CHIEF FINANCIAL OFFICER
Succession Planning Playbook

Practical guidance for Boards, CEOs, CFOs, and CHROs to manage CFO succession planning and avoid common problems that plague transitions.

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PURPOSE OF THE CFO SUCCESSION PLANNING PLAYBOOK

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CFO succession is often considered the second most important C-Suite transition, behind only the CEO's transition. Despite this, the processes to attract, identify, evaluate, develop, and select a CFO vary widely among organizations. This playbook provides practical guidance for boards of directors, CEOs, outgoing CFOs, CHROs, and other stakeholders to understand best practices and challenges in CFO succession planning. Best practices in CFO succession planning suggest such processes include five or more years of planning as organizations evaluate talent against the future CFO role profile, consider the need to assimilate external talent into the organization, develop talent, and select the successor most appropriate for the business moving forward. These processes are facilitated by considerable teamwork among relevant members of the board of directors, the CEO, CFO, and CHRO.

Information is based on research conducted by the Center for Executive Succession at the Darla Moore School of Business, including interviews with Directors, CEOs, CFOs, and CHROs of large publicly traded corporations with extensive experience in CFO succession planning.

In providing this information, we seek to help the following:

- **CEOs:** Understand how strong processes can lead to stronger outcomes and ensure they take ownership of the process.
- **Boards of Directors/Chair of the Audit Committee:** Understand and identify the processes through which their boards will succeed at succession planning.
- **CFOs:** Understand their responsibility for developing future talent.
- **CHROs:** Understand and identify how they can help the CEO (and CFO) manage the succession planning process, assess and develop candidates, and serve as a sounding board to the CEO, board, incumbent CFO, and CFO successor candidates.

We begin by discussing overarching considerations related to the CFO that are unique from the CEO: 1) Chemistry, fit, and trust between the CEO and CFO and 2) Trust between the Audit Committee Chair and the CFO. We then outline archetypes of the CFO and capabilities useful for CFOs, highlighting how these roles and capabilities have changed in recent years.

Next, we transition to the CFO succession planning process, the key stakeholders involved and their roles and responsibilities, and a detailed timeline as a model for CFO succession planning. We then provide detailed information about each stage of the process, including the key activities, roles and responsibilities, and common pitfalls for each major stakeholder. This is followed by consideration of three unique CFO succession situations: 1) hiring an outside CFO, 2) evaluating CFO candidates with CEO potential, and 3) emergency CFO succession. We conclude by providing checklists for each of the key stakeholders to use in each stage of the process to promote best practices in CFO succession planning.

At each stage of the process, we encourage you to consider the activities that your company is performing to ensure that best practices are implemented. At any point in time, members of the Center for Executive Succession are available to discuss your organization's succession planning efforts or put you in contact with leaders from our best-in-class partner companies.

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SPECIAL CONSIDERATIONS IN CFO SUCCESSION PLANNING

The CFO position carries two key considerations for succession planning that are unique from CEO succession planning: 1) Chemistry, fit, and trust between the CEO and the CFO, and 2) Trust between the Audit Committee Chair, outside independent Auditor, and the CFO.

CEO-CFO CHEMISTRY, FIT, AND TRUST

Important Elements	Key Questions for Consideration
CEO and CFO thinking styles/ capabilities	1. How might the CFO complement the way the CEO thinks? 2. If the CEO is a "big ideas" executive, is a potential CFO grounded/actionable? 3. How does the CFO complement or work with the CEO's understanding of Finance? 4. How does the CEO's prior experience (or lack of experience) in Finance influence the needs in hiring the CFO? 5. How well do the CFO's capabilities and perspective serve the vision and strategy of the CEO? 6. Can the CFO build a strong finance team?
CEO and CFO communication/ working styles	1. Can the CEO and CFO communicate well with one another? 2. Do the CEO and CFO work/operate dramatically different? 3. Is the CEO disciplined/structured in a way that the CFO is not or cannot be (or vice versa)? 4. Does the CEO want to be the primary point person for engaging with external stakeholders or will this be delegated to the CFO? How will this affect different CFO candidates? 5. Does the CEO provide leeway to the CFO to execute responsibilities independently, while also providing focus on where to spend their time?
CEO and CFO mutual respect	1. Is there a strong relationship built on mutual respect? 2. Does the CFO understand and buy into the CEO's strategy? 3. Does the CEO trust the CFO's understanding of the business? 4. Does the CEO trust the CFO's perspective and opinion when operating the business? 5. Does the CEO trust the CFO as a true partner? 6. Can the CEO trust the CFO to execute the company's strategy rather than their personal vision of what the company's strategy should be? 7. Can the CEO trust the CFO to partner well with other members of the Executive Leadership Team? 8. Does the CFO have the credibility to represent the CEO? 9. Is there trust and candor between the CEO and CFO? 10. Can the CFO trust that he / she can share their honest opinion and challenge assumptions with the CEO without damaging the relationship?

TRUST BETWEEN THE AUDIT COMMITTEE CHAIR, THE OUTSIDE INDEPENDENT AUDITOR, AND THE CFO

Important Elements	Key Questions for Consideration
Integrity/Transparency	1. Can the Audit Chair/Auditor rely on the CFO to deliver high quality financial reporting and steward the company's assets? 2. Can the Audit Chair/Auditor trust the CFO to be transparent and act with integrity in disclosing information and surfacing risks? 3. Can the Audit Chair trust that the CFO will communicate quickly when something bad happens? 4. Can the board trust the CFO to challenge the CEO when disagreements arise without damaging the CEO-CFO relationship?
Understanding of the Financials/Business Acumen	1. Does the Audit Chair trust the CFO's understanding of the company's financials, including their key drivers and how they change over time? 2. Does the Audit Chair understand the CFO's business acumen? 3. Will the Audit Chair help the CFO learn how to best communicate with the Board?
Communication with Stakeholders	1. Does the Audit Chair trust the CFO to represent the company to investors, analysts, and other external stakeholders? 2. Does the Audit Chair trust the CFO to properly convey company strategy to external stakeholders, even in areas where the CFO might not fully agree?

