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Companies Benefit From Combining CFO and COO Jobs, Study Finds

Researchers, who looked at 16 years of data, found no evidence that a hybrid CFO-COO position hurts operation

Chief finance officers improved the quality of a company's financial reporting when they also shoulder operational responsibilities, a new study found. PHOTO: ISTOCKPHOTO

By Mark Maurer
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Finance chiefs in recent years have absorbed more duties once assigned to the chief operating officer. An exhaustive new study shows it is a boon.

Chief finance officers improve the quality of a company's financial reporting when they shoulder COO responsibilities, according to the study of more than 3,500 companies over a 16-year period.

The study, published in the summer edition of the **Journal of Management Accounting Research**, looked at the financial reporting and operations metrics of companies with the dual role and compared them to the performance of firms that separate the positions. It found CFOs to be efficient, capable operators. It also found no evidence that the creation of the hybrid CFO-COO position adversely affects operations.

he study, written by accounting professors at the University of Alabama and the University of Oklahoma, is believed to be the largest ever conducted on companies in which one person simultaneously serves as the CFO and COO, according to the **American Accounting Association, which publishes the Journal of Management Accounting Research.**

"We lose accounting students to other disciplines all the time because of the perception that people who work in accounting are not good operational people," said Steve Buchheit, a University of Alabama professor who was one of the study's co-authors. "I was comforted to find that there's no difference."

The researchers found that CFO-COOs strengthened a company's financial reporting in a very specific way. Discretionary accruals, which are noncash accounting items that involve some estimation, were more predictive of future cash flows at a company with a unified CFO-COO than at one with separate chiefs, the study found. More accurate judgments and estimates lead to fewer adjustments and corrections to the books once the cash comes in, and financial reports are more reliable.

About 12% of the companies studied had a combined CFO-COO role between 2000 and 2016 for at least one year. The person in the combined role had a CFO background in 97% percent of the cases.

And while combined CFO-COO roles generally exist in smaller, high-growth companies, larger companies had them, too. Among them: PepsiCo Inc., oil giant Occidental Petroleum Corp. , insurer Aflac Inc., and health-information provider WebMD Health Corp.

At one of those smaller companies, American Shared Hospital Services , one person performed double duty longer than anyone else during the study's time frame, for 14 of the 16 years tracked.

Craig Tagawa, who became the San Francisco health-care technology provider's CFO in 1992, tacked COO onto his title in 1999 after the company opted not to replace a departing COO as a cost-cutting measure.

Over the next 20 years, the company expanded from providing radiation therapy equipment to a few medical facilities to now 17 facilities, including major hospital networks such as Orlando Health. The company will only consider splitting the roles again if the number of facilities grows significantly over the next few years, Mr. Tagawa said.

"Knowing the customer well and knowing the data analytics on our machines give me a much better sense of risk and reward," said Mr. Tagawa said.

In some cases, the combination of the CFO and COO roles helped companies dodge common misunderstandings between operational divisions and the finance departments, and their operations experience made crucial accounting estimates more precise, the study said.

The newfound advantages might make these positions worthy of a re-evaluation of the salaries associated with them. “The compensation structure for CFOs with COO duties may have to be altered as a result,” Mr. Buchheit said.

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