

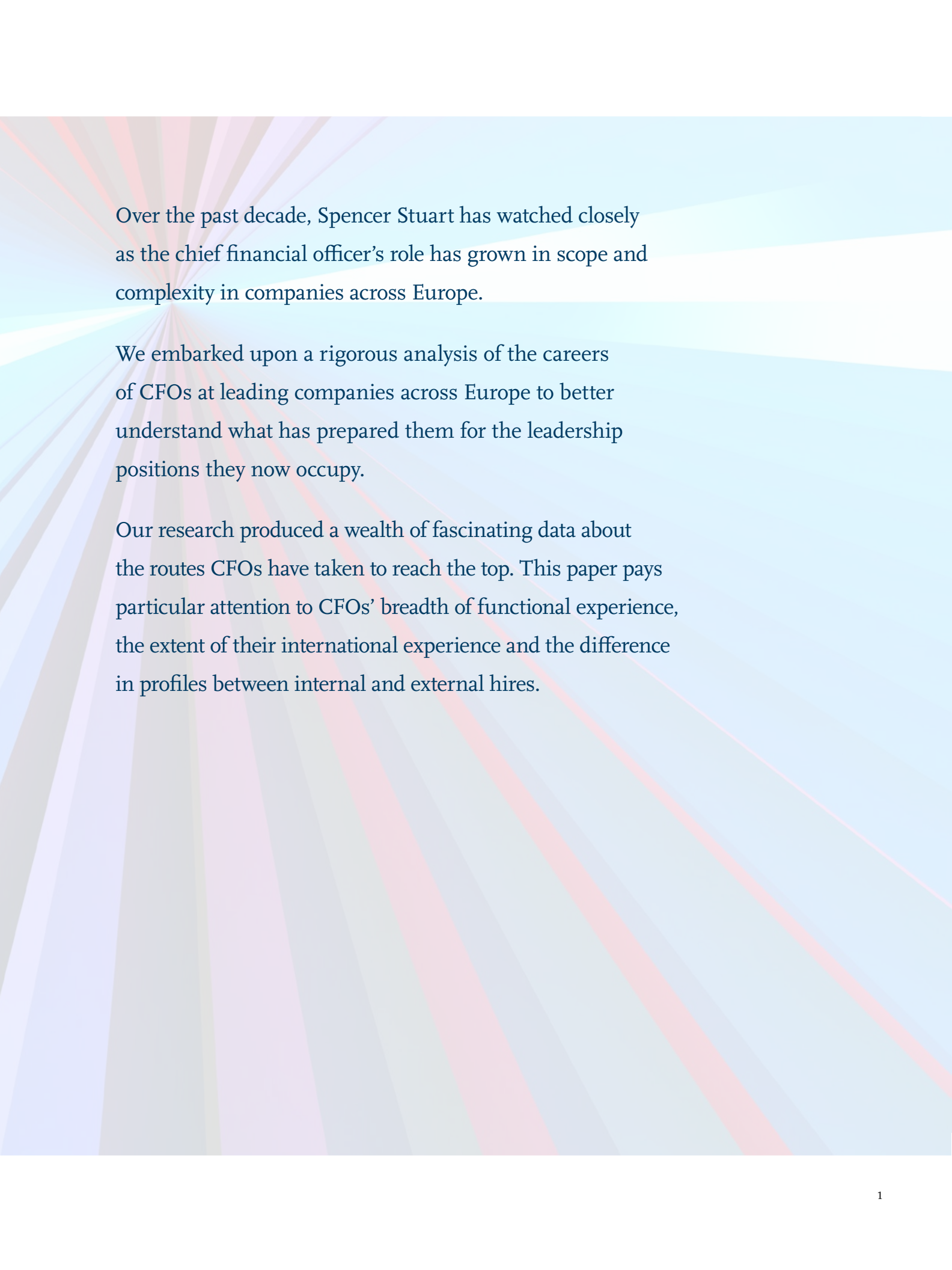
The background features a series of colorful rays in shades of red, purple, blue, and teal, all converging towards a central point on the left side of the image. The rays create a sense of depth and movement, radiating outwards from the center.

European CFO: Route to the Top

An analysis of the background and experience
of CFOs in six European indices

SpencerStuart

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Over the past decade, Spencer Stuart has watched closely as the chief financial officer's role has grown in scope and complexity in companies across Europe.