MODERN CFO ROLE ARCHETYPES AND COMPETENCIES FOR SUCCESSFUL CFOS

CFO Role Archetypes - A modern CFO is a(n):

- ☐ Finance Function Leader – Leads the Finance function, including oversight of financial reporting, communication with investors, leadership of budgeting processes, and ownership of organizational control systems
- ☐ Protector of the Balance Sheet – Responsible for protecting organizational assets and shielding the organization from potential liabilities
- ☐ **Strategic Business Leader – Drives growth and catalyzes change through involvement in strategic decision making and allocation of organizational financial resources; Develops relationships with other members of the Executive Leadership Team to collectively develop and achieve the company's objectives**
- ☐ **Organizational Storyteller – Communicates the organization's vision, strategy, and performance to external audiences, including investors and analysts**
- ☐ **People Leader – Develops finance function talent with skills and capabilities to ensure effective, accurate, and reliable financial reporting and help drive organizational growth**
- ☐ **Board Liaison/Connection – Serves as a first point of contact for the Audit Committee and regularly speaks with and presents to the board on important issues for the company**

Competencies for a Successful CFO

- ☐ Finance competencies, including understanding financial analysis, risk, treasury, investor relations, and the drivers underlying the company's financial performance
- ☐ Functional knowledge of accounting and controls to report accurate and valid financial statements
- ☐ Ability to manage the relationship with the Board of directors or Audit Committee Chair independent from the CEO
- ☐ Financial planning, forecasting and budgeting expertise
- ☐ **Strong business acumen to influence the direction and operating performance of the company**
- ☐ **Strategic thinking and planning**
- ☐ **Ability to connect operational plans and metrics to the organization's strategy**
- ☐ **Communication skills to effectively tell the company's story and vision to external parties**
- ☐ **Investor relationship building to discern and speak to investor concerns and priorities**
- ☐ **Ability to motivate and lead around the company's vision**
- ☐ **Understanding of technology and digital capabilities**
- ☐ **Ability to collaborate with CEOs, Boards, and peers with humility**
- ☐ **Ability to attract and develop talent**

Items in garnet denote roles and competencies that are more emphasized in modern CFOs than had been in the traditional CFO roles.


THE CFO SUCCESSION PLANNING PROCESS
Develop Role Profile and Identify Competencies
Identify & Evaluate Potential Successors
Develop Candidates
Select the Successor
Transition the CFO Role

KEY STAKEHOLDERS AND THEIR ROLES IN CFO SUCCESSION PLANNING

Chief Executive Officer

- **Responsible for choosing the CFO, and so must own the process**
- Assists in the identification of potential successors and creation of development plans to enhance candidates' strengths and weaknesses
- Responsible for ensuring the incumbent CFO is developing a potential pipeline of successors
- Determines whether to hire from within or externally
- Helps provide an orderly transition to the next CFO
- Helps ensure effective interactions with the board

Audit Committee Chair

- Works closely with the CFO, they are a critical stakeholder
- Advises the CEO on candidate development and ultimate selection
- May have a veto over CEO's selection

Chief Financial Officer (Incumbent)

- Responsible for developing future potential CFO talent
- Provides assessments on performance and potential of internal candidates
- Considers the need for hiring external talent to strengthen the Finance bench

Chief Human Resources Officer

- Operationally responsible for managing the evaluation of potential successors and development plans
- Serves as a sounding board for the CEO and CFO regarding potential candidates
- Provides objective, credible information regarding candidates' strengths and weaknesses to the CEO
- Works with incumbent CFO to facilitate a development program for potential successors
- Works with potential CFO candidates to identify developmental opportunities
- Assists in developing and supporting the CFO's onboarding and transition plan

External Consultants (when desired)

- **Succession Consultants:** Can be used to assist in the development of a CFO role profile, and assessing both internal and external talent against the role profile
- **Recruiting/Search Firms:** Can be used to assist in the identification of external talent that might be effective future CFOs
- **Compensation Consultant:** Can assist in developing compensation packages for the incumbent CFO, incoming CFO, and for the retention of key executives who are not selected

Chief Legal Officer

- Provides advice and counsel regarding whether board information or discussions might trigger a disclosure
- Assists in developing legal strategy and communications plan for announcement of incumbent CFO departing the role and new CFO entering the role

TIMELINE OF KEY CFO SUCCESSION PLANNING EVENTS

Ongoing Pre-Succession Activities (4+ Years in Advance)

- ☐ Define roles and responsibilities
- ☐ Establish an expected time frame for the transition (can be modified as necessary)
- ☐ Consider the expected CFO transition relative to expected CEO transition
- ☐ Define the succession planning process
- ☐ Assess the capabilities of internal talent
- ☐ Identify internal leaders with CFO potential
- ☐ Provide personalized coaching and mentoring for candidates deemed to have CFO potential
- ☐ Create role for candidate growth
- ☐ Consider scenarios for various time frames that succession could occur, including short-term (<3 years) and longer term (>3 years)
- ☐ Build structures for the identification, development, and retention of diverse candidates
- ☐ Determine need for outside talent
- ☐ If necessary, recruit and onboard new executives

Beginning of Succession Event (2–3 Years)

- ☐ Revisit expected transition time-frame
- ☐ Analyze the industry, including changes in structure, competition, and profit
- ☐ Assess company strengths and weaknesses
- ☐ Define the company's likely expected future strategic actions and initiatives
- ☐ Build a CFO role profile designed to assess future strategic challenges
- ☐ Specify the competencies needed in alignment with the role profile
- ☐ Consider profile fit with CEO competencies
- ☐ Identify behavioral criteria that might complement technical competencies
- ☐ Assess the competencies of internal talent
- ☐ Evaluate development and assimilation of recruited executives with CFO potential
- ☐ Reconsider need to recruit externally
- ☐ Provide opportunities to develop necessary skills to meet the CFO role profile
- ☐ Provide personalized coaching and mentoring for candidates deemed to have CFO potential
- ☐ Create new opportunities and roles in the organization for candidates to grow
- ☐ Identify outside opportunities for candidates to improve strengths and weaknesses

12–24 Months

- ☐ Evaluate and rank candidates based on the role profile identified earlier
- ☐ Assess competencies and readiness of internal talent
- ☐ Identify outside opportunities for candidates to improve strengths and weaknesses
- ☐ Provide experiential opportunities for candidates to develop to meet the role profile
- ☐ Provide out-of-role opportunities to provide exposure to important capabilities when in-role opportunities do not exist
- ☐ Provide opportunities for board members to interact with potential candidates

