How to make the transition from CFO to non-executive director

CFOs are in greater demand for board-level roles. The number of CFOs sitting on the boards of the world’s largest companies has risen from 36% in 2002 to 46% last year, according to the Ernst & Young study CFO and Beyond: The Possibilities and Pathways Outside Finance (https://www.cgma.org/magazine/2012/nov/20126807.html), which surveyed 800 global finance chiefs.

The financial expertise CFOs can offer, combined with their broad understanding of how a business operates, is considered an invaluable stewardship trait. In governance regimes where executive directors are the norm, CFOs get a useful first taste of the boardroom. The next step though is to broaden that experience beyond their own companies by taking on non-executive director (NED) roles with their very different challenges.

But choosing the right time in your career to seek a non-executive directorship is vital, and there are ways in which you can maximise your chances of attracting an offer.

CGMA Magazine spoke with two executives with NED experience to find out more about making the transition to another company’s boardroom.

Peter Williams is the former CEO and CFO of UK department store Selfridges and NED of betting processor Sportech, British motor racing’s commercial arm Silverstone Holdings, online retailer ASOS and UK cinema operator Cineworld.

Peter Gleason is the CFO and managing director of the US National Association of Corporate Directors (NACD). He was previously NED for The Patriot Fund.

CGMA: When is the right time for a CFO to think about becoming an NED?

Williams: Taking on an outside non-executive directorship early in your career is not practical because you are still carving out your own career and the people you are working for will expect you to be fully focused on that role.

However, as you advance to a more senior position and become the CFO of a public company, most boards benefit by bringing in experience from elsewhere. It’s a two-way street because the company at which you are an NED benefits from your experience as a CFO, while the company that you work for full time has a senior executive who is gaining exposure to other areas and different ways of doing things.

Gleason: It’s an individual decision. Most CFOs would ride out their career as CFO or hope to be
promoted to the CEO spot, rather than giving it all up to be an NED at a company. However, if you are at the tail end of your career and you are going to retire in a year or two but don’t have your sights on the CEO role, it may be a good way to go, but it doesn’t happen that often.

We are also starting to see a trend for companies to limit the number of outside boards that the senior executive team can sit on while they are serving, because there is so much work to be done.

CGMA: What attracts businesses to appoint finance professionals as NEDs?

Williams: As an experienced CFO – particularly one from a public company who will therefore know what it’s like to be on an audit committee or on a board – you are likely to be asked to chair the audit committee. In the businesses I have been involved with I have found that they want an NED who can mentor their CFO through that process.

Gleason: Since Sarbanes-Oxley was introduced in 2002 [in the US], the demand for finance professionals on boards has increased, as the regulation focused on the financial reporting aspects and requirements that companies have. There was a huge call for CFOs and finance professionals, and there still is because of the emphasis on internal controls and financial reporting and their importance to the success of the organisation.

CGMA: What do CFOs/finance professionals bring to the role?

Williams: Obviously, as numbers people – and because finance is at the heart of driving organisations – we bring an ability to underpin strategies with the numbers that will support those strategies or highlight any issues with them. NEDs are there to ensure good governance and the good running of the business. They are there to challenge the numbers and shake the tree a bit. Finance people are well-positioned to do this because they have such a strong numbers background.

More specifically, a major advantage to having an NED from a finance background is that the financial director and CFO have a much wider view of the business than other senior specialists, such as a marketing director or a head of HR. As the right-hand men to the CEO, we know all the foibles across the organisation.

Gleason: Obviously, a board would want your finance input into its deliberations, reviewing the budgets, financial reporting and so on. But what can differentiate you is what other value you can bring to the table – do you have the relevant industry experience, or global experience?

CGMA: How do you position yourself to become an NED?

Williams: I was lucky because when I wanted to acquire an NED role, I was at Selfridges, and the chairman there was very good at developing people. After I had been in a senior finance/CFO role for five years, he saw that taking on just one non-executive directorship would be valuable to my development as it would broaden my perspective on life and benefit the company as well.

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The chairman was then very helpful in making it happen because he knew all the head-hunters and executive search firms. Their approach to finding good people will often involve contacting people, such as company chairmen, to see whether they know anyone who is appropriate for such roles. I would say that it is crucial to be recommended or endorsed by such a figure to get a role as an NED.

CGMA: Are there certain sectors that the CFO suits best as an NED?

Williams:
I think that, broadly speaking, in the case of the CFO, we are a good fit for any industry. There are some sectors where other specialisms – for example, marketing knowledge or an understanding of logistics – are valuable, but I can think of no business where the CFO would not bring a valuable contribution as an NED.

The significance of a CFO in any public company is major, and if you combine their business experience, the way they look at the business and their ability to challenge the running of a company, then CFOs and financial directors are uniquely positioned to take on an NED role in pretty much any organisation.

Gleason:
No, every company needs that financial acumen on the board. What is important is how the company matches your experience. For example, if you are CFO for a $2 million company and you are being recruited to sit on the board of a $6 billion company, you may be way out of your league.

Here's how to attract an NED offer:

- **Network in the right circles.** Gleason says the ability of a CFO to be visible within a community that would be looking to recruit a director is a tremendous advantage. The events you go to, the personal network you have built and their connections can open doors.

- **Community involvement.** This includes volunteering at different organisations, such as your local chamber of commerce. It helps increase your visibility and showcases the skills you could potentially bring to the boardroom table.

- **Director training programmes.** Aside from the educational benefits, you should view programmes as an opportunity to network and elevate your profile. Teachers on these programmes are often board members or will be able to share opportunities that they have heard about through their own networks.

- **Get onto director registers.** The National Association of Corporate Directors and equivalent organisations in other countries have comprehensive registers of members who are predominantly directors. These are used by recruiting companies. Executive recruitment firms may also have registers of directors.

And if you receive an offer, here's what you should consider, according to Gleason:

- **Assess “why you?”** Boards approach executives for a number of reasons, and you need to be comfortable with why they have tapped you on the shoulder. Is it strictly because of your finance background, or is it your experience in the business community? Do they only want to leverage your standing in an industry or network of contacts?

- **Do you believe in the company?** You've got to have a personal interest in the organisation and its goals. Relevant experience or ties to the mission of the organisation will help you stay focused and engaged.

- **Who else sits on the board?** You need to assess the backgrounds of the other directors and whether you would be interested in working with them. This is particularly important in the more litigious US, where directors are sometimes named in lawsuits against public companies. You want to make sure your fellow board members are of the best quality and that you can trust them. You also want to ensure there will be no damaging ego tussles.

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The problems we have today, cannot be solved by thinking the way we thought when we created them.

- Albert Einstein