We embarked upon a rigorous analysis of the careers of CFOs at leading companies across Europe to better understand what has prepared them for the leadership positions they now occupy.

Our research produced a wealth of fascinating data about the routes CFOs have taken to reach the top. This paper pays particular attention to CFOs' breadth of functional experience, the extent of their international experience and the difference in profiles between internal and external hires.

Methodology

In 2013, Spencer Stuart conducted research into the background and career trajectory of 254 CFOs serving the top companies in six leading indices:

France:	CAC 40
Germany:	DAX 30
Netherlands:	AEX 25
Nordics:	OMX 40*
Switzerland:	SMI 20
UK:	FTSE 100

This study is the first detailed analysis of the trajectory that leading European CFOs have taken en route to the top, examining the different backgrounds between internal and external hires. Our in-depth research goes well beyond information in the public domain, building on our knowledge of each individual's background that goes back to

the start of their careers. This has enabled us to examine specific roles that CFOs have undertaken within the finance function (and outside of it), identify patterns and determine what experience is most valuable and relevant in the formation of potential CFOs across Europe.

Seven dual-listed companies feature in our research: AstraZeneca, ABB, ArcelorMittal, Reed Elsevier, Shell, Unibail-Rodamco and Unilever. The CFOs of these companies have been counted in each index in which they are represented.

Our analysis concentrates on career histories prior to the appointment of CFOs. Any additional roles given to them after their appointment are not included in our study.

* including companies headquartered in Denmark, Finland and Sweden.

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Executive Summary

This is the first detailed research of its kind into the background and career trajectory of the most senior public company CFOs in six key European markets: France, Germany, the Netherlands, the Nordics, Switzerland and the UK.

Our analysis of the careers of 254 leading CFOs provides a unique insight into the backgrounds and experiences preferred by many of Europe's leading companies. Here we distil our research into four clear findings.

CFO EXPERIENCE NOT ESSENTIAL

When appointing their current finance leader, the majority of companies in our survey promoted internally and did not choose someone with proven experience as a CFO. That said, when hiring externally, most companies turned to proven

CFOs. Internally promoted CFOs were more likely to have acquired some non-financial experience — often in general management — to complement their finance experience, which usually included roles in divisional finance or control.

EXPERIENCE AT HQ

Candidates who have worked in a finance role at the corporate centre of a listed business are at an advantage over those who have not.

Exposure to senior executives, the board and external stakeholders are important factors in a

CFO candidate's credibility, as is immersion in the mechanics of the corporate HQ. Regional finance roles are also a common platform for promotion to CFO.

THE CFO MARKET IS LOCAL

Cross-border appointments among European CFOs are uncommon, for reasons that are mainly to do with language, culture, convention and board governance. The level of international experience is also lower than might be expected, given the global footprint of most of the companies in

the sample. The one exception is Switzerland, where CFOs have more experience of working in North America, Asia and elsewhere in Europe than their peers in other European indices. The nationality of most CFOs matches the corporate headquarters of their business.

DIVERSITY

There is much less diversity among leaders of the finance function than there is among CEOs and other functional heads such as HR directors, chief marketing officers and chief information officers.

This lack of diversity applies to nationality and ethnicity, but is particularly acute in respect of gender.

Education

The academic background of CFOs in Europe varies greatly, depending on the educational system prevailing in each country. However, there are two main areas in which significant differences are found. First, accountancy qualifications are most commonly found among UK CFOs — 86 out of the FTSE 100 CFOs are qualified accountants. By contrast, it is relatively rare to find CFOs in top

French, German or Nordic countries who have an accountancy qualification and only 50 per cent of Dutch and Swiss CFOs have one. Second, at least three-quarters of CFOs in France, Germany, Switzerland and the Nordics have a degree in economics or business administration; indeed, 80 per cent of CFOs in DAX 30 and CAC 40 companies have either an MBA, a PhD or a Masters degree.

Internal vs. external CFO hires

One of the most surprising discoveries from our research is that over half of the CFOs in the six indices were internal hires (see Figure 1). The companies featured in these indices tend to have large finance departments with more development

opportunities, resulting in more credible internal candidates for the top finance role. This is less likely to be the case in smaller companies where external appointments tend to be more common.

