



The CEO's Ideal CFO: A Study in Maltese PIEs

Lauren Ellul^a Gianluca Naudi^b

^a University of Malta, Head and Senior Lecturer - Department of Accountancy, Faculty of Economics, Management and Accountancy, lauren.ellul@um.edu.mt

^b University of Malta, Graduate Accountant - Department of Accountancy, Faculty of Economics, Management and Accountancy, gianluca.naudi.16@um.edu.mt

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Abstract

Purpose: The study aims to understand what CEOs (Chief Executive Officers) of Maltese PIEs (Public Interest Entities) expect from their CFOs (Chief Financial Officers). Furthermore, the study seeks to establish whether CFOs are expected to focus solely on finance, or whether they should also participate in strategy and planning. The study aims to identify the factors and skills that lead to a more effective CEO-CFO relationship.

Methodology: The study follows a qualitative approach. Primary data was collected from semi-structured interviews conducted with active and former CEOs and CFOs of Maltese PIEs.

Findings: Despite focusing primarily on their traditional finance roles, CFOs of Maltese PIEs are indeed dedicating a significant amount of time to strategic functions, as expected by CEOs. Strategic functions rank high on the average CFO's agenda, with organisational transformation, strategic leadership and performance management ranking second, third and fourth, respectively. The research establishes that the strategic and the finance roles complement each other, such that an effective CFO is one who can establish an optimal balance between the two roles. In their CFO, CEOs seek a qualified and experienced person of integrity who is capable of: understanding, supporting and challenging them, complementing their skillset and of leading.

Originality/Value: It is anticipated that this research will give finance professionals, who are increasingly assuming high management positions, a strong insight into a critical relationship they may sometime play a role in.

Introduction

The CEO (Chief Executive Officer) is generally viewed as the heart and face of the organisation (Tulimieri, Banai 2010), considered by many to be charismatic and capable of driving business transformations (Ajit 2012) and managing people (Hiller 2014). Brilliant CEOs tend to be remembered as generational leaders who left their mark on the world and instilled an aura of greatness in the companies they led (Tulimieri, Banai 2010).

Traditionally, the CFO (Chief Financial Officer) was merely seen as a realist, providing a counterbalance to the enthusiastic CEO (Tulimieri, Banai 2010). The main responsibility of the CFO was to be the “guardian of financial health” (International Federation of Accountants [IFAC] 2013) of the organisation, ensuring that costs were always a major factor considered in any decision, business analyses were undertaken thoroughly, and growth was mindful and moderate (Tulimieri, Banai 2010).

Unsurprisingly, since this ‘protector’ role tends to be “invisible” in the eyes of many (Tulimieri, Banai 2010), CFOs were, and perhaps still are, labelled as the brains of their organisations, solely responsible for managing and crunching numbers (Ajit 2012, Hiller 2014).

Today, the CFO’s role is becoming more flexible, versatile, and complex, as it now encompasses several distinct roles that are not necessarily connected with the finance function (Tulimieri, Banai 2010), but with formulating policies and plans together with the CEO to ensure that the organisation accomplishes its objectives (Thomson 2015). The following quote captures this argument and underlines the delicate balance a CFO must strike between his or her traditional stewardship role and the newer role of strategy-formation they are expected to occupy with the CEO.

“CEOs and boards increasingly want CFOs to not only deliver a finance organization that gets the numbers right, but also partner with them in shaping the company’s strategy.” (Ajit, Armstrong et al. 2014, p. 1)

Locally, Buttigieg (2013) concludes that this increased participation in strategy and in areas such as risk management has made the CFO role more rewarding, while in a local newspaper article, Mr. Alfred Lupi, former CFO of the national airline Air Malta plc, suggests that whilst still important today, the traditional accounting and reporting functions of the CFO are increasingly likely to be delegated, enabling the CFO to dedicate more time to assisting the CEO in business development and analysing strategic options and business opportunities (Lupi 2013).

Article 2(1) of the Accountancy Profession Act 1979 defines a 'public-interest entity' (PIE) as:

“an entity governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, a credit institution as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, other than those referred to in Article 2 of that Directive, an insurance undertaking within the meaning of Article 2(1) of Directive 91/674/EEC and such other entities as may be prescribed by the Minister.”

Figure 1 shows that since 2010, the number of PIEs in Malta has more than doubled from 83 to 170¹.

¹ The Annual Reports for 2014 and 2015 do not provide an exact figure for the number of PIEs but from the bar charts presented on pages 22 and 15 of the respective Annual Report, the number of PIEs can be estimated to be 155 and 160, respectively.