6–12 Months

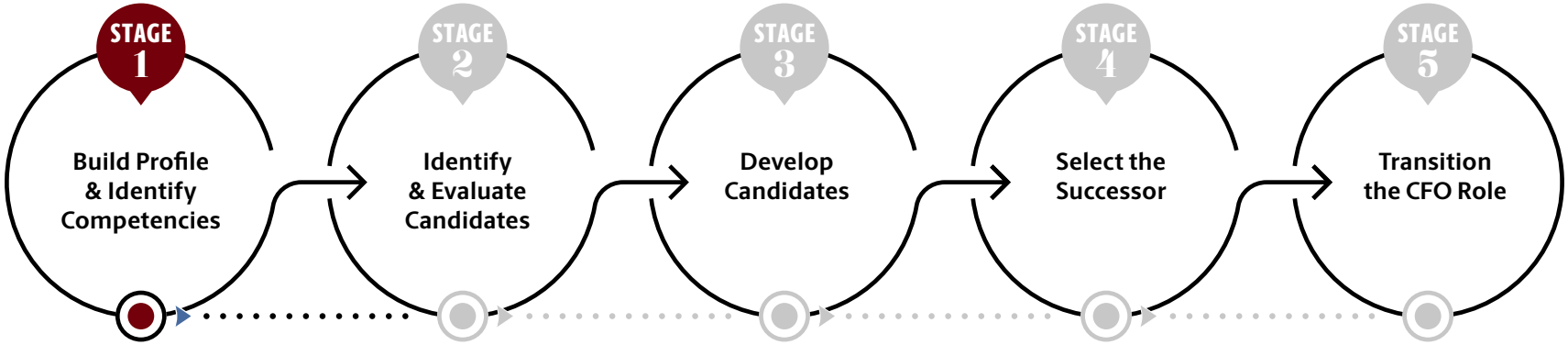
- ☐ Assess readiness of candidates
- ☐ Revisit role profile to ensure that the CFO spec is still accurate
- ☐ Define transition timing, including transition plans and need to appoint heir apparent
- ☐ Develop transition plan for the sitting CFO

<6 Months

- ☐ Assess readiness of candidates
- ☐ Notify candidates of their status and begin developing plans to transition to new CFO and retain candidates who are not selected
- ☐ Develop a structured plan for assimilation
- ☐ Perform listening and town hall tours
- ☐ Create opportunities for outgoing and incoming CFO to meet key external stakeholders
- ☐ Define the specific time-frame in which the transition of responsibilities will occur
- ☐ Identify the incumbent CFO's role after the transition occurs and provide mentoring for the CFO as she / he transitions
- ☐ Define the board's role (e.g. Audit Committee Chair) in assisting the new CFO, communicate board expectations to the new CFO, and provide mechanisms to mentor the new CFO

Post-Transition

- ☐ Perform listening and town hall tours inside the organization and with the Street
- ☐ Ensure communication between the audit chair and the CFO regarding expectations
- ☐ Provide mentoring opportunities for new CFO
- ☐ Ensure effective relationship between the new CFO and the Audit Committee Chair
- ☐ Complete SEC disclosure filings for the outgoing and incoming CFOs



STAGE 1: BUILD THE ROLE PROFILE AND IDENTIFY THE COMPETENCIES NEEDED TO SUCCEED

"The CEO needs to be clear about what is necessary to successfully fill the role and what attributes the new CFO needs to have."

Key Activities

1. Build a CFO role profile designed to assess future strategic challenges and meet current operational priorities
2. Specify the competencies needed in alignment with the role profile
3. Identify leadership competencies and behavioral criteria that might complement technical competencies

Potential Pitfalls

1. Failure to understand the current and future needs of the CFO role before building the profile
2. CEOs becoming trapped by thinking about the people in place rather than the desired profile
3. Becoming enamored with on one attribute rather than a complete set of desired competencies leading to tunnel vision about a specific characteristic or person
4. Building a role profile or desired set of competencies to replicate the incumbent CFO or support the selection of an already identified candidate
5. Failure to consider the CFO's ability to complement the CEO's strengths and weaknesses creating misfit
6. Failure to consider key strategic challenges in the business that have altered the competencies needed in future CFOs

Key Roles and Responsibilities

CEO

1. Identifies the requisite skills and capabilities desired in the next CFO
2. Ensure that the current CFO is developing potential successor talent
3. Identify the roles and profile that will be most valuable and complementary to the C-suite team going forward

Audit Committee Chair

1. Help the CEO to see the competencies that might be useful in a CFO going forward
2. Provide the board's perspectives on important capabilities the CFO needs
3. Create opportunities to interact with potential CFO candidates
4. Ensure the company has a process in place for considering CFO succession

Incumbent CFO

1. Provides input on the skills and capabilities needed in next CFO
2. Identifies current roles and responsibilities of the CFO position

CHRO

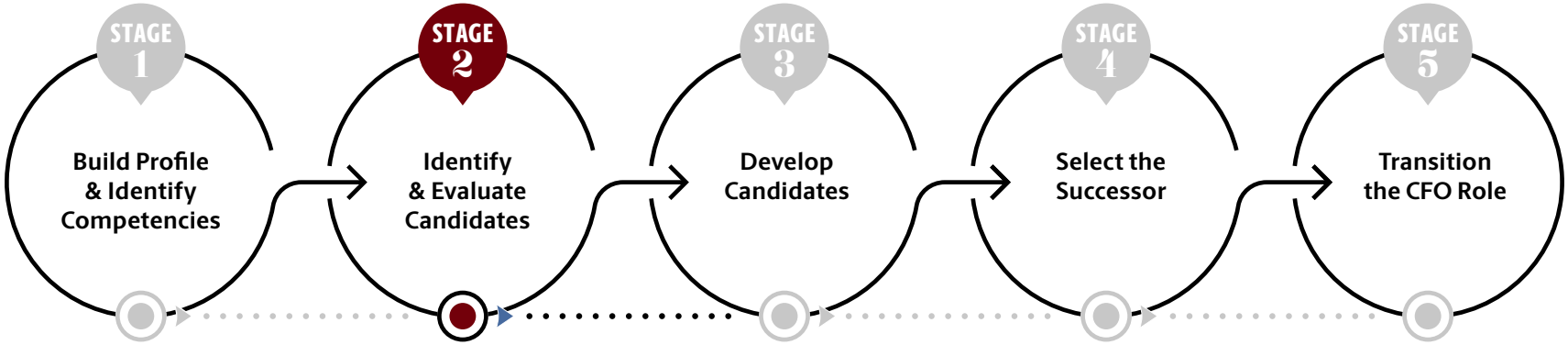
1. Help the CEO and incumbent CFO to identify competencies to accomplish future strategic goals
2. Develop tools for the CEO and incumbent CFO to evaluate competencies that will be associated with future strategic goals
3. Facilitate the opportunity for Audit Chair to understand the desired future competencies
4. Develop a CFO scorecard to help coach potential successors and to help the CEO evaluate potential candidates (this will be a living scorecard that will evolve during the process and as the company's needs change and potentially changes if a different CEO is in place)

External Consultants

1. Provide support for developing a scorecard and for matching competencies to strategies
2. Provide information on best practices / changes in the CFO role

Company Specific Actions

Our company will take the following steps:



STAGE 2: IDENTIFY AND EVALUATE INTERNAL AND EXTERNAL CANDIDATES

"When I became CFO, I had not really had exposure to the street, and my head of IR took the toughest buy side person she had and who could ask the toughest questions, and said you and I are going to visit him one on one separate, off the record, and he's going to ask you questions. I had no idea how prepared you have to be until I went through that."

