the complex global business environment, the inherent skills of the CFO — controlling costs, managing cash, handling financial restructuring, raising capital and overseeing relationships with lenders — are more important than they have ever been. As such, these skills are steadily moving CFOs to the top of the list when companies are considering who will be their next CEO.
From CFO to CEO: New leadership opportunities for senior financial executives in the Asia Pacific region

The markets of Asia Pacific have become arguably the most important in the world. For companies of all stripes and sizes — both domestic and multinational — opportunities are ripe for tremendous business growth, especially in the region’s emerging nations. At the same time, the economies of many regions outside Asia Pacific range from chaotic at worse to stagnant at best, making Asia Pacific all the more attractive by comparison.

In this multifaceted economic environment, companies have shifted priorities, assigning greater value to responsible financial leadership. Instead of concentrating mainly on top-line growth, organizations are now focused on reducing overhead, controlling costs, managing cash flow and increasing profitability. As a result, senior financial executives are steadily moving into the driver’s seat when CEO opportunities become available.

Yet the journey from CFO to CEO is not without challenges. To identify the roadblocks and gain insight into the ways to overcome them, Spencer Stuart consultants conducted a series of interviews with CEOs and CFOs in companies operating across a range of sectors in the Asia Pacific region. This report is based on their invaluable insights, advice and experience — all of which we gratefully acknowledge.

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The climb to the top

Though each of the executives we interviewed took distinctive steps in their climb to the top leadership roles of their respective companies, they shared common attributes.

The executives agreed that while companies are increasingly opening top leadership roles to candidates coming from the finance function, the jobs are invariably awarded to executives who are well versed in — and comfortable with — all aspects of the business.

As one former CFO who became CEO of a leading financial services company in India said, “I was able to deleverage my financial acumen because we had a strong financial team, and that enabled me to concentrate more on business strategy.”

While having practical experience in all areas of the business makes aspiring financial executives significantly more attractive to companies looking to fill CEO opportunities, candidates who gained exposure to sales, marketing and other customer-facing functions early in their careers often have even more of an advantage.

“Especially in the manufacturing industry, it might be difficult for CFOs to go on to the top position unless
she or he has an in-depth understanding of how to develop leading-edge applications for the market and can provide meaningful insights about the impact each application provides to the company and the market,” observed the CFO of the Japanese arm of one of the world’s largest material companies.

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The upside of a financial background

The continued uncertainty in the global economy requires business leaders with a strong grasp of financial issues. As a result, companies are placing greater value on financial responsibility, risk control and many of the other inherent strengths of CFOs.

“Knowledge of business finance has become very critical,” said one interviewee, the managing director of a multinational consumer goods company’s operations in Singapore. “The more that you are able to input business finance knowledge into the decisions that build the business long-term, the more you will be viewed as a strategic partner.”

Another executive, the former CFO of a major sportswear company in China, agreed, adding that “CFOs have the skill-set to manage both the top line and the bottom line. They are better able to strike the right balance between what makes sense from a financial viewpoint and what makes sense from a business perspective.”

Companies tend to view their CFOs as the most risk-averse of all their senior executives, and this perception can be both a blessing and a curse for CFOs looking to move up to the top spot.

“If CFOs frequently say ‘no’ to business decisions and act purely as a doorkeeper, that is not favored,” said the President in charge of the China operations of a global chemicals company. “It is important to balance the ‘supporting’ with the ‘controlling’ and find the middle ground.”

Another executive, the CFO of an integrated technology solutions provider that operates nearly 20 companies in India, concurred. “A true finance guy is in his comfort zone rolling the data and the facts and figures, but a true general manager would want to go beyond that and say, ‘There is life beyond numbers, and I have opinions.’”

By and large, Asia Pacific companies looking to fill CEO vacancies tend to have little interest in financial executives afraid to take risks — nor are they drawn to CFOs who would throw caution to the wind. Instead, they increasingly are seeking leaders able to provide meaningful insights that can be applied to decision-making and balancing risks with opportunities.
The downside of financial credentials

Though strong financial leadership has become a more essential skill-set for CEOs, common perceptions about senior financial executives can stall their climb to the top.

As one executive put it, “The individual needs to overcome some weak points that many CFOs may have: They tend to be overly detailed and inflexible. Their interpersonal and communications skills can be too direct, and they often take narrow, black-and-white views of issues.”

To overcome these perceived weaknesses, CFOs must break out of their finance and accounting silos and seek opportunities to work with executives, department heads and team leaders from all areas of the business.

“In my view, diversity of roles really plays a major part,” one interviewee stated. “Coming from a financial background, I’m comfortable working the facts and figures. But in business, you need to go beyond that and you need to go with a vision. You need to go with a gut feel and understand that there may not always be a 100-percent cut-and-dried strategy.”

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Great expectations

By all measures, the CEO’s plate is full. Company leaders today are expected not only to understand the business model, but also to have a firm grasp of all aspects of the business and how each function ultimately supports the company’s strategies.

“The CEO must be skilled in influencing cross-functional teams and developing a multifunctional skill-set among employees,” said one executive.

As they broaden their competencies within the company to move up the leadership ladder, prospective CEOs must also build relationships outside of the organization.

“Due to the globalization of the business, there have been more expectations on the local CFOs to play an important role in managing the business as part of the senior management team, having more interfaces with customers and business partners,” said the executive vice president of finance and director of the Tokyo office for a multinational automotive equipment provider.