FIGURE 1: Internal vs. external hires by index

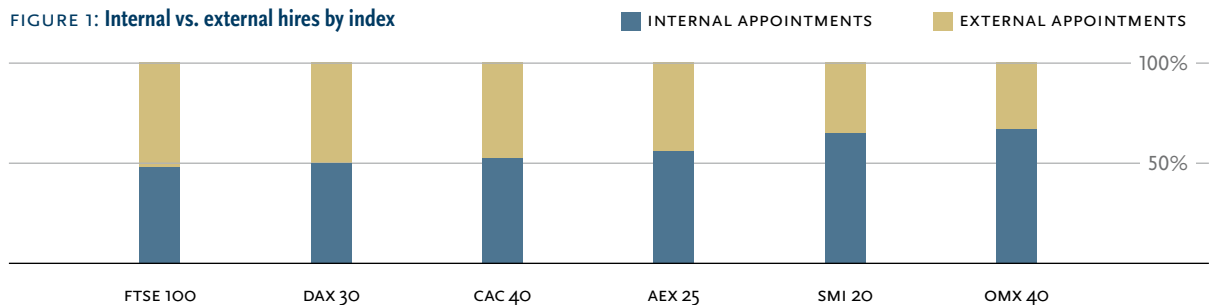
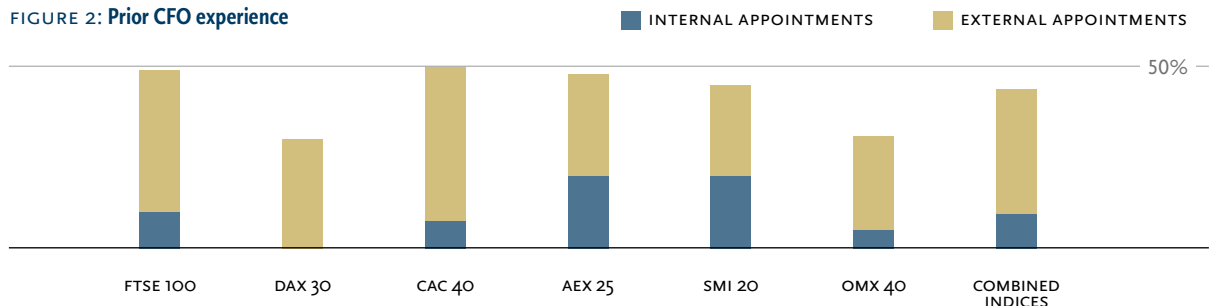


FIGURE 2: Prior CFO experience



Finance background

More than half of the CFOs in each index did not have prior CFO experience at the time of their appointment. As Figure 2 shows, the majority of those who did have prior CFO experience were external hires.

When appointing a CFO, companies across Europe have a strong preference for people who have worked in a finance role in the corporate centre. Companies are far less likely to appoint people who have only ever worked in a divisional role, for a business unit or in a regional capacity (see Figure 3).

Divisional finance and control are the two functional areas in which European CFOs have the greatest experience (see Figure 4). This is especially true of CFOs promoted from inside

the organisation. Very few CFOs in any index have held a dedicated investor relations role — a surprising finding given the critical importance and sensitive nature of shareholder relationships. However, we recognise that it is possible to gain investor relations exposure through other substantial corporate centre roles.

Few CFOs have a background in treasury, tax or audit, whereas a significant number of European CFOs bring non-financial experience to their roles. A number have worked in banking, engineering and the public sector or in different functions such as sales, marketing, legal or business development, although this type of experience is far more common on the continent than in the UK.

