Vanishing CFOs: Why So Many in Oil, Gas are Choosing to Leave

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In the months following the sudden dip in crude oil prices that began late 2014, the oil and gas industry has been challenged with finding ways to cope and maintain until the market turns around. The whole “do more with less” approach to work has been adopted by many companies who have had to downsize and restructure within their organizations.

But in addition to layoffs and other cost-cutting measures, several companies have had to deal with a few surprises.

The most recent downturn has seen a shakeup of many C-suite executives, as some have entered – and departed – their companies. While many smart and resourceful oil and gas companies already have succession plans in place to prepare for senior-level employee departures, for companies that don’t, now is an opportune time to visit the topic and implement some strategies, as the industry can expect to see several more months of the low-cost oil environment.

Recently, it seems there has been a wave of chief financial officers deciding to step down from their positions – in Houston alone, three CFOs of oil and gas companies resigned within a one-week period. Independent exploration and production company IGas Energy plc, based in the UK, named its new CFO Aug. 26. And Profire Energy, Inc., based in Utah, announced a new CFO Sept. 8 after the previous CFO stepped down. Globally, the industry has been hit hard and with some of the more recent departures, Rigzone wanted to explore why so many individuals primarily responsible for company finances are deciding to leave and what that means for the industry as a whole.

Unexpected Exits: The Show Must Go On

As many would expect, during the up and down cycles of the oil and gas industry, CEOs of companies often decide to leave. Mistakenly, some companies focus their succession plans around the CEO only, but the CFO also makes up an integral part of the management team. What factors cause a CFO to leave? And why in the midst of a downturn?

Raoul Nowitz

Managing Director, SOLIC Capital Advisors, LLC

“There is a significant amount of reliance on the CFO to navigate through these turbulent times,” Raoul Nowitz, managing director for capital advisory and financial restructuring firm SOLIC Capital, told Rigzone. “In accepting the mindset of having a prolonged industry downturn, certain folks aren’t best served or ready to weather the storm.”

Nowitz added boards are becoming more diverse and feeling more pressure from shareholders. Boards are interested in more seasoned CFOs and less seasoned CFOs may not have the experience.

"You never really want to see good talent leave," said Nowitz.

However, when it happens, Nowitz said a company needs assurance that it has the capabilities within the organization to continue to navigate forward – either with the CFO position remaining vacant for a brief period of time until a replacement is sourced or temporarily assigning a capable person in the organization to the role.

"There is a team that should be supporting that individual who can handle interpreting data effectively to influence present decisions, and I think the assurance needs to come from the top that these capabilities will be brought to bear," Nowitz said.

He added that the company should not remain unresponsive, rather, be active and dynamic in either recruiting externally or nurturing someone within the organization into the role. Whichever approach the company decides to take, it should be confident in the decision.

The Best Person to Weather the Downturn

The transition to a new CFO is extremely important to a company's success and the company's stakeholders should make great effort to make the transition as seamless as possible. A huge component in the transition: selecting the right candidate.

Nowitz said though some CFOs are "fairly flexible and can adapt to a variety of industries," some have grown and been immersed in a specific industry, such as oil and gas, and "might be better served to stay in that industry."

With a desire for CFOs to be strategically minded, experience in the industry is of great importance.

"In the current changing environment, the CFO needs to adapt quickly to the new normal," said Nowitz, who stressed that no company is immune – from the small, independent firms to large, diversified integrated firms.

CFOs need to be able to identify issues and come up with solutions fairly quickly, implement sustainable cost savings, manage the balance sheets, etc., added Nowitz.

"Obviously, the analytical, quantitative and technical skills are necessary, but in addition to that, the superior intangible skills – having the ability to understand the qualitative aspects of an organization, being able to adapt to the culture, etc. is often necessary," Nowitz said.

Outlook: More Departures Likely

The current industry downturn has experienced many senior-level executives leave to join other oil and gas companies, at times in different roles. For example, National Oilwell Varco's CFO left the company in April 2015 to become CEO at Transocean Ltd. In May, Transocean also named a new executive vice president and CFO, who previously served in the same positions for Atwood Oceanics Inc.

While Nowitz maintained "the devil's in the details" when it comes to why the industry's seen a wave of CFOs resign from their positions recently, he believes each move is situation-specific.

"People generally move for a greater opportunity, better compensation package, better lifestyle or maybe a combination of all of those," he said.

And he said the flood of departing CFOs may not subside soon.

“So long as CFOs are holding the view of weakening confidence in their own company’s prospects, including lower expectations for growth in revenue, we will see more CFOs preparing to take early exits,” said Nowitz.

He also mentioned a shift in the age of retiring CFOs, with more CFOs retiring in their late 50s instead of early to mid-60s, possibly due to the demands and pressures of the new normal environment.

“I think the changing nature of the CFO role also has something to do with it,” he said. “More company boards are looking for the CFO to be strategic and have a strong operational orientation.”

Nowitz said the appeal of cashing in stock options while they retain some sort of value is another motivator for individuals to exit early.

“More and more CFOs are moving into CEO roles that are opening up at their existing organizations or they’re being recruited elsewhere for an added opportunity,” Nowitz said. “I think the long-term effect will be that we continue to see active change within the CFO role. Highly seasoned and capable candidates will continue to demand attractive packages while opportunities will arise for those candidates to step up and prove their worth in the CFO role, should the position open up.”

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