

How to Choose a Finance Director That's Right for You and Avoid the Common Mistakes That People Make

Giving you the best opportunity to maximise your investment and get the results you want out of your relationship with your Finance Director

Introduction

How do you choose the Finance Director that's right for you? The purpose of this paper is to give you the answer to this very important question.

The commitment to take on a Finance Director isn't easy. Choosing the right Finance Director can literally mean the difference between the huge success of your business and the demise of it. It's that critical. That's why this report has been written. In fact, there are five main reasons why you should read this:

- ❖ To give you the ability to spot a good Finance Director.
- ❖ To ensure your choice of Finance Director is the right one.
- ❖ To reduce the elements of risk associated with the decision you have to make.
- ❖ To give you the confidence to strike up a strong and lasting relationship.
- ❖ To understand the three fatal problems when you have a Finance Director, and how to avoid them.

After reading this report, I promise you one thing - you will be able to make a more informed decision on the choice of Finance Director. It won't guarantee the success of the relationship, but it will give you the best possible chance of achieving your goals and objectives for your business...

What makes for a successful partnership between you and your Finance Director?

It's important at this stage to highlight what makes a successful partnership between you and the Finance Director. There are three outcomes that can ensure your relationship with the Finance Director succeeds:

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1. The Finance Director must provide solutions or new (or improved) methods.
2. You must achieve measurable improvements in your business by taking on board the advice of the Finance Director.
3. You must be able to sustain this improvement over time.

Most Finance Directors should be capable of looking after the numbers. But you want skills and experience above those of a Financial Controller. The three outcomes above reflect the added skills that a good Finance Director can bring.

Not everyone calling themselves "Finance Director" understands the importance of, and has the capability to give you business development advice. While they always hope the business achieves sustainable improvements (mainly in cash flow, profits and business growth), few Finance Directors agree to be held accountable - but this is what you seek!

As you grow your business, there will come a point where you need the input of a Finance Director, but the business has not reached a size where such resource is needed full time. Experienced and skilled Finance Directors are expensive but could make all the difference as you try to drive the business forward. In these situations a part-time flexible Finance Director service can offer the best solution.

12 questions to ask to ensure you choose the right Finance Director

You should have a number of carefully selected questions to help you establish the most suitable Finance Director. Each Finance Director will have different ways of doing business and it's important that you find out the processes they use from the beginning of the relationship. Here are some questions you should ask:

1. Have they done some upfront research into your business?

Good candidates take time to research a business before the initial meeting. They carry out a company search and look at filed accounts. They review any website(s) and search the internet/other sources for articles relating to the company and industry sector to have an understanding of the issues you may be facing.

2. Are they interested in learning more about your business?

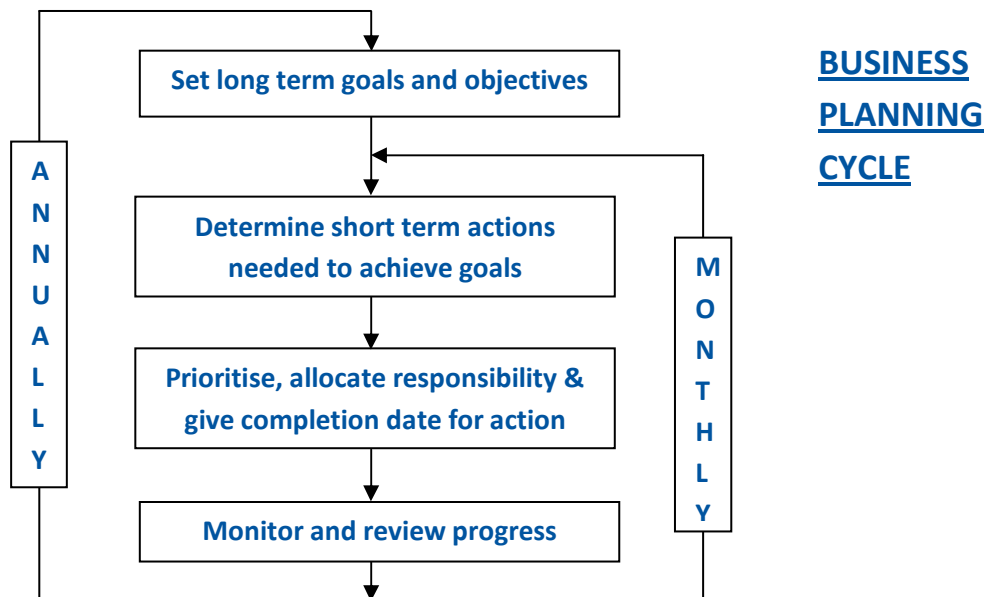
Do they take every opportunity to ask questions of you and your colleagues? Or do they just talk about themselves? If they haven't worked in your industry – don't worry. A good Finance Director's skills are extremely transferable and lack of sector knowledge doesn't usually matter as long as they have worked with businesses of a similar type and size to yours, and are eager to get to know your business.

