

How functional leaders become CEOs

Limited operational experience is not necessarily a barrier to the top job. Here's what CFOs and others must do to jump to the next level.

by Michael Birshan, Thomas Meakin, and Kurt Strovink

Holding a functional leadership role isn't the most direct route to becoming a CEO. Fewer than 15 percent of the CEOs in a data set we've been scrutinizing for more than a year ascended to the corner office after serving as a functional leader such as chief financial officer, chief marketing officer (CMO), chief strategy officer, chief technology officer (CTO), or general counsel. Nearly all the rest had been operators—CEOs at other companies, leaders of major operating divisions, or chief operating officers.

The case for a functional CEO is strongest when his or her expertise is core to a company's critical business challenges. Organizations in the midst of a major digital transformation might benefit from a CTO in the top spot, and a CMO-turned-CEO could be just what the doctor ordered for a company rethinking its brand portfolio. Similarly, companies undertaking a growth plan based on M&A or a major cost-reduction effort often look to CFOs. (More than 70 percent of former CFOs promoted to CEO at FTSE 250 companies were appointed to lead cost-reduction or M&A-led growth initiatives, according to research by our colleagues.¹)

¹ See Richard Dobbs, Doina Harris, and Anders Rasmussen, "When should CFOs take the helm?," November 2006, McKinsey.com.

Regardless of the expertise they bring to bear, functional CEOs have a common set of challenges, rooted in their relative lack of operating experience. To understand both the challenge and the opportunity for functional CEOs, we scrutinized the former CFOs in our data set of 599 CEOs. CFOs represented two-thirds of the functional CEOs,² so they provided the most robust fact base for analysis. In our experience, the issues that CFOs-turned-CEOs wrestle with are emblematic of those faced by other functional executives.

BROADENING THE BASE OF LEADERSHIP

Lack of general management experience is a challenge for all functional executives. Many of the CFOs-turned-CEOs in a sample reviewed by our colleagues—a full three-quarters of those promoted to CEO at the FTSE 250 companies—compensated for this lack of experience by spending time outside the finance function. Sometimes nonfinancial experience comes from line roles; in other cases, CFOs burnish their skills by taking on additional functional roles in strategy or by joining the boards of other companies. Broader experiences such as these appeal to boards choosing CEOs, and they can also build decision-making instincts for CFOs when they encounter issues that can't be resolved through numbers.

More than 90 percent of the CFOs-turned-CEOs in our data set were promoted from within an organization rather than hired from outside. Deep knowledge of personalities and corporate culture can help the new CEO motivate employees as he or she articulates a vision for the company. Insider status also often necessitates a reset of relations with former peers on the management team, some of whom may also have been candidates for the CEO post. About three-quarters of the former CFOs in our research reshuffled their management teams within two years of taking office, compared with two-thirds for all new CEOs.

BUILDING ON STRENGTHS

CFOs have some natural strengths that can facilitate effective transitions into the CEO role. Former CFOs are often better at developing detailed strategies, have a deeper understanding of the drivers of business value, and can communicate that to investors. Extensive experience in budgeting and forecasting builds an appreciation of objective analysis, which CFOs

² Fourteen CEOs in the Fortune 100 were previously CFOs or finance directors. The figure is between 5 and 10 percent in European markets, and even lower in Asia.

typically bring to bear early in their new role. For example, former CFOs were almost twice as likely as the average CEO to conduct a strategic review in their first two years in office (exhibit).

The CFO role provides experience, and breeds skill, in allocating capital to support the organization’s strategy. This is key to outperformance, as research by our colleagues has shown.³ Effective resource reallocation requires CEOs and their management teams to develop a detailed view of

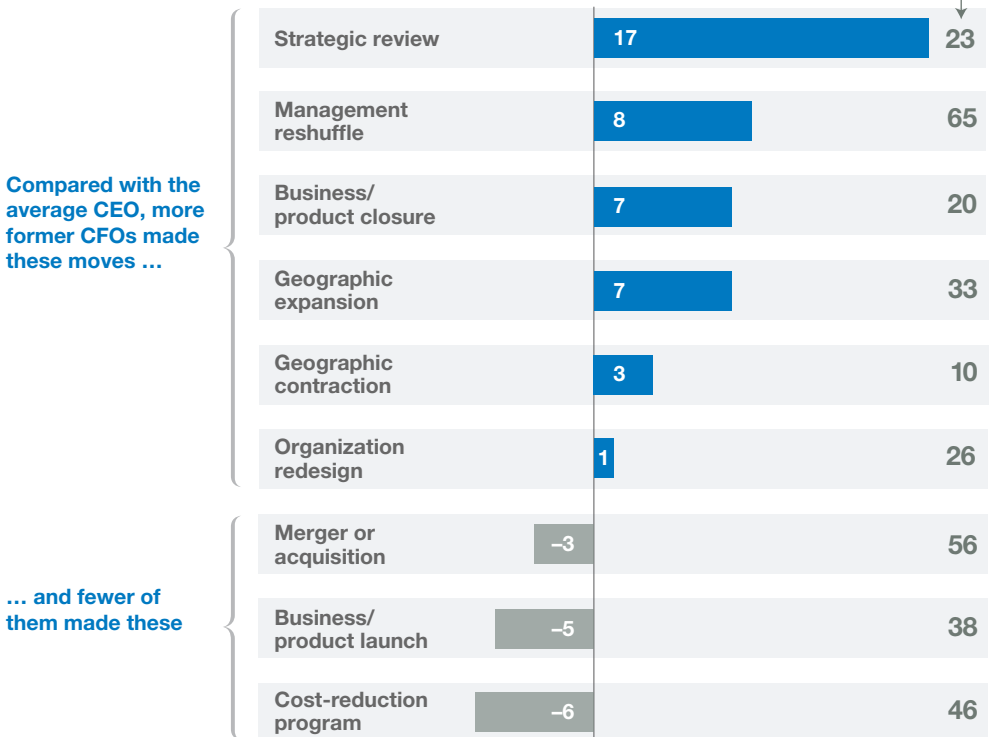
³ Yuval Atsmon, “How nimble resource allocation can double your company’s value,” August 2016, McKinsey.com.

Exhibit


CEOs who were formerly CFOs are more likely to conduct a strategic review.

Strategic moves taken in first 2 years of tenure,
percentage-point difference between CEOs who were
formerly CFOs and all CEOs

Share of average
of CEOs who
made move, %



the attractiveness of different business lines and customers. They also need to be attuned to the biases that can distort allocation decisions, combating through measures such as adopting a common set of metrics to evaluate funding opportunities or committing to annual reallocation thresholds. CFOs' experience leading planning processes makes them especially suited to these tasks.

Slower growth, rising cost pressures, and business-model challenges from digital players steeped in analytics have made a robust financial skill set a big plus for any executive making the transition to CEO. Capabilities once seen as the preserve of the finance function, such as the roles that finance and analytics play in setting strategy, are now priorities for all senior leaders. Functional executives who aspire to the CEO's chair should look for opportunities to show analytic leadership, deploy their own expertise, and broaden their leadership foundation. 

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