Organizational Dynamics, Vol. 39, No. 3, pp. 240–247, 2010

www.elsevier.com/locate/orgdyn
ISSN 0090-2616/$ – see frontmatter
doi:10.1016/j.orgdyn.2010.03.008

A New Corporate Paradigm:

The CEO and CFO – A Partnership of Equals

PHILIP TULIMIERI **MOSHE BANAI**

It is generally understood that the role of the CEO (chief executive officer) is that of the visionary leader – charismatic, transactional, or transformational – the heart of the business. Historically, the CEO has been considered the architect of success, fortune and global recognition. In some cases, that fame has lived well beyond the life of the CEO. Rockefeller and Vanderbilt left industrial monuments to their ambition and vision. More recently Bill Gates and Sam Walton have assumed the mantle "Captains of Industry." Businesses such as IBM Corp., Standard Oil Co., General Motors Corp. and General Electric Co. are synonymous with the long line of CEOs who led them to greatness. Even the most recent: Volkswagen AG, Toyota Motor Co., Citibank, Microsoft Corp., Apple Computer Inc., Boeing Co., and Google, have been added to the list of global players. They are all a testament to the CEOs who led them to their greatness.

At the same time, lost in the mist of business history is the chief financial officer – the CFO, the person who toiled in obscurity for generations in the shadow of these CEOs. The person in this under-valued and largely invisible position has been the custodian of the corporate treasury, the protector of the margin, and the pillar of the corporate conscience. While the CEO looked over the horizon in search of the next great idea, the CFO was obliged to look at the next footfall, whether the next quarterly report to the shareholders, or to the Securities and Exchange Commission (SEC), to the courts or to a U.S. Senate investigation committee.

In many boardrooms, the group around the table consists less of a team than of two camps with totally divergent views of the vision and mission of the business. One faction is led by the increasingly empowered CFO, the other by the CEO. However, rather than viewing these as two irreconcilable camps, an alternative view is to see these often-conflicting roles as one team with two faces: similar to the two-faced Roman god, Janus. One face is the eternal optimist pushing ahead at full speed, sometimes with rose-colored glasses; the other, the face of the realist, urging caution and wary of risk. However, both faces are in many ways still a team, partly dysfunctional perhaps, but two parts of a whole, with the same ultimate intent. It is the premise of this article that although those two roles are separately in the process of a transformation, increasingly, both are drawing closer to a point of intersection with respect to their corporate roles and operations management.

THE EVOLVING ROLES OF THE CEO AND THE CFO

Beginning of the 20th Century – Specialization and Departmentalization

Prior to the Second World War, the financial functions of a corporation were largely divided into two separate and distinct functions: corporate finance and accounting. The CEO managed the former exclusively, while an accounting clerk in the bowels of the organization supervised the latter. Unlike the highly visible corporate finance function, which consisted of managing the balance sheet, profit and loss and shareholders, the accounting office was largely invisible and consisted largely of tracking and reporting accounts receivable and accounts payable.

The chief financial officer position was perceived as a necessary evil. It was a thankless role; "dry as dust" and "unglamorous" were the often-heard descriptions. The office was seen as a silent machine managed by numerates, rather than the clatter of shop floor machines run by the magnates, that ensured payrolls were met every week, vendors were paid, and shareholders were rewarded with a satisfactory Return on Investment (ROI).

In his work entitled "The History of the Corporation," Lee Drutman describes the impact of the relegation of the financial function to a secondary role in the development of the modern corporation, and the painful consequences, which continue to be felt. Drutman has suggested that as corporations grew in size and influence, their accounting structure remained the same. For a small corporation driven by investors, it made sense to measure corporate performance by measuring financial profits and losses. But for a corporation with thousands of employees and millions of customers, a corporation that was receiving public subsidies and encroaching on communities, a more extensive reporting system that measured the impact of the corporation on people's lives might have made sense. This never developed, however, and the profit-generating mentality remained the dominant driving force behind corporations.