Key Activities

1. Identify candidates with CFO potential
2. Analyze the external marketplace for potential CFO candidates
3. Assess the capabilities of internal talent
4. Provide opportunities for Audit Chair to interact with potential CFO candidates
5. Evaluate and rank candidates based on the role profile identified earlier
6. Develop scenarios for talent management or retention based on possible successor selection options
7. Ensure the company identifies, develops, and retains a diverse candidate pool

Potential Pitfalls

1. CEO and CFO become enamored with superficial or inappropriate attributes
2. Myopic focus on a single candidate
3. Too little time is allocated to evaluate candidates
4. Candidate evaluations are not linked to the role profile developed
5. Assessments of internal candidates are not conducted objectively
6. External candidates are not thoroughly vetted / explored
7. External candidates brought on board too close to succession or as a singular option
8. Prior evaluations lead to discounting of future negative information
9. Audit Chair has not been exposed to potential candidates

Key Roles and Responsibilities

CEO

1. Collect accurate information about candidates and candid assessments about the potential success of candidates
2. Provide opportunities for potential candidates to interact with the Audit Chair and external stakeholders
3. Create a culture that encourages placing potential candidates in challenging positions and assignments whereby they can develop and be evaluated

Audit Committee Chair

1. Create opportunities to interact with potential CFO candidates
2. Conduct independent assessment of potential candidates against board's expectations

Incumbent CFO

1. Identify potential CFO candidates
2. Help provide exposure to the Audit Chair and the CEO of potential successors
3. Assess candidates with CEO and CHRO
4. Assist in identifying external talent

CHRO

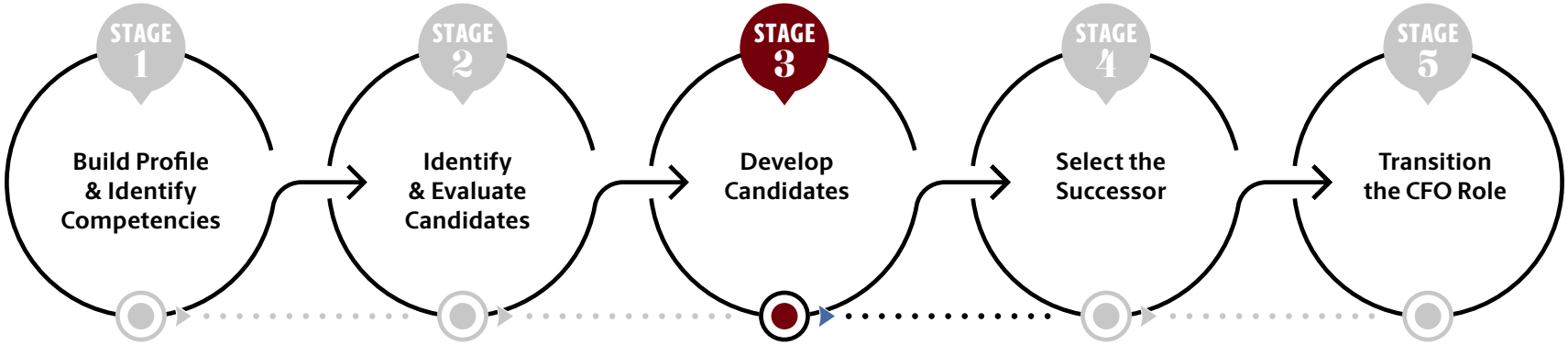
1. Help the CEO and incumbent CFO to distinguish among candidates
2. Help the CEO and incumbent CFO to recognize potential candidates
3. Help accurately assess candidates
4. Assist in identifying external talent
5. Conduct rigorous evaluations of external talent, when necessary
6. Help CFO look outside obvious candidates to build a larger, more diverse slate
7. Push the board to develop relationships with candidates

External Consultants

1. Provide suggestions for outside candidates
2. Assess internal and external candidates in line with the role profile
3. Provide independent assessment of internal candidates, if desired

Company Specific Actions

Our company will take the following steps:



STAGE 3: DEVELOP POSSIBLE CFO SUCCESSION CANDIDATES

"We historically have rotated potential CFOs through HR and they often sit in our compensation and benefits (total rewards) position, which allows them to balance the numbers of our business with the humanity of the business. It brings together the growth strategy with the culture of the business. There are few roles that get Board exposure once a quarter, but this is one."

Key Activities

1. Provide candidates with experiential opportunities to develop necessary skills to meet the CFO role profile
2. Provide personalized coaching and mentoring for candidates deemed to have CFO potential
3. Create new opportunities and roles in the organization for candidates to grow
4. Identify outside opportunities for candidates to improve strengths and weaknesses
5. Provide developmental opportunities to continue to improve the diversity of the organization's talent pipeline

Potential Pitfalls

1. CEO or CFO alter developmental opportunities to promote/encourage the selection of handpicked successor
2. CFO delays developmental opportunities to retain his/her position
3. The process begins too late to provide the appropriate developmental opportunities
4. Candidates fail to listen to mentors/coaches to overcome weaknesses
5. Candidate shortcomings or failure to develop are overlooked or discounted

Key Roles and Responsibilities

CEO

1. Help identify and provide developmental opportunities for candidate growth
2. Consider moderate restructuring to provide new and challenging opportunities in line with growth profiles

Audit Committee Chair

1. Create opportunities to engage with potential candidates
2. Ensure candidates are provided developmental opportunities to meet the board's expectations

Incumbent CFO

1. Provide developmental opportunities for potential successors both in-role and out-of-role
2. Ensure sufficient developmental opportunities for all potential CFOs
3. Help the CEO understand if the developmental opportunities are occurring
4. Consider restructuring roles to provide new and challenging opportunities in line with growth profiles
5. Provide exposure for candidates to appropriate elements of the CFO job and important external stakeholders
6. Mentor and coach candidates

