

## INTRODUCTION

All successful organizations, no matter what size, must have effective financial management. In most firms, this role is filled by the CFO or controller. With smaller-sized businesses and startups, the CFO's role is often assumed by the CEO-owner. Frequently, small businesses lack adequate financial resources to invest in the services of a full-time CFO. Fortunately for many small businesses a cost-effective alternative exists: engaging a part-time contracted CFO.

A contracted CFO's value should extend well beyond simply providing needed managerial expertise. A high quality contracted CFO should transform basic financial data into valuable management information that can effectively support operational and strategic decisions *and ultimately enable the CEO-owner to move from managing the business to leading the business*. This *Advisory Notes* series is based upon my experiences as a contracted CFO as well as interactions with several business owners and professionals that service small businesses, such as CPAs and bank loan officers<sup>1</sup>.

## THE VALUE OF AN EFFECTIVE CFO: PLANNING A BUSINESS'S FINANCIAL FUTURE

A small business can draw upon a contracted CFO's knowledge of accounting and finance to effectively and efficiently support its operating and strategic decisions. The contracted CFO should not only enable an organization to be more successful, but it should also effectively collaborate with the CEO-owner to advance the business along my *Small Business Development Continuum*.

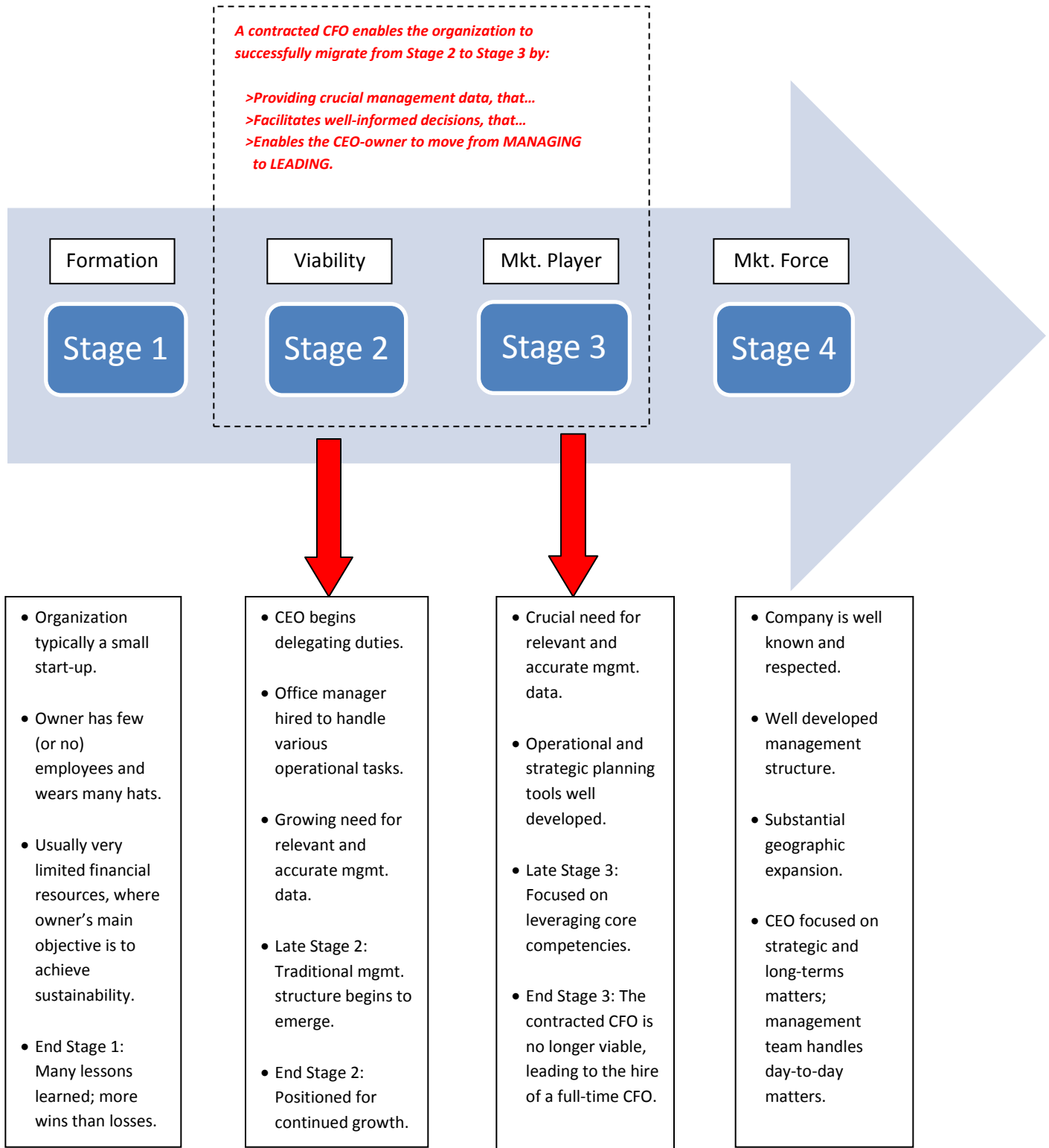
## FOUR STAGES OF SMALL BUSINESS DEVELOPMENT

The *Small Business Development Continuum* is based upon my experiences and input from various executives and professionals consulted for this paper. It is comprised of four stages, as illustrated on page 2 and explained in the following pages.

