The CEO – CFO Partnership

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The ultimate goal of most organisations is the creation of sustained long-term shareholder value. For global corporations, this is about *stakeholder* value: the combined interests of shareholders, consumers, customers and the environment, in markets where the company does business. When it comes to creating shareholder value, most corporations depend heavily on the CEO and the CFO. If the value creation journey were an airline flight, these two roles would be the pilot and co-pilot. While there is no guarantee of success, a strong CEO-CFO partnership most often provides a catalyst for business success.

So what does it take to build an effective CEO – CFO partnership? Before we answer that question let's take a look at what CEO's look for in their CFO's and vice-versa.

What do CEOs look for in their CFO?

The first thing that CEOs want in the CFO is a **business partner**. Long gone are the days where CFOs were mere accountants, preparing the books of records and providing financial stewardship. Rather, in today's organisation, where the value chain is built around brands, innovation, and the make-deliver-sell pipeline, the CFO suite plays an important role as an 'enabler'. The CFO must ensure adequate funding for growth; create simple but effective processes and systems that lubricate the workflow within the organisation and that are in synch with its needs; and provide data-driven decision-making support to the CEO. To use a soccer analogy, the CFO is expected to play mid-field. Similar to effective mid-field players, effective CFOs remove roadblocks by providing support and solutions to the line functions of sales, marketing and operations. CEOs depend heavily on the CFO for data, analysis and insights that help the corporation grow and succeed, and effective CFOs create a data-driven decision-making culture.

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The next thing that CEOs look for in their CFO is **strategic thinking**. At a high level, the CEO – CFO combine gives strategic direction to the corporation in terms of both vision and the resourcing need to deliver that vision. Good CFOs are able to look at the big picture, take a longer-term view of things, while being good operators who lubricate the wheels of the organisation. A CFO also plays a "Resource Investigator Role" by looking for trends in the external environment that have a bearing on the company's future success. Critically, CFOs must help build process and systems capability to enable future growth. In most organisations, the IT function reports into the CFO suite. Here, again, CFOs are expected to create a long-term strategic vision. The strategy role of the CFO culminates in building a longer-term strategic plan that helps prioritise strategic initiatives and ensures adequate funding for them.

In publicly listed companies, the CEO depends on the CFO to communicate the firm's current financial performance and its future earnings guidance – i.e. to fill a **financial spokesperson** role. While the CEO narrates the business story and key initiatives to enhance shareholder value, the CFO provides the numbers. This is indeed one of the key success factors of the CEO-CFO combine. Credibility with the street is crucial, and a strong CFO is able to create trust in the external financial fraternity, which in turn builds confidence in the corporation's ability to create sustained shareholder value. This has a direct and positive bearing on the stock price.

CEOs also depend heavily on CFOs to help manage and mitigate risk. This is the core functional delivery requirement, and good CFOs create a strong control environment where process risks are identified, mitigating controls are put in place, and all of this is supported by an effective internal control mechanism. Above all the CFO is expected to create strong proportional ownership across the organisation, which is really the best way to mitigate risk. On the other hand, CEOs also look for risk-taking ability in their CFOs. This is one area where most CFOs are uncomfortable. However risk and return go hand in hand, and CFOs are expected to have the appetite to take not *wanton* risk, but reasonable, calculated risks. Indeed, CEOs rely on their CFOs to **balance risk and return**.

Finally, CEOs look for a **"Value Creation" Mindset** in their CFO. What does this mean? The CFO is expected to spot good value creation opportunities, both organic and inorganic. Here too the CFO must judge and prioritise the "winning opportunities" that fit the organisation's strategic objectives and help create sustainable long-term shareholder value. A good CFO is able to challenge the status quo, leverage new opportunities to help the corporation grow, and manage the change well. In doing so the CFO plays a **change agent** role.

Let us now turn to what CFOs look for in their CEO.

What do CFOs want in their CEO?

Having been a CFO now for several years, and having worked with several CEOs, I have my own list of things a CFO looks for in the CEO. It is a long list, but a few points deserve to be highlighted.

The first "ask" is for the CEO to have an **effective leadership style**. Most, in fact all CEOs come with a dominant style. On the Mouton-Blake Scale, these are typically task- or relation- oriented styles. No style is good or bad, but the effectiveness of a style depends on the business situation. Importantly, though, the CEO should be aware of his or her own style, and have the ability to adapt it to suit different circumstances – rather than applying the dominant style in all situations. I have worked with task- and relationship-oriented CEOs, and the magic happens somewhere in the middle. Take a task-oriented CEO with a "My way or the Highway" style. In a crisis situation, this may work for a while, but in the longer run a more inclusive style is more effective. On the other hand a "Country Club" relationship style may work when the going is good, but decision-making and execution suffer when the chips are down.

The second thing that CFOs look for in a CEO is the ability to seamlessly toggle between the "Balcony and the Dance floor". Effective CEOs are equally at home with **high-level strategy and ground level execution**. Most CEOs have a strong bias for one of the two. Some are outstanding operators while others remain at a high level and focus on the big picture. Similar to leadership style effectiveness, the ability to strike a good balance between strategic thinking and execution is what CFOs admire.

