The Chief Information Officer and Chief Financial Officer Dyad – How an Effective Relationship Impacts Individual Effectiveness and Strategic Alignment

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Abstract
Study of Chief Information Officer (CIO) relationships has historically focused on the Chief Executive Officer (CEO) and the Top Management Team (TMT). We propose that within publicly funded and not-for-profit organizations, the specific relationship between the CIO and the Chief Financial Officer (CFO) is a critical pairing that impacts both individual effectiveness and strategic alignment. Our findings suggest that while the CIO and CFO pair are similar to other TMT relationships in many ways, their perceptions of the other’s strategic role within the organization is a key differentiator that can lead to effective or adversarial relationships with individual and firm-level outcomes. When the relationship is positive, both individual role effectiveness and strategic alignment improve.

1. Introduction

Corporations generally create C-level executives (high-level corporate positions in the top management team) to deal with intractable or persistent challenges to the organization [4]. The Chief Financial Officer (CFO) is an example of such a position that came to prominence in the 1960s [15, 39] while the Chief Information Officer (CIO) rose in importance in the 1980s [31].

The CFO position grew out of the corporate treasurer, with a focus on tax reporting, financial statement preparation and budget creation [11, 39], while the CIO position grew out of the data processing centre [34]. These C-levels executives are separate and distinct from their functional forbearers, as CFOs and CIOs often operate as part of the Top Management Team (TMT), while current-day MIS Managers and Controllers are embedded in their functional specialties. In other words, while the MIS Manager is a technology specialist first and the Controller is an accountant first, both the CIO and the CFO are senior executives first and functional specialists second [35, 39].

The organizational impact of the CIO position and how it interacts with the TMT is a key area of research [18]. Information Technology (IT) research has long studied the relationship of the CIO with the Chief Executive Officer (CEO) specifically [14, 16, 17] and the TMT in general [8, 27]. It has not, however, focused explicitly on one of the most important pairings amongst C-level executives – that of the CIO and CFO. To date, only practitioner publications have discussed the importance of the CIO-CFO dyad [22, 24, 30]. We posit that as TMTs are often teams more in name than fact [20], individual relationships between these members may be the most important to study and that there will be both similarities and differences with other dyads in the TMT. Senior executives themselves have seen a need to discuss the CIO-CFO relationship because IT can be one of the largest capital outlays in a firm and also one of the greatest contributors to strategic advantage. The cost-benefit discussions that ensue have created what has been dubbed an ‘odd couple’ relationship between the CIO and CFO where collaboration and cooperation between the two is critical to the exploitation of firm resources in support of strategic goals and to the performance of the firm [24, 37].

Following the lead of private corporations, government and not-for-profit organizations have created similar structures. The focus of this study is on the CIO-CFO relationship within publicly funded and not-for-profit organizations.

2. Theory development

We approached the development of the research model for this study by examining the literature for the CEO-CIO and TMT-CIO relationships and extending it...
to the CFO-CIO relationship. From previous studies in this area, significant contributors to constructs were adopted and non-significant contributors excluded in order to make a cumulative contribution to the research literature.

2.1. Research model

The integration of these constructs and hypothesized relationships leads to the initial research model for the study in Figure 1.

![Research Model Diagram]

**Figure 1 – Research Model**

2.2. CIO/CFO relationship effectiveness

The definition of the effectiveness of the relationship between the CIO and CFO is critical for the study. Based on previous literature three measures are recommended: trust, influence and shared understanding. First, trust has been demonstrated as a predictor of effectiveness in TMTs [32] and in the specific case of the CIO, has been demonstrated to have the most significant contribution to positive engagements with the TMT [33]. Second, influence of CIOs with peers has been determined to be most effective using rational persuasion and personal appeal [9], techniques that are possible only where effective relationships exist. Third, shared understanding between the CIO and CEO or TMT has been correlated with the strong relationships between the positions [10, 27, 29], hence it can be used as an indicator of an effective relationship.