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<sup>1</sup> See *Appendix A* for a listing of persons consulted for this paper.

**THE CONTRACTED CFO'S ROLE IN FACILITATING STAGE 2 TO STAGE 3 SMALL BUSINESS GROWTH**



## Stage 1 - Formation

Stage 1 organizations are typically small startups, where often the CEO-owner fulfills many roles and has little or no specialized supporting resources, such as HR, Marketing, and Finance. These organizations are learning as they go, and the CEO-owner often faces many daunting challenges such as market penetration, financial resources, human resources management, and supply chain management. In this stage, one of the CEO-owner's main objectives is to simply grow the company and succeed to the point where the business becomes sustainable.

## Stage 2 – Viability

When an organization achieves viability, many challenges remain, but the organization has learned from its past experiences and has achieved enough victories to become more confident about the future. As the organization grows<sup>2</sup>, the CEO begins delegating responsibility as elements of a traditional management structure emerge. Because financial resources—and typically cash flow—remain tight, one of the CEO-owner's biggest challenges lies with choosing where to invest his/her resources.

In this stage, new financial management challenges emerge. The CEO-owner realizes that in order to keep growing *and competing successfully*, basic accounting reports may no longer provide the type of management data needed to support crucial decisions. *He/she experiences an acute need for more valuable financial management data to enhance the decision-making process*, such as job costing and product line profitability, cash flow forecasting, inventory analysis, future scenarios forecasting.

By the end of the viability stage, the organization has achieved a toehold in its market, has a sustainable business model and balance sheet, and has access to capital, debt funding, and/or revenue that can support future growth.

## Stage 3 – Market Player

When an organization's success propels it to Stage 3, it is a recognized player in its market. In this phase, its focus is simultaneously internal and external. Internally, it is asking itself questions such as:

- Do we need to tweak or even make substantial changes to our business model?
- How do we continue to differentiate our product/service in order to best serve our customers?
- How do we better leverage and retain our key human resources?
- How do we effectively manage growth and our firm's success?

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<sup>2</sup> Obviously organizational growth implies growing revenue and increasing employee levels. However within the context of this paper the most important result of growth is that the organization *and its challenges* become more complex. The four stages of the *Small Business Growth Continuum* obviously reflect increasing organizational and environmental complexity. What I intentionally **did not** attempt to define was the approximate revenue and employment levels that are commensurate with the four stages, as there often may not be a strong correlation between these factors and organizational complexity.

At this stage, effective forecasting, cost and product line profitably analysis and strategic planning are crucial elements for ensuring continued success and growth. The organization's management structure becomes more sophisticated, and in all likelihood a board of directors has been formed.<sup>3</sup>

#### **Stage 4 – Market Force**

Small businesses that reach Stage 4 are well respected for their high quality products and services, and are perceived in the market as delivering unique value. At this phase, it is very possible that the organization has expanded well beyond its original geographic market. *It is also very likely that at this point, the organization has grown beyond the need for a contracted CFO and must hire a full-time CFO.* The reward for the CEO-owner at this stage is that he/she becomes far more focused on strategic and long-term matters and delegates the day-to-day management responsibility to a team of operationally-focused managers.

#### **STAGE 2 TO STAGE 3: THE CONTRACTED CFO'S OPTIMAL VALUE**

Let's revisit an organization's evolution from early Stage 2 to late Stage 3. The organization enters Stage 2 with a sense that its growth and experiences have made it a viable entity and it is positioned to continue growing. By late Stage 3, the CEO-owner has moved from *managing many of the details* of the business to *leading the organization*. As such, the CEO-owner now has the benefit of a developed organizational structure with most of the professional and technical resources necessary to propel the organization even further. *It is within Stage 2 and Stage 3 of the Continuum that a contracted CFO can be of greatest value to a business and its CEO-owner.*

#### **Accurate and relevant data are crucial to well-informed decisions**

The best informed decisions, business or otherwise, contain one common key ingredient: accurate and relevant data. Let's ponder that statement further. How often has a CEO or manager faced a decision knowing that he/she had accurate data but remained anxious because he/she was not sure if the data were truly relevant to the decision at-hand? Or, how often has a CEO or manager needed solid data and knew what to ask for (relevance) but was troubled because he/she could not trust the accuracy of the data? In Stage 3 and certainly in Stage 2, companies are often faced with this data integrity dilemma<sup>4</sup>. Although there can be no substitute for the experience and professional resources that Stage 4 companies can muster to minimize the threat of data integrity problems, a contracted CFO can provide a CEO-owner with various forms data that will optimally support his/her decisions.