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3. How will they plan the business improvement strategy?

The saying: "If you fail to plan, then you're planning to fail" is so true. Planning is critical. You must be certain in your own mind that the Finance Director you choose also sees planning as a very important stage in the success journey.

The essence of planning is to stand back from the day to day, and work on the business rather than in it. The diagram below shows the steps required.



4. How involved are you expected to be?

Your commitment to the relationship is crucial, particularly if you are seeking business development skills (which you should). Some Finance Directors will work quite happily with minimal input from you. The better ones will want to work closely with you to ensure business success.

Although work issues are often pressing, make time available to work with your Finance Director. Although he or she can advise you and do some of the work for you, there will be things you need to complete for your objectives to be realised.

5. What is the cost?

The services of a good Finance Director do not come cheap but the cost should be more than covered over time by the additional boost to your bottom line. Generally you get what you pay for, and as with many purchases, choosing the lowest cost option is often a false economy.

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Using a part-time Finance Director service is a cost effective way of accessing these skills. The added benefit here is that the Finance Director is not normally an employee, unless you stipulate this. Consequently there are no recruitment costs, employer's National Insurance contributions, pension, company car and other benefits, all of which can add significantly to headline salary.

6. What do they think sets them apart from other Finance Directors or Finance Director service providers?

This is a great question. It separates the "wheat from the chaff". Listen carefully to their answers. Look for specific answers not mundane generic replies. The Finance Director who understands his value to your business will easily be able to give you good reasons why you should consider taking him on.

7. Do they have the skills needed to handle your business?

While Finance Directors will normally be fully qualified accountants with membership of a recognised professional accountancy body, they do not have all the same skills. One may have expertise in areas such as Strategic Planning or Profit Improvement, another's knowledge may lean more towards technical issues such as the application of International Accounting Standards and US GAAP. A background working in large multi-national PLCs may not translate easily to dealing with the day to day problems of an SME owner manager.

One advantage of working with a part-time Finance Director service provider is the access to the wider skill base of different Finance Directors within the group, and excellent contacts with specialists in areas like VAT, share options, and export trade. While your main relationship will rest with one Finance Director, other resource is available, and indeed cover can be provided in the event of long term sickness.

8. Can they explain what a Finance Director does?

Many SME owner managers do not fully understand the importance of the role of finance in developing a successful business. As a consequence the business never reaches its full potential. In the early years, investment into the business normally favours sales and operations and finance is left behind in the belief that it provides little value and production of accounts is purely to meet legal obligations and the requirements of the tax man.

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A Finance Director should be able to explain, in words you can understand, how the financial pillars underpin the whole operation, and how it can provide the information necessary to control the business. He should be able to break the finance function down into its many component parts and show you the value that can be collectively generated by the process of continuous improvement in the finance and accounting area.

9. Is there any guarantee or risk reversal proposition?

If not – why not? Some Finance Directors (not many) will guarantee their work either by agreeing to meet certain parameters agreed by you and them, or give you a risk free guarantee - ie work for a month and, if you're not totally satisfied with the service or relationship, you pay nothing. If a guarantee is offered by a Finance Director, it gives you reassurance that a quality service is offered which will make a positive difference to your business.

10. Do they offer proof of their abilities with references, testimonials or case studies?

References, testimonials and case studies will give you a very clear indication of the type of Finance Director you are dealing with. If the person you meet doesn't have any of these with them, then you can draw one of two conclusions:

- ❖ They don't have any – which would suggest that they aren't as good as they say they are.
- ❖ They have them but they haven't brought any with them – which would suggest a lack of preparation.

Those that can show you references, testimonials and the like are professional, highly organised and usually very good Finance Directors.

11. Are their services confidential?

Some information in your business can be particularly sensitive and you will have concerns about confidentiality especially where a Finance Director works part-time for several businesses.

Most Finance Directors take pride in their integrity, but this matter can easily be dealt with by asking the Finance Director to sign a letter of confidentiality. Alternatively any letter of engagement put forward by a good Finance Director service will contain a paragraph that specifically deals with this aspect.

12. What notice period do you have to commit to?

Some Finance Directors will want a lengthy notice commitment from you in their employment contract in the event the relationship has to terminate for reasons other than poor performance and disciplinary reasons. If this is 6 months or more, such a commitment can be extremely costly and detrimental to the business.

With a part time Finance Director service provider, the notice period is more flexible. After the initial trial period of say 30 days, the notice required would normally be around one month, where a regular service is provided, but could be made longer. Remember, the period of notice is also for your benefit to ensure continuity, sufficient time to find a replacement, and a proper handover thereafter.

And finally...

In addition to the questions listed above, you need to draw two conclusions about the Finance Director during the meeting:

Is the Finance Director a good listener?

This is very important. Run the other way from anyone who knows exactly what you want before hearing about your goals, needs and objectives.

Do their ethics and philosophies match yours?

This is essential. To get the best results you must be sure that you are harmonious in these two areas with your Finance Director. Any differences here will not be conducive to a happy, productive and lasting relationship.