2.3. Structural engagement

Structural engagement is defined as the formal organizational structures that constrain or enable the interaction between the CIO and CFO and include, for this study, the hierarchical position of the CIO relative to the CFO and membership of each in the TMT. CEOs can be divided into those who see IT as a strategic resource and those who see it as a cost [6]. In firms where IT is viewed as strategic, the CIO is often part of the TMT and is a peer of the CFO; in firms where IT is viewed as a cost, the CIO often reports to the CFO and is mostly excluded from strategic planning [19, 23]. The location of the CIO in the hierarchy is an important structural sign of its status relative to other positions, including the CFO [22]. This is not only the reporting relationship between the CIO and CFO [1, 27], but also whether the CIO is included in the TMT [33]. These structural differences have been shown to influence the generation of shared understanding between the CIO and TMT [28], hence we hypothesize that they are antecedents to the effectiveness of the relationships.

Hypothesis 1. Higher levels of structural engagement between the CIO and CFO (lower relative hierarchical difference and both having TMT membership) will be positively related to CFO-CIO relationship effectiveness.

2.4. Personal congruence

In addition to structural engagement, personal congruence can also influence relationships within the TMT, particularly in the domains of knowledge, experience and capability. First, both strategic functional knowledge and strategic business knowledge are contributors to effectiveness as understanding of the functional domain and the overall business context are critical for TMT members [27, 33]. Similarity in experience has also been demonstrated as contributing to effectiveness as common backgrounds provide common contexts in a relationship [27]. Finally, ‘soft skills,’ such as political savvy and interpersonal skills, enable effective engagements within the TMT [33].

Hypothesis 2. Higher levels of personal congruence between the CIO and CFO (greater understanding of their own domains, each others domains and the business; common backgrounds and experiences; and abundant ‘soft skills’) will be positively related to CFO-CIO relationship effectiveness.

2.5. Individual role effectiveness

Following Smaltz, Sambamurthy and Agarwal, CIO role effectiveness is “a formative multidimensional construct measuring the performance of the CIO on a multiplicity of salient roles.” [33, p.209]. Individual role effectiveness has been described and found significant in terms of roles as a strategist, relationship architect and integrator [34]. While these categories
were developed specifically for the CIO role, they generalize to any C-level executive with a functional specialty and hence we use the same concept for both the CIO and CFO. For example, as a strategist, any C-level executive must be intimately involved in business strategic planning and decisions and be intimately involved in shaping mission and vision, two of the key items in the scale [34]. As the relationship architect role revolves around internal and external contacts and stakeholders and the integrator role focuses on incorporating functional projects and processes throughout the enterprise, these measures of individual role effectiveness can be related to the CFO-CIO relationship.

Hypothesis 3. Higher levels of CFO-CIO relationship effectiveness (higher trust, greater influence and shared understanding) will be positively related to individual role effectiveness.

2.6. Strategic alignment

Our view of alignment is generalized from Reich and Benbasat [29] where the degree to which the functional mission, objectives and plans support are supported by the business mission, objectives and plans. We chose this view over other conceptualizations of strategic alignment as it focuses on the social dimension of alignment, were we propose that relationships would have the greatest impact. Strategic alignment is operationalized in three ways. First is the concept of participation, where the level of C-level executive contribution to another functions' plan indicates the degree of alignment [29]. Second is the concept of connection, where the number of references between functional plans indicates how well they are aligned [27]. Third is the concept of congruence, where the degree of consistency between functional plans indicates the level of alignment between them [3]. As each of these measures requires interaction between the C-level executives, they can be linked to the effectiveness of that relationship.

Hypothesis 4. Higher levels of CFO-CIO relationship effectiveness (higher trust, greater influence and shared understanding) will be positively related to strategic alignment.

3. Methodology

The methodology section is divided into data collection and data analysis.

3.1. Data collection

The case study has been suggested as being appropriate for answering research questions relating to the ‘how’ and the ‘why’ of a phenomenon [38]. The case study method has been repeatedly cited as being effective in generating theory early in the research of a new topic [2, 5, 7]. Eisenhardt [7] notes that the ground in empirical evidence found in case study research leads to theory that is likely to be novel, testable, and empirically valid. This research is a multiple case study, following guidelines and standards established for case study research in IS [2, 21, 38].

The unit of analysis is the firm, drawn from the population of public and not-for-profit organizations in the health and education sectors. These sectors were selected due to the expected degree of information and knowledge-intensity of firms operating in them.

