Managing the Evolving Relationship between the CEO and the CFO
With CEOs increasingly expecting CFOs to act as strategic business partners, top finance executives need to master some demanding professional and personal skills to manage this critical new relationship. Based on interviews with more than 25 leading CFOs on four continents, Egon Zehnder International’s Financial Officer Practice explores those new skills, how finance executives can acquire them, and why CEOs should seek them in their CFOs.

We would like to thank the following individuals who participated in the survey:

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Managing the Evolving Relationship between the CEO and the CFO

The days of the one-dimensional CFO number cruncher are long gone. CEOs of leading companies almost uniformly agree that they want a CFO who can help them manage the business, complement their skills, think strategically, and offer leadership, while still providing all of the requisite financial skills. It's a tall order – made even more difficult by the complex relationship with the CEO that this changing role entails. For many CFOs – and the many financial executives who aspire to this more rewarding role – the real challenge will lie not in acquiring the expanded business ability but in successfully managing that relationship.

As part of our global Financial Officers Practice initiative to better understand the opportunities and challenges CFOs face today, we interviewed nearly 20 leading CFOs on four continents. What emerged was a vivid picture of the CFO role in transition around the globe and the professional and personal skills that CFOs need to manage the critical relationship with the CEO. Chief among those skills are the ability to:

Collaborate with and influence the CEO
Maintain independence
Deliver business results, as opposed to primarily just managing the financial organization and reporting the results

The task seems simple enough on its face, but an even cursory consideration of the first two skills – collaboration and independence – brings us up against the tension at the heart of the CFO's new role. Many of the CFOs we spoke with cited the dual nature of the role, seeing an inherent conflict between focusing on controls and on business partnering. But as leading CFOs also told us, and as our experience confirms, CFOs who can successfully balance those two conflicting claims are most likely to be able to deliver on the ultimate skill: providing business results.

A Unique Relationship
This inherent tension at the heart of the evolving CEO/CFO relationship emerging in leading companies makes the relationship like no other. It is closer than the arm’s length mentoring/monitoring relationship between independent board members and the CEO. At the same time, it is more distant than a partnership of equals. Even “business partnership” – suggesting explicit contractual boundaries and spheres of operation – fails to encompass the subtle skills involved in managing the relationship.

“To me the CFO role is very much that of the right-hand person to the CEO and therefore the personal chemistry is extremely important,” says Andrew Halford, CFO of Vodafone. “If that works, I think it can be a very powerful combination.”
Assessing personal chemistry or describing the ideal relationship for all circumstances can be difficult, but a simple test can help you determine whether the CFO is on the right footing with the CEO. Simply ask whether the CFO is the first person to whom the CEO turns for a second opinion or for a no-holds-barred discussion of a burning issue. If the answer is “yes,” the relationship is undoubtedly solid.

**Collaboration and Influence**

Today’s CFO collaborates with the CEO on a broad range of issues from business strategy, organizational issues, investor relations, capital and investment management, and competition, to financial reporting, planning and analysis, compliance, and regulatory matters. Some of these issues involve long-familiar concerns of the CFO, but today these discussions are far more likely to take place in the broader context of company strategy. After Sarbanes-Oxley, strategy may have taken a back seat as many CFOs were preoccupied with mastering more rigorous financial reporting and control requirements. Now, having largely implemented those requirements, CFOs have turned their attention to the more strategic issues with which CEOs increasingly seek help.

In many leading companies, financial executives are developing those strategic skills as they move up through the organization. “Telling someone to be more strategic is generally not very helpful feedback,” says Gary Crittenden, CFO of Citi and formerly American Express. David Sidwell, former CFO of Morgan Stanley, agrees. “Making sure that people in the finance function know how to approach strategy, how to think about developing a strategy, how to engage in a strategic dialogue can be difficult if you haven’t had experience doing it,” he says.

These types of leading companies work hard to develop strategic skills in their finance executives. “If we possibly can, we have people actually go outside of finance and have experiences in business units and then come back into finance,” says Crittenden. “We find that people who understand how difficult it is to run a business unit and the challenges the businesses face have a better appreciation for how important it is that we be accurate, good, and forecast well. All of the skills that we think are important come...
as we rotate people around. So we rotate them as much as we possibly can among various functions and try to develop people in this way.”

In the event that the CEO is an excellent strategic thinker the CFO should bring complementary operational skills to the relationship. Similarly, if the CEO’s leadership style is to empower people by seeking broad input, sometimes at the expense of reaching a decision, the CFO can provide the requisite degree of decisiveness to help keep the organization moving forward.

Beyond collaboration lies influence. To enjoy real influence with the CEO, the CFO should also possess credibility and influence inside and outside the company. Externally the CFO can complement the CEO, especially for listed companies, by developing relationships with investors, analysts, and other opinion-leaders. Inside the organization, the CFO should develop strong relationship with the CEO’s other direct reports even though on a day-to-day basis there might be little need for interaction. It is equally important to keep some distance. As Peter Marriott, ANZ’s CFO puts it, the CFO is in “a relatively lonely role – if you become too friendly and too close to the rest of the team, you might lose some objectivity.” These strong relationships, tempered by objectivity, can help enormously when the CFO is helping the CEO build a business case from a financial standpoint.