FIGURE 3: Experience working in the corporate centre of a listed business

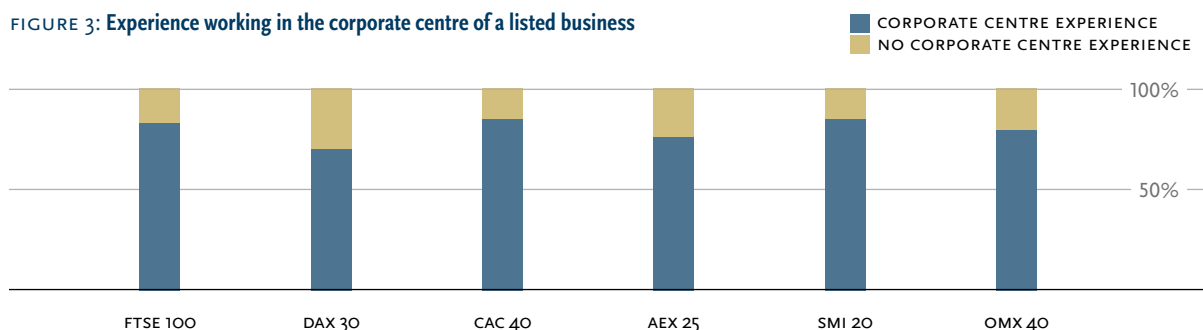
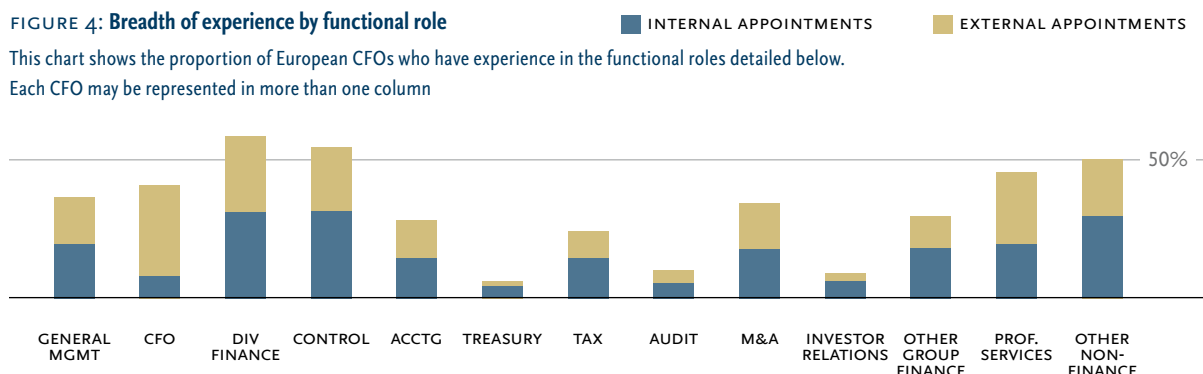


FIGURE 4: Breadth of experience by functional role



This chart shows the proportion of European CFOs who have experience in the functional roles detailed below. Each CFO may be represented in more than one column

By contrast, the overwhelming majority of FTSE 100 CFOs have a professional services background due to the fact that most UK CFOs have trained as accountants with one of the 'Big Four' accountancy firms. In other parts of Europe this is far less common, with the exception of the Netherlands.

It is interesting to note that Dutch and Nordic CFOs have the least experience in the most common finance functions, such as divisional finance and control. This is because many of them have held non-finance positions, for example in banking or professional services firms, before being hired as the CFO.

Companies are backing their talent management programmes to deliver high-quality internal talent. It is also possible for outstanding "step-up candidates" to be hired externally and to leapfrog more established CFOs in the external market.

Companies across Europe have a strong preference for CFOs who have worked in a finance role in the corporate centre.

Development areas for companies to consider

We continue to be surprised by how many large organisations do not focus on finance talent management. In the light of our research findings, it may prove a valuable exercise for companies to review their pipeline of high-potential finance professionals, steering them towards roles most likely to result in them becoming contenders for the CFO role. We recommend that companies ask themselves the following questions:

- > How do we encourage gender diversity within our finance organisation?
- > How do we help finance professionals gain international exposure, especially experience living and working abroad?
- > How do we encourage international diversity?
- > How do we rotate high-potentials through roles in the corporate centre?

International experience

European CFOs have varying degrees of international exposure (see Figure 5). As a group, they have gained most of their foreign experience within the European region. Swiss CFOs have spent the most time living and working outside the country of their citizenship.

