CFO as a Strategic Partner of the CEO: Relational Demography and Firm Financial Performance

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This paper highlights the importance of the Chief Financial Officer (CFO) as a strategic partner of the Chief Executive Officer (CEO). Using a sample of 119 firms with a longitudinal design, a strategic partnership between the CFO and the CEO is found to have a positive influence on the firm's financial performance. Moreover, a series of propositions about the impact of the relational demography between the CEO and CFO on the CFO's strategic partnership with the CEO are tested. The results show that similarities in the CEO and CFO's educational level and tenure in the firm have an indirect positive effect on the firm's financial performance through the CFO's strategic partnership with the CEO. The theory and results presented herein provide the impetus for research on the role of the CFO in strategic management.

A growing body of literature has highlighted the importance of the CFO position (e.g., Dalton, 1999; Favaro, 2001; Heidrick & Struggles, 1998; Skærbæk & Tryggestad, 2010; Tulimieri & Banai, 2010; Zoni & Merchant, 2007). Zorn (2004) examined the rise of the CFO position among American firms from 1963-2000. The analysis pointed out a fundamental redistribution of the managerial roles in firms as a strategic response to environmental changes, "with greater relevance of financial considerations built into the executive structure and decision-making process" (p. 347). Similarly, the global survey report, "A New Role for New Times," released by a CFO research service in collaboration with KPMG in Singapore (2011), indicated that finance functions are playing a bigger role in firms' strategic decision-making processes today compared to five years ago.

In general, this line of research has suggested that beyond their fiduciary roles (e.g., tax, auditing, financial reporting, internal control), CFOs should also have significant responsibilities in assisting CEOs with strategic management (e.g., Siegel & Sorensen, 1999; Skærbæk & Tryggestad, 2010; Zoni & Merchant, 2007). The furious competition and global economic turmoil in today's business environment require top executives to make decisions on a robust fact base that includes insights into the underlying economics of the business (Glaister & Hughes, 2008; Hrisak, 1996; Zorn, 2004). Some have suggested that CEOs outsource more of the strategic responsibility to CFOs who are in charge of the budget planning and controlling (Egon Zehnder International, 2008; Tulimieri & Banai, 2010). CFOs can provide insights to determine whether any strategic movements proposed by the CEO are financially feasible, as well as quantify the risks associated with lack of success (International Federation of Accountants Committee, 2002; Scheumann, 1999). CFOs also can give guidance to line managers on how to contribute to the firm's goals (Favaro, 2001) and manage in such a way as to generate value for the firm (Dalton, 1999).

Despite increasing acknowledgment of the importance of the CFO's strategic partnership with the CEO (Heidrick & Struggles, 1998; Howell, 2006; Tulimieri & Banai, 2010), the roles of CFOs in some companies are still mainly focused on traditional financial management tasks (Hiebl, 2013). For example, Bremer (2010) and Lüdtke (2010) analyzed the job descriptions of the 86 CFOs working for the largest publicly traded German firms in 1998 and 2007. Their findings suggested that the CFO had responsibility primarily for traditional tasks and only limited responsibility for strategic tasks. Many similar findings (e.g., Granlund & Lukka, 1998; Järvenpää, 2007) indicated that CFOs are increasingly working on strategic topics, but a radical transformation in their roles has not yet occurred. Such findings point to the fact that many CFO's responsibilities still consist of rather traditional tasks such as financial accounting, treasury, and management accounting.

To date, little research has been conducted to examine the effect of the strategic partnership between a CFO and CEO on a corporation's financial performance. There have been a growing number of publications regarding the position of CFOs in recent years (Hiebl, 2013), but most of these studies haven't addressed the CFO's role in strategic management, choosing to focus rather on the CFO's education and career background (e.g., Collier & Wilson, 1994), CFO turnover (e.g., Li, Sun, & Ettredge, 2010), or the CFO's influence on accounting practices (e.g., Gibbins, McCracken, & Salterio, 2007). Management critics have even suggested that a CFO's high involvement in management decision processes may deteriorate performance in his or her traditional fiduciary role, which may actually damage the firm's financial performance (Indjejikian & Matejka, 2006; Loomis, 1999). It has also been suggested that CFOs are risk averse and tend to decrease investment in research and development (R & D), new projects, and advertising (Winston, 2014). Therefore, an empirical test of the influence of the CFO's strategic partnership with the CEO on the firm's financial performance is needed to add to the knowledge about the role of the

CFO in a firm's strategic management.

