SEATONHILL™
Strength in Numbers

INSIGHTS:

The 21st Century CFO

A Framework for Defining the CFO Role for Small to Mid-Market Businesses

Featuring Nick Vadala - Partner, SeatonHill

October, 2022

The 21st Century CFO

A Framework for Defining the CFO Role for Small to Mid-Market Businesses

Contents:

Executive Summary

This white paper is a framework for the leaders of small to mid-market organizations to help determine the need for a Chief Financial Officer (CFO). The paper covers the evolution of the CFO, the role and skills of the 21st Century CFO, factors to consider in determining the need for a CFO and the growing availability of fractional CFO leadership as an option for small to mid-market organizations in the post pandemic world.

SEATONHILL™
Strength in Numbers

The Evolution of the CFO Role

Today, the 21st Century CFO plays a pivotal role in most organizations. The traditional responsibility for accounting, budgeting, and compliance remains a core responsibility. With the technology and outsourcing of specialized functions available to most organizations, there is less emphasis on the assembly of data and manual preparation of reports. Data and other business performance information is available instantaneously and the CFO plays a key role in the interpretation and informing strategic decision making. This has also driven the expectation of CEO's, boards, and investors to a higher level requiring the CFO to play a critical role in running the business.

Looking back in history, the CFO is a new role in organizations. For most of the 20th century, finance was a "back-office" function. The effort of finance was assembly of data. The applications and technology available today did not exist. Strategic decisions were made far ahead of the data being available and finance or a "CFO" was not a critical part of the decision process and was not part of the executive team.

The first CFO roles started to appear in the early 1960's. A significant increase occurred in the 1970's through the early 1980's. The drivers were the Securities and Exchange Commission (SEC), and Federal Accounting Standards Board (FASB) who began making changes to their reporting requirements. The inflationary conditions of the time cast doubt that stock price alone was a real indicator of a company's assets value and cash flow. In 1976 the SEC issued Accounting Series release #190 and required large public companies to change their reporting methods. This was followed by FASB issued statement #33 in 1979. In addition to these regulatory requirements, M&A activity increased significantly in the 1980's. The CFO role became critical to navigating the regulatory changes and identifying performance issues. This was the birth of the modern CFO becoming a member the executive team and driver of key decisions.

Growth of the CFO Role in the Later 20th Century

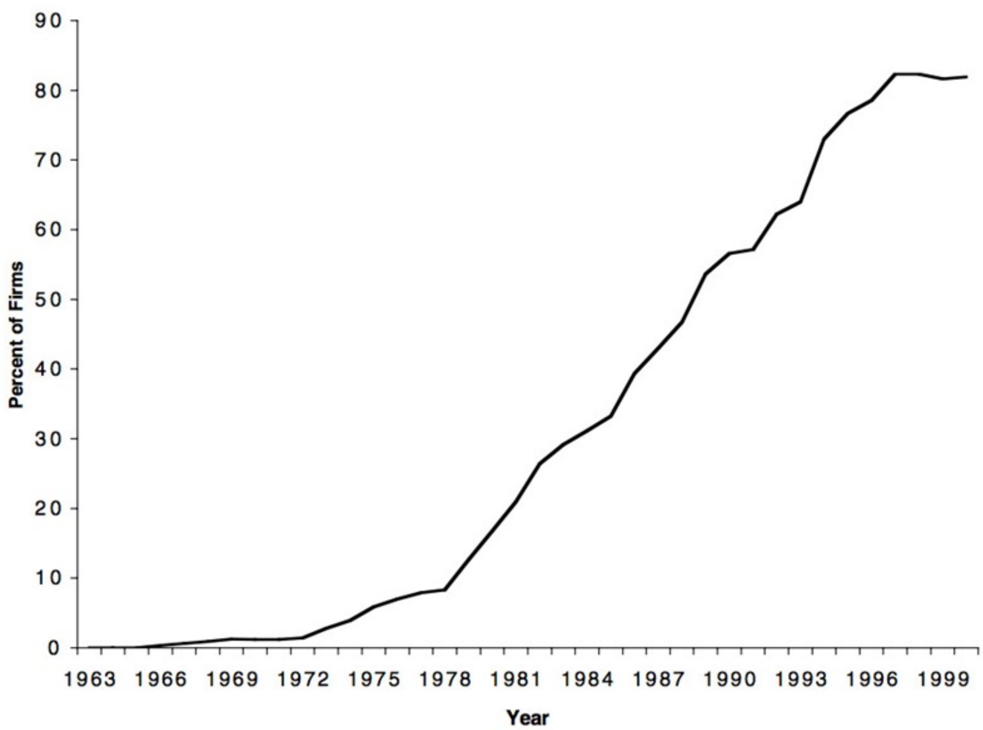


Figure 1. Prevalence of CFO Position, 1963–2000

Note: N = 429. Actual denominator varies with the number of firms present in the sample in a given year.