Participants were theoretically sampled within the public and not-for-profit sectors with the intent of finding organizations with different levels of performance within the model constructs [12]. A total of three case study sites are discussed in this paper. It was anticipated that with theoretical sampling and these three case studies, there would be sufficient depth of data collected to achieve theoretical saturation, which is the point at which there is minimal incremental learning from each case [12].

At each site, semi-structured interviews were conducted with the CIO and CFO. Both authors conducted all but one interview together. Six interviews lasting between 60 and 90 minutes were conducted, resulting in approximately 100 pages of typed transcripts. Participants were sent copies of their transcripts to provide them with opportunities to clarify or expand discussion points. Secondary data were collected from firm websites and pertinent strategic documents were provided by the participating firms.

3.2. Data analysis

Qualitative data analysis followed Gopal and Prasad [13] as a process exemplar, using a two stage analysis procedure. The first stage involved listening to interviews, indexing contexts, initial coding, and structuring nodes; the second stage involved analysis of resulting nodes and clustering of nodes. Three of the main steps in the analysis are coding, within-case analysis and cross-case analysis [7, 26]. A partial transcript was independently coded by the two authors and a research assistant based on a coding guide derived from the construct list. Issues regarding the
understanding of codes and types were resolved prior to the two authors coding three interviews each and the research assistant coding all six interviews. Coding was done in NVivo 8 and final coding for each construct was resolved between the two authors and research assistant. For individual cases, a ten to fifteen page case summary was written providing key observations on each construct in the model. Within-case analysis used a pattern matching strategy, comparing each element of the case against a range of factors related to the hypothesized constructs [39]. The last step in the individual case analysis, and the first step in the cross-case analysis, was to convert the thick description into a single level of performance for the constructs and types [25]. This was done individually and then adjusted in comparison with the other firms.

Lee [21] identified four challenges in case study design: (1) how to make controlled observations; (2) how to make controlled deductions; (3) how to allow for replicability; and (4) how to allow for generalizability. Controlled observations were made through the use of natural controls by having firms ensconced in one of the two industries to minimize between group factors. Controlled deductions were made through the use of logical deductions through verbal propositions, focusing on evaluation criteria of falsifiability, logical consistency and confirmation of theory from the test results. Replicability and generalizability were achieved by testing the theory across the different cases with different initial conditions and outcomes.

Case studies can be assessed on three major types of validity – internal, construct, and external – and reliability [39]. Internal validity was enhanced through the use of a pattern matching strategy within and between cases and through the implementation of natural controls through multiple heterogeneous cases in a limited set of industries. Construct validity was addressed through the chain of evidence that a qualitative package such as NVivo provides, the review of transcripts by informants, and the use of multiple sources of evidence including interviews, documentary evidence and observation. External validity was enhanced through the use of cross-case analysis to and through the confirmation that observations fit across the three organizations. Reliability was aided by the production of interview documentation and the organization of documentary evidence through the structures provided by NVivo.

4. Results

Findings are presented at the individual and cross-case levels for the three case sites: School Board, Children’s Charity and Public University. The individual case level examines the hypothesized linkages between the constructs for each firm while the cross-case level looks at global commonalities.

The colour coded diagrams indicate the following:
- White – not observed
- Green – Strong linkage
- Yellow – Moderate linkage
- Red – Low or no linkage

4.1. School Board

The School Board (SB) is a public district school board in Canada. SB was founded in a 1998 provincial reorganization of Ontario school boards and is an amalgamation of two former county boards. SB serves over 21,000 students at 66 schools - 55 elementary and 11 secondary - with 2,200 employees. SB covers a geographic area of 7,700 square kilometers with an overall population of 136,600 public school supporters. It has an operating budget totaling $235.5M and a capital budget of $22.6M for the 2010-2011 school year.

