Leadership Squared

The Power of Industry-Leading CFO-CEO Relationships
ABOUT THIS STUDY

With the increased importance of and emphasis on this critical C-suite relationship, this proprietary study aimed to benchmark CFO-CEO relationship health at leading companies and to identify any related benefits. Over the course of four months, 109 executives participated in the project, which included a survey with 101 participants and eight in-depth interviews.

Survey participants were asked to rank the strength of their relationship with their CEO on a 5-point scale, with 1 signaling a “very weak relationship” and 5 signaling a “very strong relationship.” Participants were then asked an additional 25 behavioral and attitudinal questions. Responses to the invitation-only survey were kept anonymous to protect privacy, enhance survey integrity and comply with SEC regulations.
Lou Gehrig and Babe Ruth. Fred Astaire and Ginger Rogers. Batman and Robin. Great partnerships are legendary.

So Russell Reynolds set out to understand another famous partnership: that of the CFO and CEO. To do so, we surveyed more than 100 CFOs at leading U.S. companies. What we found were clear strategic benefits to a strong CFO-CEO relationship. But the survey also uncovered that many top executive partnerships have a way to go to reap the rewards of a high-performing partnership.

**RELATIONSHIP STATUS**

In our survey, 82% of CFOs surveyed gave their CEO high marks for overall effectiveness. Further, the vast majority of CFOs said they trusted their CEOs.

But there’s still plenty of room for improvement. Fewer than half of our respondents gave their CEOs a high score when it came to their ability to coach and develop the CFO. And only 49% of CFOs surveyed said they had a “very strong” relationship with their CEOs, the highest relationship ranking in the survey’s 5-point scale.

Before we delve into what differentiates very strong relationships from the rest of the pack, it’s also worth noting what doesn’t. Although commonly assumed to be an important predictor of CFO-CEO relationship strength, our survey found that structural factors have surprisingly little impact, as shown in Exhibit 1.

This was certainly a surprise. Intuitively, for example, one would assume that a CFO handpicked by her CEO would be more likely to have a stronger relationship than one who was already in place when the CEO arrived. Yet the data shows an unimpressive difference between the two populations. Of the CFOs hired by the CEO, 51% reported having very strong

### EXHIBIT 1. PERCENTAGE OF CFOs REPORTING VERY STRONG CEO RELATIONSHIP

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<thead>
<tr>
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<th>CEO Hired CFO</th>
<th>CEO Inherited CFO</th>
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<tr>
<td>CEO Hired CFO</td>
<td>51%</td>
<td>43%</td>
</tr>
<tr>
<td>CFO Internally Promoted</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>CEO Internally Promoted</td>
<td>50%</td>
<td>47%</td>
</tr>
<tr>
<td>CFOs With &lt; 2 Years of Tenure</td>
<td>45%</td>
<td>50%</td>
</tr>
<tr>
<td>CFOs With 2+ Years of Tenure</td>
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relationships with their CEOs, and of the CFOs who were inherited by their CEOs, 43% said they too have very strong relationships with their chief.

While counterintuitive, this is good news, as it means the strength of the CFO-CEO relationship isn’t subject to hard-to-control exogenous factors and is instead largely within the control of both parties.

THE VALUE OF A STRONG RELATIONSHIP
CFOs who report themselves as having a “very strong relationship” with their CEOs are significantly more likely to act with confidence and transparency on several key dimensions.

Case in point: Seventy percent of CFOs rating their CEO relationship as very strong say they provide their boards with exposure and access to their direct reports. This is in stark contrast to CFOs with weaker CEO relationships, only 40% of whom say they do the same.

“When you provide the board with exposure to your team, you send a powerful signal of confidence, comfort and transparency,” said the former CFO of an $8 billion technology company.

This confidence shows up in other positive behaviors as well. For example, 98% of CFOs with “very strong” CEO relationships say they are comfortable bringing difficult issues to their chiefs. By comparison, only 29% of CFOs who reported weak relationships with their CEOs said they are comfortable tackling tough topics with their bosses, a crucial consideration in light of modern accounting reforms like the Sarbanes-Oxley Act and myriad other practices related to compliance and ethics.

“Sharing dissenting opinions is often a sign of a strong strategic partnership,” says industrial psychologist and Russell Reynolds leadership expert Amy Hayes. “By creating the space for healthy debate, the CEO is signaling directly and indirectly that the CFO is an

EXHIBIT 2. THE POWER OF PARTNERSHIPS

What CFOs With Strong CEO Relationships Say

CEO Challenges Me on Major Issues: 64%
Strategically Aligned: 74%
CEO Keeps Me Fully Informed: 72%
Strong Interpersonal Connection With CEO: 66%
CEO Encourages Me to Constructively Challenge Him/Her on Major Issues: 60%
engrained, enterprise-level member of the leadership team. In turn, this allows the CFO to operate at that level. By contrast, without a strategic partnership, the CFO can be constrained to more transactional thinking and responsibilities, which can undermine the relationship and underleverage the CFO’s ability to positively impact the business.”

From strategic alignment to communication, CFOs with strong CEO relationships demonstrate markedly healthier leadership behaviors, as Exhibit 2 illustrates.

CONFIDENCE PREDICATED ON TRUST
At the heart of the strongest CFO-CEO relationships is one of the most fundamental attributes of a healthy team: trust. In fact, 92% of the CFOs with the strongest CEO relationships said they and their chiefs share mutual trust versus only 38% for CFOs with weaker relationships.

“Whether it is the CFO and CEO or any other two members of the C-suite, building trust is a journey across two paths,” says Diana Horn, a leading expert on trust within the C-suite and a Russell Reynolds consultant. “On one level, the CFO and CEO learn to speak the same language. And on the other, they learn to ‘get’ one another. If the CFO and CEO are able to get to a reliable and shared map of these two intertwined paths, trust cycles upward. If not, they can find themselves at a dead end.”

