

## ***FAMILY BUSINESS FORUM***

### **Is it Time to Hire a CFO?**

By Donald Levitt

#### **The Issue**

I was recently speaking with the second generation president of a \$30 million family business. He told me he was trying to convince his father that the company needed a Chief Financial Officer. His father said “What in the world would they do all day?”

That’s a good question. When has a business gotten large enough, or complex enough, to justify hiring a CFO?

#### **The Expert**

Michael Hartman is the president of Precision Staffing Solutions ([www.pssistaffing.com](http://www.pssistaffing.com)) – a Toledo-based staffing service specializing in accounting, finance, legal/legal support, and sales/business development personnel.

“It’s time for a business to consider hiring a CFO,” says Hartman, “when the business has outgrown the controller’s capabilities. Good CFOs are not focused on hands-on accounting – they are far more strategic. Some owners of businesses figure that they’ve been successful without a CFO, so why do they need one now? They don’t fully understand the value and complexity of the CFO’s role.”

The role of the CFO is to focus on profitability. Hartman describes the CFO’s responsibilities in four categories: controlling, treasury/finance, management information system, and long-range planning. It is the controller, not the CFO, who closes the books, prepares financial statements, reviews the budget, and oversees functions such as accounts receivable, accounts payable, and payroll. The controller generally reports to the CFO.

“The CFO’s treasury/finance responsibilities include analyzing investments for profitability, managing retained earnings, determining the cost of borrowing, the type of financing, and with whom the company finances,” says Hartman. “Some companies limit their growth by not having any debt – because they don’t understand these treasury and finance functions.”

The CFO’s role in long-range planning is probably the least recognized and least understood. “The CFO needs to understand the operations-side of the business – the value chain from supplier through to customer. They look for ways to reduce costs or

increase profits via lease agreements, transportation agreements, options, etc.,” says Hartman.

“A good CFO brings discipline to decisions regarding which parts of the business are reaching value objectives and which assets should be invested in or sold so that capital can be used in other ways. The CFO should also know the industry and where it is headed so they can look for opportunities to gain market share.”

“Some presidents are reluctant to have a CFO because they like to keep their cards close to the vest,” notes Hartman, “and they find it uncomfortable to accept advice from a senior staff person. This deprives the president of a valuable perspective. If the president ultimately wants to sell the business, it may be worth less if there is not a senior management team in-place.”

“Sometimes a controller will be given the title of CFO,” observes Hartman, “but they are CFO in name only – nothing more than the proverbial bean counter.” On the other hand, there are occasions when the controller is indeed capable of moving up to the CFO role, and the president wants a CFO, but the president has difficulty envisioning the controller in a higher role. In this case the president may bring in an outsider to fill the CFO role – and the controller may leave the company for another opportunity.

“When the president and a real CFO are working well together,” notes Hartman, “it is a thing of beauty.”

### **The Tip**

A CFO can bring a disciplined approach to the treasury/finance and long-range planning functions – areas where discipline may be lacking in some family businesses.

*Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month’s topic, and other family business issues, can be found at [LevittConsulting.com](http://LevittConsulting.com)*