CHRO

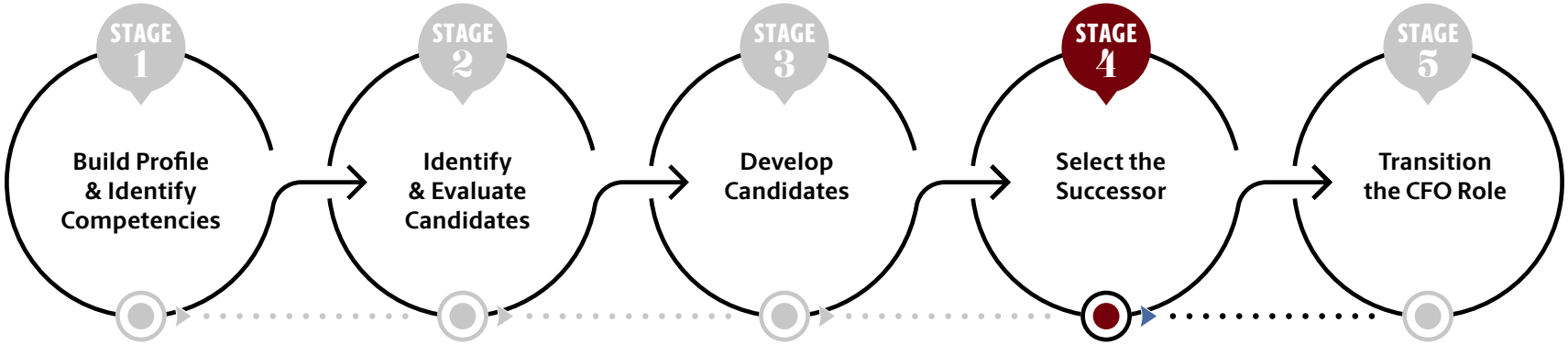
1. Help the CEO and CFO understand if the developmental opportunities are occurring
2. Help the CEO and CFO understand how the development is working
3. Assist in restructuring and defining the opportunities necessary for development
4. Maintain open dialogue with candidates, including evaluating candidates' status

External Consultants

1. Provide development programs and feedback tools to supplement experiential development.
2. If desired, assess candidate development against role profile

Company Specific Actions

Our company will take the following steps:



STAGE 4: SELECT THE NEW CFO

"The next CFO needs to complement the CEO and be a strong member of the executive team, not just a great leader of the function."

Key Activities

1. Revisit future strategic considerations and role profile to ensure changes have not occurred that alter the CFO specification
2. Consider the timing of the transition, including transition plans and ramifications for external communications with investors, rating agencies, and other stakeholders
3. Notify candidates of their status and begin developing plans to transition to new CFO and retain candidates who are not selected
4. Develop transitioning out plan for the sitting CFO
5. Complete SEC disclosure filings for outgoing and incoming CFOs

Potential Pitfalls

1. Decisions are made based on momentum rather than careful deliberation
2. Biased decisions occur rather than following a systematic, objective process
3. Strategy and needed capabilities change after candidates are evaluated, but momentum cannot be slowed or stopped
4. Candidates force the CEO to make a decision earlier than expected
5. Overreliance on trying to find the perfect candidate
6. Inappropriate comparisons between internal and external candidates

Key Roles and Responsibilities

CEO

1. Consider input and feedback from incumbent CFO, CHRO, other ELT members as desired, and the board/Audit Committee Chair
2. Make the decision
3. Develop plan for transitioning the next CFO

Audit Committee Chair

1. Provide advice and counsel to the CEO
2. Support the CEO's decision and build plan for appropriate mentoring

Incumbent CFO

1. Support the CEO's decision
2. Build plan for transitioning out and bringing in the new CFO into the role
3. Provide mentoring for the new CFO
4. Provide a calendar of events to the new CFO that sets out the rhythm of operations and forewarns key activities and deadlines

CHRO

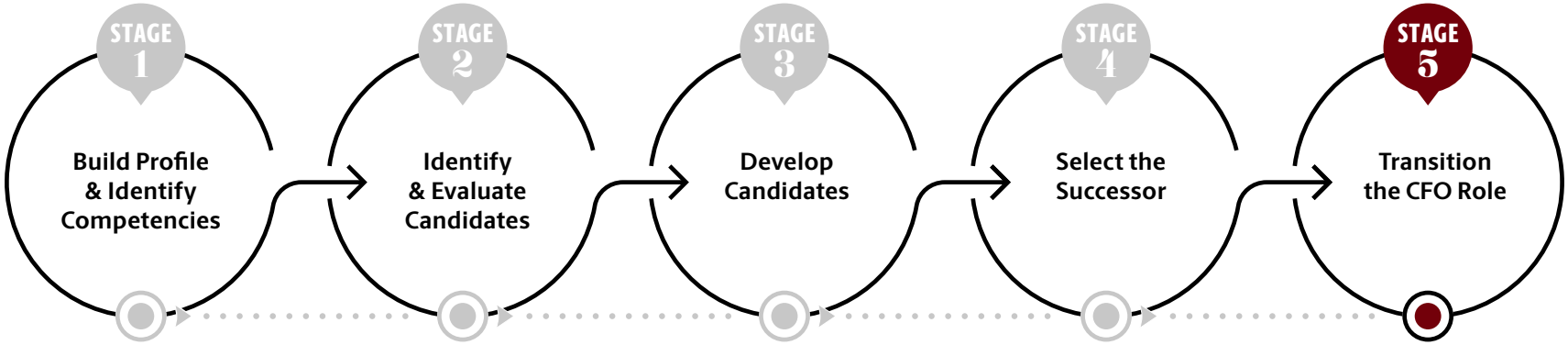
1. Support the CEO's decision
2. Build plan for transitioning sitting CFO out and new CFO into the role
3. Help create a plan for introducing the CFO to key stakeholders
4. Conduct background check if not previously completed
5. Help define plan to backfill position of the new CFO

External Consultants

1. Provide compensation and benefits data and advice

Company Specific Actions

Our company will take the following steps:



STAGE 5: TRANSITION THE CFO ROLE

"We had the future CFO out with the CEO doing 1 on 1 investor and analyst meetings; they were not active in the conversation, but they really got a feel for if they were sitting in that chair, what is it like and what to expect."