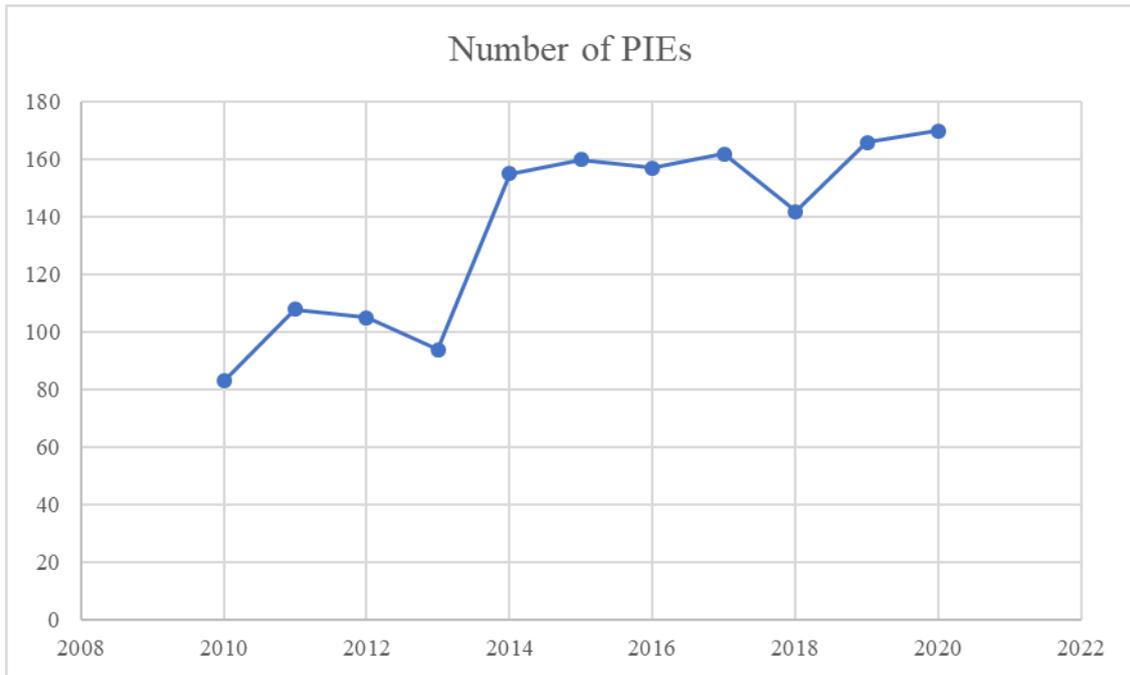


Figure 1 Number of Maltese PIEs since 2010

Source: Adapted from Accountancy Board Annual Reports (2010-2020)

Additionally, Figure 2 segments the number of Maltese PIEs in 2020 by type.

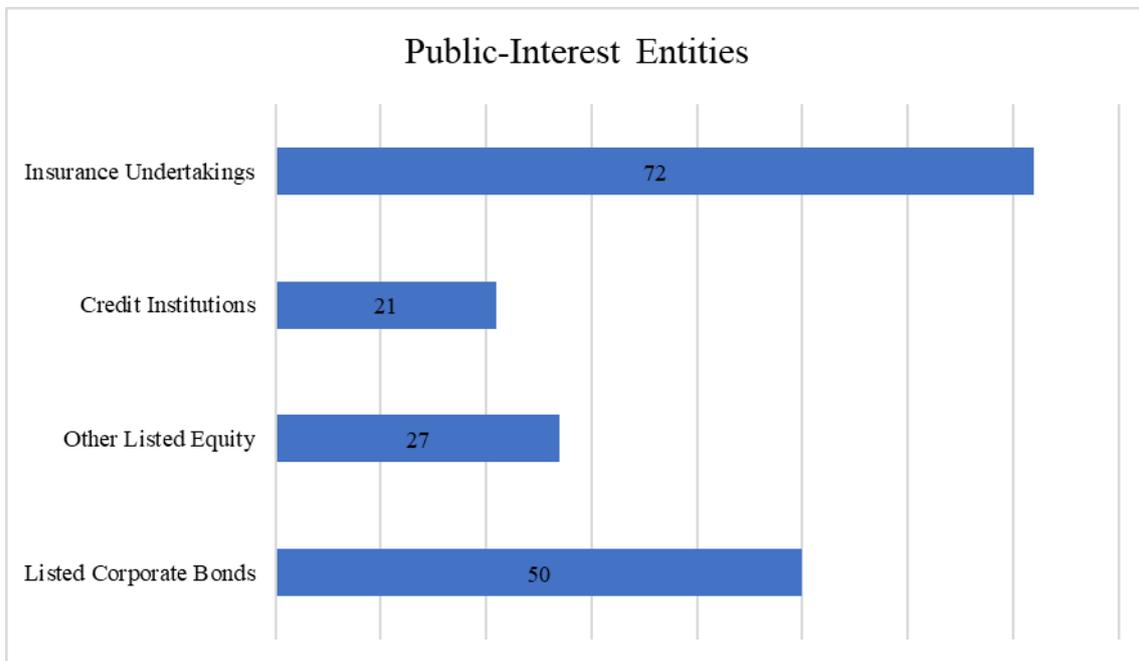


Figure 2 Segmentation of Maltese PIEs

Source: Adapted from Accountancy Board Annual Report (2020)

This paper has three principal objectives:

1. To understand what CEOs in Maltese PIEs expect from their respective CFOs, and to determine the extent to which CFOs are meeting these expectations.
2. To establish whether a CFO in a Maltese PIE is expected to focus purely on finance, or whether increased participation in strategy, planning, and operations is being demanded, as existing literature suggests.
3. To identify the factors and skills that lead to a stronger and more effective CEO-CFO relationship.

PIEs were chosen as the focus of this study because all PIEs are likely to exhibit a CEO-CFO structure, and their identification proved much more feasible, given the time constraints.

Whilst scrutinising the workings of the CEO-CFO relationship solely from the perspective of the CEO and CFO could result in a drawback of overlooking important aspects more likely to be observed by an outsider, this point-of-view was chosen because it is more likely to provide an insider's insight of such relationship.

Literature Review

Expectations from CFOs

Traditional roles

The traditional stewardship role of the CFO entails keeping a record of the inflows and outflows of money and presenting and interpreting this information to the company stakeholders and shareholders (Favaro 2001). Other fiduciary responsibilities of tax, audit, and internal control also fall under the CFO's remit (Han, Zhang et al. 2015).

Non-traditional roles

In addition to their traditional finance roles, CFOs are expected to be more proactive by contributing to strategic decision-making (Agrawal, Dinneen et al. 2016, Heller 2015, Maruna 2018) and by leading the organisation to see that it achieves its goals and objectives (IFAC 2013). Perhaps, this is why the empirical and data-driven

mentality that CFOs can bring to the table, which could be a huge asset during strategic planning and forecasting, is appreciated by companies (Agrawal, Gibbs et al. 2015).

Around 60% of the 178 CEOs, business owners, and chairmen surveyed in a KPMG and Forbes Insights survey (in Heller 2015) believe that the biggest opportunity for CFOs to affect organisational value is to dedicate more effort to performance and growth. Half of those surveyed believe that a wider perspective and strategic thinking are the most essential characteristics CFOs must possess.

In today's rapidly changing environment, strategic participation is not limited to the budgeting process, but also includes devising suggestions for growth after examining the external influences on the firm and the competitive advantages of competitors (Lupi 2013).

Therefore, CFOs should expect questions from their CEO not only on cash, revenue, and business risk but also on how far the company is from fulfilling its long-term goals, where to invest next, and what performance-measurement methods to implement (Sage Intacct 2019).

The ideal CFO

Financial expertise is just one attribute CEOs appreciate in CFOs. Also essential are the ability to generate value and profits (Karaian 2009), all-round versatility (McCullough 2020), effective communication skills (IFAC 2013), and "*credibility and influence inside and outside the company*" (Egon Zehnder International 2008 p. 2).