In addition to concerns about the paucity of literature in this area, the study performed was further motivated by a commonly observed problem that the partnership between the CEO and the CFO is most often uneasy and ineffective. For example, it has been revealed that 40% of CEOs have actually fired their most recent CFOs (Dalton, 1999) due to claims by the CEO that the CFO lacked certain critical characteristics such as leadership, integrity, strategic vision, or communication skills. In contrast, from the CFO's standpoint, "many CEOs are mavericks — they and they alone establish the strategic direction, and they expect other senior managers to get on board with no debate" (Banham, 2010). With these different perspectives, one may question the characteristics a CFO must possess to best facilitate the CEO-CFO strategic partnership. Previous research about top management team (TMT) composition provides insights on how to staff the team as a whole (Escribá-Esteve, Sánchez-Peinado, & Sánchez-Peinado, 2009; Nielsen, 2010; Patzelt, Knyphausen-Aufseß, & Nikol, 2008). However, emerging studies about dyadic relationships among TMT members suggest that any top executive's effectiveness is mostly contingent upon the quality of their relationship with the CEO, since functional TMT members need to report directly to the CEO (Menz, 2012). Therefore, studies about the characteristics of the CEO-CFO ties are needed to understand what makes a CFO's strategic partnership with the CEO successful.

Taking all the above issues into account, the first objective of this study was to investigate the influence of the CFO's strategic partnership with the CEO on the firm's financial performance. Directly testing this relationship would contribute to the literature examining the role of CFOs by providing empirical evidence about the importance of the CFO in strategic management (Menz, 2012). Moreover, the relational demography of CEO-CFO ties was examined to reveal the effect on a CFO's strategic partnership with the CEO, as well as the firm's financial performance. By testing this directly, the present study contributed to the literature about functional top management team members by providing some direction on how to promote or select appropriate CFOs in order to enhance their strategic partnership with CEOs, which could further improve the firm's financial performance.

Background and Hypothesis

CFO's Strategic Partnership with CEO and Effect on Firm's Financial Performance

There are at least two reasons to believe that the CFO's strategic partnership with the CEO would have a positive effect on the firm's financial performance. First, previous literature indicates that CFOs possess unique knowledge and competencies that can make significant contributions to firms' strategic decision-making processes. The CFO is able to present a rigorous, fact-based understanding of how and where value is created in the firm and where value creation is likely to occur in the future (Heidrick & Struggles, 1998). The CFO can inform the CEO about strategic forces underlying the creation of economic profit and can help the CEO manage these forces (Zorn, 2004). Through their understanding of the economics of the business and their relationships with key constituencies (e.g., the investment community), CFOs offer a unique perspective on how to organize the business to meet the necessary requirements (Tulimieri & Banai, 2010). They can offer CEOs a framework that outlines the upper and lower limits of a firm's financial requirements. Once this framework is in place, a strategic course for the firm can then be charted and its feasibility can be evaluated. CFOs also can provide insights on how to measure the progress of such a strategic course and to define the conditions for when to change the course, based on results or projections relative to the plan (Favaro, 2001). Therefore, the CFO's involvement in strategic management can increase the success of corporate strategy formulation and implementation and thus, enhance the firm's financial performance (Heidrick & Struggles, 1998).

Previous studies have suggested that plural forms of leadership at the top can lead to superior leadership effectiveness (e.g., Denis, Langley, & Sergi, 2012; Srivastava, Bartol, & Locke, 2006). The commitment, morale, and integration engendered by shared leadership among top executives has been suggested as being beneficial for a firm's financial performance (Alvarez & Svejenova, 2005; Beal et al., 2003; Denis et al., 2012; Pearce & Zahra, 1991). Top executives' involvement in strategic decision-making processes can also help a firm solve difficult problems and generate creative ideas and multiple alternatives (Edmondson, Roberto, & Watkins, 2003). By sharing leadership with CFOs, CEOs can focus on their key external roles and devote more effort to scanning the environment, learning from outside parties, and satisfying external resource providers (Hambrick & Cannella, 2004). A CFO's strategic partnership with the CEO can thus benefit the firm's financial performance through improved leadership effectiveness. Therefore,

Hypothesis 1: A CFO's strategic partnership with the CEO is positively correlated to the firm's financial performance.