Key Activities

1. Develop a structured plan for assimilation
2. Perform listening and town hall tours
3. Create opportunities for incoming CFO to meet key external stakeholders
4. Create opportunities for the CEO and incoming CFO to get to know each other
5. Define the specific time frame in which the transition of responsibilities will occur

Potential Pitfalls

1. Lack of on-the-job training between the outgoing and incoming CFO
2. The incumbent CFO fails to leave a clear road-map
3. The Finance function loses important members or replacements do not have necessary capabilities
4. The new CFO clashes with the existing ELT or key members of the function

Key Roles and Responsibilities

CEO

1. Provide support for the incoming CFO
2. Find ways to make new CFO's job easier
3. Help the incoming CFO see aspects of the role that may not have been clear before
4. Help everyone in the organization understand that there is a new CFO
5. Introduce the new CFO to key stakeholders
6. Set clear working relationship expectations
7. Help ensure that the new CFO is aligned with strategic goals and ensure performance expectations are clear

Audit Committee Chair

1. Help incoming CFO understand the position
2. Communicate with the new CFO, including the board's expectations for the new CFO
3. Ensure the CEO has defined appropriate success criteria for the new CFO

Incumbent CFO

1. Provide a clear road-map of critical dates over the course of the year
2. Introduce the new CFO to key external stakeholders and include on important company milestone events (e.g. earnings calls)
3. Provide a realistic preview of what the new CFO is inheriting
4. Share personal insights on Finance function talent and development plans
5. Move on

New CFO

1. Go on listening tour
2. Understand the key dates along the timeline
3. Identify potential weaknesses (with self or function) that need to be addressed immediately to meet key deadlines
4. Engage with key stakeholders
5. Learn how to best work with the CEO
6. Build the Finance team to best support his/her success moving forward
7. Understand the CEO's expectations
8. Understand the board's expectations
9. Establish communication protocols with the CEO and Audit Committee Chair

CHRO

1. Help new CFO navigate the landscape and communicate with all key stakeholders
2. Help integrate the new CFO into the leadership team
3. Provide new CFO mentoring and advice on potential derailers
4. Help the CFO understand and work within the organization's culture
5. Help the ex-CFO exit gracefully

External Consultants

1. Provide assistance to retiring CFOs to plan the next stage of their journey
2. Provide mentoring and advice to the incoming CFO or provide access to mentoring opportunities

Company Specific Actions

Our company will take the following steps:

OVERCOMING COMMON CFO SUCCESSION PLANNING PITFALLS

	Potential Pitfalls	Tactics to Avoid/Overcome Pitfalls
Stage 1: Developing the Role Profile	1. Failing to understand what challenges may face company before trying to develop role profile 2. Relying on "gut" feelings rather than a defined role profile and related competencies 3. CEO places focus on one attribute rather than a complete set of desired competencies leading to tunnel vision about a specific characteristic or person 4. CEO builds a role profile or desired set of competencies to replicate the incumbent CFO or support the selection of an already identified candidate 5. Failing to have a defined time-frame for when CFO succession will occur	» **Consider strategy prior to developing a role profile** » **Create a process to develop role profile based on strategy rather than individual characteristics** » **Engage the CHRO or third parties to help conduct process to map strategy onto a CEO role specification** » **Focus on future industry/business challenges to distinguish next CFO role profile from incumbent CFO profile**
Stage 2: Identifying and Evaluating Candidates	1. CEO becomes enamored with superficial or less critical attributes 2. Myopic focus on a single candidate 3. Too little time is allocated to evaluate candidates 4. Candidate evaluations are not linked to the role profile developed 5. Failing to use objective information about candidates 6. Assessments of internal candidates are not conducted objectively 7. External candidates are not thoroughly vetted 8. External candidates are brought on board too close to the succession or as a singular option 9. Prior evaluations lead to discounting of future negative information	» **Create systematic, objective assessment processes to evaluate candidates in line with role profile** » **Build assessment processes as ongoing part of company's talent management culture** » **Use third parties to provide objective ratings of candidates** » **Provide assessment opportunities across multiple formats** » **Ensure that new information is weighted appropriately with existing data on candidates** » **Examine external market for skills and capabilities** » **Develop recruiting and onboarding capabilities to bring on external talent and ensure success** » **Thoroughly vet external candidates beyond references provided**

	Potential Pitfalls	Tactics to Avoid/Overcome Pitfalls
Stage 3: Developing Candidates	1. CFO alters developmental opportunities to promote/encourage the selection of handpicked successor 2. CFO delays developmental opportunities to retain his/her position 3. CEO is too deferential to the CFO in creating developmental plans 4. The process begins too late to provide the appropriate developmental opportunities 5. Candidates fail to listen to mentors/coaches to overcome weaknesses 6. Candidate shortcomings or failure to develop are overlooked or discounted	» **Ensure the CEO and CFO are involved in identifying appropriate development opportunities for candidates** » **CEO communicates with incumbent CFO regarding expectations of the developmental opportunities to be provided** » **Developmental opportunities are provided at least 3 years in advance of succession (allows for at least 2 years in role, if necessary)** » **CEO, CFO, and CHRO have important conversations around candidates' ability to develop, including why successful and appropriate attributions for failure**
Stage 4: Selecting the Successor	1. Decisions are made based on momentum rather than careful deliberation 2. CFO biases decision rather than following a systematic, objective process 3. Strategy and needed capabilities change after candidates are evaluated, but momentum cannot be slowed or stopped 4. Incumbent CFO delays time-frame or retains undue influence over the decision 5. Expected front-runner leaves for another job before the CEO is ready to make a decision	» **CFO provides his/her input, but is not involved in the selection** » **CEO maintains transparent, honest conversation with candidates around likely time-frame** » **Prior to selection, CEO ensures that new information does not influence future strategy or candidate suitability** » **Audit committee chair/Board chair are allowed to weigh in with their input and expectations**
Stage 5: Transitioning the CFO Role	1. Audit Chair not engaged after selection 2. CEO fails to communicate vision and working style with new CFO 3. Lack of on-the-job training between the outgoing and incoming CFO 4. The CFO fails to become a strong team member with the ELT 5. Key members of the Finance function leave	» **Begin thinking of the next CFO succession** » **CEO works with CFO to establish working relationship** » **Audit chair maintains constant line of communication with new CFO** » **CHRO Provides "New Leader Simulation" to help identify: 1) What is important to the new CFO to keep/change and 2) What the CFO's team wants from the new CFO** » **If desired, develop plans to retain key members who are not selected** » **Create a communication plan for internal and external stakeholders for new CFO** » **Set performance expectations for new CFO before he/she begins the job**

UNIQUE CFO SUCCESSION PLANNING SITUATIONS

Many of the success factors will be ubiquitous across CFO succession planning processes, with the caveat that the organization's history and situation will add idiosyncrasies to the process. However, there are three substantive and common situations that can alter the process: hiring a CFO from outside the company, hiring a CFO who is being groomed to be a CEO, and emergency CFO succession.

