Handling CFO departures

When a senior executive resigns, employers have to manage the exit carefully. There could be fallout from the resignation as a workforce may be de-stabilised and companies will want to ensure a smooth handover of duties and that investor confidence is maintained.

When chief financial officers (CFOs) resign, employers face all of these issues and more, because of the nature of the role, the information that CFOs are privy to and their knowledge of the company's systems. The CFO is the face of a company on all issues related to overall financial performance. One of the CFO's key priorities is to create and increase trust in the financial health of a business.

Their unique overview of business fundamentals, role as 'conscience' of the organisation and fact-based training means that a diverse group of stakeholders look to CFOs for the answers.

A CFO's resignation could indicate that the market does not yet know of something that could be of real concern to investors. For example, that a business is in poor financial health, there is some fundamental disagreement at board level, or a compliance issue which the CFO felt that he or she could be personally liable.

As a result, the CFO's departure needs to be handled in a particular way in order to calm investors and avoid panic.

In addition, from a business' perspective, it is critical to handle the CFO's resignation in a way that minimises any long-term impact and its competitive prospects. CFOs are in a unique position and are privy to highly confidential information which, if used against a company (e.g. by a competitor), could cause lasting damage.

Particularly in circumstances where the departure is acrimonious, continued access to a company's systems could cause significant damage.

One of the first questions following a CFO's resignation is whether to let the CFO remain for any period, given the risks and sensitivities. Is the resignation expected, welcome or acrimonious? Does it leave a business exposed, and who else knows about it, and can the flow of information be controlled?

Companies should decide whether it is best to cut off the CFO's access to its systems straight away. Also, they should quickly take control of what information is put into the public domain, including agreeing a reason for the departure with the CFO or (if agreement cannot be reached) putting a company viewpoint into the public domain first.

A successor should be appointed as soon as possible and a transition plan agreed with the current CFO (if possible) so as to ensure as smooth a handover as possible. A meeting with key investors should also be called to calm any marketplace nerves.

From a contractual perspective and in terms of protecting the company's interests, it is important that a business gives a clear message that it will vigorously protect its interests.

Companies should remind the departing CFO of any post-termination restrictive covenants (e.g. non-solicitation of other finance employees) and ensure he or she is aware that the confidentiality obligations (from both a business secrets perspective and also regarding any 'skeletons in the cupboard' which the CFO may be aware of) continue to apply notwithstanding the termination of employment.

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