Both the CFO and CIO reported to an academic member of the Board of Directors and so were at the same level, but neither were part of the SB TMT. The organization was relatively flat and the Board members and Superintendents would reach into the organization as necessary for information. Informal structures were quite prevalent and appeared to be positively related to creating trust and shared understanding. Dialogue with the Superintendent was very focused and infrequent whereas peer communication ranges from business to informal and was both frequent and rich, increasing the effectiveness of their relationship.
positive and trusting relationship. Their common interests outside of work also served as an “ice breaker” when they initially met, allowing them to more quickly develop this relationship. Tenure in SB provided the CFO with institutional trust and confidence to provide input when asked; the CIO recognized that his institutional trust was growing and would improve with time. Soft skills enabled the two executives to deal with issues before they “boiled over”, enhancing mutual trust and shared understanding. Ultimately, the CIO felt that if he didn’t have the relationship with the CFO that he has “it would be a struggle to perform in this role”.

The CFO was trusted by his peers which improved his overall effectiveness in his roles while the CIO saw his effectiveness as “a work in progress”. The CFO acted as a mentor to the CIO and provided guidance on how to handle sensitive issues and to develop relationships. The CFO had a strong internal and external network, while the CIO was developing both. Neither had much input into the strategic plan as it was set by the Board but they both saw themselves as the implementers of the plan. Nonetheless, the CFO provided more input than the CIO into the strategic plan and the CIO would prefer to be more involved.

Strategic alignment was driven by a mission-focused corporate strategy at SB. While there was limited participation between the CFO and CIO with respect to business planning, both provided input to the strategic objectives of the school board. The plans were congruent to the point that the IT strategy was affordable and supportive of the overall business strategy. Service and technology were balanced because of the positive relationship and common understanding of the financial position and operational goals of the organization. This healthy relationship between the CIO and CFO had developed a high level of trust which in turn led to the congruence of plans and generation of positive outcomes. As noted by the CIO, “if things aren’t working we can very easily get together and try and resolve that issue”.

In summary, a positive relationship existed between the CIO and CFO. This positive relationship resulted from a high level of trust between the executives as well as a shared understanding of the organization’s goals and each other’s role. Both were mission driven, sharing a common knowledge of the organization’s strategic goals which helped to form a positive relationship. Both felt that good communication and co-location were the key contributors to the forming of a trusting and ultimately positive relationship. With a positive relationship established, both executives felt they were better as integrators and relational architects. Finally, the positive relationship improved strategic alignment and led to the congruence of the organization’s strategic plans.

4.2. Children’s Charity

The Children’s Charity (CC) is the provincial branch of a well-established national charity focused on youth with physical disabilities. CC had only 64 employees, with 35 in the head office including 15 in fundraising, supporting thousands of volunteers and upwards of 20,000 clients. Annual revenues, primarily charitable donations, totaled over $10M.

The CFO noted that while informal mechanisms were important to the relationship, communication was key whether informal or formal. The CIO felt that being equals and on the TMT helped as they are there for the same cause. Communication with their respective peer was much more frequent than with the CEO of CC. When dealing with one another both felt that the discussions were important and meaningful; they felt that good communication and co-location were important factors in generating trust and mutual understanding in an open and positive relationship.

The CFO and CIO were mission-oriented and had similar management approaches which contributed to a positive working relationship. The CFO felt that their common approach – “analytical and steady” – made for an effective relationship, particularly in generation of trust. The CFO highlighted the common goal and stated “we trust each other.” Both had backgrounds in public/charitable organizations, which contributed to their shared understanding of the not-for-profit goals of CC. There was an indication that personal differences were less important than professional similarities. Specifically, common interests were not important and neither were educational similarities, but both cared about the organization, its people and its objectives.
The CIO felt that the positive relationship with the CFO improved her role effectiveness. Both executives had a clear understanding of the organization’s mission and they used this common knowledge to shape strategy within the TMT. Trust and shared understanding appeared to be major contributors to individual role effectiveness. Their effective relationship avoided the creation of silos in the organization and led to role effectiveness. The CIO noted ‘we’re both negotiators and information-gatherers, but we do it with different pockets or different focuses.’

The CIO recognized that unrealistic demands are pointless – there must be a balance between cost efficiency and service enablement – leading her to create an IT vision that was both minimalist and effective. When developing strategic plans the CFO and CIO consulted on what was in the ‘art of the possible’. Trust, influence, and shared understanding were balanced in the strategic planning process with the focus on donor dollars driving all decisions. Because they could communicate freely, they were able to deal with budget constraints effectively but also realized the limits of economy. The CFO recognized the importance of IT and stated “we need the CIO to plan what’s best for the organization”. Trust allowed them to rely on the other, which contributed to their alignment. The CIO’s positive relationship with the CFO resulted in a congruence of their plans. “The CIO ensures all her needs are affordable.”