When the CFO is Hired from Outside

POTENTIAL PITFALLS

1. External candidate is not a good fit for the company's culture/ELT
2. External candidate does not have the appropriate industry or company knowledge to contribute effectively
3. CEO/company representatives overly focus on interviewing the candidate, rather than selling the company
4. Failure to understand the candidate's ability to run the Finance function despite having prior CFO experience in many cases
5. CEO/Board members become enamored with the resume/experience of outside candidates
6. Other Finance leaders feel resentful of outside hire
7. Failure to maintain confidentiality, jeopardizing an outside CFO's current employment

KEY CONSIDERATIONS WHEN HIRING OUTSIDE

- **Ensure that all five stages of the CFO succession planning process are followed**
- **Remind evaluators of the expectations for internal vs. external candidates and their experience**
- **Complete in-depth interviews across multiple settings with potential external candidates (e.g. more than dinner with the CEO)**
- **Utilize CHRO and external firms to complete background and extensive reference checks**
- **Do not understate the importance of recruiting an external candidate, who is often interviewing the company as much as being interviewed**
- **Develop an in-depth onboarding process to meet internal and external stakeholders, including engagement in a New Leader Simulation**
- **Provide a more rigorous onboarding plan to establish working relationships with the ELT and the board immediately**
- **Hire based on the ability to lead the Finance function; Understand candidate experiences on paper may not have been operationalized in ways that yield the benefits assumed**
- **Outside candidates fill gaps needed for the firm that cannot be obtained from inside talent due to recent strategic changes**
- **Consider examining publicly available communications involving the potential CFO, such as presentations to investors or calls with analysts**
- **Draft non-disclosure agreements to maintain confidentiality for the external candidate given their current responsibility**

When the CFO is Being Groomed to be a Potential CEO Successor

POTENTIAL PITFALLS

1. Activities to groom the CFO distract from running the Finance function
2. CFO is placed as developmental opportunity, but does not possess requisite capabilities to effectively run the Finance function
3. CFO is selected based on attributes relevant to the Finance function, but not those relevant for the CEO position
4. Board and CEO are misaligned with regard to the appropriate candidate or have differing expectations for CFO role profile
5. Prematurely signaling to CFO candidate that he or she will be a candidate for the CEO position

KEY CONSIDERATIONS FOR POTENTIAL CEOS

- **In such cases, the CFO being considered must also be compared to the future CEO profile**
- **All early-stage CEO succession planning processes should be engaged when considering the potential CFO. This will add substantial complexity to the process.**
- **The board should be more broadly engaged in the process when the CFO being chosen is also expected to be considered as a CEO succession candidate than if the CFO selected was not in that consideration**
- **Ensure the potential CEO candidate spends time outside of Finance either before becoming CFO or before being a legitimate CEO candidate**

EMERGENCY CFO SUCCESSION PLANNING

In recent years, there has been an increasing focus on ensuring companies are prepared for emergency CEO succession planning, including having successors prepared in case of emergency and understanding the procedures/plans to be followed in case of emergency. Given the disclosure requirements for CFOs, and investor reactions to emergencies involving CFOs, it is important for companies to similarly consider the need to develop emergency CFO succession plans. As one executive we interviewed noted, "markets panic over the CEO and the CFO, but not on many other things, so you have to be prepared for an emergency." Below are considerations for emergency CFO succession planning.

Emergency CFO Succession Planning Best Practices

1. Pre-outline plans for timeline, activities to complete, and response strategies for different emergency scenarios
2. Build an emergency succession executive response team
    - Members may include: CEO, CHRO, General Counsel (GC), Public Relations, Investor Relations, and/or Corporate Secretary
3. CEO maintains and annually updates a short list of emergency CFO options from current company executives and/or board members
4. Maintain prepared press-releases, statements, and regulatory filings which are updated annually to address:
    - A plan to resolve issues and ensure continuity
    - The cause of the emergency succession (e.g., death, termination, unplanned resignation)
    - Potential answers to common questions about the process; these are unique to each company, but designed to imbue confidence in investors and other stakeholders
5. All first day press statements are handled by head of PR; the emergency CFO does not yet speak with the press

Potential Pitfalls

1. Unclear expectations for team members and their roles, including the potential for a lack of leadership while in crisis
2. CEO is not up to speed regarding the current readiness of candidates, leading to selection of wrong inside option or installing an outside interim when internal candidates may be ready
3. External outlets (e.g., media) release news before the company is prepared to make a statement
4. Statements are hastily prepared and use language which does not yield confidence in the company's or new CFO's ability to respond to the situation or serve in the role

Emergency Succession Resource Checklist

- ☐ Documented emergency succession plan and related procedures
  - » Checklist of tasks to complete as specified in the emergency succession plan
- ☐ Prepared Communication Response Document Templates
  - » Prepared media statements to handle inquiries received before first official statement is released
    - » Initial release to employees
    - » Public press releases for full distribution covering a range of scenarios, including death/major illness, resignation, and dismissal
    - » Statement to the company's shareholders
  - » Developed communications protocol for individuals responsible for communicating with:
    - » Board of directors
    - » Executive Leadership Team
    - » Finance function/all employees
    - » Media
    - » Investors
- ☐ List of potential emergency CFO candidates, updated annually
  - » List of talent bench strength to identify other executives for promotion where necessary
- ☐ Pre-prepared regulatory filings and notifications to appropriate regulatory authorities, updated annually

CFO SUCCESSION PLANNING RESPONSIBILITIES CHECKLISTS

CEO KEY ACTIVITIES

1. Developing the Role Profile

- ☐ Determine expected timeline
- ☐ Identify the roles and profile that will be most valuable and complementary to the C-Suite team going forward
- ☐ Ensure the incumbent CFO is developing potential CFO candidates

2. Identifying and Evaluating Candidates

- ☐ Collect accurate information about candidates and candid assessments about the potential success of candidates
- ☐ Provide opportunities for potential candidates to interact with the Audit Chair and External Stakeholders
- ☐ Create a culture that encourages placing potential candidates in challenging positions whereby they can develop and be evaluated

3. Developing Candidates

- ☐ Provide developmental opportunities for potential CFO candidates
- ☐ Consider moderate restructuring to provide new and challenging opportunities in line with growth profiles

4. Selecting the Successor

- ☐ Make the decision
- ☐ Develop plan for transitioning to next CFO

5. Transitioning the CFO Role

- ☐ Provide support for the incoming CFO
- ☐ Find ways to make the incoming CFO's job easier
- ☐ Help the incoming CFO see aspects of the role that may not have been clear before
- ☐ Meet with key external stakeholders with the new CFO
- ☐ Help everyone in the organization understand that there is a new CFO
- ☐ Set clear working relationship expectations
- ☐ Ensure performance expectations are clear

CFO SUCCESSION PLANNING RESPONSIBILITIES CHECKLISTS (cont.)

