

How To Choose A FINANCE DIRECTOR Who's Right For Your Company

*(Avoid The Mistakes Most
Business Owners Make)*

A close-up photograph of a person's hand holding a white business card. The card has the text "EXPERIENCED FINANCE DIRECTOR" printed on it in blue, bold, uppercase letters. The person is wearing a dark suit jacket and a red tie. The background is blurred.

**EXPERIENCED
FINANCE
DIRECTOR**

Trevor Wilson

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Introduction

Business owners often presume that if they just survive the trials and tribulations of the first few years of operation, everything will be fine and their long-term growth will be assured.

They couldn't be further from the truth. Most later learn that the more successful the company becomes, the less time they have to think strategically. Their time is taken up with administration and 'managing the numbers'. They are caught up with profit and loss accounts, cash flow, financing options, weighing up leasing options... and on and on.

Gradually, the energy they should be devoting to doing what they are so good at – developing and growing their business – gets drained away as they struggle to deal with critical financial requirements. In fact, being in business becomes progressively less enjoyable.

Some hire an accountant or a bookkeeper, hoping that the new recruit will provide the professional skills they are looking for. But that only solves part of the problem. They get some financial information but it's not what's needed to make the important decisions. Instead it's another employee to manage for the business owner, providing no strategic support to move the business forward.

Others rely on their external accountant, the person who puts together the company's year-end accounts and prepares the tax computations. Here, the advice received may be too

general to be of use in their particular business. Accountants in practice often lack valuable hands-on commercial experience. The business owner gets neither the help in identifying and interpreting the key numbers, nor the expertise required to plan, manage and control the business.

If that's you, and you're drained from trying to keep all the plates in the air, you're probably wondering what on earth you can do. Who can possibly help?

A Finance Director, that's who.

A good Finance Director can help you to grow your business by giving you the important numbers in an easy to understand format, and by drawing your attention to the business areas where your attention is needed most. A Finance Director will develop future financial forecasts, manage cash flow and push your business growth. A Finance Director has experience in financing a business, dealing with growing pains, presenting financial reports, and approaching banks for funding.

Now, you might think hiring a Finance Director is a step too far (yet another cost that you'll have to cover) or a step too soon... but as I explain in this book, to grow your business you need the expertise that only a Finance Director can deliver.

Not hiring a Finance Director at the right time is a false economy that will stunt your company's growth. And in this book, I reveal a way that you can enjoy the benefits of using a Finance Director without paying a fortune!

You'll also discover:

1. What you must do before seeking a Finance Director
2. How to choose the right Finance Director for your company
3. How to reduce the elements of risk associated with the decision you have to make.
4. How to avoid the three fatal problems when you have a Finance Director.

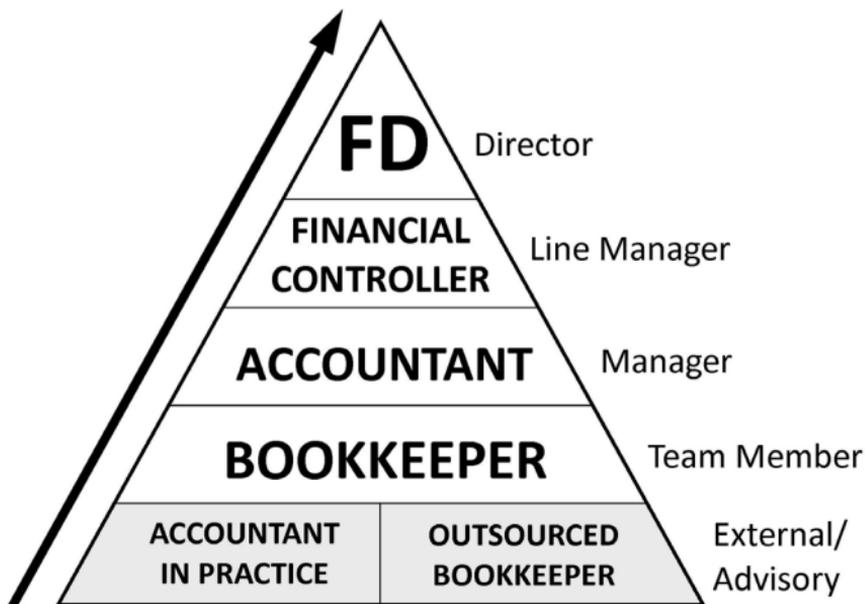
By the time you finish reading it, you will be able to make a more informed decision on the choice of Finance Director. It won't guarantee the success of the relationship, but it will give you the best possible chance of achieving your goals and objectives for your business.

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.

I wish you every success in choosing the right Finance Director for your business.

Trevor Wilson

Trevor Wilson



THE FINANCE PYRAMID

What Is A Finance Director?

A Finance Director, also known as the Chief Financial Officer, is the person responsible for managing the financial activities of the entire company.

