THE WALL STREET JOURNAL.

NOVEMBER 20, 2019

CFO JOURNAL

Companies Benefit When Their CFOs Join Outside Boards, Research Suggests

Companies in which the finance chief sits on an outside board saw 21% fewer misstatements over 12-year period, a new study says

Sarfraz Khan, an associate professor of accounting at the University of Louisiana at Lafayette, is publishing a study on the advantages of a finance chief serving on outside boards. PHOTO: UNIVERSITY OF LOUISIANA AT LAFAYETTE

By Mark Maurer
Nov. 20, 2019 4:44 pm ET

A finance chief's service on another company's board could enhance the quality of financial reporting for his or her own company, new academic research suggests.
Companies in which the CFO also serves as an outside board director saw 21% fewer financial reporting misstatements over a 12-year period than at companies in which the CFO didn't,

according to the research, which is expected to be published in mid-December in the journal **Accounting Horizons**, according to its publisher, the **American Accounting Association**. The research, conducted by Sarfraz Khan, an associate professor of accounting at the University of Louisiana at Lafayette, indicated outside board work gives CFOs additional insight into how organizations apply accounting practices.

Mr. Khan compared the financial reporting of two groups of similar companies, one with CFOs who served on at least one outside board and one with CFOs who didn't. The study tracked more than 3,700 U.S.-based public companies between 2003 and 2014, during which an average of 8% of the CFOs served as directors of outside firms.

Companies historically have been reluctant to permit CFOs to sit on other companies' boards, given the time-consuming nature of the role they would likely have as a member of the outside audit committee.

The study argued that companies should encourage their CFOs to join outside boards. Mr. Kahn concluded that CFOs who are recruited to outside directorships often come from well-managed businesses and the insight they gain often further strengthens the management of their own businesses.

"Even if CFOs come from bigger or better managed companies, they'll still learn more from the board experience," Mr. Khan said in an interview. "They'll hone their skills and probably imitate some practices of those other companies."

A CFO on another board's audit committee usually assists with complex matters such as when an external auditor detects potential fraud or an international mergers-and-acquisitions deal, said Peter Bible, the chief risk officer at accounting firm EisnerAmper LLP and a former chief accounting officer at General Motors Co. Their expertise can be more valuable in those situations than marketing executives or college professors on a board, he added.

CFOs of larger companies are more likely to be invited to sit on a board, giving them an advantage in learning from other companies, Mr. Khan said.

About 21% of CFOs at Fortune 500 and S&P 500 companies held an external public board seat in 2019, according to data from Crist|Kolder Associates, an executive search firm that tracks C-suite trends.

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