AUDIT CHAIR KEY ACTIVITIES

1. Developing the Role Profile

- ☐ Help the CEO to see the competencies that might be useful in a CFO going forward
- ☐ Create opportunities to interact with potential CFO candidates
- ☐ Provide the board's perspective on important capabilities the CFO needs
- ☐ Ensure the company has a process in place for planning for CFO succession, including developing an emergency succession plan

2. Identifying and Evaluating Candidates

- ☐ Create opportunities to interact with potential CFO candidates
- ☐ Conduct independent assessment of potential candidates against board's expectations

3. Developing Candidates

- ☐ Create opportunities to interact with candidates
- ☐ Ensure candidates are provided developmental opportunities to meet the board's expectations
- ☐ Work with board to determine if candidates might have CEO potential and need different developmental opportunities

4. Selecting the Successor

- ☐ Provide advice and counsel to the CEO
- ☐ Support the CEO's decision
- ☐ Create a plan to provide mentoring

5. Transitioning the CFO Role

- ☐ Help the incoming CFO understand the position
- ☐ Create clear communication paths with the new CFO
- ☐ Ensure CEO has defined appropriate success criteria

CFO SUCCESSION PLANNING RESPONSIBILITIES CHECKLISTS (cont.)

INCUMBENT CFO KEY ACTIVITIES

1. Developing the Role Profile

- ☐ Provides input on the skills and capabilities needed in next CFO
- ☐ Identifies current roles and responsibilities of the CFO position

2. Identifying and Evaluating Candidates

- ☐ Identify potential candidates
- ☐ Help provide candidates exposure to the Audit Chair and the CEO
- ☐ Assess candidates with CEO and CHRO
- ☐ Assist in identifying external talent

3. Developing Candidates

- ☐ Provide in-role and out-of-role developmental opportunities for candidates
- ☐ Help the CEO understand what developmental opportunities are occurring and how candidates are doing in those roles
- ☐ Consider restructuring roles to provide new and challenging opportunities in line with growth profiles
- ☐ Provide candidates exposure to elements of the CFO job and important external stakeholders

4. Selecting the Successor

- ☐ Support the CEO's decision
- ☐ Develop plan for transitioning out and bringing in the new CFO into the role
- ☐ Provide mentoring for the new CEO
- ☐ Provide calendar of events to the new CFO that sets out the rhythm of operations and forewarns key activities and deadlines

5. Transitioning the CFO Role

- ☐ Provide a clear road-map of critical dates over the course of the year
- ☐ Introduce new CFO to key external stakeholders and include on important company milestone events
- ☐ Move on

NEW CFO KEY ACTIVITIES

1. Transitioning the CFO Role

- ☐ Go on listening tour
- ☐ Understand the key dates along the timeline
- ☐ Identify potential weaknesses (with self or function) that need to be addressed immediately to meet key deadlines
- ☐ Engage with key stakeholders
- ☐ Learn how to work best with the CEO
- ☐ Understand the CEO's expectations
- ☐ Understand the board's expectations
- ☐ Establish communication protocols with the CEO and the Audit Committee Chair

CFO SUCCESSION PLANNING RESPONSIBILITIES CHECKLISTS (cont.)

CHRO KEY ACTIVITIES

1. Developing the Role Profile

- ☐ Help the CEO and incumbent CFO identify competencies to accomplish future strategic goals
- ☐ Develop tools for the CEO and incumbent CFO to understand competencies that will be associated with future strategic goals
- ☐ Facilitate the opportunity for the Audit Chair to understand the desired future competencies
- ☐ Develop a CEO scorecard to help coach potential successors and to help board members evaluate potential candidates (this will be a living scorecard that will evolve during the process and as the company's strategy changes)

2. Identifying and Evaluating Candidates

- ☐ Help the CEO and incumbent CFO to distinguish among candidates
- ☐ Help the CEO and incumbent CFO to recognize potential candidates
- ☐ Help accurately assess candidates
- ☐ Assist in identifying and evaluating external talent
- ☐ Conduct rigorous evaluations of external talent when necessary
- ☐ Help CFO look outside obvious candidates to build a larger, more diverse slate
- ☐ Push the board to develop relationships with candidates

3. Developing Candidates

- ☐ Help the CEO and CFO understand if the developmental opportunities are occurring
- ☐ Help the CEO and CFO understand how the developmental plans are working
- ☐ Assist in restructuring and defining opportunities necessary for development
- ☐ Maintain open dialogue with candidates, including evaluating candidates' status

4. Selecting the Successor

- ☐ Support the CEO's decision
- ☐ Build plan for transitioning sitting CFO out and new CFO into the role
- ☐ Help create a plan for introducing the CFO to key stakeholders
- ☐ Work with the new CFO to make the transition smooth
- ☐ Conduct background check, if not previously performed
- ☐ Help CEO and CFO think about who will backfill whatever position an internal CFO successor leaves behind

5. Transitioning the CFO Role

- ☐ Help new CFO navigate the landscape and communicate with all key stakeholders
- ☐ Help integrate the new CFO into the leadership team
- ☐ Provide new CFO mentoring opportunities and advice on potential derailers
- ☐ Help the CFO work with the CEO
- ☐ Help the incumbent CEO to exit gracefully
- ☐ Ensure the board is communicating appropriately with the new CEO
- ☐ Provide "New Leader Simulation" to help:
  - » What is important to the new CFO to keep/change
  - » What the CFO's team wants from the new CFO

CFO SUCCESSION PLANNING RESPONSIBILITIES CHECKLISTS (cont.)

EXTERNAL CONSULTANTS KEY ACTIVITIES

1. Developing the Role Profile

- ☐ Provide support for developing a scorecard and for matching competencies to strategies

2. Identifying and Evaluating Candidates

- ☐ Provide suggestions for potential outside candidates
- ☐ Perform assessments of internal and external candidates in line with the role profile

3. Developing Candidates

- ☐ Provide development programs and feedback tools to supplement experiential development
- ☐ If desired, assess candidate development against role profile

4. Selecting the Successor

- ☐ Provide guidance regarding compensation negotiations

5. Transitioning the CFO Role

- ☐ Provide assistance to retiring CFOs to plan the next stage of their journey
- ☐ Provide mentoring and advice to the incoming CFO or provide access to mentoring opportunities

RESOURCES PRESENTED BY THE CENTER FOR EXECUTIVE SUCCESSION

The CFO Succession Planning Playbook is a vital addition to the esteemed collection of resources by the Center for Executive Succession. Alongside the renowned CEO Succession Planning Playbook and other related materials, this playbook offers comprehensive insights and strategies for effective CFO succession planning. With this additional playbook, we continue to empower organizations to navigate leadership transitions seamlessly and successfully.

A library of reports from HR@Moore Survey of CHROs and other extensive studies are available at scholarcommons.sc.edu/ces_reports/.

- **The Center for Executive Succession seeks to be the objective source of knowledge on the issues, challenges, and best practices related to C-suite and executive succession.**

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