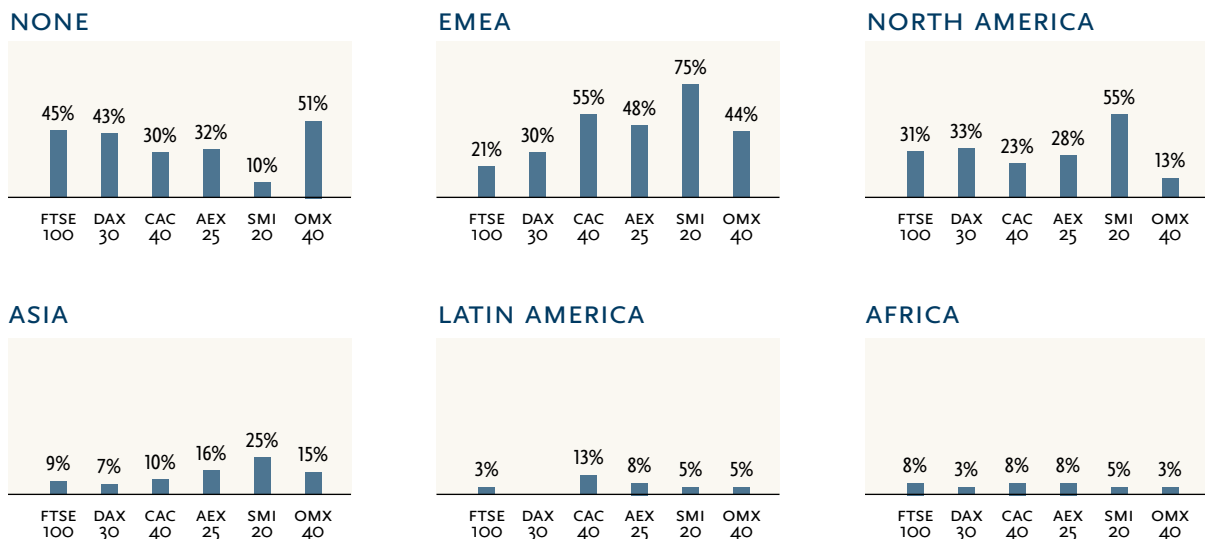
Seventy-five per cent of Swiss CFOs have worked in another European country, half have worked in the US and one-fifth have worked in Asia. By contrast, 45 per cent of FTSE 100 CFOs have had no experience living and working outside their own country prior to their appointment. Of the other indices analysed, only Nordic company CFOs have less experience working overseas.

There is a conspicuous lack of developing market experience among European CFOs.

There is a conspicuous lack of developing market experience among European CFOs. As part of their succession planning for the finance function, companies need to find opportunities for their high-potential finance executives to gain more exposure to these markets.

FIGURE 5: Prior international experience

These charts show the percentage of CFOs from each index who had prior international experience (i.e. time spent working outside their home country) in each of five geographical areas. The first chart shows the percentage of CFOs who had no experience outside their home market.



Diversity

There is a lack of diversity in the European CFO market.

Women hold only 16 CFO positions in 254 companies, of which nine are in the UK. Unfortunately, this is too small a number to draw statistically meaningful conclusions about their routes to the top.

When it comes to international diversity, Swiss companies are the most likely to hire a non-national CFO. Only seven of the SMI 20 CFOs are Swiss nationals and two of these have dual nationality. In the Netherlands, nine out of 25 CFOs are non-nationals. The companies that hire the highest proportion of nationals in the role of CFO are to be found in the Nordics (90%), the UK (89%), Germany (87%) and France (80%).

As Figure 6 shows, companies are more likely to appoint a CFO whose nationality matches the corporate headquarters than they are a CEO. The only exception is France where the numbers are equal. As companies become more open to appointing international CEOs they appear to be balancing such appointments with “homegrown” CFOs who will have established relationships and reputations with locally-based investors, analysts and the media.