In summary, a positive relationship existed between the CIO and CFO. This positive relationship resulted from a high level of trust between the executives as well as a shared understanding of the organization’s goals and each other’s role. Both were mission driven, sharing a common understanding of the organization’s strategic goals which help to form a positive relationship. In addition, they had common work and outside work interests that were good “ice breakers” and aided in the building of a positive relationship. Good communication and co-location were the key contributors to the forming of a trusting and ultimately positive relationship. With a positive relationship established, both executives felt they were better strategists. The CFO trusts the CIO’s input to the strategic plan and does not have to second guess the requirements. Finally, the organization is highly focused on its mission and the positive relationship improved strategic alignment to the point where planning between the two executives increased and the organization’s strategic plans converged.

4.3. Public University

The Public University (PU) provides a full range of undergraduate, graduate and professional education in both residential format and at a distance. Students on campus numbered less than 2,000, while there were 6,000 to 8,000 students in distance education, with the majority of these in a non-degree professional development program. The University’s robust research program is consistently ranked in the top 10% of universities of its size in Canada.

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rather than with her, if he saw her as an impediment to his goals.

The CFO and CIO lacked a shared understanding of each others’ roles and responsibilities. For example, the CIO see the CFO as “the watchdog for the CEO” and is responsible for “getting the budget variance to zero at the end of the fiscal year. The CFO in turn sees the CIO as “maintaining the network identify the needs” of the University executives. As a result they assessed role effectiveness differently. The CIO saw the CFO as a source of money rather as a provider of strategic advice and the CFO saw the CIO as a provider of IT rather than a strategic enabler. The CFO focused on internal relations whereas the CIO cultivated both internal and external relations and used the external contacts when internal contacts failed to support his perceived mission.

The CFO saw herself as a major contributor to the strategy of PU whereas the CIO saw her as passive and ineffective. The CFO was seen by both to contribute to the corporate strategy as a service provider of IT, however the CIO wished for a more strategic role. The CIO saw the CFO as “the keeper of the books”. Participation in strategic planning was forced by the CEO and the plans are not congruent. Both individual plans were connected to the corporate plan but did not refer to one another. The CIO discussed affordability with the CFO but that was the limit of their strategic alignment.

In summary, a positive relationship did not exist between the CIO and CFO. Despite statements from the executives that claimed a positive relationship existed, there was little to no trust between the executives and a clear lack of understanding of the other’s role in the organization. As a result, both relied on influencing tactics to achieve operational results. The poor relationship resulted from very limited communication and was compounded by a significant physical separation of their offices and organizations. Both also admitted to having “nothing” in common and significantly different career paths and experiences. The poor relationship resulted in poor individual performance whereby neither was an integrator and their individual performance as strategists and relational architects was negatively impacted. Finally, the poor relationship clearly affected strategic alignment to the point that there was not cross-participation in strategic plans and only limited connection and congruence.

4.4. Cross-case observations

Cross-case analysis followed Eisenhardt [7] and Miles and Huberman’s [25] tactic of comparing cases across the dimensions identified in the within-case analysis. Within the case study sites, two relationships were functional and high performing and one was dysfunctional and low performing, allowing comparison across the model.

Trust and shared understanding appeared to be the key contributors to an effective relationship. When these two contributors were lacking, negotiation and the use influence tactics became a requirement. However, good negotiating skills alone did not appear to be sufficient to create an effective relationship.

From a structural engagement perspective, good communication between the CIO and CFO appeared vital in developing trust and shared understanding. TMT membership and hierarchical differences were model elements not observed as there were no differences between the positions. While not part of the original model, work proximity was identified as a common factor in good communication which led to increased trust. When the proximity of the CIO and CFO were close, communication was frequent and rich resulting in trusting relationships, whereas when they were not co-located, communication was limited and trust was low.

Personal congruence was also important in building an effective relationship. Common knowledge, particularly in the area of the organization’s mission and the role of their counterpart, was identified as a key contributor to positive outcomes. Similar experiences were seen as a “good ice breaker” but were not a requirement for an effective relationship. Similarly, different soft skills did not appear to adversely affect a positive relationship. Good soft skills were more important when trust and shared understanding were low and negotiation or influence behaviors were required.