“There’s a natural tension between the two roles. In order for that tension to be healthy, you need a base of chemistry, respect and trust,” says the former CFO of a consumer finance company with a multibillion-dollar valuation. “Effective relationships are defined by mutual trust and mutual respect for each other’s unique capabilities. That’s not all you need. But without it, the relationship doesn’t stand a chance.”

In fact, researchers at the University of Melbourne found that trust in a leader is strongly associated with that leader’s effectiveness, while 89% of respondents to a CEO Magazine survey of over 100,000 executives said the leadership quality they valued most was honesty, a key building block of trust.

CRITICAL PARTNERSHIP
Historically, clients sought CFOs with a strong accounting background and who were more inclined to leave strategy predominantly in the hands of the CEO. But today, top executives across the country understand the importance of the CFO-CEO relationship and of having a CFO who can do more than just finance. In fact, in nearly all CFO searches in the past three years, clients of all sizes and across all industries have been looking for finance chiefs who can also be strategic partners and trusted advisors.

This means that today’s CFOs are tasked with playing a bigger role than ever before. And if Russell Reynolds’ research on CFO behavioral attributes is any indication, many have the right mix of analytical and strategic skills to handle their expanded role.

BUILDING A GREAT RELATIONSHIP
Knowing that the behavioral building blocks are there, just how does the CFO go about strengthening the relationship with the CEO and board? Here are the top five tips from leading board members, CEOs and CFOs.

1. **Complete transparency.** The CFO at a financial services giant explains: “If there’s ever a perception that the CEO is not being 100% transparent and candid, he or she will quickly lose credibility. I want to work only for CEOs who are completely open with the board.” The numbers say it all: Among CEOs and CFOs with very strong relationships, 72% of CFOs say their CEO keeps them fully informed versus just 30% of other CFOs.

2. **No surprises and great communication.** Whether with the CEO or the board, “communicate the good, the bad and the ugly,” says the CFO of a major financial services company. The CFO of a $3 bil-
lion medical software company agrees. “I cannot imagine walking into an audit committee meeting with a surprise. I have no qualms about picking up the phone well in advance.”

3. **Always maintain credibility.** The saying is true for a reason—first impressions matter. “It’s important to be right early on in the relationship,” says the CFO of a Fortune 250 semiconductor giant. “Once you lose credibility, you can’t get it back. So don’t make mistakes on your way in the door, and, if you do, admit it early.”

4. **Be open to constructive criticism—and return the favor.** One of the biggest differentiators between CFOs with strong CEO relationships and their less-fortunate counterparts is a comfort with speaking up. In fact, 60% of CFOs with very strong relationships said their CEO encourages them to challenge him or her on major issues versus 23% of others. On the flip side, 64% of CFOs with very strong relationships said their CEOs challenge them as well versus 29% of others. These challenges are productive because 74% of CFOs with very strong relationships say they’re fully aligned with their CEO on their company’s strategic direction compared to just 13% of others. (See Exhibit 3.)

5. **Get to know the board.** Start with empathy. It’s important to understand the pressures facing boards—and how little time directors have to absorb information,” says the former CFO of a Fortune 250 industrial giant. “You need to be clear and concise with the information that the board needs to make decisions. This is always hard, but it’s much easier if you know your board members well enough to understand their personalities and preferences.” Several board members recommended getting to know them outside of the formal confines of the boardroom—as long as CEOs are kept in the loop. For more on building a strong board relationship, see sidebar.

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**EXHIBIT 3. PERCENTAGE OF CFOs WHO STRONGLY AGREE**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Percentage of CFOs</th>
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<tbody>
<tr>
<td>Fully Aligned With CEO on Strategy/Direction of Company</td>
<td>74%</td>
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THE RELATIONSHIP BETWEEN CFOs AND THEIR BOARDS

When it comes to relationships with their company’s board, CFOs often have slightly more ground to make up. In fact, while 53% of CFOs rated their board relationship as strong, just 34% rated it as very strong.

Similar to CFO-CEO relationships, CFO-board relationships are not dictated primarily by structural or experiential factors like whether the CFO was internally promoted or externally appointed, whether the CFO has substantial general management or corporate strategy experience, or how long the CFO has been in his or her role. One exception: Forty-six percent of CFOs who sit on for-profit boards report a very strong relationship with their company’s board versus just 28% who don’t sit on a board. There’s clearly power in knowing what it’s like to sit on the other side of the table.

The survey also found that CFOs are significantly more likely to report strong board relationships when they maintain strong or very strong relationships with the chair or lead director, the CEO, and the audit chair. Looking at it from another perspective, it’s effectively impossible to meaningfully connect with the wider board without strong relationships at the top.

AUTHORS

Jenna Fisher leads Russell Reynolds’ Global Financial Officers, Human Resources Officers, General Counsels, Operations and Supply Chain, and Corporate Communications Officers Practices. With more than a decade in executive search, her clients range from Fortune 1000 corporations to middle-market private equity portfolio companies and highly visible, pre-public venture capital–backed enterprises. Her expertise lies in recruiting CFOs, although she has conducted numerous assignments for treasurers, controllers, internal audit executives and division chief financial officers. Jenna is frequently cited for her expertise in leading business publications, including The Wall Street Journal.

Clare Metcalf, Russell Reynolds’ head of the Financial Officers Practice in the Americas, also contributed to this paper, along with financial officer leadership consultants Jim Lawson, Rose-Mistri Somers and Chris Faralli. Todd Safferstone and Jordan Watson provided research and analytical support.
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