How will you be charged for the work carried out and what are the likely costs?

The assumption here is that your Finance Director resource does not work full time nor is engaged (and paid) as an employee. In these situations, his or her involvement on a regular basis can be anything from one day a month to one or two days per week. Perhaps you have brought them in for a fixed term or a specific project with a known start and end date.

An independent Finance Director will charge you in the following ways:

- ❖ A fixed monthly fee depending on the expected hours needed.

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- ❖ A one-off fee for the whole project.
- ❖ A flat rate daily/hourly fee charged depending on the amount of work required.
- ❖ A fixed monthly fee plus a commission based on the additional profits you receive resulting from the systems introduced and the strategies implemented.
- ❖ A fixed monthly fee plus an equity share linked to results.
- ❖ Out-of-pocket expenses such as mileage and travel costs.

The prices charged by different "Finance Directors" can vary greatly, For example daily fees quoted could range from as little as £250, up to £1,500 and more, although if you are an SME business, the maximum you should consider paying ought to be no more than £1,000 per day.

The way to gauge the fees is to look at the likely value you will ultimately receive by using the Finance Director's services. Price is rarely a factor in anything you buy – value for money almost always is.

List the benefits each Finance Director will bring and compare their costs. This will give you a good indication of the value you should expect to receive. In fact here's a great approach to buying any product or service based on price...

Words of Wisdom...

When you buy on price, you can never be sure. It's unwise to pay too much, but it's worse to pay too little.

When you pay too much, you lose a little money. THAT'S ALL. But when you pay too little, you often lose everything because the thing that you bought is incapable of doing the job it was bought to do.

The common law of business balance prohibits paying a little and getting a lot. It can't be done. If you deal with the lowest bidder, it is as well to add something for the risks you run. And if you do that, you will have enough money to buy quality.

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The three fatal problems when you have a Finance Director and how to avoid them

Unfortunately there are some relationships that just don't work – even when you've gone through the process of elimination described above. On the positive side, the reasons for this can be identified easily and can therefore be overcome before they occur. It is important you understand these pitfalls and learn how to avoid them:

1. **Problem:** The overall agreement is based on the Finance Director's expertise and not in terms of the specific results you want to achieve.

Often a plan is drawn up in terms of the work the Finance Director will do rather than the project being defined in terms of achieving your goals. It is hoped that as a result of the work carried out, the goals will be met – but this is not the successful method.

Solution: Define the work or project in terms of the specific performance goals that you are looking for the Finance Director to meet. For example to increase profits by X%, or to reduce manufacturing costs by Y%, or to implement a new accounting system by a specific date etc. This "project contract" should outline both parties' roles and commitments in their joint undertaking and the plan can then be formed to ensure the goal(s) are achieved. New "contracts" can be established each year.

2. **Problem:** The work undertaken by the Finance Director creates a divide of responsibility and communication between you and the Finance Director resulting in your lack of knowledge and understanding.

Although one of the main reasons you decided to bring in a Finance Director is you simply haven't got the time or necessary financial expertise, you still need to dedicate time to the relationship. Allowing the Finance Director to get on with the work without involving you will ultimately lead to a lack of partnership, inefficient results and possibly too much reliance on the Finance Director for the future.

Solution: Work and learn together, in full partnership, through every stage of the process. It is vital you know what improvements are being made in the financial area in order that you can take advantage of the benefits resulting.

3. **Problem:** The strategies put forward don't bring the desired results.

This is the most common reason for the breakdown of the relationship. This is why you need to choose your Finance Director carefully.

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Solution: What's important is that you fully understand what strategies and tools the Finance Director is using and what results are expected to be achieved as a result. Usually, it is a combination of strategies and a process of continuing improvements that bring the best results.

If you do this, you don't guarantee success but you do give your company the best chance of reaching your objectives.

What makes a good Finance Director?

Having gone through the process, you should be able to spot what makes the difference between a good and a poor Finance Director. Here is a quick checklist of the "8 Ways to Spot a Good Finance Director":

1. The Finance Director provides solutions or new (or improved) methods for you.
2. The processes or strategies the Finance Director uses are identifiable and measurable.
3. The improvements implemented by the Finance Director are sustainable.
4. The Finance Director in some way guarantees his or her service.
5. The basis of remuneration is quoted up front and in advance.
6. The Finance Director has expertise in businesses of your size.
7. The Finance Director can produce references, testimonials and case studies to support a track record of success.
8. The Finance Director puts your interests first and works with you and your staff to generate the optimum results possible.

Good Luck and Happy Hunting...

If you would like to know how using an outsourced Finance Director service could benefit your business, then call **Trevor Wilson** or **Bevan Metcalf** on **FREEPHONE 0800 112 3375**, or email trevor.wilson@theFDgroup.co.uk or bevan.metcalf@theFDgroup.co.uk, or go to our website at www.theFDgroup.co.uk. We would be delighted to hear from you.