The CFO should also have developed such relationships with all parts of the organization. “As people are working on the way up the ranks, they should never underestimate the importance of building relationships with all of those who are going to be key opinion-leaders later on in their careers, and they are not always necessarily the people who are in the direct line of sight,” says Vodafone’s Halford.

It is also important that the organization understands the broader nature of the CFO’s role. It’s important, say many of the CFOs we spoke with, that the entire organization views the CFO as a business partner, not as an accountant. A CFO who is well connected and influential throughout the organization can not only provide the CEO with broader general business advice but also use that organizational influence to help execute the CEO’s plans.

The CFO should also constantly consider the CEO’s agenda in order to become adept at anticipating what the CEO might need in the way of information, advice, or other assistance. If that help involves highly complex financial data, as it so often does, the CFO should be able to cut through the complexity to present it in terms of the CEO’s objectives. As the working relationship becomes firmly established, the CFO should be able to reliably provide the right information at the right time without being asked.
Maintaining Independence
If collaboration is the yin of the evolving CFO role, independence is the yang. Rooted in the CFO’s traditional fiduciary responsibilities and reinforced by recent legislation, independence remains a core value for top financial officers, who are perhaps best positioned to know when the interests of shareholders aren’t being well served. A CFO has to be utterly clear about standards and unwavering in setting the right culture for the organization in terms of control and business practices.

Further, it is often the CFO who must act as the hard-nosed realist in the face of financially unwise or even reckless corporate strategies, policies, or behavior. Says Citi’s Crittenden, “When you are a CFO, you have to be tough; sometimes you have to be really difficult, and you have to insist on performance, and you have to draw the line. There has to be someone inside the company, like one of the parents in a family, who has the ability to say, ‘No!’” Nevertheless, he says, there is an art to saying no in a way that strengthens rather than destabilizes the relationship with the CEO.

Further, a CFO who isn’t genuinely independent ultimately does a disservice to the boss by acting as an echo chamber instead of a sounding board – telling him what he wants to hear rather than what he should hear. Says John Hele CFO of ING, “The only person the CEO can turn to is the CFO for help making the really tough decisions that need to be made. In terms of adding value, helping make that one right strategic move at the right price may be worth more to the CEO than all of the other things you do.”

Like strategic orientation, skill at balancing independence and collaboration doesn’t come naturally to many people. Says Crittenden, “Some people are really good at saying no, and other people have very good relationship skills – it’s hard to find both of those in one person and it’s a very hard thing to train – but I think it is essential for someone who really wants to be a senior-level, successful CFO.” This may help explain why some of the best CFOs have had a combination of experiences in both line and staff roles. In order to succeed in such different settings, they had to hone both collaborative skills and the ability to remain independent.

Delivering Business Results
The simultaneous application of collaboration and independence in the relationship with the CEO should produce real business results. If it produces only a kind of alternation between friendly advice on the one hand and the raising of objections to risky business plans on the other, then the CFO likely isn’t truly fulfilling the role.
In fact, a look at the CFO's approach to risk offers a strong indication of how well he or she balances collaboration and independence. As Pierre-Jean Sivignon, CFO of Philips, explains, “It is very easy to play the role of a bad guy, to be the control guy, to say you can’t do this, you can’t do that. But the good CFO is not a risk controller but a risk manager. When a question of risk is put on the table, instead of simply saying yes or no, you say no but offer a way to get to yes.” In other words, a good CFO has, in addition to prudence, some appetite for risk in the positive sense of the word, looking at the world outside with an entrepreneurial interest.

The ability to offer solutions instead of simply raising problems depends not only on understanding business models but also on being able to describe their financial aspects succinctly and in terms of business value. “There is no time for spreadsheets and PowerPoints containing heaps of data,” says John Hele, CFO of ING. “A good CFO should be able to talk about business models instead of financial statements. And to describe the business model in a few sentences and with a few key value indicators is even better.”

Organizationally, the relationship between business and finance can be enhanced so that the CEO office and the CFO office can work together seamlessly to produce the desired business results. In big, multibusiness-line organizations, such as a multinational bank, each of the business lines is supported by a finance team. “Organizing the management team with finance support and measuring the business unit’s cost capacity against investment capacity helps us prioritize those investments,” says Richard Meddings, CFO of Standard Chartered Group. “It is a very real partnering in terms of helping to create the investment capacity within the overall cost space and selecting, prioritizing, and managing performance of the investments we roll out.”

That ability to move the organization – to drive performance – is ultimately the key to delivering results. Outstanding CFOs begin as collaborators and influencers, maintaining their independence and acting as valuable business partners. In doing so, they eventually become genuine change leaders, driving people to work smarter, not just harder, and creating better ways of doing things so that higher levels of performance and better business results are possible throughout the enterprise. Further, those CFOs with an eye to the future will ensure that other financial executives in their organization are given opportunities to acquire those skills. It remains a tall order and a daunting challenge – so much so in fact that those who are able to fulfill the responsibilities of the job and manage the relationship with the CEO are likely to be in short supply. But for those companies that want to harness the formidable power of a strong CEO/CFO combination, such talent will be well worth looking for.
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