Like most CFOs, I would like the CEO to be **data-driven** and take business decisions based on facts and data rather than on gut and judgement. This is not meant to be Utopian: I understand that the reality of business situations do not always allow for 100% data-driven decision-making, and there is always a trade-off between data and speed of decision-making and execution. One has to go by gut

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at times and rely on sound judgement. However, decisions that are based on a combination of data and judgement tend to work best.

CFOs expect the CEO to **lead the values agenda** by example. CEOs are expected to set a strong tone at the top on values and code of conduct. As the saying goes, "Culture eats strategy for breakfast" – and culture begins at the top. While the CFO is the custodian of risk management, he or she needs strong support from the CEO to help set a strong tone at the top, which in turn helps drive proportional ownership for values, code of conduct and ethics at the executive committee level. This percolates down to the rest of the organisation.

Having looked at what CEOs and CFOs expect of each other, let us now discuss what makes this partnership tick.

Principles of an effective CEO – CFO Partnership

In my experience, there are 5 principles for a strong CEO – CFO partnership.

The first principle is **Trust**. Like in any relationship, the CEO and CFO must have an open and honest relationship, which is what *builds* trust. As Stephen Covey rightly says, things get done at the Speed of Trust. It is essential that the individuals inhabiting these two roles create a strong trust bond with each other. This means being open and transparent, with no hidden agenda. It means the ability to respect the other's point of view without being judgemental. It means always assuming positive intent and keeping in mind the best interests of the corporation. It entails the ability to challenge each other, and at times agreeing to disagree. It means sticking together in tough times as the business goes through its peaks and troughs. All of this builds trust, and it is truly the foundation of an effective partnership.

The second principle is **Complementarity**: the two roles should complement each other and not overlap. The CFO can be a great sounding board for the CEO, and vice versa. Depending on the situation, the CEO may decide to focus on initiatives that drive the top-line, leaving the CFO to drive the productivity and margin improvement agenda. However, being able to do this successfully depends on the maturity of the relationship, and indeed on how much trust the two enjoy in each other. On the other hand, when CEOs and CFOs start to "supervise" each other, it creates an overlap that is unhealthy for the organisation. The ideal is when the two drive distinct agendas, but also regularly confer, update and seek inputs from each other.

The third principle is a **Shared Strategic Vision**. Sometimes, I have seen CEOs and CFOs falling apart over alignment issues: is it growth, or profitability, or both? If it is both, how does one prioritise each? These can sometimes be difficult choices, but having complete alignment on the strategic direction is absolutely critical to the success of a CEO-CFO relationship.

The fourth principle is **Balancing Independence and Collaboration**. An overwhelming CEO may sometimes diminish the CFO's ability to be impactful. At the same time, though, an overly conservative CFO may impede the CEO's ability to move things forward. Striking the right balance between independence and collaboration is critical. This is about having a different POV and being able to challenge each other when required, while singing from the same hymn-sheet most of the time. In a sense, these are the Yin and the Yang of any relationship.

Finally, it is **all about Chemistry**. Strong CEO-CFO combines truly leverage each person's strengths, creating the type of synergy that powers the corporation ahead in good times and creates a formidable wall of resilience in tough times. This is truly the toughest test for any partnership – and it is what stakeholders seek in their top leadership.

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Effective CEO – CFO partnerships in the Indian Context

The Azim Premji-Suresh Senapati combine at Wipro is a good example. For 20 of his 35 years at the firm, Senapati reported directly to Premji. Together they grew the company from Rs 43 crores in 1980 to Rs 50,000 crores today. As Senapati says, "Premji laid a great emphasis on integrity and ethics. If you were to ask me what makes me lose sleep, it is thinking whether there could be an individual in the company doing something stupid which can tarnish Premji's image or that of Wipro." He goes on to add, "Premji taught me about professionalism and risk-taking. And the standard that he applies on you, he applies to himself." This is a great example of strong trust, and of successfully balancing independence and interdependence.

S Mahalingam is credited with TCS' strong margin and growth expansion over many years. "In a sense, Maha has been a perfect foil to Chandra (Chandrasekaran)," says Pankaj Kapoor, director at Standard Chartered Securities, referring to the CEO's aggressive growth focus. In the end context, though, Mahalingam was more than a CFO. He was an able lieutenant to three CEOs, and a man who helped create a slice of India's software history.

Conclusion

In conclusion, a strong CEO-CFO partnership is critical to creating sustained shareholder value. While each has a distinct role, the ability to leverage each other's strengths for the benefit of the company is what makes for an effective partnership. The relationship is built on a fine balance of independence and interdependence, and cemented by an open and honest relationship built on trust. External stakeholders prefer an effective CEO-CFO combine, which directly links to the creation of shareholder value. Management committees and Boards must keep an eye on not only the individual talent and charisma of the CEO and CFO, but also on how well they combine together to create the chemistry so critical to business success. ■