Understand the CEO

Before helping to execute the CEO's agenda, CFOs must first develop a deep understanding of the CEO's personality, priorities, and agenda (Holley 2016, Maruna 2018). Such an understanding also assists CFOs to "*reliably provide the right*

information at the right time without being asked” (Egon Zehnder International 2008 p. 3).

Chemistry and collaboration

Suzanne Wood (in Karaian 2009) acknowledges that CEOs are not necessarily looking for a friend in their CFO, but rather for someone capable of empathising with them and of complementing their skills.

Supporter, challenger, and honest communicator

Since the person who best understands the business is normally the CFO, the CFO is one of the very few people the CEO can discuss questions with or get blunt answers from (Holley 2016). CEOs, therefore, need CFOs to be as open and honest as possible, even if the truth is unpleasant (McCullough 2020).

A good CFO is one that is ready to support and challenge the CEO in leading the business (IFAC 2013). While it is the CEO that normally has the final say on the organisation’s direction, it is the CFO’s responsibility to ensure that the organisation reaches its destination unscathed (CNBC-TV18, ICICI Bank 2018). According to Holley (2016), CFOs are not expected to have all the answers, but as the CEO’s right-hand person, identifying problems without offering solutions is generally not enough. This is why CEOs require CFOs to confidently form and discuss their own opinions and to raise the alarm when the strategy is not supported by the numbers, as suggested by the following quote:

“I found the CEOs appreciated having a CFO willing to express an informed opinion that perhaps they didn’t agree with.” (Holley 2016)

Nevertheless, once a decision is taken, CFOs are expected to fully back the decision and to present a united front:

"I want the CFO to support me in public, and challenge me in private."

(Unnamed CEO in McCullough 2020)

Expectations versus reality

What CFOs really do

Two similar surveys carried out by McKinsey and Company two years apart² reveal that the average number of functions³ falling under the CFO's responsibility has increased from 4.5 in 2016 (Agrawal, Dinneen et al. 2016) to 6.2 in 2018 (Agrawal, Chandra et al. 2018). Furthermore, the percentage of CFOs saying that they are responsible for corporate strategy increased from 36% in 2016 to 51% in 2018. Yet, both surveys concede that CFOs still dedicate around 60% of their time to finance roles.

Likewise, according to Deloitte's CFO Insights Program, CFOs want to spend 60% of their time on strategic matters. However, on average, only 42% of their time is devoted to such roles. The remaining 58% of their time is dedicated to controls, compliance, and core finance responsibilities (Ajit 2011). In support, the survey by KPMG and Forbes Insights (in Heller 2015), also highlights this expectations gap. Despite CFOs desiring a more active role in strategy, a third of the CEOs and business leaders surveyed stated that when encountering challenges of leading their organisations, they are not getting assistance from their CFOs.

Such gaps between expectations and reality may be the result of CFOs not wanting to step out of their comfort zone of accounting and finance, or finance functions lacking the capacity or talent to allow CFOs to focus on more strategic roles (Ajit 2011).

Even though CFOs may want to forego their traditional responsibilities, it might be difficult to do so, because many companies still force them to focus mainly on the

² The 2016 survey garnered responses from 193 CFOs and 352 other C-Suite executives, while the 2018 survey garnered responses from 212 CFOs and 414 other C-suite executives.

³ Functions include, but are not limited to risk management, internal audit, corporate strategy, board engagement, pricing of products/services and investor relations.

numbers. More realistically, a balance needs to be established between traditional stewardship and non-traditional business partnering responsibilities (Banham 2010, IFAC 2013).

Strong finance function

The evolving CFO role means that now more than ever, CFOs need to find the correct balance between their controlling and partnering responsibilities (Egon Zehnder International 2008). On the one hand, if CFOs are to support CEOs in strategic decision-making, then they must never relinquish their traditional responsibilities because they form the foundation necessary to become a strategic partner:

“For me to get to the table as a strategic partner with the CEO, and the rest of the senior team, first and foremost I have to deliver on the statutory and controllership responsibilities.” (Association of Chartered Certified Accountants [ACCA], Institute of Management Accountants [IMA] 2012 p. 10)

On the other hand, CFOs cannot afford to dedicate their entire time and effort to the finance function. Therefore, before being more involved in strategy and growth, CFOs must delegate the day-to-day compliance and tactical matters either to a capable and reliable “wingman” (Ajit 2011 p. 2) or else to a strong finance team (Korn Ferry 2017). A credible and influential finance function is one that is meticulous when making internal decisions and is as innovative as non-finance functions when working towards its goals (Davies, Huey 2017).

Locally, such delegation is becoming more popular, enabling CFOs to dedicate more time to assisting CEOs in business development and analysing strategic options and business opportunities (Lupi 2013). Despite delegating tasks, the CFO would still be responsible for ensuring that the finance function supports the rest of the firm at strategic and operational levels (IFAC 2013).

Potential obstacles the pair may face

Personality differences

Deeb (2020) notes that typical CEOs are optimists and extroverts whose main aim is profit maximisation, whilst typical CFOs are more conservative controllers who are often introverts that excel when working behind the scenes. Traditionally, most CFOs are risk-averse people whose objective is normally to cut down on costs by reducing discretionary expenditures such as research and development and advertising (Winston 2014).

Internal friction

“The CEO and CFO relationship can often be a tug-of-war, and if not managed well, can lead to lots of internal friction and arguments.” (Deeb 2020)

Since the CEO and CFO normally have different backgrounds, roles, tasks, philosophies, methods, morals, and views on corporate direction, it may be significantly challenging to merge their different views, ideas and knowledge to agree on decisions (Han, Brass et al. 2014). This contrast, which is aggravated by the competitive nature of most CEOs and CFOs, may have significant repercussions for the firm (Schulman, Timmermans 2016). Due to boardroom friction, the company may miss out on opportunities to improve its performance (Agrawal, Gibbs et al. 2015) and the boardroom may even be split into two camps – that of the CEO and that of the CFO (Tulimieri, Banai 2010).

CEO and CFO closeness

Having a CEO and CFO that are too close to each other may possibly result in ingratiation. According to Shi, Zhang et al. (2018), having a CFO ingratiated to the CEO may have negative implications on the firm’s interests, as the CFO is less likely to express disagreement with, and to oppose the CEO during strategic decision-making.

