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Who’s Next?

Succession planning should be a critical exercise in finance. Too bad so many companies avoid it.

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When Oren Shaffer retired from his post as CFO at Qwest Communications earlier this year, controller John Richardson became the new finance chief. Assistant controller Bill Johnston took Richardson's old job, internal-audit head Pat Halbach became assistant controller, and director of financial reporting Mary Mowery moved into the internal-audit slot. No recruiters were called. No tasks languished while the new CFO scrambled to find replacements.

Following a process that is all too rarely practiced, each executive had been groomed for the next job as part of the telecom company's rigorous succession plan.

The plan targets a group of high-potential employees in the finance department, rotating each through different units and functions, where they receive on-the-job experience in preparation for a job at the next level. If you are not doing this, warns Richardson, you are hurting employees and the company.

If Richardson is right, a lot of companies are hurting. According to a recent study by Robert Half Management Resources, some 83 percent of CFOs say they have not identified a successor. The primary reason? Most believe they'll hold the position for some time. With CFO tenure hovering at three to five years on average, however, that may not be realistic. It is also shortsighted: according to Scott Simmons, vice president of recruiting firm Crist Associates, for the past two years approximately 55 percent of newly minted large-company CFOs were chosen from internal candidates.

Seamless transitions like the one at Qwest are clearly the exception, not the rule. Succession planning takes time, which is in short supply in the finance department. Singling out individuals to groom for the top job can create resentment among those not chosen, increasing the risk they will walk out the door. Moreover, shifting star players from one position to another for training can disrupt the flow of work in both the department the star left and the one he or she entered. One CFO estimated that a third of the up-and-comers he assigned to new posts didn't do as well in them as he'd hoped. But, says Richardson, "the bigger risk is if you don't do it at all." And even if the company does ultimately hire a new CFO from outside, programs to nurture finance talent can only help develop that CFO's team — a group of people who will be indispensable as the new finance chief gets up to speed.

Financial Planning

At the largest public companies, planning for CEO succession has long been a topic for board-level discussion — not to mention a blood sport. In the most famous example, when Jack Welch retired from General Electric, three of his top reports were widely known to be in the running for his job. Jeffrey Immelt got the nod; within days, the other two candidates quit.

While succession planning in the finance department takes a backseat to the CEO search, it has increased in importance in recent years, at least for the board. For CFOs themselves, not so much. "The person in the job is often not interested in talking about succession, because he or she wants to stay there," says Sharon Allen, chairman of Deloitte & Touche USA. And because succession planning doesn't affect the current quarter, it easily slips off the CFO's immediate to-do list.

An impending CFO job change would obviously jump-start the process. But to formalize succession, Allen says that the first step involves encouraging executives to think about what would happen to their companies if they couldn't do their jobs for some reason. "People then start thinking about the good of the organization as a whole rather than the protection of their own position," she says.

CFOs who do advocate succession planning tend to have experienced it elsewhere. Both Richardson and Shaffer, his predecessor as CFO, joined Qwest after long stints at Goodyear. "We came from a company that focused very hard on giving people the experience to move ahead in their careers, and we brought the same thinking to Qwest," says Richardson. Similarly, when Barbara Klein arrived as CFO five and a half years ago at CDW, a direct marketer of computers and software, she brought her knowledge of succession planning from past employers with her.

After gaining buy-in for a succession program, creating a formal planning document is a valuable next step. Working with a human-resources executive, Klein helped draft one for the finance department to aid managers in identifying high-potential employees. The document helped to institutionalize the process and got people focused on succession, says Klein.

At Qwest, Richardson meets with his senior team several times a year to discuss the highest potential candidates in every function from tax to investor relations. These staffers are paired with mentors and considered for different career-development possibilities, including assignments to new roles. Richardson also runs an annual performance-appraisal process. "I'd say I spend a few hours quarterly [on succession planning], but it's really a continual process," he says. "It's important to make succession planning a way of life."

Rotating the Talent

Central to that way of life is the rotation of high performers through different jobs in and outside finance to broaden their perspective and expand their skill sets. Rotations also help finance chiefs assess whether their instincts about a particular employee are right. But "getting a rotation program started is tough," says Steven Ehrenhalt of Deloitte Consulting's Finance Transformation group. Because finance departments feel short-staffed, "there's a lot of trepidation when you talk about moving someone out of his or her role."

At CDW, Klein says the gain outweighs the short-term pain. "Only by giving people new experiences and stretching them," she says, can you see whether they can assume new roles. Recently, for example, the head of financial planning moved into the marketing department to help manage the overall marketing budget. Another longtime staffer moved from the credit department to treasury and returned, energized by his new perspective, to lead the credit staff when his former boss left.

Even unsuccessful rotations "give you a lot of information about what candidates need to work on or what their limitations are," says Heather Ishikawa, an organizational consultant with CPP, a workforce-development firm. Instead of giving up on that candidate, however, Ishikawa says CFOs should monitor the situation and return the candidate to his old position after 90 days if problems materialize. Any longer and the person's peers — and even the person himself — may start to doubt his abilities. After moving the employee back, the CFO can assess whether a different rotation might work better, whether additional training is needed, or whether the person is better off staying put.