Impact of Relational Demography on the CFO's Strategic Partnership with the CEO and Firm Financial Performance

Since the seminal article of organizational demographics by Pfeffer (1983) and the upper echelon theory by Hambrick and Mason (1984), researchers have devoted significant attention to the demographic characteristics of top managers. The underlying assumption is that demographic characteristics, as the proxy for more complex psychological activities, exert a significant influence on the interaction pattern among top managers (Nielsen, 2010). Therefore, firm outcomes such as financial performance can be traced back to the demographic characteristics, especially the degree of similarity, or dissimilarity, of the top managers.

Although numerous studies about the link between the TMT composition and firm financial performance exist, the results are rather inconsistent (Carpenter, Geletkanycz, & Sanders, 2004). Questions still remain about whether diversity in managerial backgrounds is advantageous for firms (Nielsen, 2010). Positive research findings suggest that heterogeneity among top executives is a source of advantage for firms through increasing adaptability and innovation (e.g., Bantel & Jackson, 1989; Elron, 1998). In contrast, research also has found that heterogeneity could be a source of deterrent, leading to difficulties in knowledge integration and separation (e.g., Han, Han, & Brass, 2014). A certain amount of demographic similarity is needed for effective collaboration among top executives (O'Reilly, Snyder, & Boothe, 1993; Wagner, Pfeffer, & O'Reilly, 1984).

In the present study, there were at least two reasons to believe in a positive effect of CEO and CFO demographic similarities (e.g., age, gender, tenure, and education) on the degree of the CFO's strategic partnership with the CEO. The first being that because the CFO and CEO have different functional backgrounds, demographic similarities enable them to develop shared mental models of teamwork, which would then facilitate their communication and collaboration (Mathieu et al., 2000). The differences in their functional backgrounds may cause the CFO and CEO to have different cognitive schemas regarding corporate goals, values, and strategies. The lack of "common language" and knowledge about the other's expertise could hamper their interaction. A CEO and CFO from a similar demographic cohort, however, would have a variety of work-related and non-work-related experiences in common, thus leading to a shared understanding and belief structure (Wagner et al., 1984). For instance, it is more likely that a CEO and CFO who joined the organization at the same time would develop common knowledge of the organization's events and strategies for accomplishing the goals (Zenger & Lawrence, 1989). This shared understanding would facilitate their communication and promote the success of the CFO's strategic partnership with the CEO. Second, from a political point of view, demographic similarity could provide an important base for coalition formation (Westphal & Zajac, 1995). CEOs and CFOs who share similar demographic characteristics are likely to have greater attraction, affect, and trust toward each other. Therefore, they would be more likely to treat each other as in-group members who have an increased willingness to cooperate (Tsui & O'Reilly, 1989). Thus,

> *Hypothesis 2a: The CEO and CFO's age similarity has a positive effect on the degree of the CFO's strategic partnership with the CEO.*

> *Hypothesis 2b: The CEO and CFO's tenure similarity has a positive effect on the degree of the CFO's strategic partnership with the CEO.*

> *Hypothesis 2c: The CEO and CFO's gender similarity has a positive effect on the degree of the CFO's strategic partnership with the CEO.*

> *Hypothesis 2d: The CEO and CFO's education similarity has a positive effect on the degree of the CFO's strategic partnership with the CEO.*

The collective discussion about Hypothesis 1 and Hypotheses 2a through 2d indicates that the demographic similarity between CEO and CFO may influence the firm's financial performance through the CFO's strategic partnership with the CEO. Lastly, *Hypothesis 3a: CFO's strategic partnership with the CEO mediates the effect of the CEO and CFO's age similarity on firm's financial performance.*

Hypothesis 3b: CFO's strategic partnership with the CEO mediates the effect of the CEO and CFO's tenure similarity on firm's financial performance.

Hypothesis 3c: CFO's strategic partnership with the CEO mediates the effect of the CEO and CFO's gender similarity on firm's financial performance.

Hypothesis 3d: CFO's strategic partnership with the CEO mediates the effect of the CEO and CFO's education similarity on firm's financial performance.

