

Benefits of Outsourcing the CFO Role

The following are excerpts from a recent CFO group discussion stream on LinkedIn. The question posed was "Why do you think that outsourcing a CFO will bring more benefits to the company?" There were many responses to the question and some interesting dialogues. I have included some of the responses below and tried to be fair in presenting both pro and con responses. Each begins with the identification of the title or position of the responder. As you will see the respondents included financial and business executives as well as consultants. I hope this actual discussion stream will provide some insights into why a company would consider using an outsourced CFO and when it does and doesn't make sense.

Office Managing Partner - There is significant value in a fresh, experienced set of eyes having independence and autonomy with no need to play politics. Yes, boards love the results, and the management of organizations are often vastly better positioned after an interim or outsourced engagement with a hands-on operating finance executive.

Business Finance Executive - Can or should a business outsource the CFO role depends on how it defines CFO. Different businesses in different market places define CFO quite differently. The requirements from a CFO for a start-up would be different for a growth business or a distressed business. I would like to add a critical prerequisite. In order for a CFO to succeed, regardless of full-time employed or outsourced, he/she must have gained Respect and Trust from the CEO and his/her management team.

Consultant - Having worked in an internal CFO role and having recently set up a Company to provide CFO services to different companies I agree with a lot that has been said here. I am currently involved in a financial planning role for which they would not be able to cover costs in any other way and in a start up who would not be able to attract the right level of talent for a permanent position. I have no doubt whatever that external sourcing of CFO services will see a great deal of growth in the coming years since it adapts particularly well to a dynamic environment.

CEO - It's really quite simple, frequently the problem is a weak CEO or a poorly defined culture where the other officers need to be corralled. I once got a reference from a former CEO client that was quite enlightening. The client prospect told me that the CEO used a Jefferson quote to explain why we ended the assignment, "No more good shall be attempted than the people can bear." His point was that I fixed quite a few things that need fixing and there were hurt feelings among the officers. I would not have been a good candidate for the permanent job. So although it's "beyond you" there are many situations where an interim leader is exactly what's needed.

Finance Director - My belief is that if you find the right candidate it matters not if he is external or internal to the functioning of his position. The right person will always find a way to make it work. I also believe that an outsourced CFO can bring substantial cost and strategic benefits to any

organization. Start-ups often have a more pressing need for a CFO to enable them to succeed (or prevent failure from simple cash management and processing failures). It is these businesses that often forego any form of financial function, simply to save cash, and it is these businesses that probably have a greater need for an effective outsourced CFO or finance function. Larger organizations are more difficult to judge. Whilst I feel that a number could do with an outsourced CFO to shake things up many would find the change too difficult. They seem to be like tankers on the ocean, taking forever to change strategic direction. However I notice that many are accepting of outsourced talent when the business needs turning around. In conclusion I would proffer that outsourcing has some great benefits, but it is down to the individuals to make it work.

CPA - One of the advantages of outsourcing a CFO is to get an objective and hopefully impartial view of the business. These types of CFOs usually have many years of experience and can tell what will work and what will not work pretty fast. He/she can identify problem areas that nobody noticed before and can make good improvements in workflow and internal controls.

Strategic Financial Executive - I have been in both roles. I agree that the right candidate is the key. That said, I do believe that bringing in an interim/outsourced CFO is beneficial. Generally they are not emotional when it comes to making hard choices and can see the business through a different lens.