Managing the CEO-CFO relationship

Chemistry, mutual respect, and empathy

Egon Zehnder International (2008 p. 1) quotes Andrew Halford, Group CFO of Standard Chartered plc who says that *“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”*, and that *“if that works, I think it can be a very powerful combination.”*

Rather than viewing each other as competitors or counterparts, Tulimieri, Banai (2010) claim that for the partnership to work, the CEO and CFO must acknowledge and appreciate each other's contribution and achievements and have respect for different opinions, styles, and approaches.

Harmony and balance

Harmony between the CEO and CFO is essential if any internal friction is to be managed. Since the CEO generally focuses on growing revenue and the CFO focuses on not running out of cash, Deeb (2020) fears that excessive CEO influence threatens long-term business health, whilst excessive CFO influence threatens long-term growth. Therefore, businesses need a mixture of both personalities if they are to achieve their objective of growing revenue without running out of cash.

Deeb (2020) further notes that to create such harmony, CEOs must recruit CFOs that have the company's best interests at heart and that will therefore not always agree with them, but they should also support CFOs' logical and feasible cost-cutting decisions that will not hinder long-term growth. On the other hand, CFOs must support CEOs' logical and feasible decisions that will not put unnecessary strains on the resources of the company.

Commonality

The study of Han, Zhang et al. (2015) hypothesised that CEO and CFO demographic similarities (educational level, tenure with the firm, age and gender) enhance the CEO-CFO relationship because demographic similarities develop common knowledge

between the pair and facilitate interaction, communication, and collaboration. Additionally, the authors believe that the hypothesis is justified by the argument put forward by Westphal, Zajac (1995) that CEOs and CFOs who exhibit demographic similarities are more likely to trust each other.

Han, Zhang et al. (2015) established that while education level and tenure similarity do enhance the CEO-CFO strategic partnership through a common knowledge base, age and gender similarity do not enhance the partnership and consequently the firm's financial performance. The authors suggest that this indicates that:

"The success of the strategic partnership between the CFO and the CEO is more likely based on their common skills and shared understanding about the firm." (Han, Zhang et al. 2015 p. 70)

Communication skills

Tulimieri, Banai (2010) note that effective and continuous communication ensures that decisions are taken from different perspectives and are implemented as efficiently and effectively as possible. Communication skills also assist the CFO in motivating subordinates, in getting messages on firm performance across to the Board, and in decision-making with the CEO (IFAC 2013). Locally, the findings of Buttigieg (2013) further show that the CFO's communication skills are essential to the CEO-CFO relationship as in addition to facilitating team-building, delegation, and understanding, they help prevent an *"us versus them situation"* (Hope 2006 cited in Buttigieg 2013 p. 101).

CFO independence

For the CEO-CFO relationship to work properly, CFOs must ensure that a close relationship does not impair their objectivity and independence (Hilger, Richter et al. 2013). According to Egon Zehnder International (2008), CFOs are likely to be best positioned to know that shareholders are unsatisfied, meaning that independence is key if they are to neutralise ill-advised strategies, policies, and behaviour. Moreover,

being independent and capable of drawing a line should strengthen and not weaken the CEO-CFO relationship, because telling CEOs what they want to hear, rather than what they need to hear, will work against them.

Research Methodology

This section explains the research methodology adopted to achieve the objectives of this study.

Data collection

This study involved the collection of both primary and secondary data.

“Primary data are data that are collected for the specific research problem at hand, using procedures that fit the research problem best.” (Hox, Boeije 2005 p. 1)

Thus, primary data adds to existing social knowledge. The authors add that once such data *“is made available for reuse by the general research community, it is then called secondary data”* (Hox, Boeije 2005 p. 1).

Literature Review Phase

During this phase, secondary data was gathered to analyse the views of different authors on the CEO-CFO relationship. Most foreign literature was collected from academic peer-reviewed journals, articles published in the ‘CFO Magazine’, the internet, and reports published by renowned accounting firms and bodies such as ACCA, IMA and IFAC. The Maltese scenario was analysed by reviewing two dissertations, an article published in a local newspaper, and annual reports published by the Accountancy Board.

Empirical Phase

Primary data was collected between November 2020 and February 2021 by conducting thirteen semi-structured interviews with both active and former CEOs and CFOs of Maltese PIEs.

Sample selection

PIEs were chosen as the focus of the study since such entities generally have a CEO and CFO at the top. Since the contact details of most CEOs and CFOs that fit the participant profile were not available in the public domain, contact was established through the employer of one of the researchers that services a number of PIEs. Four CEOs and four CFOs that were contacted by the researcher's employer authorised the employer to provide the researchers with their respective contact details. An invitation to participate in the study was then sent to such CEOs and CFOs. A further three participants were contacted through personal contacts. Subsequently, two of the interviewees helped the researcher contact their counterparts. This increased the number of participants and hence the number of interviews to thirteen.

Of the thirteen respondents, one is a former CEO, another six are active CEOs and the last six are active CFOs.

Choice of methodology

Given that this study aims to provide a deep insight into the relationship between two very powerful corporate figures, a qualitative approach was adopted to achieve the research objectives since qualitative methods allow researchers to understand meanings, events, and experiences from the personal perspectives of the research participants (Creswell, Creswell 2018). Additionally, Trochim (2020) argues that a qualitative methodology provides researchers with "*rich descriptive detail*" that allows them to discuss the theme of the study in depth and "*in the original language of the research participants*". This is generally more difficult to achieve through quantitative methods, which unlike qualitative methods, are often close-ended (Tiley 2017).

Research tools

Semi-structured interview

The semi-structured interview was chosen as the main research tool because according to Tiley (2017), it provides researchers with deep understanding of and dynamic conversations on the topic, as well as the answers to 'why' (Tiley 2017).

This is an ideal research tool for qualitative exploratory research because through open-ended questions, it allows participants to freely share their personal ideas, experiences, and feelings without constraint (Creswell, Creswell 2018, Tiley 2017), and through probing questions, it allows the researcher to follow-up on any queries (Adams 2015). Additionally, Adams (2015) notes that the open-endedness and flexibility of the tool may result in interviewees discussing unexpected points, thus helping the researcher to spot and investigate other relevant areas of interest.