CEOs, particularly those coming from the finance function, are expected to be strong advocates for investors. “Trust in the finance department is higher today than ever before because of the increasing
need for strong governance. The CFO is speaking with investors more often, which builds trust with shareholders,” according to managing director of an international consumer goods company based in Singapore.

“The CFO is very clearly a guardian for the regulatory authorities,” said another executive. “The CEO internally and the regulatory bodies externally are actually counting on someone to ensure that there is compliance with all the laws of the land.”

Communications and decision-making skills are paramount. As one executive explained: “You have to go from being the guy who almost always says ‘no’ to the guy who says ‘yes’ and drives the business. That’s a bit of a mental shift that finance leaders have to make. You have to be ready to take on responsibility for the entire team. And obviously, you have to be prepared to do a lot of communicating with employees and a lot of external stakeholders.”

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Building your skills

Strong CFOs — those who think broadly and strategically about the business and develop the communications skills to interact well with internal and external stakeholders — are well-positioned for the role of CEO. Finance leaders who aspire to a CEO should build their knowledge of the business and all of the functions, develop the skills to drive the business and learn to be comfortable making decisions and balancing tradeoffs. By observing many CFOs who have ascended successfully to the CEO role, we found that, from the earliest days in their careers, these executives embraced opportunities to work outside finance whenever they were asked. These opportunities expanded their knowledge of the business, allowed them to view the business from other perspectives and placed them in a position to make business and operational decisions.

In short, to develop the requisite skill-set that companies are demanding from their CEOs, it’s best to start early and find as many opportunities as possible to build skills in new areas.

One executive, for example, made a concerted effort early in his career in a junior finance role for a global consumer goods company to regularly interact with consumers. “My goal was to meet the customer every week, whether it was in working with marketing in focus groups or making a store visit,” he said. “I made a conscious effort to pull myself out of the office and get out there and understand the customer. The knowledge I gained from that was phenomenal.”
The president of the Asia Pacific operations of an international manufacturer of kitchen and bath supplies agreed that it is vitally important for prospective CEOs to get a feel for what the business is all about. “For example, when I was finance director, at whichever hotels I stayed for travel, I paid attention to what products they were using in their bathrooms,” he said.

Early responsibility for managing business issues also can help finance leaders advance their careers.

“In my early days, I was asked to manage business at the front end working closely with our joint venture partners,” explained a vice president in the Japan operations of a multinational engineering and electronics conglomerate. “Learning from that experience, I would say that knowing the business and people is quite important to running the operation.”

Developing a strong partnership with the CEO also can position a CFO to develop the skills and insight required for the CEO role.

“The CEO and the CFO are really the only people in the organization who can talk openly to each other and challenge each other about the best interests of the company,” observed one of the executives we spoke with. “If that relationship works well, then I believe the grey zones in transcending from one position to the next level evaporate.”

For multinational companies starting or expanding operations in Asia Pacific’s emerging markets, prospective CEOs skilled at identifying and sharing industry knowledge and best practices are highly desired.

“Here in India, there are very few mature templates to follow,” observed one executive. “Direction needs to come from the top.”

Having an ongoing and genuine interest in broader business issues is instrumental in reaching the top of the leadership ladder.

Making the transition

Not all CFOs are cut out to be CEOs. The difference, according to all of the executives we interviewed, is often a question of leadership.

The role of CEO is not suited to the “financial bystander who says, ‘Okay, I’m going to count the numbers and let you know if they’re good or bad,’” observed the Asia Pacific president of a multinational food manufacturing company. Rather, he said, a great CEO is defined by his or her ability to take a holistic view of the company and all of its functions and say, “Here are some thoughts, here are my ideas and here is what we need to do.”

Having an ongoing and genuine interest in broader business issues is instrumental in reaching the top of the leadership ladder. Each of the CEOs we spoke with treasured the experience of being involved in various functions of his or her company, and they all cherished the opportunity to meet with customers,
Financial professionals wishing to transition to a top leadership role have much to consider. Among the questions they should consider: Am I passionate about understanding business issues beyond financial matters? Do I enjoy learning about each and every business aspect of my company? Am I comfortable communicating with all the people that drive my business? Am I confident in my ability to take on the myriad risks and challenges that come with the CEO’s job?

Furthermore, CFOs who aspire to the top spot benefit from having a mentor who has made a similar transition and can provide important guidance from their own experience. They should make sure they are meeting the performance expectations for their current role and align with the board or headquarters on developmental expectations for the next six to 12 months. Ideally, a CFO who is making the leap to the CEO role will do so within the same industry; making the transition to a new industry on top of changing functional roles is very challenging.

■ Conclusion

Once viewed as a hindrance to moving into general management roles, financial experience has become an increasingly hot commodity for Asia Pacific companies looking to fill senior leadership positions. Doors that not so long ago were mostly closed to senior finance executives are opening throughout the region — but the route to the top is by no means an easy one to take. Nor is the CEO position suited to all CFOs.

CFOs who aspire to be a CEO must be willing to move beyond the numbers and embrace every opportunity to expose themselves to the situations and challenges that will help them prepare for a top leadership position — and as their own experience confirms, finance has become an increasingly stronger launching pad for future CEOs.
ABOuT SPENCER STUART

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