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CFO pay the silver lining of SOX

Job demands justify compensation increases

By Aileen Gallagher
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NEW YORK — Although they face greater work loads and more pressure than in the past due to the burdens of Sarbanes-Oxley, chief compliance officers receive richer compensation for their additional responsibilities.

“The CFO is under a microscope right now. In the old days, as long as the taxes were paid and the numbers were accurate and the audit was passed, you were OK,” said Joe M. Pelayo, president at Joseph Michaels Inc., a financial executive search firm in San Francisco.

The risks and accounting demands on CFOs warrant that they earn more money, noted recruiters. CFOs in the post-SOX world expect sweetened pay packages, and companies are willing to pay them, said Mr. Pelayo.

CFOs began to certify financial statements in 2002 and median total compensation jumped with the new responsibilities. In 2005, the median total compensation package for a CFO rose to $2.5 million, representing a 31.6% increase over the pre-SOX median. The median total direct compensation for CFOs at Fortune 500 companies was $1.9 million in 2001, the year before SOX was enacted, according to data compiled by Equilar Inc., a compensation research firm based in San Mateo, Calif.

Equilar calculated total direct compensation by adding together base salary, bonus, restricted stock awards, the estimated value of stock-option awards, long-term incentive plan payouts and other compensation.

Pay to play

Today’s regulations put the onus on the CFO to assure compliance, and companies must pay for the expertise of a qualified financial officer, noted Mr. Pelayo. “If they cut corners on CFOs, they’re being de-listed. Instead of that costing you 5% or 10% on your stock price, a retirement fund doesn’t buy your stock. Now, his incompetence cost you your entire company.”

The intense pressure and the expertise required to comply with Sarbanes-Oxley has taken its toll at mid-level public companies with financial staffing needs, said Rich Leo, a partner at CFO Selections LLC, a recruiting firm in Bellevue, Wash. “There tends to be a lot more risk and liability for a CFO at a mid-level company. They are the guy. There aren’t a lot of people below them. If they consider doing it, they’re looking at pay as the motivating factor,” he said.

Pay might motivate some CFOs to accept a new job, but not necessarily to stay there, said Charles B. Eldridge, leader of the financial officer’s practice of Korn/Ferry International, an executive search firm in Los Angeles. A high rate of turnover continues to affect CFOs and financial services professionals, he said.

Nearly one-fifth of Fortune 500 companies changed CFOs in 2005, according to the 2006 Financial Officers’ Turnover Study released in May by Russell Reynolds Associates Inc., a New York-based executive search firm. In 2004, 16 % of CFOs left their posts at Fortune 500 firms. In 2005, the number had risen to 19%.

The survey found Sarbanes-Oxley to be the regulatory phoenix that rose from the ashes of corporate accounting scandals. “What corporate America giveth, Enron taketh away. Financial officers are now inundated by the accounting and compliance functions of the job,” noted the report. “They feel burdened by personal liability and responsibility. They feel handcuffed and held back by the return of the old bean counter agenda.”

But CFOs who left the public sector before SOX will have a difficult time finding a job, said Korn/Ferry’s Mr.

Eldridge. Large companies are ideally looking for a sitting CFO. “They want someone who has had to live in Sarbanes-Oxley.”

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