Design of interview schedule

Given the different roles and perspectives of CEOs and CFOs, it was deemed appropriate to prepare separate interview schedules for CEOs and CFOs. The interview schedules contained mostly open-ended questions and any close-ended questions that required a 'yes/no' answer or a ranked answer were followed by an open-ended question.

Data analysis

When analysing responses during the compilation of findings, the researchers adopted coding analysis, which is used to label and organise qualitative data to extract different themes, common ideas and similarities and relationships between them (Miles, Huberman et al. 2018).

Any quantitative data collected was input into a spreadsheet and analysed accordingly. Most quantitative data collected included ranked data. In such instances, the mean and standard deviation were calculated for each item, and items were ranked based on the mean scores.

Findings

This section presents the findings derived from thirteen semi-structured interviews conducted with CEOs and CFOs of Maltese PIEs. The first two objectives are addressed in the first three subsections of this section, while the findings relating to the final objective can be found in the last three subsections.

A broader CFO role – stewardship and strategy

The quote below perfectly mirrors the quote by Ajit, Armstrong et al. (2014) by acknowledging the necessity of the numbers whilst also recognising the increased need for CFO strategic contribution.

“For me, a CFO, although primarily focused on financial matters, should also be involved in the strategic vision and the strategic direction that the company has taken.” (CEO 5)

Like CEO 5, all respondents_(13/13) declared that despite the importance of the traditional stewardship roles, CFO participation in the strategic matters of the company, such as investment appraisal, strategic finance and involvement in Board matters, has become more important than ever. CEO 4 claimed that increased CFO involvement in strategy is the “standard expectation”, especially in PIEs, owing to their public aspect. This respondent also believes that for the remuneration and status that come with the CFO role, any CEO and Board of Directors (BOD) should require increased CFO involvement in strategic activities because possibly more value can be added through these functions than through traditional stewardship.

Indeed, like Sage Intacct (2019), CEO 3 acknowledged that in addition to backward-looking questions, CEOs are increasingly asking their CFOs forward-looking questions, and in support, CEO 6 believes that the more solution-driven CFOs are, the bigger the role they can have in strategic conversations.

According to CEO 3, the primary function of any CFO should be to ensure proper and timely accounting, which provides key information for sound and efficient

management decisions. Therefore, through the primary function, CFOs already contribute to strategic decision-making, albeit indirectly.

CFO 2 argues that strategic participation contributes to effective CFO stewardship, since a CFO that does not participate in different strategies – all of which have a monetary value – cannot be in proper control of finances. In support, CEO 5 stressed that one cannot consider traditional finance roles and strategic roles in isolation. Looking at the strategic direction of the company requires one to understand the financial implications of that strategic direction.

Factors resulting in a broader role

Following the discussions on *how* the CFO role has changed, the researchers probed further to understand *why* the role has changed. The main points that emerged from discussions with the interviewees are presented below.

The CFO's position

Occupying an oversight function gives the CFO an insight into strategic development, which enables such person to play a leading role and to assist management, the CEO, and the BOD, in formulating strategies.

Monetary element

Since corporate strategy involves making organisational decisions, most of which are subject to a monetary assessment, CEO 4 and CEO 7 asserted that no person is better suited to provide such monetary assessments and appraisals and to build proposals to raise required funding, than the CFO.

Speed of the market

CEO 5 corroborates the views of Lupi (2013) by maintaining that due to the speed at which the market is changing and at which competition is intensifying, companies are constantly revisiting their strategic direction, decisions and assessments and measuring performance. Consequently, this CEO expects to interact with his/her CFO more frequently.

Company growth

According to CEO 6, as the company grows, financing and financial needs grow and become more complex, so there is greater scope for having the CFO form part of the strategic team.

Are CFOs of Maltese PIEs meeting these new expectations?

All participants were asked if CFOs of Maltese PIEs are indeed meeting the newer expectations of increased strategic participation. Four respondents^(4/13) did not reply, while five respondents^(5/13) found it difficult to provide a definitive answer. Another three respondents^(3/13), all of which are CEOs, gave a positive response whereas one respondent^(1/13), CFO 2, gave a negative response.

Despite sitting on the executive committee of the PIE, CFO 2 feels that, in general, CFOs still dedicate most of their time to accounting and finance because most of them are accountants who may be uncomfortable entrusting their accounting and finance responsibilities to others. However, the respondent is confident that delegation will increase over time, enabling CFOs to narrow the gap between time spent on traditional and strategic roles.

The researchers asked the six CFOs how they split their time, on average, between traditional finance roles and strategic roles. The results are shown in Table 1.

CFO	Average % of time spent on	
	Traditional Finance	Strategy
1 ⁴	N/A	N/A
2	70	30
3	40	60
4	80	20
5	50	50
6	80	20
Average	64	36

Table 1 CFO time split between traditional and strategic roles

⁴ CFO 1 did not reply to this question.

Another question required all respondents^(13/13) to rank the functions presented in exhibit 2 of the McKinsey and Company 2018 survey (Agrawal, Chandra et al. 2018) from 1 to 12, with 1 being the function the company’s CFO dedicates the most time to. The results are shown in Table 2.

Function	Sample Size ⁵	Mean	Std. Dev.	Rank ⁶
i. Performance management (e.g. metrics, value management, incentives/targets)	9	3.89	3.10	4
ii. Strategic leadership	7	3.86	2.48	3
iii. Traditional finance roles (e.g. accounting, controlling, planning and analysis)	9	3.00	2.40	1
iv. Organisational transformation (enterprise-wide or within finance organisation)	7	3.43	2.30	2
v. Finance capabilities (e.g. finance-organisation talent pipeline)	6	7.83	2.56	10
vi. Speciality finance roles (e.g. treasury, audit, investor relations)	9	5.89	2.89	6
vii. Cost and productivity management across organisation	7	5.00	2.77	5
viii. Support for digital capabilities and advanced analytics	6	9.67	2.42	12
ix. M&A (including post-merger integration)	8	7.00	2.73	9
x. Capital allocation (e.g. capital-expenditure allocation)	8	6.25	2.12	7
xi. Pricing of products and/or services	6	6.50	3.94	8
xii. Management of activist investors	7	9.43	3.05	11

Table 2 Functions CFOs dedicate the most time to

CFO traits appreciated by CEOs

All interviewees were asked to discuss which traits CEOs seek in their CFO and to rank the characteristics in Table 3 from 1 to 7, with 1 being the characteristic deemed the most important in the ideal CFO.