Methods

Sample and Procedure

As part of a large research project on CFO competencies, the initial sampling frame included all (1,718) IPO firms listed in Stock A in the Shanghai and Shenzhen Stock Market in China. To reduce common method bias (Podsakoff et al., 2003), the data were collected through multiple sources. Demographic information about the CFO and the CEO were manually collected from the firms' annual reports. Firm financial information was collected from the database of the Chinese-listed firms. To assess a CFO's strategic partnership with CEOs, invitations and surveys were sent to the CFOs in all of these firms. Of these, 119 CFOs agreed to participate in the study and returned the surveys, resulting in the final sample size (response rate = 7%). Following the approach of Delery and Doty (1996), response bias was checked by a logistic regression. A dependent (dummy) variable was coded 1 if a firm participated in the study and 0 if it did not. The independent variables in this regression included industry, total assets, liability-to-equity rate, and return on asset. None of these variables were significant, indicating that response bias was not a significant problem.

The 119 firms were from four types of industries: utilities (29.4%), manufacturing (46.2%), social services (6.72%), and finance and real estate (17.68%). The demographic information of these CFOs is summarized in Table 1. In terms of gender, 25.21% of the CFOs were female and 74.79% were male. The average age of the CFOs was 43 years. Only 1.68% were under the age of 30, while 49.58% were between 31 and 40 years old. Also, 41.18% were between 41 and 50 years old and 7.56% were over the age of 50. The average tenure was 7.25 years, 40.33% had less than 3 years of tenure, 18.49% had tenures between 4 and 7 years, and 41.18% had tenures greater than 7 years. In terms of education, 33.61% held an Associate's Degree, 41.17% had a Bachelor's Degree, 22.69% had a Master's Degree, and 2.53% held a Doctoral Degree.

Table 1: *Demographic Information of the CFOs in the Sample*

Demographic Variables	Values	*n*	%	Average
Gender	Female	30	25.21	0.75
	Male	89	74.79	
Age	< 30	2	1.68	43
	31- 40	59	49.58	
	41- 50	49	41.18	
	> 50	9	7.56	
Tenure	< 3	48	40.33	7.25
	4- 7	22	18.49	
	> 7	49	41.18	
Education	Associate degree	40	33.61	16.29
	Bachelor's degree	49	41.17	
	Master's degree	27	22.69	
	Doctoral degree	3	2.53	

Note: Age, tenure, and education are in years. Female is coded as 0, and Male is coded as 1.

Measures

Firm Financial Performance

To measure firm financial performance, return on assets (ROA) was used, defined as the net profits divided by total assets. ROA is a well understood and common measure used in studies about the impact of top management teams on firm performance (e.g., Geletkanycz & Hambrick, 1997; Zattoni, Gnan, & Huse, 2015). In order to rule out the possibility of reverse causality (i.e., financial performance might influence the degree of the CFOs' strategic partnership with the CEO), one-year lagged firm financial performance was examined.

CFO's Strategic Partnership with the CEO

Information regarding the CFO's strategic partnership with the CEO was obtained through a short survey based on previous literature on the role of the CFO in strategic management (e.g., Dalton, 1999; Favaro, 2001; Howell, 2006; Hrisak, 1996; Zoni & Merchant, 2007). CFOs were asked to indicate to what extent the CEO had asked them to be involved in the following functions: a) corporate strategic planning; b) communicating strategic objectives to internal and external stakeholders; c) incorporating strategic plans into operating budgets; and d) strategic performance management. The CFO's involvement in each function was measured with a 4-point Likert scale anchoring from "0" (no involvement at all) to "4" (greatly involved in). The average of these 4 scores was calculated in order to measure the CFO's strategic partnership with the CEO (Cronbach alpha = .83).

Demographic Similarity

The demographic similarities between a CEO and CFO were measured using the following procedures. Pair-wise comparisons were used to analyze gender similarity and coded as 1 if both the CEO and CFO had the same gender. The degrees of similarity with respect to age, education, and tenure were calculated by the procedure used in Tsui and O'Reilly's study (1989). The dyadic D-scores were obtained by squaring the difference between the values for age, education, and tenure of the CEO and CFO. The squared terms were then used to derive an absolute difference score and to postulate an exponential function between the distance score and the outcome variable. Continuous difference scores on age, education, and tenure were then obtained. For example, a difference score of 0 for the age variable meant that a CEO and a CFO were identical in age. A difference score of 1 meant that they differed in age by one year, and a difference of 4 meant that they differed in age by two years (in either direction). The score was then reverse-coded by subtracting it from the maximum difference score so that larger scores denoted a greater similarity between the CEO and the CFO.

