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# When to Hire a Chief Financial Officer

*How to know if you're ready to hire a full-time or part-time CFO*



by David Wagstaff

## Distinction Between Finance and Accounting

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As you begin to dig into your financial management needs, it is important to understand the distinction between the main disciplines and key functional areas. By doing so, you'll begin to gain a clearer picture of where the needs of your organization may fit in.

Finance encompasses broad, high-level strategies and concepts and is primarily focused on decision support. Accounting is generally more transaction oriented — recording financial transactions correctly and producing reporting on key financial metrics.

In larger companies a Controller typically manages the Accounting function and then reports to the Chief Financial Officer (CFO). The CFO may manage Accounting, Treasury (investing and funding activities), Finance (financial analysis, budgeting activities and financial decision support) and other functions which may or may not fit within traditional “financial” roles. These may include strategy, purchasing, real estate, business administration, etc.

**Finance:** The science or study of the management of funds.

**Accounting:** The system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results; also, the principles and procedures of accounting.

Source: Merriam Webster ([www.merriam-webster.com](http://www.merriam-webster.com))

## When to Hire a CFO — Three Common Scenarios

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### *Business Growth*

If you are like most successful small business owners, you started out either on your own or with significant support from those closest to you or a business partner. During the initial years, resources were scarce, so you learned how to do everything. While your trade may have been medicine, legal, publishing, construction, running a cafe or even manufacturing, you soon learned how to market and sell your product or service. You learned how to interact with your customers and how to handle the occasional customer complaints. Then, as sales increased, you learned how to hire staff and how to run payroll. You learned how to manage the company's finances, variations in cash flow, and how to prepare the books for your tax preparer.

Successful small businesses reach a point in their life cycle when it's no longer possible or desirable for the owner to do everything and continue to grow. The small business owner reaches a decision point. They are either happy with the business they have and will keep it at its present size. Or, they decide to continue growth by delegating responsibility to others who are capable of handling specific functions or groups of functions.

## Taxes

In the area of finance, the most common function for a business owner to hand-off is taxes. Who wants to learn the complex and constantly changing rules and tax laws that impact a small business? And, taxes seem separate from the day-to-day activities of running a small business. Therefore, most owners find this task easier to delegate to someone else.

## Bookkeeping

The next area to be delegated is usually bookkeeping. Bookkeeping is typically a somewhat tedious task of recording and accounting the numbers and then reconciling them to make sure they add up or tie out. There are plenty of competent bookkeepers willing to work for a fairly low wage, so this decision for most business owners is fairly easy.

## Chief Financial Officer

Depending upon the nature of growth and the quality of their tax preparer, many small business owners bounce along using their tax preparer (who is often a CPA) to help answer some of their basic business questions. The toughest decision for business owners is when they have reached the point where they need more than what their tax preparer can do and have questions which run deeper than what the typically bookkeeper is qualified to answer.

So, has your business reached this point? Here are some key questions to consider.

- » Have your financial questions gone beyond functional to more complex and strategic?
- » Do the answers require assimilation of financial data with information from other parts of the business such as marketing, sales, or human resources?
- » Are they questions that require someone with more experience and knowledge than a CPA or bookkeeper?
- » Do they require someone with training and experience in finance and the ability to answer financial questions which go beyond simple tax definitions of profitability?
- » Do you require a frequency that doesn't fit with "after tax season", such as a weekly or monthly financial analysis of sales, product pricing or purchases.
- » Do you have accountant(s) accurately keeping the payroll system and accounting system in order, but find that they don't have time or the capability to help you and/or the board make more strategic decisions?

## *Raising Capital: Investor Requirement*

Another common scenario for successful small business owners is they have grown their business successfully and are now ready for more rapid expansion. However, to expand rapidly, they require outside funding. Or, the entrepreneur has a great idea or innovation but lacks the capital to bring the idea into realization. The idea is exciting and new and the owner has every confidence it will succeed provided the proper funding to develop it and market it appropriately.

In both scenarios, the goal of the business owner is to win the confidence of an outside investor and provide evidence that the business is being professionally managed in a way to preserve the investor's capital and to enable it to grow.