⁵ ‘Sample size’ refers to the number of respondents that provided a ranking for that function.

⁶ Functions are ranked in ascending order according to the ‘Mean’ column.

Trait/Characteristic	Times ranked 1	Sample Size ⁷	Mean	Std. Dev.	Rank ⁸
i. Understands the CEO's personality, priorities and agenda	0	11	4.32	1.71	4
ii. Has chemistry with the CEO and contrasts yet complements his or her skillset	1	11	3.82	1.94	2
iii. Supports and challenges the CEO and is always honest when communicating	9	11	1.18	0.40	1
iv. Possesses credibility within and out of the company	0	11	4.41	2.03	5
v. Generates profits and value	0	11	4.82	1.60	6
vi. Has a versatile skillset	1	11	4.18	2.14	3
vii. Is an effective communicator	0	11	5.18	1.17	7

Table 3 Traits/characteristics CEOs seek in their CFOs

⁷ 2 interviewees did not respond to this question. Hence, sample size was reduced from 13 to 11.

⁸ Traits/characteristics are ranked in ascending order according to the 'Mean' column.

Integrity

The most widespread trait that was mentioned^(11/13) was integrity, which includes trustworthiness and honesty. CEO 7 feels that integrity tops the list of desirable CFO traits because the CFO will be privy to information that is accessible only by the CEO and BOD.

Chemistry rather than friendship

All respondents^(13/13) rejected the idea that CEOs look for a friend in their CFO. CEO 5 suggested that bringing friendship into the work environment can complicate certain situations. Rather, it is more beneficial to bring in someone with whom the CEO has chemistry. In support, both CEO 1 and CFO 2 expressed that if a CEO and CFO fail to see eye-to-eye, the pairing will simply fall apart.

Tied to chemistry is the importance of possessing a complementary skillset. CFO 5 gave an example that if both the CEO and CFO are constantly prioritising operations instead of growth, the business will not grow. Likewise, constantly prioritising growth at the expense of operations will lead to other issues. Therefore, CFOs need to balance out their CEOs, who typically focus more on growth.

Understanding

According to CFO 5, understanding the agenda of the CEO enables CFOs to organise themselves around that agenda, giving their job more clarity and structure. Moreover, CFO 3 believes that understanding the priorities and agenda of the CEO enables CFOs to provide correct and timely information to the CEO and eventually to the Board, something that CFO 6 claimed CEOs desire.

Qualifications, expertise, and experience

CEO 5 and CEO 7 look for a seasoned individual possessing a certain level of qualification and experience. For CEO 5, the financial expertise, competence, and track record of CFO candidates must be considered. Additionally, CEO 2 believes that CFOs should have the technical ability to keep up with changing regulations, while

CFO 6 emphasised that CFOs who “*understand the grassroots of the industry*” are normally preferred.

Extension to the CEO

CEO 4 regards the CFO to be an “*extension to the CEO*” who in certain instances will be required to front the CEO and the BOD in dealing with stakeholders such as banks and suppliers. CFO 3 added that if a CFO is to thoroughly understand the financial and operational implications in decision-making and therefore to assist the CEO in the evaluation and implementation of the strategic direction, “*visibility of all areas of operation within a company*” is essential.

Leader and effective communicator

According to CEO 6, the CFO is not hired to carry out accounting work, but to lead the finance function and to motivate others to do the accounting work. Related to leadership is effective communication. CFO 5 admits that this is an essential area in which CFOs tend to struggle. While some CEOs may tolerate this shortcoming, others may not. Being technically prepared and competent is not enough if one cannot get the message across.

Not necessarily a profit generator

While CFO 6 considers the ability to generate profits and value to be an important trait of a good CFO, in the views of CFO 2 and CEO 5, profit generation is more of a team effort. Moreover, CEO 3 does not expect a CFO to directly generate profit because unlike sales and marketing, finance is not a service function. Rather, this respondent expects the CFO to add value by being cost efficient and effective and by providing projections and feasibilities. Similarly, CEO 2 feels that whilst profit generation is not the primary aim of a CFO, the CFO will complement profit generating functions by raising warnings when the company is underperforming.

An honest challenger and supporter rather than a yes-man

CFO 5 agreed with the perception that it might get lonely at the top and added that there are very few people other than the CFO that the CEO can turn to for a “sounding board”. For CEO 5, an honest challenger and supporter is the “point of departure” for a good CFO. CEO 4 emphasised the importance of saying things as they are, especially when views do not coincide. This is in line with the perception of various respondents who argue that rather than a “yes-man or a puppet”, CEOs desire someone to challenge and debate their views and to propose alternative strategies, scenarios, and solutions to push the company forward.

“Being capable of standing up on their own two feet is a principal virtue for a CFO, and a very important part of the skillset.” (CEO 7)

CEO-CFO demographic similarities

Each respondent^(13/13) was asked whether he or she believes that the CEO-CFO demographic similarities analysed by Han, Zhang et al. (2015) enhance the CEO-CFO relationship and to discuss their reasoning. Figure 3 summarises the results.