Control Variables

As suggested by prior studies (e.g., Smith et al., 1994), the CEO and CFO's average age, education, and tenure were controlled during the analysis. The firm's previous year's financial performance was controlled because it may have influenced the CFO's responses in the survey. For instance, if a firm had performed well in the previous year, the CFO may have been more likely to report a better strategic partnership with the CEO; if a firm had performed poorly, the CFO may have the tendency towards distancing him or herself from the decision-making process with the CEO due to social desirability bias. The effects of other firm characteristics, including the liability-to-equity rate, total assets, and industry also were controlled in the data analysis.

Results

The means, standard deviations, and intercorrelation values between the dependent and independent variables are summarized in Table 2. A review of the correlations among these variables indicated that the highest correlation was r = 0.46 (between education similarity and a CFO's strategic partnership with the CEO). The correlation matrix indicated that there were no multi-collinearity problems among the variables because all correlations were below 0.75 (Green, 1978).

Table 2: *Means, Standard Deviations, and Intercorrelations of the Variables*

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1 Firm financial performance next year	0.04	0.05												
2 Firm financial performance last year	0.05	0.05	0.35**											
3 CFO's strategic partnership with CEO	2.17	1.10	0.41**	0.27**										
4 Industry	1.24	0.93	-0.33**	-0.28**	-0.22*									
5 Liability-to-equity rate	1.15	1.43	-0.22*	-0.39**	-0.23**	0.44**								
6 Total asset (log)	21.70	1.16	0.21*	0.05	0.31**	-0.07	-0.20*							
7 Average age (pair)	44.39	5.07	-0.07	-0.10	0.03	-0.08	-0.05	0.30**						
8 Average education level (pair)	16.85	1.96	0.11	0.14	0.05	-0.13	-0.19	0.22*	-0.09					
9 Average tenure (pair)	3.17	1.64	0.02	0.05	0.10	0.08	-0.09	0.13	-0.16	-0.05				
10 Gender similarity	0.69	0.47	-0.12	0.02	-0.04	0.12	0.11	0.00	-0.13	0.01	0.13			
11 Education similarity	3.27	2.30	0.27**	0.18	0.46**	-0.23*	-0.14	0.28**	0.12	-0.29**	0.15	-0.15		
12 Age similarity	7.45	5.97	-0.03	0.11	-0.03	-0.12	-0.09	0.03	0.31**	0.03	-0.03	-0.02	0.10	
13 Tenure similarity	3.25	2.09	0.08	0.12	0.36**	-0.05	-0.10	0.12	0.17	0.02	0.02	0.08	0.16	-0.01

Note: n = 119 firms; *p < .05, **p < .01

Table 3 shows the result of the regression analysis of the testing of Hypothesis 1. The result fully supported Hypothesis 1, which posited that the CFO's strategic partnership with the CEO was positively associated with a firm's financial performance (β = .34, p < .05). Table 4 presents the regression results for the testing of Hypotheses 2a through 2d, which predicted that demographic similarities between the CEO and the CFO would have a positive effect on the CFO's strategic partnership with the CEO. The regression results indicated that educational level similarity between the CEO and the CFO had a significant positive relationship with the CFO's strategic partnership with the CEO (β = .35, p < .05). Tenure similarity was also positively correlated with the CFO's strategic partnership with the CEO (β = .32, p < .05). However, similarities in gender and age had no significant impact on the CFO's strategic partnership with the CEO. Therefore, Hypotheses 2b and 2d were supported, whereas Hypotheses 2a and 2c were not supported.

