

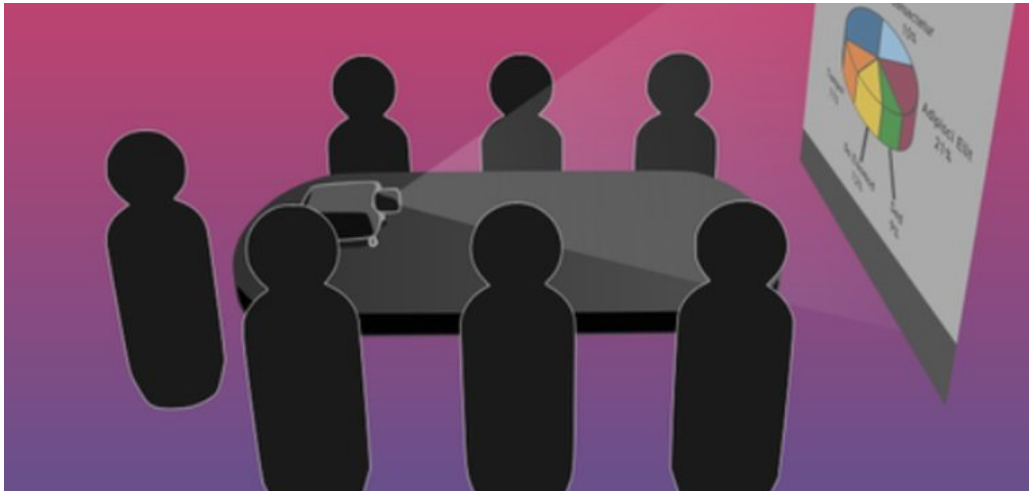
CFO DIVE

Original analysis on the latest happenings in the CFO industry

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BRIEF

Companies gain when their CFO sits on outside boards



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Dive Brief:

- Companies with a CFO on the board of another company have 21% fewer financial report misstatements than other companies, according to research by Sarfraz Khan, an associate professor of accounting at the University of Louisiana at Lafayette.
- Only about 7% of CFOs sit on boards of other companies, which Khan believes reflects a concern over the time and energy required by board members, especially CFOs. They're likely to sit on the audit committee, which is one of the most demanding and time-consuming committees a company has.

- But the demand on their time has a payoff. "Outside directorships connect CFOs to other executives and directors who can be sources of counsel and insight," says Khan, and "by serving on external audit committees, CFOs gain greater accounting-related expertise."

Dive Insight:

Khan studied data involving 3,741 firms over a 12-year period. In an average year, about 8% of CFOs served as directors of outside firms. On average, 14% of companies — but only 11% of the firms whose CFOs served as outside directors — issued restatements of prior misreportings.

Khan attributes the better results to the perspective CFOs gain when working on other companies' financial issues.

"CFOs interact with other directors, thus enriching their own knowledge and experience beyond what they can learn at their home firm," he says. "[They] can gain problem-solving expertise ... to better discharge their fiduciary responsibilities and resolve issues at the source firm."

In designing the study, Khan corrected for the possibility that CFOs with better managerial skills are the ones recruited for outside board positions.

The study appeared in the December issue of **Accounting Horizons**, published by the **American Accounting Association**.