It's almost a prerequisite that the person is a fully qualified accountant with one of the main professional accountancy bodies. With the need to manage and report finances, a non (or part) qualified accountant is unlikely to have the education or expertise to understand and communicate what's going on and what's being reported.

He or she is responsible for all the company's accounting functions, including credit control, preparing budgets and financial statements, coordinating financing and fundraising, monitoring expenditure and liquidity, managing investments and taxation compliance, and providing timely, accurate financial reports to the owner and board of directors.

But a good Finance Director is far more than a 'bean counter' – he or she is someone who can balance the demands of 'producing the numbers and using the numbers'.

Generally, a Finance Director is more pro-active and forward looking than an accountant who has not reached that position. They will advise and report on a business' financial performance and implement systems to improve business performance and efficiency. They will deal with all tax, treasury and audit requirements and seek to ensure that the company complies with legal and financial obligations.

The Finance Director is responsible for the production of monthly management accounts, annual budgets and cash management. They should help you with your growth strategy and ensure that it corresponds with your company's actual and projected financial strengths.

They'll look to make sure your business has enough working capital for each month's trading and will assess whether you need additional finance to grow further.

Besides an obvious aptitude for finance, a great Finance Director also needs to possess certain qualities, including independence, integrity and the strength to question the decisions of both colleagues and the owner (or Managing Director or Chief Executive Officer), as well an ability to keep up with rapid changes in technology, markets and regulations.

The Finance Director must be able to communicate well within the organisation, to explain why decisions are made (and to help bring the rest of the management team onside). This skill makes the Finance Director much more than just a numbers person.

They must also have a strong relationship with the business owner (or MD/CEO). Between the two, there needs to be trust, respect, openness and honesty thereby creating the ideal platform for peer collaboration and good decision making.

When Should You Appoint A Finance Director?

Serial entrepreneurs who've created more than one successful business from scratch often say in answer to this question: "As soon as possible". But for those of us who don't yet have the experience of making our first million, the right moment to take on a Finance Director is not always clear cut.

As a general rule, you should hire a Finance Director when your business has grown to a point where you find it difficult to manage or control everything that's happening within your business.

If you're still not sure when this is, this is how it works...

On starting out, a business owner wears a number of hats: developing the offer, finding customers, supplying the product or service, and collecting the cash. If there is a market for what the business owner is selling, hopefully the business will grow, and staff will be recruited to cope with the additional demands.

At first, the business owner still has visibility over everything happening in the business. He or she works closely with the rest of the team and knows in detail what is going on. But as the company continues to grow, and more people are hired, the owner is no longer able to micro-manage. At this point, it is much more difficult to keep all the balls in the air. You become reliant on others to manage and to tell you what's happening. Often cash flow problems are the first

sign that something is wrong and this is when the realisation comes that the finance side is not as strong as the rest of the business. You have less time than ever and feel uncomfortable and out of control.

For most businesses, this happens typically when there are between 5 and 10 employees. Turnover is likely to be between £500,000 and £1 million per year (normally less for 'people' businesses which sell their time and expertise). This is when a good Finance Director can make a real difference.

Your Finance Director will ensure your finances are in line with your growth strategy. Your Finance Director will develop forecasts with you and give you the detail so that you know exactly how your business is performing and which areas need attention. Your Finance Director will look after cash flow so the money is there when you need it.

Managing your business this way, using the numbers, means you will have a far better feel for the key strategic decisions. Once your Finance Director is appointed, you will have more time to work on moving your business forward and fewer administrative worries. Without the input of a Finance Director, it would become increasingly difficult for the company to continue to grow.

How Do You Choose The Finance Director Who's Right For You?

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

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 an accountant or 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 can 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 should look for!

How You Can Enjoy The Benefits Of Using A Finance Director Without Paying A Fortune!

Experienced and skilled Finance Directors command salaries of at least £80,000 to £100,000 per annum, meaning a total package costs well into six figures when employer's National Insurance and executive benefits are added. They're expensive.

But as you grow your business, there will come a point where you need the input of a Finance Director. This gives rise to a conundrum: the business has not reached a size where such a resource is required or can be afforded full-time yet the skills of a knowledgeable Finance Director could make all the difference as you try to drive the business forward.

In these situations, a part-time, flexible Finance Director service may offer the best solution. Going down this route enables you to access top Finance Director skills for less than £10,000 per annum.

Before Hiring...

Write a job specification that encompasses the goals you have for your company and set clear milestones you expect the Finance Director to reach (and surpass) within set time-frames.

Decide what elements are non-negotiable and which attributes are just 'good to have'. At the very least, your Finance Director should be a qualified accountant able to demonstrate experience and ability through a solid track record. The right person should also be presentable, personable, and confident and possess excellent communication skills – someone who can relate to others easily.

Your Finance Director should have a thorough understanding of the numbers, but also commercial flair. You want someone who can identify the real issues affecting a business and bring fresh ideas to improving financial performance.

Look for someone who has years of experience of working in a commercial environment.