Managing Partner at Professional Advisory Services Firm - Across the world, with increasing frequency, services that used to be handled in-house by most companies are being outsourced to specialty companies. There are a number of major reasons why outsourcing to a business financial consultant makes for the best ROI: Cost Reduction: One thing an outsourced CFO could tell you right off the bat is that they are already saving you money. Besides the high salary a typical CFO would generally get for compensation, it is simply more efficient to receive services without adding personnel and technological resources. Quality of Services: One thing that can be assured for all successful outsourced CFO services; these people are professionals. They have worked with various industries and know what works across the board. Allows Better Focus: It is very important for businesses, especially small businesses, to pay attention to their core competency. There is little more detrimental to a new company than trying to overreach beyond the bounds of what they know. Larger Pool of Experts: Enlarging your pool of experts helps companies, across the board. Many larger businesses have the capacity to employ a large number of accountants, but accounting firms are still often preferred means of managing finances. Large Projects: One of the chief reasons that medium sized businesses outsource a CFO for a relatively short interval of time is to help them through either a tough financial time, a major change in law, or obtaining a large loan or grant. Also, an outsourced CFO finds that mergers, acquisitions, and business closings are prime times when a company needs the expert help of someone who has been through such a situation before. Overall Efficiency: An outsourced CFO services company is generally going to be far more efficient when it comes to meeting the deadlines and other requirements of a variety of projects. They have experience with nearly any situation, and you never have to wait for the learning period to end before they can move ahead with any particular service.

CFO - Interesting questions and even more interesting opinions. I see both sides of the concept and for that larger business, it's probably best to hire. But for the small business and startups, outsourcing can be a real benefit with the right talent in place.

Consultant - That depends on the size and structure of your company. It also depends on who you bring in. A competent, effective CFO that works well on an outsource basis may be a valuable asset to your firm. On the other hand, someone who isn't a good fit can be a disaster.

CFO - The C-Suite where the CFO belongs is the nerve center or the heart of any organization. Putting an outsourced CFO, like a pacemaker, to an ailing organization is essential for the heart to function up to a certain point. However, the heart with a pacemaker, without feeling, is not beating naturally and is only good until the battery lasts. The organization to succeed must be run with people who put their heart to the vision and mission of the company. Anything short of that could lead to a disaster. Hence, on a temporary basis, an outsourced CFO can be a saving grace but not intrinsically instrumental to a long-lasting success of a business.

Experienced Executive in Retail Industries - In a small business environment outsourcing the CFO role can bring in experience that the company may not be able to support on a full time basis. In a larger more developed company a CFO should be the partner of the CEO on strategy, executive leadership as a shadow COO, as well as leading the Finance function both internally as well as representing the entity with bankers, investors, auditors etc. I would not want outsource this critical role.

Business Advisory Consultant - As someone who has served as the CFO and now offers CFO services to small and mid-size firms, I agree with the concept of outsourcing many of the functions that an internal CFO can provide for those firms that cannot justify a CFO on staff. I actually set up a contract CFO role for a non-profit allowing them to operate with an Accounting Manager/Controller day-to-day with the CFO reviewing the financial information and sitting with leadership on strategy discussions. But, if the company is of the size they can afford to have the strategic CFO full-time in their organization, the benefits far exceed the contract position.

CFO - If the CFO is qualified and worth their compensation level no one outside of the CEOs office should be able to tell whether they are "in house" or outsourced. What the organization really needs to succeed are competent people at all levels regardless of their formal relationship to the organization.

Head of Finance - I think CFO position shouldn't be outsourced. CFOs are the integrated part of the management team. They are the highly responsible people of the organization. If outsourced and some terribly wrong results are faced based on advise of outsourced CFO, then Consultants at the outsourced firms can easily get away justifying their opinion based on the information provided by the organization. Yes, I agree some of the functions where there are strong checks, can be outsourced.

CFO - CFOs represents an integral part of an organization and performs not only financial analysis but also advisory role to its management. Since they have a vast knowledge of the business, their role should not be outsourced. CFO's because of their diverse experience can turn a company's threats to opportunities.

Finance Officer - I agree that CFO can be outsourced because if he knew the business in which he is going to work as an outsourced CFO he/she will bring many new ideas and modalities on how the finance department should work and report to the management of the company.

Controller - Either / Or - outsource or hire, just as long as the right candidate is found. They would bring their past expertise to the position and not be blinded by how the company is being currently run. Sometimes fresh ideas are required to kick start a new company or breath life into an older one.

