CFOs Mimicking the CEO

Social interactions among top executives within a firm are expected to have strong influences on company decisions and outcomes. To date, however, little research has explored how executives within the leadership team work together. Forthcoming research in the Academy of Management Journal explores the relationship between CEOs and CFOs to understand how behavioral mimicry of the CEO by the CFO influences company outcomes. In particular, the authors suggest the CFO's mimicry ingratiates the CEO, ultimately benefitting the CFO while harming the company.

Key Takeaways:

- CFOs who match the CEO's speech pattern receive higher compensation and are more likely to earn a board seat.
- Behavioral mimicry enhances the CFO's position more when the CEO has greater power within the company.
- Mimicry by the CFO leads to more acquisitions which are a) greater in value, b) paid for with more stock, c) received more poorly by investors, and d) less value creating.

The researchers examined the CEO and CFO's speech in the Q&A portion of conference calls for 2,384 companies, analyzing the degree to which the CEO and CFO used similar content words (e.g. nouns, regular verbs, adverbs). The authors found that when CFOs used content words more similar to the CEO's, the CFO was more likely to serve on the company's board of directors and received higher compensation. These relationships were stronger when the CEO had greater power, as the CEO holds greater ability to reward a CFO who acts similarly. Finally, when companies have similar language patterns between the CEO and CFO, they engage in 2.3% more acquisitions, which cost worth 11.7% more. On average, these acquisitions are paid for with a greater percentage of stock, are received more poorly by investors, and less positively influence the company's subsequent performance.

In summary, the authors note that language patterns between CEOs and CFOs change over time, as CFOs mimic the CEO's speech. This behavioral mimicry is a form of flattery, which benefits the CFO. However, the CFO becomes less likely to challenge the CEO's strategic decision making, which results in more acquisitions of poorer quality. The authors suggest that it is likely to be critical for the board to understand how the CEO interacts with other company executives.

Source: Shi, W., Zhang, Y., & Hoskisson, R.E. Forthcoming. Examination of CEO-CFO social interaction through language style matching: Outcomes for the CFO and the organization. Academy of Management Journal.