Women hold only 16 CFO positions in 254 companies

FIGURE 6: Nationality matches location of corporate HQ

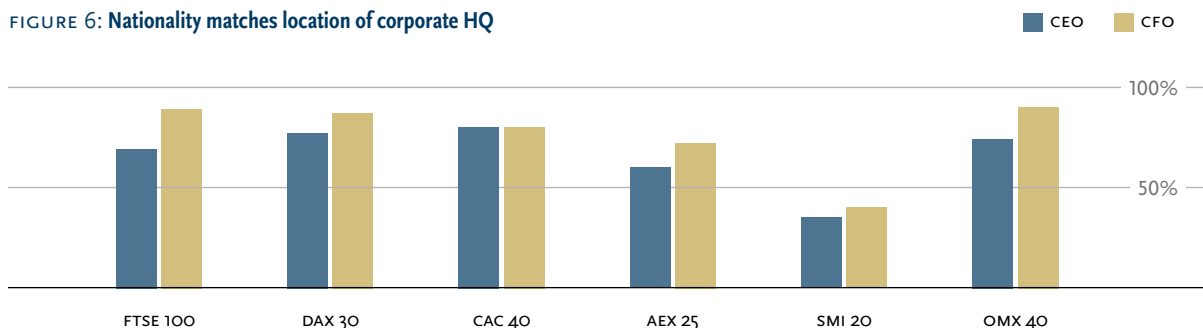


FIGURE 7: Industry experience of external hires immediately prior to appointment

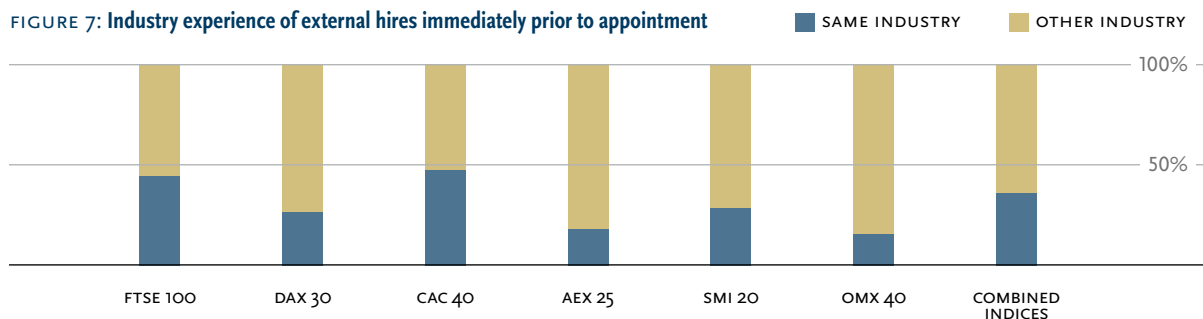
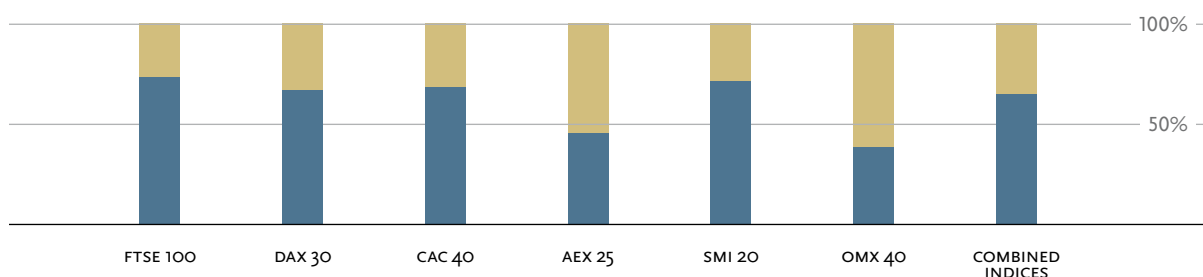


FIGURE 8: Industry experience of external hires throughout their career



The profile of external hires

Forty-six per cent of CFOs in the six indices we analysed were external hires. Of these, well over two-thirds had previous CFO experience. External appointments who had not been a CFO — so-called “step-up candidates” — tended to have some experience in general management, divisional finance, control or M&A.

Hiring a non-CFO from outside the company involves a clear trade-off, and our research shows that in these appointments the two most important areas of experience that companies look for are a professional services background (usually from an accounting firm) or a senior role in divisional finance.

Sixty-four per cent of external CFO appointments across the six European indices we researched were appointed from a different industry. In the SMI 20 and OMX 40, that figure jumps to a remarkable 85 per cent (see Figure 7).

This evidence appears to suggest that there are few barriers to CFOs changing sector. However, when we look further back in the CFOs’ backgrounds, we find that the majority have in fact acquired experience of the sector at some stage in their career. Figure 8 shows that when hiring an outsider most European companies prefer candidates with relevant industry experience. However, AEX 25 and OMX 40 companies are less insistent on same-industry experience.