Such rotations are not always welcome, however. When 35 key finance employees at Bristol-Myers Squibb were moved into new positions two years ago as part of the drug maker's plan to develop its finance team, some line managers expressed concern about trading their experienced staff for new faces. "A significant number of those changes were considered risky," says CFO Andrew Bonfield. "You have to make sure that line managers accept that taking the risk is good for the organization as a whole." At first, this took some persuasion, says Bonfield, but as new employees settled into their roles, managers throughout the organization adjusted well to the changes.

Candidates themselves may also resist rotation, particularly in a global company. Roger Blanken, finance director at International Flavors and Fragrances, says employee reluctance to move has been the firm's biggest challenge in succession planning. For years, the finance department had a star performer in Spain whom they tried to lure to the Netherlands to head the company's European finance group. "We just could not pry him loose," says Blanken.

Because many people balked at moving, and because the company had a relatively small finance team, Blanken and CFO Douglas Wetmore had to be creative, offering potential successors the chance to expand their duties outside finance. For example, some finance staffers handle general management responsibilities in their respective countries. Blanken will also move people outside of finance entirely. "Clearly we'd rather place them inside the company than lose them," he says.

Managing Expectations

As the GE example makes clear, succession planning can mean losing talent. "As soon as the next CFO is identified, you run the risk of creating consternation among the other players one level down. Someone gets the nod and everyone else leaves," says Crist's Simmons. While there may be other opportunities for the also-rans, inevitably some of those passed over will resign. This scenario just played out at Delta Air Lines (see On the Record), where, after identifying CFO Edward Bastian and chief operating officer James Whitehurst as leading contenders for the CEO spot, the board ultimately hired Richard Anderson, the former CEO of Northwest Airlines. Bastian stayed on as president, but Whitehurst quit the company.

Commitment to communication helps retain talent and defuse the tension that often accompanies succession planning. But such communication "has to be carefully managed," says Jeff Burchill, CFO of business-property insurer FM Global. "You need to communicate not only with the people who have been identified for rotations, but also with those who have not been included." Managers at FM Global meet with employees who aren't selected for rotations and explain what they need to do, often reimbursing them for classes to round out technical or management skills. Sometimes employees who are close to the top tier are also invited to attend the company's internal management classes. When the issue is one of interpersonal skills rather than accounting ability, the conversations are trickier, but "I can't think of a situation where we've just given someone a dead end and not given them an opportunity to develop," says Burchill.

"We depend on annual one-on-one discussions between managers and their direct reports to set expectations, identify development needs, and make sure that we don't have too much of a mismatch between expectations and reality," says CDW's Klein. In the case of such a mismatch, "it's probably best if both sides admit that and the person moves on," she says.

Such face-to-face meetings also help separate the more-ambitious employees from the staffers who are content where they are. But many employees know which of their co-workers are stars and consciously or unconsciously defer to them already, says Simmons. He recalls visiting one finance department: "There were four individuals and clearly one was running the show. You could tell that, down the road, that person would be viewed as CFO material," he says. In such a case, as long as one understands that the other has better experience and that opportunities exist for all, tensions can be avoided.

Unforeseen Circumstances

Even the best-laid succession plans can fail if a top performer is recruited away or retires. McDonald's was caught off-guard last summer when Matthew Paull, a longtime employee who had risen through the ranks to the CFO chair in 2001, decided to pursue a teaching career. Surprised by the departure, the company is now conducting an internal and external search for his successor.

Because such a surprise can be a heavy blow to a company, thoughtful management teams plan for that contingency. At Bristol-Myers Squibb, Bonfield says, multiple candidates are groomed, so that if one leaves, another can take her place. When the finance department at the drug maker began its planning four years ago, some functions had neither a clearly designated successor nor anyone who seemed up to the job. Now there are at least three people in line for each role, some who are dubbed "ready now" for a given position, others who will be ready in a year, and a third group that will be ready in three years.

Not all finance staffs can muster such bench strength. At a small company, even rotation programs can be a stretch. "We don't have the luxury of saying, 'Let's take this person and stick him here for three years, then here for three years, and then he'll be ready for the top spot,'" says Kurt Braun, finance chief at $250 million ClearPoint Resources. Instead, employee development is more informal: as the CFO assumes new duties, he delegates more responsibilities to his staff as necessary. Braun says that, should he leave the company, his two top reports could team up to do the job while the CEO conducted an outside search.

Developing a robust succession program is a delicate and time-consuming process. But companies with the resources and the will to implement a plan see a real payoff, not only in the orderly transition and avoidance of outside search costs, but also in the retention of their top talent. And for a new CFO like Richardson, having the support of a team of seasoned finance stars makes a tough job a whole lot easier.

10 Steps to Successful Succession

1. Start the conversation.
2. Create a formal succession document.
3. Identify high-potential employees.
4. Partner candidates with mentors.
5. Broaden candidates' skill bases with rotations.
6. Conduct annual performance reviews.
7. Manage expectations.
8. Develop contingency plans.
9. Be prepared for defections.
10. Communicate often, precisely, and discreetly.

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