Table 3: *Results of the Regression Analyses of a CFO's Strategic Partnership with a CEO on Firm Financial Performance*

Variables	**Model1**		**Model2**	
	βeta	*T value*	*βeta*	*T value*
Manufacturing industry	0.36*	2.16	0.26	1.53
Service industry	0.13	0.67	0.01	0.05
Utility industry	0.06	0.37	0.05	0.33
Liability-to-equity rate	-0.09	-0.59	-0.11	-0.73
Total asset (log)	0.13	0.94	0.08	0.58
Last year's firm financial performance	0.13	0.92	0.15	1.04
Average age (pair)	-0.05	-0.34	-0.07	-0.49
Average education level (pair)	0.05	0.36	-0.01	-0.06
Average tenure (pair)	-0.16	-1.30	-0.15	-1.22
Gender similarity	0.07	0.56	0.07	0.57
Education level similarity	0.16	1.13	0.05	0.30
Age similarity	-0.11	-0.76	-0.09	-0.66
Tenure similarity	0.14	1.03	0.03	0.24
CFO's strategic partnership with CEO			0.34*	2.14
ΔR^2	0.28		0.06	
ΔF	1.59		4.55*	

Note: n = 119 firms; *p < .05

Table 4: *Results of Regression Analyses of the Demographic Effects on a CFO's Strategic Partnership with a CEO*

Variables	Model 1		Model 2	
	βeta	*T value*	*βeta*	*T value*
Manufacturing industry	0.34^{*}	2.20	0.30^{*}	2.13
Service industry	0.38^{*}	2.29	0.35^{*}	2.15
Utility industry	0.06	0.44	0.02	0.18
Liability-to-equity rate	0.03	0.21	0.06	0.41
Total asset (log)	0.31^{*}	2.49	0.15	1.28
Last year's performance	0.00	-0.01	-0.04	-0.30
Average age (pair)	0.13	1.03	0.06	0.46
Average education level (pair)	0.05	0.42	0.18	1.43
Average tenure (pair)	-0.02	-0.14	-0.05	-0.41
Gender similarity			0.00	0.01
Education level similarity			0.35^{*}	2.81
Age similarity			-0.05	-0.43
Tenure similarity			0.32^{*}	2.71
ΔR^2	0.25		0.22	
ΔF	2.09^{*}		5.18^{**}	

Note: n = 119 firms; $^{*}p < .05$; $^{**}p < .01$

The bootstrapping method (Preacher & Hayes, 2004) was used to test the extent to which the effect of demographic similarity on a firm's financial performance was mediated by the CFO's strategic partnership with the CEO (Hypothesis 3a to 3d). The results are presented in Table 5, which shows that the CFO's strategic partnership with the CEO mediated the effect of the CEO and CFO's educational similarity on the firm's financial performance (Z = 3.08, p < .01, 95% *Biased Corrected Confidence Interval* = .001 to .006). Moreover, the CFO's strategic partnership with the CEO mediated the effect of the CEO and CFO's tenure similarity on the firm's financial performance (Z = 3.18, p < .01, 95% *Biased Corrected Confidence Interval* = .002 to .007). No significant mediating effect of the CFO's strategic partnership with the CEO was found in demographic similarity in either gender or age. Therefore, Hypotheses 3b and 3d were supported, while Hypotheses 3a and 3c were rejected.

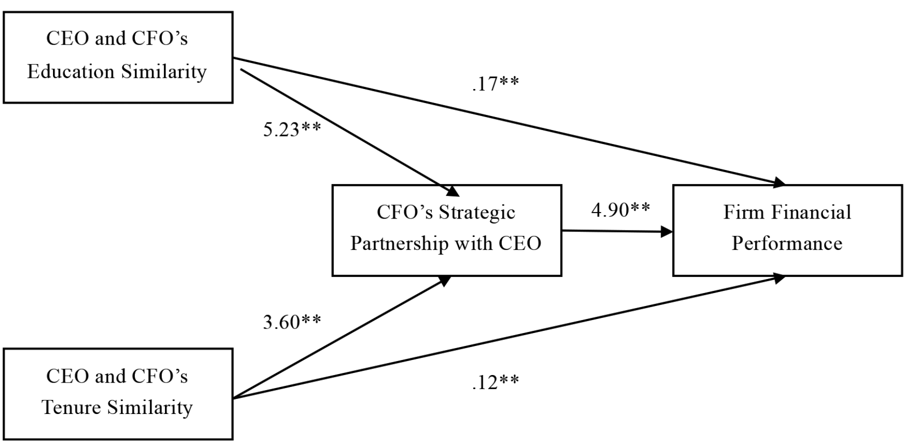
Table 5: *Results of Indirect Effects of Demographic Similarity on Firm Financial Performance through a CFO's Strategic Partnership with the CEO*

Demographic Similarity	Boot Indirect Effect	Boot *SE*	Boot 95%	CI	Boot *Z*	Boot *p*
Age similarity	-.001	.003	-.007	.005	-.34	.74
Tenure similarity	.004	.001	.002	.007	3.18**	.00
Gender similarity	-.002	.004	-.009	.006	-.39	.69
Education similarity	.004	.001	.001	.006	3.08**	.00

Note: n = 119 firms; *bootstrap sample size* = 5000; $^{*}p < .05$; $^{**}p < .01$.