When hiring an outsider most European companies prefer candidates with relevant industry experience

The profile of internal hires

Excluding the UK, two-thirds of internal hires had gained experience outside the finance function during their careers. Our research shows that for someone to be a credible internal candidate, they need either to have breadth gained from non-finance experience (combined with a financial background) or strong experience in either control or divisional finance, preferably both.

The average length of time that an internal CFO hire has spent with the company prior to their appointment varies from 10 ½ years (FTSE 100) to 17 ¾ years (DAX 30). In the Netherlands, the Nordic countries, Switzerland and the UK, the most common period spent inside the company before succeeding to the top job is between five and ten years.

Age and tenure of European CFOs

There is only slight variation between countries in the age of CFOs at the time of their appointment. FTSE 100 CFOs were the youngest (45 years on average) and DAX 30 CFOs were the oldest (47 ¾ years). Companies in the FTSE 100, AEX 25 and SMI 20 are more likely to appoint a younger CFO (i.e. under the age of 40).

FTSE 100 and OMX 40 CFOs have the longest average tenure (5 ½ years), while SMI 20 CFOs have the lowest tenure (3 ¾ years). Three FTSE 100 CFOs demonstrate remarkable longevity, having been in their role for more than twenty years. At the other end of the scale, three-quarters of CAC 40 CFOs have been in their roles for less than 10 years.

Contacts

We welcome any feedback you may have on the issues raised in this paper. If you would like to discuss any aspects of our research with us, we would be happy to do so. For more detailed information on the route to the top for finance executives in Europe, contact your nearest Spencer Stuart consultant:

Austria

Gerhard Resch-Fingerlos
greschfingerlos@spencerstuart.com

Belgium

Danny Vanhaecht
dvanhaecht@spencerstuart.com

Czech Republic

Lumír Meloun
lmeloun@spencerstuart.com

Denmark

Kaare Sand
ksand@spencerstuart.com

France

Laurent Blivet
lblivet@spencerstuart.com

Dominique Potiron
dpotiron@spencerstuart.com

Germany

Irene Liebler
iliebler@spencerstuart.com

Matthias Scheiff
mscheiff@spencerstuart.com

Willi Schoppen
wschoppen@spencerstuart.com

Olaf Schwan
oschwan@spencerstuart.com

Armen Simon
asimon@spencerstuart.com

Dieter Unterharnscheidt
dunterharnscheidt@spencerstuart.com

Italy

Carlo Corsi
ccorsi@spencerstuart.com

Enzo de Angelis
edeangelis@spencerstuart.com

Middle East

Marco Boni
mboni@spencerstuart.com

Netherlands

Jean Pierre Dubois
jpdubois@spencerstuart.com

Poland

Robert Nowakowski
rnowakowski@spencerstuart.com

South Africa

Mpho Seboni
mseboni@spencerstuart.com

Spain

Ignacio M. Maza
imaza@spencerstuart.com

Sweden

Rune Jörgensen
rjorgensen@spencerstuart.com

Switzerland

Antonio Maturo
amaturo@spencerstuart.com

Maurice Zufferey
mzufferey@spencerstuart.com

Turkey

Kaan Okurer
kokurer@spencerstuart.com

UK

Aidan Bell
abell@spencerstuart.com

Chris Gaunt
cgaunt@spencerstuart.com

About the Spencer Stuart EMEA Finance Officer Practice

We help clients recruit financial executives with the appropriate qualifications, leadership traits and cultural fit. We have a deep understanding of the financial officer marketplace and are in regular contact with seasoned executives and rising stars in key functional areas and roles:

- > Chief financial officer
- > Divisional and regional finance leaders
- > Audit
- > Control
- > Corporate development and M&A
- > Financial reporting and accounting
- > Investor relations
- > Risk
- > Tax
- > Treasury

We are a dedicated team of 25 consultants, many with a finance background. We have conducted more than 450 finance searches in the EMEA region over the past two years for clients that range from large multinational companies to private equity firms and their portfolio companies to emerging companies and nonprofit organisations. Over half of these were C-level assignments.

We have unrivalled access to senior finance executives, combined with strong personal relationships and a global proprietary database. We work closely with the firm's industry practices, the global Finance Officer Practice and with the EMEA Board Practice. We regularly conduct new research and publish thought leadership on many aspects of leadership and talent development within the finance function.

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