Controller - Needs an outside opinion from someone who can see the " forest from the trees" so to speak.

CFO - A firm should consider outsourcing the CFO role ONLY if it cannot reasonably justify not being able to afford a full-time CFO of its own. ... and that brings us to a previous debate on this whole concept. Quit calling this outsourcing if what you mean, or all you need, or all you can afford is a part-time person to be the CFO. Also, interview this person as thoroughly as if it were for a full-time position. Insist on the same background & qualifications. And once hired, involve this person in the company and its activities the same way you would any new employee in order to ingrain and inculcate the firm's values & culture into this part-time person. And once and for all, quit calling this part-time position outsourcing.

Managing Partner CFO Consulting Firm - I've read all these comments and, if I may, would like to offer my 2¢. My bona fides: I am the managing partner of a pre-eminent CFO consulting and board advisory firm. We're not a staffing or placement firm; rather we are similar to a small law firm, with 24 partners of long standing and stability. For 11 years we have served as an interim, part-time or permanent CFO for literally hundreds of companies, ranging from startups to multibillion dollar public companies; the private companies are mostly venture capital or private equity backed, and the public companies usually were so when they were private. We also are engaged around the USA, and have done work in Europe, Asia, Africa and South America. VC and PE firms are a very demanding lot, and they come back to us regularly and repeatedly to plug us into all kinds of situations big and small, some with great complexity and challenges. Why? Because if one is really good, you can make a significant difference in the future of the company, sometimes transformatively so, even if you're at the company for only a few months. If this wasn't true we wouldn't have done so much work for so many companies and investors. Period. 1. Respectfully, the notion that the CFO function can't or shouldn't be "outsourced" is utter nonsense, and this is demonstrably and provably so. 2. The notion that an "outsourced" CFO can't be effective because s/he isn't a member of the management team and has no long-term commitment to the company is equally wrong. 3. Often a fresh, unbiased and critical eye is exactly what's needed, by someone who isn't afraid for their job and is willing to tell the CEO and/or the board the unvarnished truth. Boards love that. 4. A really good CFO is a strong leader, on a par with the CEO, and can command respect and authority very quickly, especially if s/he's perceived as the new sheriff in a town that needs cleaning up. 5. Smaller private companies often have no business hiring a full-time CFO, and can't usually afford a really good one. My analogy here is that many private companies don't have a full-time General Counsel, yet all companies have legal needs. They turn to their law firm and rent an experience mind by the hour. Oftentimes these firms should consume CFO services exactly the same way: as much as they need, but only when then need to. Smaller companies should have access to this skill and experience, and on an hourly basis it is often the most cost-efficient way of getting it. I could go on, but the proof is that we've done this for a long time, and for a lot of companies and investors. That wouldn't be they case if we weren't effective and didn't deliver value well in excess of what we charge. Perhaps the outsourced model is not common in your community, but in ours it is a normal and accepted

practice at all levels. Perhaps also this is a definitional problem: just what is a CFO? Unfortunately, it is a completely unregulated profession, with no educational, continuing educational, licensing or certification requirements. You don't even have to graduate from high school. All you need to legally call yourself a CFO is get some business cards printed. In my book, just because you are the senior finance person in a company doesn't mean you're a CFO, whether you have the title or not. Here is my definition: the CFO knows the company as well as the CEO, and is the person who, in the absence of the CEO, is qualified to, and capable of, having a binding & consequential conversation with any constituent of the company: investors, lenders, customers, regulators, vendors, suppliers, or what have you. S/he is the alter ego to the CEO. I've met plenty of CFOs who can't do that or aren't trusted to.

President - Business Consulting / Interim Professional Staffing - Find the best fit for any given situation. Going into any situation believing there is only one solution blinds you to the fact there may be other (possibly better) options. If an organization is getting solid production and sound advice from their CFO, then who cares if it comes from an internal or outsourced CFO? Focus on performance. That's what counts.

