



BECOMING AND STAYING A COMPANY'S "FIRST" CFO

BACKGROUND

In my role as chair of the Minneapolis FENG (www.thefeng.org) chapter, I have seen a number of colleagues become the very first CFO for their respective companies. Within a year, more than 50% left the position.

Besides discussing with the impacted CFOs, I have held this topic in my networking groups and spoken to small company CEOs who decide to both hire and then part ways.

COMMON ISSUES/PITFALLS OF FIRST CFO

Lack of defining, understanding or allowing fulfillment of CFO role:

1. Lack of understanding of CFO's true role by management team - inability to get traction on initiatives or building relationships.
2. CEO or Management team continues to retain decision-making or reporting relationships that are typically handled by or promised to the CFO during recruiting
3. Lack of agreement on resolving governance/business issues between CFO and business team

Hiring a CFO when it not needed

4. CFO position added due to heavy 'project' workload, but need for firm for the foreseeable future is a rock solid Controller (CFO runs out of things to do)
5. Business team does not understand the difference in the roles between a CFO and Controller. The company hires a CFO, but what it needs is a Controller.
6. Business needs change (not uncommon for smaller firm), so CFO is not necessary part of team
7. For firms in financial trouble, often the hiring of CFO is done too late and what is needed is a 'turnaround' specialist

Skills of CFO does not match company need

8. CFO lacks proper expectations for working at early-stage or growing firm (extra work to establish minimal financial systems, non-finance duties, etc.)
9. CFO lacks ability to work with clients, investors, bank, operations team or board – the ability to work with different perspectives/needs is critical – especially those who generate revenue.
10. Companies will hire a Controller to 'step up' to a CFO position as a method to save on salary cost, but they lack the full skill set required to perform the CFO duties.
11. In smaller firms, they have a strong culture around the CEO and operating team (e.g. engineering, creative, etc.) which had fueled growth to date. The CFO is not comfortable operating as 'sole' finance voice (or 'finance cop' as needed).

Cannot afford CFO

12. Business lacks profitability or funding to retain CFO if the business growth slows
13. No finance infrastructure - Inability to invest, either due to lack of capital or interest by company, limits CFO's ability to establish a footing and meet their objectives
14. CFO is underpaid and accepts better offer



INTERVIEW - DUE DILIGENCE

1. Validity of business offering and business model
 - a. Identified long-term client need
 - b. Adequate product set to meet need
 - c. Quality of management team
 - d. Ability to protect intellectual property
 - e. Reasonableness of goals
 - f. Demonstrated on-going support of investors/owners
 - g. Owner's intent (grow, hold or cash out)
 - h. Ability to raise the capital or generate cash to continue
2. Understanding key items in organization:
 - a. Culture of firm (primarily CEO's style)
 - b. Decision making and policies – how are they handled and established
 - c. Organization structure – alignment with strategy
 - d. Scope of positions - titles matching responsibilities
3. Compatibility with the CEO, COO and the owner(s)
 - a. Compatibility between management team members
4. Scope of CFO role
 - a. Is the role a strategic partner or support (both are correct, just need to determine what is needed)
 - b. Understanding of management - difference between a CFO and Controller

PRE-START AGREEMENTS WITH MANAGEMENT/CEO

CFO needs to 'market' their ideas effectively, not just technical skills. If this is CEO's first CFO – then ability to sell value of CFO role will likely be more difficult.

1. Job expectations for both Year 1 and Year 2
2. Working with CEO, who has to date grown profitably without the assistance of CFO, to modify their approach
 - a. Logically impress upon a CEO of advantages of doing things differently
 - b. How CEO focus on key areas can grow the company even faster , not finance
 - c. How a new platform of management process will benefit CEO
 - d. Value of continuity – why pay for maintaining status quo
3. CFO should meet all of the management team and key investors to ensure he/she can have a good working relationship and the role of the CFO is understood
4. CFO needs to do an honest assessment if the company is a fit for themselves

POST-START ITEMS:

1. CEO needs to make a public transfer of power to the CFO and admittance into the formal and informal decision making process
2. Scheduled reviews for goals/priorities between CEO and CFO
3. Well-documented budget (including infrastructure initiatives), staff plans and incentives for finance organization
4. CFO should schedule regular meetings with peers to establish relationship and build mutual understanding of their contributions to firm
5. CFO must not try to 'force' the organization to learn finance, but use the operators' vernacular to communicate financial matters, especially as new information, processes or techniques are brought to the firm.