Case Discussion:
Deciding When to Hire a Chief Financial Officer

Comments by Rod Hoagland – Part-time CFO Services Series

Business situation

When does a company need to hire a Chief Financial Officer (CFO)? In short, when the value contributed exceeds the cost. Determining the value proposition takes a detailed approach based on the unique facts and full understanding of needs and benefits specific to each company.

Most new companies need to first build the business – create a product or service and attract paying customers – before developing a significant financial infrastructure. Successful companies will eventually experience an inflection point where the lack of financial leadership both threatens future growth and overtaxes the CEO's capabilities.

The value contribution of a CFO can be measured by several factors. Three of the most common are:

- Financial relationships
- Direct cost management
- Risk management

Solution

In general, the CFO is primarily responsible for attracting capital. The exception is for early-stage technology companies where the technical founders are still developing the initial product or service and are key to first round venture funding. Subsequent to the first money round, the CFO must be an expert in obtaining and maintaining relations with the financial community.

The CFO also takes the leadership role in ensuring the business model and primary vendors are efficient and cost-effective, including proper oversight of spending through controls at the source of commitment, rather than at settlement when an invoice is paid. Authorization levels often change significantly during the initial growth stages of an evolving company.

Additionally, the CFO manages risks to ensure that the control structure matches the risk tolerance of the organization. This includes formally deciding which risks to retain, or self-insure, and which risks are best offloaded contractually to a third party or the company's business partners.

Like most things of value, nothing comes for free. A CFO costs money, both in direct salary and benefits, and also in indirect costs. Many CFOs expect a staff to perform rudimentary tasks and require additional support personnel for detailed work. Other CFOs may have a bias towards too much structure, preferring a level of controls which are premature for the company at its current start-up or growth stage. The key to managing indirect costs is for the CFO to make a judgment with the CEO, the Board of Directors, and the investors on what the appropriate structure is for the organization.

The decision to hire a CFO does not need to be an all-or-nothing proposition. Often companies can start with a part-time or fractional CFO and transition to a full time CFO as needs require and resources permit. This may or may not be the same person. An effective part-time CFO knows when their skill set or time capacity starts to become a limiting factor, and should help develop an effective transition plan to a full time CFO. Make sure to have this conversation with a prospective part-time CFO before you retain their services.

Benefits

By understanding the current and immediate future needs of the organization, a CEO is equipped with an outline for an effective CFO solution. This can help prevent being surprised by the limitations or expectations of a CFO after the engagement has started. Part-time CFO services are an effective and cost efficient method to obtain top level financial expertise at an earlier stage in the company's life. If a part-time CFO solution is appropriate for your company, then developing an upfront understanding on the future roles and contributions, as well as the future transition point to a full time CFO, helps ensure a successful working relationship.

CFO professionals who have honed their skills in several companies in different evolutionary stages, across multiple industries, and with operations in many countries often provide the greatest value by allowing a company to benefit from these experiences and accumulated knowledge.

Rod Hoagland is an expert in financial leadership and founder of QStwo, which provides Financial Coaching, Part-time CFO services, and Financial and Accounting Project services for emerging companies.

Contact

Rod Hoagland
Financial Coach & Quarterback for Emerging Companies
408-718-6549
Rod.Hoagland@QStwo.com
www.QStwo.com