High trust and shared understanding appeared to have a positive effect on individual role effectiveness and strategic alignment. Conversely, when trust and shared understanding were lacking, both individual performance and strategic alignment were negatively affected. In those instances, negotiation and soft skills become very important.
5. Discussion

As our model was based on a synthesis of existing research findings, it did not come as a great surprise that the majority of theorized linkages were supported. The key antecedents to relationship effectiveness, particularly trust and shared understanding, appeared to be communication (within the structural engagement construct) and common knowledge (within the personal congruence construct). This would support strategic alignment research both by Preston [27, 28] on social systems of knowing and by Reich [29] on the social dimension of alignment.

One area that we believe we have refined an existing model is in the linkage between engagement and role effectiveness. In Smaltz, Sambamurthy and Agarwal [33], the relationship between engagement and role effectiveness was found not significant. Based on observations within the case sites, we believe that this linkage may be fully mediated by the relationship effectiveness of the executives.

A second area is in the effect of proximity on relationship effectiveness. While proximity has been linked to an increase in communication due to a corresponding increase of informal contact [36], we believe that the effects are not limited to communication but impact on the relationship itself. This suggests that proximity may be a separate first-order construct within the structural engagement second-order construct.

These two refinements can be equally applicable to any pairing within the TMT, so the question remains what makes the relationship between CIO and CFO unique. We believe that a possible element of uniqueness is the impact of roles, perceptions and their alignment. Given the rise of both positions from the back office, there a tension between cost-efficiency and strategic enablement within the roles. In SB and CC, the CIO and CFO had a clear understanding of their own role and that of their counterpart; in PU, both the CIO and CFO viewed themselves as strategic while their counterpart viewed them as efficiency focused. We believe that the friction caused by the misperception of roles was a significant contributor to the poor relationship between the CIO and CFO. Additionally, while we only observed peer relationships between CIO and CFO, this theoretic view would support research on strategic determinants of hierarchy between the positions [1].

We have amended our research model to reflect these three key observations as illustrated in Figure 5.

6. Conclusion

The contribution of this study is two-fold. First, as noted, the CIO-CFO dyad has not been studied explicitly in spite of the strong ties between the two positions. The examination of this issue has the potential to uncover specific issues in the relationship that are missed in the more general CIO-TMT discussion. Second, CIO-TMT research has been undertaken primarily by IT researchers from the CIO perspective. The collaborative research by IT and accounting investigators is intended to achieve a balance in perspectives hitherto not found in the literature.

6.1 Limitations

We should note two limitations of the study and associated caveats regarding generalization of results. First, as the study was grounded in the public and not-for-profit sectors, there is an issue of application of results to private sector firms with a profit-motive. While the research model was built from studies using private sector firms and all three sectors have assumed similar management principals, we cannot guarantee similar outcomes in all sectors. Second, as while the case sites were rich, there were only three of them and they were theoretically selected to find differences. Many firms may have neither as high or low indicators and hence the relationships may be less distinct for more moderate organizations.

6.2 Implications for Management

Management implications can be seen in organizational design. As suggested by Banker, Hu, Pavlou and
Luftman [1], the structural engagement of CIO and CFO is an important factor in performance and is influenced by strategic positioning of the firm. We would extend this logic, based upon our research findings, to suggest that it is not just the hierarchy that is important but the perceptions of the two executives and their mutual understanding and acceptance of those roles that is important. This requires clarity in the discussion between the CEO, CIO and CFO regarding expectations of their roles to avoid misperceptions. Similarly, if proximity of CIO and CFO is an enabler of positive relationships, then the layout of organizations may be a powerful design tool to ensure key executives enjoy a productive and effective relationship.

The research implications of this work focus on extending our understanding of this critical relationship within the firm. CIOs and CFOs are often central protagonists in the battle for resources within public and not for profit organization. Further study of the cost-effectiveness versus strategic enabler roles in the context of relationship effectiveness has the potential to provide greater insight into how to ensure these two executives can effectively support the firm and meet its strategic goals.

7. References