Outside investors, whether they be friends or other "angel" investors, like to see professionally prepared financial statements and they like to hear that the business owner fully understands the financial consequences of their decisions. In both of these cases, an experienced CFO can help ensure the financial statements meet investor expectations and present the organization as professionally run. The CFO can also help the owner understand the financial consequences of their decisions.

## *Business Change: Mergers, Acquisitions, Change in Management*

Sometimes change comes quickly. A business owner suddenly finds an opportunity to buy a competitor or a competitor wants to buy them. Or perhaps the previous owner decided to retire or pass the business on to the next generation.

### Mergers and Acquisitions

In a merger or acquisition, the purchaser and the entity being acquired want to know that the business they are dealing with is in solid financial condition (unless they are purchasing a distressed business at a fire sale). They also want to have confidence that the business has a solid understanding of its finances beyond a simple recording of debits and credits. And similarly, as a result of the change, the business may experience significant growth. This will require more ongoing study and analysis of the financial results of the business. In both of these scenarios, the business may be ready for a part-time or full-time CFO.

### New Management

In the case of new management, the new managers may not have the same interest, desire or skills to manage the finances. Or they may provide a new recognition of the benefits of bringing in someone who is an expert in finance.

## CFO (Full or Part-Time) vs Financial Management Consultant

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Once the business owner or manager has decided they need to seek outside finance help, they must now turn to uncovering the level of support that is required. Does the business need a CFO or Financial Management Consultant? If they need a CFO, should this person be part-time or full-time?

To determine the answer to these questions, it is helpful to answer some other questions surrounding the nature of the financial work that the business requires.

- » What is the quantity of services required?
- » For how long?
- » How frequently?
- » What types of questions need answering?

If the questions are easily definable and once answered won't need to be answered again for a significant time period, then the business may simply be best served through a project-based financial management consultant. The project will typically have a defined scope of work and be for a defined period of time and be focused on answering a key business question such as:

- » How do I increase my income?
- » Or is it time to increase my product pricing?
- » Or am I missing cost savings opportunities?

However, if the questions or tasks are more open-ended, are recurring frequently, or of sufficient volume to require ongoing support, then a full-time or part time CFO may be required. Situations that may indicate the need for a CFO:

- » Need for reporting and analysis that demonstrates how business is performing each month and guidance on what daily, weekly or monthly activities can be taken to improve performance.
- » Need for management of the annual budgeting process.
- » The board or directors require monthly updates on performance of the organization and want analysis of the results.
- » The financial decisions are more complicated than the current accountant is comfortable handling and take too much time for the CEO to handle.

## About ClarityFI

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Clarity FI is a financial business management consulting firm offering Strategic and Financial Consulting, Part-time / Time Sharing Chief Financial Officer (CFO) Services and Financial Dashboards. We help organizations understand financial decisions, mine information and data to chart the clearest path to success. We partner with management to optimize customer experience, optimize product pricing, reduce costs, engage employees and customers to produce tangible, achievable results. The bottom line? We want to help you increase income, save costs, and watch your profits soar.

## About the Author

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Mr. David Wagstaff has twenty years of financial management and consulting experience, providing business insights, strategic financial analytics, and executive leadership.

He is the Managing Principal and founder of Clarity FI, focusing on strategic financial management, CFO Services and financial dashboards, analysis and insights. He has over 20 years of experience working with Large Fortune 100 businesses through to entrepreneurial start-ups. Previously, Mr. Wagstaff served as a Managing Consultant, Senior Manager, VP of Enterprise Business Solutions, CTO and CFO. His corporate responsibilities have been well balanced with successful personal ventures.

Mr. Wagstaff earned his MBA from the University of Maryland, Smith School of Business in College Park, MD, with a concentration in Finance, Accounting and New Venture Creation. He earned his BS in Economics and Business Management from Ithaca College in Ithaca, NY. He is an outstanding member in his community as an active member of the social services organization having served on the Board of Directors and Executive Committee of the board at both Time Out Youth and Family Services of Montgomery County. He is also proud to have been a NJ Foster Parent.

He currently resides in Collingswood, New Jersey with his Partner. He enjoys hiking in the mountains, the beautiful scenery of nature, swimming, water and snow skiing and sailing.