Don't limit your search just to those who have experience in your sector. Finance Directors have a highly transferable skill-set and often relish the opportunity to work in new markets or industries. What's more, as newcomers, they may see opportunities that others have overlooked.

Ask for examples of situations in which they have added value to a business. Get more details. Find out how much they

contributed individually to the outcome. Were they acting on behalf of the owner (or MD/CEO) or following their own initiative?

Establish the level of credibility your prospective Finance Director has. Research the references they provide, particularly any banking or investor contacts. How well did they manage the relationship with these people? Was the information they provided sufficient?

When considering any candidate, think of how they will fit into your company's culture. Bring them in to meet different members of your team and ask for the latter's feedback. And before you finally appoint, get to know your Finance Director short list better. Invite them to lunch or coffee outside your office to confirm they're someone you trust and gel with. You may be surprised what a difference doing this can make to your opinion of someone.

If you don't have enough work to justify employing a full-time Finance Director then you should consider a part-time appointment, with the Finance Director working anything from one day a month, up to one or two days a week.

Another option would be to bring in a Finance Director on a short-term basis to help with a specific finance project. An example of this might be the preparation of a business plan to support a request to the bank for additional working capital funding. The advantage to you, as business owner, of using a Finance Director in this way is that you can continue to manage the business day-to-day without too much distraction while the Finance Director focuses on the project.

The 12 Questions You Must 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 researched 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.

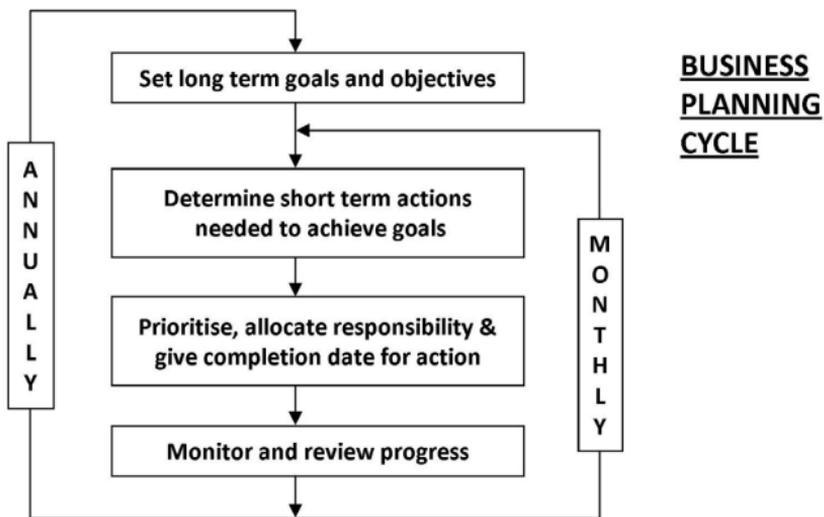
2. Are they interested in learning more about your business?

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.

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 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 other work-related 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.

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 an area 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 resources are 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. Consequently, 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 that production of accounts is purely to meet legal obligations and the requirements of the tax office.

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 or she should be able to break the finance function down into its many component parts and show you the business 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 part-time 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 - i.e. 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:

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

Those that can show you references and testimonials 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 six 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 Finance Director, and a proper handover thereafter between the two.

And finally...

In addition to the questions listed above, you need to consider two more factors about the Finance Director during the meeting:

i. 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.

ii. Do their ethics and philosophies match yours?

This is essential. To get the best results you must be sure that you and your Finance Director share the same ethics and philosophies. Any differences here will not be conducive to a happy, productive and lasting relationship!

Checklist: 8 Ways To Spot A Good Finance Director

Having gone through the process, you should now be able to spot what makes the difference between a good and a poor Finance Director. Here is a quick checklist to help you 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 or case studies to support a track record of success.
8. The Finance Director puts your interests first and works with you and your team to generate the optimum results possible.

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 and is not 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.
- 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 £350 up to £1,500 and more, although if you are an SME business, the maximum you should consider paying is £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.

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 earlier. On the positive side, the reasons for this can be identified easily and therefore overcome. It is important you understand these pitfalls and learn how to avoid them:

- I. **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 way the project will help you to achieve your goals. You can't presume that your goals will be met just because the work is carried out.

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 [a specific percent]' or 'To reduce manufacturing costs by [a specific percent]' or 'To implement a new accounting system by [a specific date]', etc. The '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 the two of you, and you end up lacking knowledge and understanding of what's happening in your business

Although the main reasons you decide to bring in a Finance Director are because you lack time or 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 so that you can take advantage of the resulting benefits.

- 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.

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

If you do this, you'll be giving your company the best chance of reaching your objectives.

By now, you should have everything you need to identify, recruit and keep a great Finance Director!

Good Luck and Happy Hunting...



How We Can Help You

If you would like to know more about how using a part-time Finance Director service can benefit your business, then contact:

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or visit our website at

www.TheFDGroup.co.uk

We will be delighted to hear from you.



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