Post World War II – The CFO is Born

It was World War II that was to see the beginning of the transformation of the financial function in American corporations. Manufacturing, warehousing, distribution and shipping of wartime supplies brought accounting out of the back room and into the light. Government contracts to supply the machinery of war cascaded into a wave of supply contracts and other sub-contractual relationships, which brought with them a greater degree of visibility, scrutiny and management control. It also meant that the managers of this activity were required to be more than just numerate. Now, the accounting clerk was required to understand the terms and conditions of contracts, operations and scheduling. The industrial war machine demanded the continuous attention of professionals with the skill to manage and account for the flows of cash and investments required to maintain a healthy business. Over the course of time, the accounting clerk was replaced with skilled professionals who could not only understand accounts payable and accounts receivable, but also could prepare a balance sheet, cash flow statements, and profit and loss accounts. The era of the CFO was born.

In addition to the traditional role of financial record keeper, CFOs had been seen as a restraining force to keep in check the often-unbridled enthusiasm of the CEO, the vice president (VP) of sales and marketing, and the public relations (PR) departments. To many in the C-suite, the CFO had become a "naysayer" – reminding the other key players of the costs, the need for a more thorough business case analysis, and urging slow, more thoughtful growth in contrast to the CEO's "need for speed" to achieve the next acquisition or to launch the new product. During that period, the office of the CFO was not engaged with the various old and new stakeholders but rather continued to remain in the penumbra of the CEO.

1970–1980s – The Waves of Privatization

Milton Friedman's neo-liberalism of the 1970s and 1980s ensured that, until the excesses at the turn of the new century, the CFO would continue to take a backseat to corporate financial oversight. The Reagan-Thatcher domination of world economic policy provided fertile ground to reinforce domination by the CEO in the boardroom. This in turn permitted domination of the global economy by rich nations.

It had become conventional wisdom that the CEO was now the undisputed leader of the corporation, the final unquestioned decision-maker and the person to whom all eyes would turn in a crisis. Shareholders would expect that the CEO would meet or exceed the company's strategic and financial objectives. In his seminal work *The History of the Corporation, Volume One*, Bruce Brown characterized the management of modern corporations as corporate lords who make no pretense to serving a higher good. The great secular corporations of the Second Dominion like Wal-Mart Stores and Microsoft do not strive to incorporate the spirit of God, but rather the spirit of mammon, which is to say unbounded greed and the free-floating will to dominate.

The New Millennium – Sarbanes–Oxley Law

Not until recent years, certainly not more than the last decade, did prestigious broadsheets such as the *New York Times* or the *Wall Street Journal* appear to give anything more than passing mention to the chief financial officer. Certainly, the general public was largely unaware of that office. Then in 2001, a series of financial scandals of seismic proportions hit the global market, and like the physical phenomenon of an earthquake, changed the landscape of the world market. It started in 2001 with the Enron Corp. debacle, to be followed in quick succession by wave after wave of other shocks caused by financial mismanagement, fraud and outright greed. The news of these events that were to alter the way businesses were organized, managed, and governed tumbled from the top floor of glass towers into the living rooms of the average citizen around the world. From that point, the role of the CFO would dramatically change.

It was the classic monolithic structure, with a CEO as the unfettered decision-maker, that was to start the most dramatic series of events in modern corporate history, involving the prosecution of CEOs and CFOs, the disintegration of many prominent companies and the loss of jobs for thousands of innocent, hard-working employees. Long time stellar corporate brands such as Enron, Tyco International, Adelphia, Peregrine Systems, WorldCom Inc. and Arthur Andersen were tarnished beyond repair; shareholder value was destroyed – some no longer in existence, others carved up and sold off. The names of hard charging CEOs and CFO became catchwords for fraud, theft, insider trading and a host of other unscrupulous and illegal activities. It was hubris unmatched in the annals of U.S.