Ph. D - Quite simply, where I've found that outsourcing for a CFO is most effective is in situations where a company cannot afford a full time CFO or in an industry where CFO class employees are hard to find and industry specific knowledge is crucial to the position. In some cases both of those factors apply and outsourcing becomes almost a requirement.

Financial Strategist - The CFO often is a key developer of the company's culture. That role cannot be performed with an outsourced CFO. There also are too many instances where good ideas are produced and developed through informal communications and meetings. Again, an outsourced CFO who is not present and committed for significant roles has difficulty fulfilling this partnership.

Managing Director - A full-time CFO is typically the best solution. He/she is a key member of the management team that participates in all aspects of the business. The specific knowledge and insight is highly important. However, when a company has yet to achieve the scale or does not have the level of activity to merit a full-time CFO, an outsourced CFO is a great solution. Companies in these positions can choose to go without, leaving a hole on the strategic planning level, the skills to build the infrastructure to support growth, and the experience needed to understand the "big picture". This can leave a serious knowledge gap that can leave the company blind and ignorant in making important decisions and inexperienced at executing critical functions.. An outsourced CFO can offer an affordable solution that to plug this gap. In this transitional phase, you may not need a CFO everyday. BUT you definitely need a CFO available to you everyday. What to look for? Look for someone with experience in your business domain. While 80% of finance/accounting may apply across industries, 20% is quite specific to a particular business sector. This provides the RIGHT strategic and executional expertise and experience that provides real value. So choose carefully and make that person a part of your leadership team.

CFO - I have been a full time CFO as an employee with several companies in several different industries. For the past 9 years I have been providing full time and part time CFO services (and COO services and executive director services, etc..) to a number of different sized companies, from small to multi million multi nationals. Whenever a company can afford the full time employee that they need they should insource. If they don't need full time, can't afford the full time person they need, can't find that person quickly, can't find that person at all, don't know

what they need, are going through transition, only have a short term need ... Why not hire someone who has been there and done that but still learns and grows with every new assignment. I'm a change junkie, I love helping companies and people through change and growth. I provide services myself and using contract staff and I partner with other contractors in other disciplines.

Business Performance Advisor - I work with outsourced CFOs on a regular basis. What I have found is that they are usually financial professionals with a lot of valuable experience and insight outside their client company's box. They seem to be the most effective with companies that are in transition. They are not a permanent placement, rather an interim solution.

Partner at Outsourced CFO Firm - Let me address this from the perspective of an as-needed CFO. Overall, I believe every business should have a CFO, regardless of size. However, for many small businesses, having a 6 figure CFO on staff is not only impractical, it's financially unsound. I also believe that most entrepreneurs aren't business people. They are great at what they do, however "what they do" is generally not "running a business", it's being a doctor or lawyer or contractor or chef or any of hundreds of other things. At some point, the business gets so complex that the CEO is trying to be CEO/COO/CFO/CTO/CIO/etc. and that's not efficient. Bringing in an as-needed CFO helps to set the financial structure that will assist the company in getting to the point where it can bring in other C-level personnel to help the company reach the next level. As someone who can be a liaison to banks, major vendors, outside CPAs, etc., etc., the CFO brings a lot of value to the table. It also frees up the CEO to spend more time growing the business. This is not to say the CFO is the most important C-level executive. Much as entrepreneurs generally aren't businessmen, CFOs aren't COOs. My experience is that I can fill the COO role adequately, and a growing company should have something more than "adequate" in place. And, without a sound financial plan to get cash flow in to support a COO, it may be impossible to bring that person into place. So, in summary, I see an as-needed CFO as someone who helps a company achieve a higher level of success that can help in then put in a more permanent structure. In fact, often the best result for an as-needed CFO is to put him or her self out of a job by helping a client get to the point where it needs a person in-house full time.

Submitted by Steven Bell

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