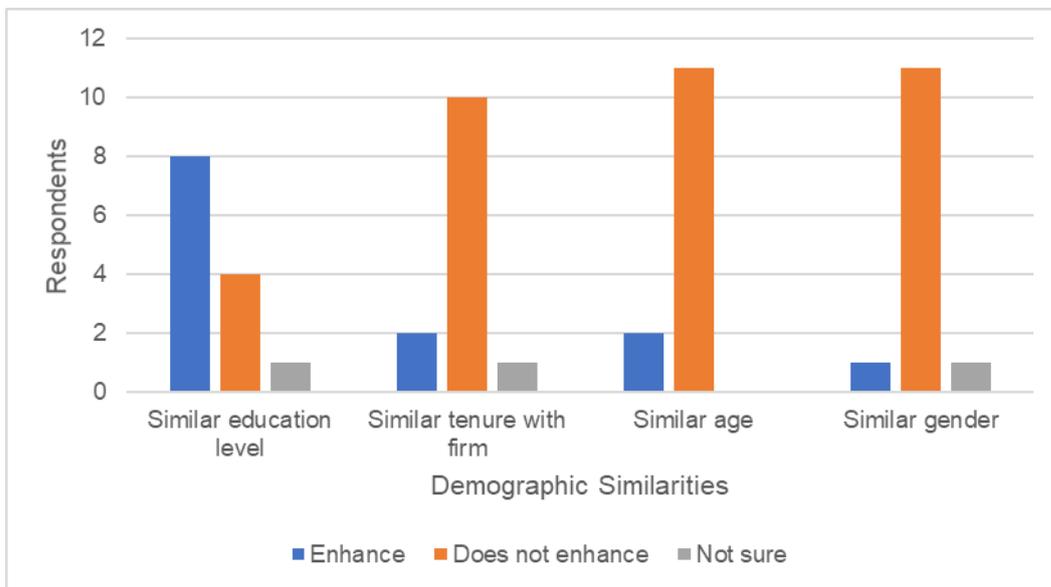


Figure 3 CEO-CFO similarities and the CEO-CFO relationship

The most widespread argument put forward by half of the respondents^(4/8) who believe that a similar education level enhances the CEO-CFO strategic partnership was that this similarity facilitates the understanding between the pair. CEO 4 opined that when the CEO and CFO have an equivalent academic calibre, a certain level of respect develops between them. Furthermore, it was noted by CEO 7 that while both positions require a certain level of educational background, theory typically plays a more important role for CFOs since by containing several technicalities, finance is not solely learned from practice and experience but also through formal education. Alternatively, theory has a lesser impact on crucial CEO skills such as leadership skills which can be developed through practice and experience.

Only CEO 2 and CEO 4 maintained that a similar tenure with the firm ensures greater understanding between the pair. Although considering a similar tenure with the firm to be advantageous, CEO 4 calls for caution in this regard because the boardroom may develop a narrow singular view with two senior people sharing long years of experience in the same company. At times, bringing in an outsider with a fresh perspective would be beneficial.

Eleven respondents^(11/13) asserted that age similarity has no effect on the CEO-CFO relationship. According to CEO 4, this is because there tends to be an acceptance that the age of the CEO and CFO will be different, with the CEO expected to be the elder of the two.

CFO 6 admitted that gender may still play a role in certain CEO-CFO partnerships. Additionally, having never worked with a CEO of their same gender, CFO 4 felt that he or she lacks the necessary experience to reply to this question.

Other factors that enhance the CEO-CFO relationship

All respondents^(13/13) were asked whether they agree with the theoretical argument that the personality of typical CEOs differs from that of typical CFOs, and if so, to discuss how the personalities differ and whether such personality differences create

internal friction between the pair. Finally, each interviewee was requested to discuss additional factors that may enhance the CEO-CFO relationship.

Personality differences

Six respondents_(6/13) leaned towards the theoretical argument that the CFO tends to be the more guarded, objective, pessimistic, and precise of the pair, with the CEO being more optimistic, visionary, strategic, opportunistic, and flamboyant. One such respondent, CFO 3, added that by being more inclined to measure success through rate of return and profitability, the viewpoint of CFOs tends to differ from that of CEOs who lean towards turnover as a measure of success.

Five of these six respondents acknowledged that such personality differences do not create internal friction or any other obstacle, but may be beneficial, because the CEO and CFO can complement each other. CEO 2 and CFO 4 added that by being the more realistic of the pair, CFOs highlight certain financial implications, risks, and regulatory constraints the CEO might be unaware of.

CEO with a financial background

Six respondents_(6/13) discussed the impact of a CEO with a finance background on the CEO-CFO relationship. According to CEO 7, a background in finance makes CEOs better suited for their role. Moreover, CFO 6 believes that companies are better off if CEOs and CFOs share an understanding of finance because it will be easier for CEOs to understand and analyse data prepared by the CFO. CEO 4 feels that financial CEOs are more likely to recognise any warning signs and question reports and data, therefore making the CFO's job more demanding.

Effective communication and open discussion

All respondents_(13/13) suggested that the CEO-CFO relationship is heavily dependent on clear and timely communication between the pair. In the case of disagreements, CEO 5 believes that open and honest conversation and constructive criticism are key

to achieving harmony. This respondent feels that rather than just criticising, criticism should be supported by an alternative recommendation.

CFO 3 added that in addition to making one's point clear and challenging and debating viewpoints, a unified approach requires the pair to carefully listen to one another. Once CFOs have given their input, CFO 2 asserted that they should take a step back to allow the CEO to absorb this input. Finally, like CFO 2, CEO 3 emphasised the importance of the ability to be humble enough to move on as a united front, irrespective of what has been agreed.

Discussion and Concluding Remarks

The aim of this section is to analyse the findings of the study in line with the relevant literature. The first two subsections discuss the results relating to objectives 1 and 2, and the third and fourth subsections address objective 3.

Need for a balance between stewardship and strategic duties

Like all respondents^(13/13), and consistent with the views expressed by Banham (2010), Egon Zehnder International (2008), and IFAC (2013), the researchers feel that CFOs need to establish a balance between stewardship duties and strategic contribution. Indeed, CFO 5 claimed that the CFO role is a "*juggling act between the two*", and CEO 6 feels that neither role should be prioritised over the other.

Therefore, the researchers conclude that (1) increased strategic participation does not undermine the importance of the traditional finance roles and that (2) the two roles complement each other, such that an effective CFO is one who can establish an optimal balance between the two roles. The researchers believe that the latter is a challenging feat and agree with CEO 7 that there exists no precise formula for the optimal balance and that this may differ from one company to another.

After analysing the literature and collecting data, the researchers assert that a robust and finance function that delivers results is critical for any CFO striving to obtain a satisfactory balance between stewardship and strategy. The case of CFO 4, who

carries out most of the accounting work because no finance function is established in his or her company, further strengthens the argument put forward by Korn Ferry (2017) for the setup of a finance function. Additionally, the fact that eight interviewees highlighted the importance of the finance function confirms the outlook of Lupi (2013) who said that locally, more and more CFOs are relying on the finance function to enable them to allocate more time to assisting the CEO in business and strategy development.