As a robust test, structural equation modeling was also performed with AMOS (version 2.0) to test the whole model. The significant standardized path coefficients are presented in Figure 1, showing, in particular, a significant positive influence of educational similarity on the CFO's strategic partnership with the CEO (*standardized beta* = 5.23, $p < .01$). Tenure similarity also had a significant positive influence on the CFO's strategic partnership with the CEO (*standardized beta* = 3.60, $p < .01$). The CFO's strategic partnership with the CEO was positively related with the firm's financial performance (*standardized beta* = 4.90, $p < .01$). Moreover, a positive indirect effect of educational similarity on the firm's financial performance through the CFO's strategic partnership with the CEO was found (*standardized indirect effect* = .17). Tenure similarity between the CEO and CFO had a positive indirect effect on the firm's financial performance through the CFO's strategic partnership with the CEO (*standardized indirect effect* = .12).

Figure 1: *Results of Path Analysis of the Research Model*



**$p < .01$; *Chi square* = 2.45, *df* = 2, p = .29, *CFI* = .99, *NFI*= .96, *IFI* = .99, *TLI* = .96, *RMSEA* = .00.

The absolute fit indices showed that the model tested did not differ significantly from the data (χ^2 = 2.45, *df* = 2, p = .29 and *RMSEA* = .00). All incremental fit indices were above .90 (*CFI* = .99, *NFI* = .96; *TLI* = .96 and *IFI* = .99), showing that the model could not be improved significantly. Therefore, the path model was consistent with previous OLS regression findings results and supported Hypothesis 1, Hypotheses 2b, 2d, 3b, and 3d.

Discussion

The study contributed to the growing stream of research on the expanding role of CFOs (e.g., Favaro, 2001; Tulimieri & Banai, 2010; Zorn, 2004) in several ways. First, it provided empirical evidence supporting the benefit of expanding the CFO's function into the firm's strategic management process. CFOs are not merely leaders in implementing financial analyses, but important players in corporate strategic planning, communicating strategic objectives to stakeholders, incorporating strategic plans into operating budgets, and strategic performance management. The present findings confirmed that the CFO's strategic partnership with the CEO can lead to high financial performance for a firm. These results also added knowledge to the emerging research on the relationship between functional top managers by revealing the importance of the strategic partnership between CFOs and CEOs. As Menz (2012, p. 61) noted, "although the relationship between the more managerial functional TMT members (e.g., CFOs, CMOs, COOs, and CSOs) and the CEO seems particularly important, almost all of the studies analyzing the processes in such relationships are on the more technical functional executives (e.g., CIOs, CTOs)." Focusing on the CEO-CFO pairs, this study suggested that the CFO's involvement in a firm's strategic management helped the CEO develop more comprehensive views of business problems and take feasible actions. To enhance the firm's financial performance, CEOs should provide CFOs with more strategic decision-making opportunities and proactively share their leadership with their CFOs.

In addition, the findings shed light on the cognitive antecedents that enable the CEO and CFO to collaborate with each other. The current study didn't find any significant effect of gender or age similarity on the CFO's strategic partnership with the CEO. However, the results showed that similarities in the CEO and CFO's education level and firm tenure significantly enhanced their strategic partnership. Compared with age and gender, tenure and education reflected, to a larger extent, the top executive's firm-related knowledge and information-processing capability (Boivie, Jones, & Khanna, 2008). This indicated 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. Since the CFO and CEO fulfill different functions, they may constantly struggle to find a common thread to integrate their different perspectives, opinions, and expertise (Han et al., 2014). The similarity in education level and firm tenure between CFOs and CEOs may lay out a common knowledge base, which can help each learn from the other's specialties, develop understanding, and share mental models (Huber & Lewis, 2010; Mathieu et al., 2000). Therefore, cognitive similarity (e.g., in education level, firm tenure) mitigated the threats posed by differences in functional backgrounds and facilitates a successful strategic partnership between CEO and CFO.