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<sup>3</sup> I believe that the CEO-owner should consider forming a board of directors, or at least a board of advisors, long before success in Stage 3.

<sup>4</sup> A loan officer I interviewed for this publication noted a data integrity problem she encountered when making line-of-credit decisions for a company that was engaged in manufacturing. Borrowing limits were heavily tied to inventory values, and she would later learn that those values were substantially overstated. The organization did not have a CFO.

## The contracted CFO's greatest value – data integrity and strategic partnership with the CEO-owner

A contracted CFO's greatest direct value is derived from the delivery of accurate and meaningful management information that enables a CEO-owner to grow his/her business within the Stage 2 and Stage 3 segments of the Continuum. *A valuable CFO transforms basic financial data into valuable management information that can effectively support operational and strategic decisions.* These reports should be both retrospectively focused—such as job costing and product line profitability, and future focused—such as cash flow forecasting and future scenario sensitivity modeling.

While data integrity and relevance are certainly foundational elements of a CFO's value, *I believe a significant ancillary benefit from a contracted CFO's service to small businesses is that the CEO-owner can leverage the contracted CFO so that he/she moves from managing the organization to leading the organization.*

### CAVEATS: LIMITATIONS OF THE POSITION

At this point I believe it is important to note some limitations of the position.

A contracted CFO may very well occupy an elevated box in the organizational structure, but even with such official status I believe he/she often cannot fulfill certain duties inherent with full-time managers. These limitations include:

- **Provide full supervision of finance staff.** Theoretically, a contracted CFO can hold employees accountable against a list of responsibilities and deliverables, but practically speaking it is fraught with supervisory pitfalls. Because this person is, by definition, a non-employee and typically present less than half the time, he/she will often not be able to effectively fulfill a supervisor's role.
- **Fulfill all responsibilities of a diverse accounting department.** In many smaller organizations with limited resources, the CFO will, from time to time, need to perform duties that are typically fulfilled by a controller or staff accountant. Granted, managers in smaller organizations must often perform task “below them”, but if there are ingrained performance or resource deficiencies within an organization's finance function, a contracted CFO cannot and *should not* be expected to perform those other tasks on an ongoing basis as a means to address these challenges.

## **SUMMARY**

In closing, a contracted CFO can be an excellent solution for businesses looking to grow within *and beyond* the Stage 2 and Stage 3 sectors of the Small Business Growth Continuum. There are limits to this role, but in the many cases where there is a compelling business case for hiring a contracted CFO, this person can play an invaluable role in advancing both the organization and the CEO-owner.

An effective contracted CFO will transform basic financial data into crucial management information that optimally informs operational and strategic decisions. However the greatest value of the contracted CFO transcends the mere delivery of accurate and relevant data. Ultimately, the most profound benefit of a contracted CFO is that he/she can be the key ingredient that enables the CEO-owner to make the crucial transition from managing the organization to leading the organization.

## **ABOUT THE AUTHOR**

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**APPENDIX A**  
Persons Consulted

The following lists the people who gave of their valuable time to either be interviewed for this white paper, or critiqued various draft versions. *I want to thank all of you for your input.* I am wiser for it.

<b>Name</b>	<b>Title/Organization</b>
Robert Abel, CPA	Principal, Brown Schultz Sheridan & Fritz, Camp Hill, PA
E. Garret Brinton, CFM	Principal, Facilities Planners and Architects, Harrisburg, PA
Steve Chevarria	President & CEO, Pensalus Consulting, Hershey PA
Linda Goldstein	Vice Pres. & COO, Harrisburg Regional Chamber & CREDEC, Harrisburg, PA
Nora Habig	Administrative Vice Pres., M&T Bank, Harrisburg, PA
Dan Liberatore	President & CEO, Purpose 1 Visual Marketing, Harrisburg, PA
Doug Neidich	CEO, GreenWorks Development, LLC, Harrisburg, PA
Rhonda Hakundy-Jones	President, Ten Mile Mile Run Website Design & Marketing, Harrisburg, PA
Peggy S. Thomas	Vice President, SW Thomas Consultants, Inc., Camp Hill, PA
Scott W. Thomas, MCSE	President, SW Thomas Consultants, Inc., Camp Hill, PA
Kurt Twiford	President/CEO, Conexus, Lebanon, PA
David T. Warren	Vice Pres. for Core Markets and Philanthropy, Everence Financial Services, Mount Joy, PA
Matthew A. Zieger	President & CEO, Team Pennsylvania Foundation, Harrisburg, PA