The Maltese reality

The result in Table 1 was expected and approximates the 58%/42% average obtained by Ajit (2011). On the one hand, the 64%/36% average supports the views of CFO 2 who remarked that CFOs still dedicate most of their time to accounting and finance; however, on the other hand, the researchers feel that an average of 36% on strategic functions is a significant result that is in line with the understanding of several respondents who feel that more time is being spent on strategic matters.

Indeed, the rankings presented in Table 2 further support this claim. The rankings show that while CFOs of Maltese PIEs dedicate most of their time to the traditional finance roles, strategic functions rank high on the average CFO's agenda, with organisational transformation, strategic leadership and performance management ranking second, third and fourth, respectively.

These findings resemble those obtained by the 2016 and 2018 McKinsey and Company surveys (Agrawal, Dinneen et al. 2016, Agrawal, Chandra et al. 2018) that reveal that whilst finance roles consume most (around 60%) of the time of CFOs, the percentage of CFOs that acknowledged responsibility for corporate strategy increased from 36% in 2016 to 51% in 2018.

Moreover, the high ranking obtained by organisational transformation contradicts the views of Davies, Huey (2017) who argue that even though CFO input in such

transformations is desirable, CFOs are still given less remit by their CEO in this aspect.

The researchers feel that it is important to provide context to the two 80%/20% averages shown in Table 1. Firstly, CFO 4 works for a PIE that does not have an established finance function, meaning that all the accounting work is carried out by the CFO and another person. In fact, this respondent believes that an established finance function would result in an average closer to 60%/40%. In the case of CFO 6, despite having a finance function composed of some thirty people, this CFO only participates in strategic matters “when I [he or she] have time”. One possible reason for such statement could be that this is the only PIE from those studied that has a deputy CEO in addition to the CEO and CFO. While the CEO is more involved in investor relations and strategic decisions, the deputy CEO is mostly involved in operations. Therefore, this structure allows CFO 6 to primarily focus on managing the finance team.

The CEO’s supporter and challenger, rather than friend

Ranking the characteristics in Table 3 proved to be challenging for all respondents^(13/13), who acknowledged that all the characteristics are of utmost importance and relevance.

Despite this, from the results it can be concluded that “Supports and challenges the CEO and is always honest when communicating” is the most sought out CFO characteristic. This characteristic is also given significant relevance in the literature analysed. CFO 5 and Holley (2016) both argue that the ability to listen, understand and provide honest advice are fundamental CFO traits, as the CFO is one of the very few people who can understand the considerable pressure CEOs are under, particularly the pressure from the BOD to execute strategy. Like Holley (2016), the local findings also point out that CEOs do not desire a yes-man, but a person who is capable of challenging and debating their views with informed opinions and solutions of his or her own.

The views of Suzanne Wood (in Karaian 2009) and the results above both underline the importance of the fine line between friendship and chemistry. While CEOs and CFOs cannot afford not to see eye-to-eye, getting along well does not mean that the two should be as close as friends. Additionally, in the views of the researchers, the high ranking obtained by the trait “Has chemistry with the CEO and contrasts yet complements their skillset” reinforces the perspective of Andrew Halford (in Egon Zehnder International 2008) who asserts that personal chemistry is the foundation of powerful CEO-CFO combinations.

Enhancing the CEO-CFO relationship

The results presented in Figure 3 indicate that the CEO-CFO demographic similarity that most likely enhances the CEO-CFO relationship is the educational level similarity. These findings corroborate yet contrast those of Han, Zhang et al. (2015). On the one hand, both studies establish that educational level similarity enhances the CEO-CFO relationship by developing a common knowledge base between the two, and that age and gender similarities do not enhance this relationship. On the other hand, unlike the findings of Han, Zhang et al. (2015), the findings above do not suggest that the relationship is enhanced by tenure similarity.

The researchers tend to agree with the views of the respondents_(10/13) who do not correlate tenure similarity with the strength of the CEO-CFO relationship as, in their opinion, the effectiveness and strength of the relationship depends more on the technical ability, personal traits and characteristics of the individuals that were discussed previously, than on the number of years spent working together.

From the findings obtained and the literature analysed, including the arguments on personality differences put forward by Deeb (2020) and Winston (2014), the researchers conclude that more likely than not, CEOs and CFOs do have contrasting characteristics and perspectives. However, the researchers call for caution when making such generalisations because as indicated by further respondents, personality differs from one person to another.

The findings seem to disagree with the literature analysed in terms of the nature of the implications that emerge from such personality differences. Contrary to Schulman, Timmermans (2016) who describe several repercussions of CEO-CFO personality differences, such as internal friction, the consensus among local interviewees was that personality differences are in fact beneficial.

The researchers share the views of the local interviewees that personality differences result in healthy discussion rather than internal conflict. In line with Deeb (2020), the researchers believe that businesses need a combination of both personalities, rather than too much of either, to be successful. By way of example, if the pair are both characterised with traits associated with the typical CEO, the business may very easily take unnecessary risks, overspend, and go bankrupt. On the other hand, if the pair are both characterised with traits typically associated with the CFO, chances are that the business will be too risk averse and focused on the numbers, perhaps at the expense of growth opportunities and the well-being of employees and clients. Therefore, it is through their contrasting skillsets and personalities that the CEO and CFO bring the best out of each other.

On the basis of the findings, the researchers conclude that so long as the CEO does not assume the CFO's role, a financial background should enhance the CEO-CFO relationship through better understanding. However, a clear boundary between the two functions is necessary to ensure that CEOs do not overstep into areas that are primarily under the CFO's remit.

The findings of this study are in line with the conclusions reached by Buttigieg (2013) that effective communication skills enhance the CEO-CFO relationship. The findings also indicate that open discussion enables the CFO to be a key player in strategic discussions and increases the likelihood that CEOs make calculated decisions that will benefit the organisation.

Final remarks

While it is the CEO who is normally responsible for deciding where the organisation is headed, the CFO plays a key role in ensuring that the organisation reaches its destination unscathed. Therefore, CEOs and CFOs need to have full trust and confidence in each other for the pairing to work. A lack of confidence in their CFO would cause CEOs to question and doubt any recommendations made by the CFO. On the other hand, CFOs need to trust that the CEO is leading the organisation in the right direction when making their assessments, appraisals, and proposals.

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