Last but not least, this study contributed to upper echelon research by opening the black box of the influence of top managers' demography on a firm's financial performance. Upper echelon research has been previously criticized for lacking an appropriate examination of the intervening process (Carpenter et al., 2004; Nielsen, 2010). For instance, Lawrence (1997) argued that the use of demographic variables left the theoretical mechanism and the underlying phenomenon unexplored. This study explicitly included the CFO's strategic partnership with the CEO as one of the underlying mechanisms in the analysis. The findings suggested that the CFO's strategic partnership with the CEO mediates the positive influence of their demographic similarity in tenure and educational level on the firm's financial performance.

The results of the current study may be of interest to several parties beyond the research community. First, the study could be of interest to HRM professionals and CEOs who need decision support in selecting, training, and collaborating with their CFOs. The results suggested that to initiate an effective strategic partnership between the CEO and the CFO, the firm should consider creating a knowledge-based commonality between them so as to facilitate their collaboration. For example, firms could target CFO candidates with a level of education and tenure similar to those of the CEO during their recruiting. This study also added informational value to educators who were concerned with evaluating their curricular offerings. Business schools often incubate senior financial executives for corporations. Although many students aspire to hold positions with great responsibility, they often are not clear on how to successfully become a strategic partner. This study delivered some initial messages encouraging business school administrators and faculty members to train and embolden financial-centered MBA and EMBA participants to practice and hone their strategic partnership skills and not to limit themselves to the "counting" arena. Moreover, the findings may be useful for finance professionals and students who are looking toward career advancement. The results may also offer job candidates some self-selecting hints on the personal characteristics and skills required of a successful CFO as they consider a potential career opportunity.

Although the current study provided a number of insights into the importance of the CFO as a strategic partner of the CEO, several limitations should be noted. As a first step in exploring the role of the CFO as a strategic partner, the focus of the study was the CFO's strategic partnership with the CEO. The scope of the study was limited and caution should be exercised when generalizing the results to executives in other functions. Future studies could broaden the scope of observation to the strategic partnerships of other top executives (e.g., the Chief Operating Officer, Chief Technical Officer, and the Chief Information Officer) and analyze how relational demography influenced their strategic partnerships with CEOs as well as a firm's financial performance. Second, the CFO's strategic partnership with the CEO was measured through the CFOs' self-report survey. Future studies could combine the use of other methods, such as interviews, to examine if the current findings could be replicated. In particular, multiple sources such as CEOs and other executives could be used to collect information about the CFO's strategic partnership. Such a comprehensive approach may provide a more reliable measure for a CFOs' strategic partnerships with a CEO. The current study also measured the firm's financial performance by return on asset only. A future study could replicate the current study by using portfolio performance measures, including organizational efficiency and effectiveness measures, to comprehensively assess the influence of the CFO's strategic partnership with the CEO. Although this study provided empirical evidence of demographic similarity as one of the antecedents of the CFO's strategic partnership with the CEO, the reasons for the degree of demographic similarity between a CEO and CFO were not explored. Factors such as political dynamics in firms may play a role in this issue. For instance, a powerful CEO may select a demographically similar CFO to build coalitions in the firm (Westphal & Zajac, 1995). Future research could examine the political or institutional influences on a CEO's appointment of a CFO. Why homogeneity or heterogeneity exists among top executives could be further examined as well (Carpenter et al., 2004; Nielsen, 2010). Lastly, though the current study found a positive relationship between the CEO and CFO's demographic similarity and the firm's one-year lagged performance, it is possible that over time, the positive effect of demographic similarity could diminish. Prior research has well documented the negative influence of similarity on group performance. For instance, too much similarity is suggested as a cause of groupthink (e.g., Jehn, Chadwick, & Thatcher, 1997). Future research could take into consideration the influence of time on the relationship between demographic similarities and its effect on the firm's performance.

Conclusions

This paper provided empirical evidence that a CFO's strategic partnership with a CEO led to high financial performance of a firm. Similarities in educational level and firm tenure between the CEO and the CFO were found to improve the firm's financial performance by expanding the CFO's role in strategic management. The study suggested that firms should pay more attention to the expanding role of the CFO as a strategic partner of the CEO. To facilitate such strategic partnership, it is necessary to create some knowledge-based commonality between the CEO and CFO to reduce any conflicts caused by the differences in their functional backgrounds.

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