Source: ChicagoBooth.edu

SEATONHILL™
Strength in Numbers

The Role of the 21st Century CFO

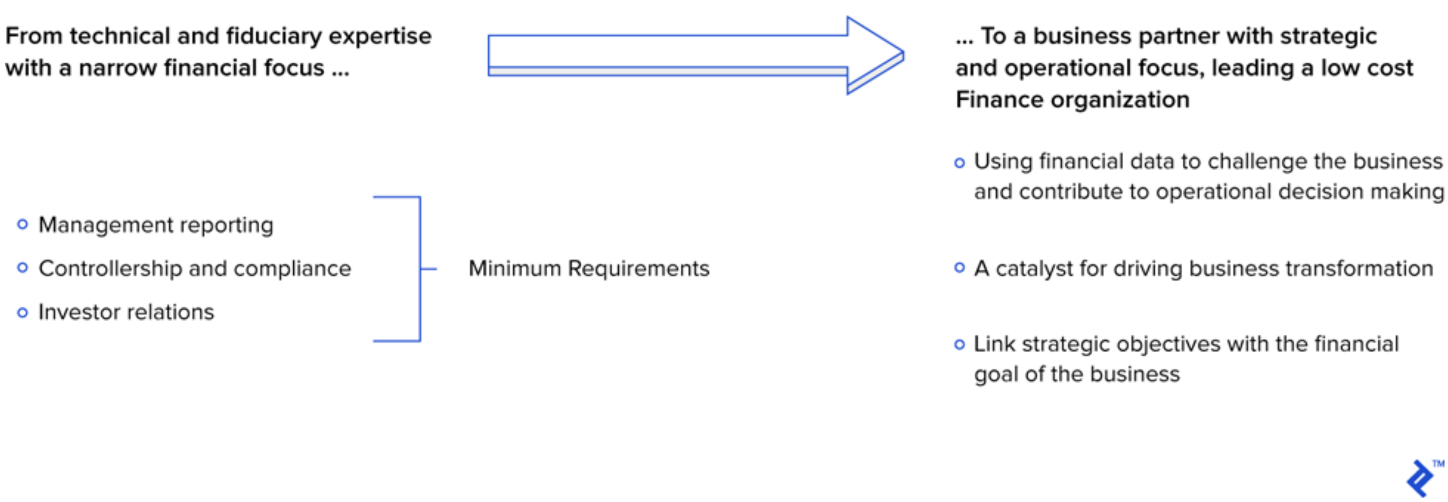
CFO’s gained recognition as a key leadership role through the end of the 20th century. By the early 2000’s, CFOs were routinely playing a critical role in providing strategic business analysis, managing relationships with investors and shareholders, and became the #2 executive and trusted advisor to the CEO. The technology available today provides an infinite amount of information. This has led CEO’s, boards, and investors to expect immediate answers on current and future business performance. CFO’s have become the source for gathering and interpreting this information.

The development of a wide variety of technology-driven products and services in today’s digital economy allows most businesses to serve global markets. These products and services include software as a service (SaaS), application development, and outsourced or offshored services. These digital age products have added complexity to the accounting and revenue recognition organizations need to manage. The Enterprise Resource Planning (ERP) and accounting systems that are selected, deployed, and managed are critical decisions. All these factors have added to the CFO’s key role as part of the executive team helping to drive sustained profitability and competitive advantage in the digital age.

Accounting, budgeting, and compliance remain a mission critical function of the CFO. The process and information provided by these functions are the foundation for strategic analysis. Today, performing these routines in a timely and accurate fashion is a minimum requirement. The modern CFO must be an expert in the business model, provide visibility to the key performance indicators (KPI’s) that drive and sustain competitive advantage, know the best practices for the industry, and enable value creation. And be a key leader in the decision-making process.

The responsibilities of the modern CFO have broadened. Today’s CFO is not number-cruncher or reporter of financial information. They are strategic partners and add value to the organization. Many CFO’s now have multiple roles as both CFO & COO with direct responsibility for non-financial areas including operations, talent (human resources), and information technology. In many companies, the CEO drives strategy and is outward facing while the CFO supports strategy execution and is inward facing.

The Changing Role of the CFO



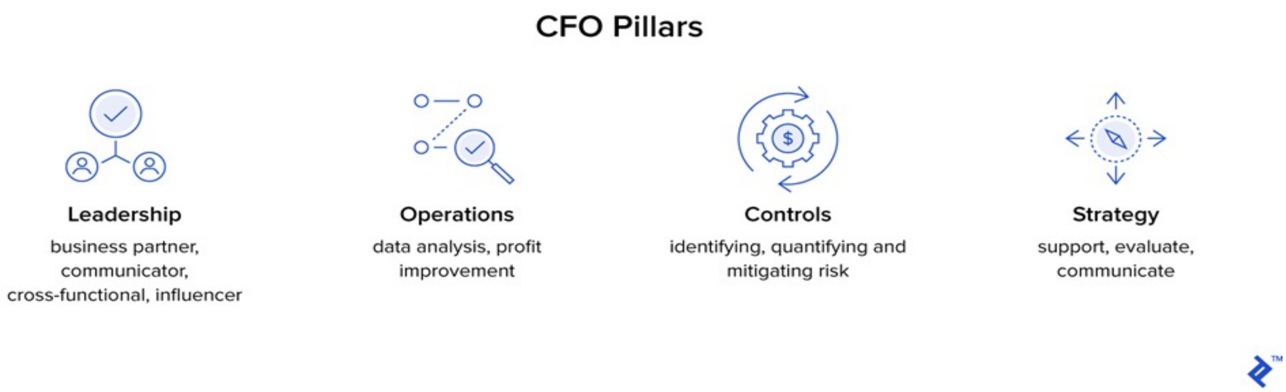
Source: Boyden Global Executive Search

SEATONHILL™
Strength in Numbers

The Top Skills of the 21st Century CFO

In his article "The Role and Responsibilities of the Modern CFO – A Function in Transition," Paul Ainsworth does a wonderful job outlining the key skills required for the 21st century CFO.

The Four Fundamental Pillars of the Role of the CFO



1. **Leadership –** To be an effective business partner, today's CFO must have the necessary leadership and communication skills. They must give advice and counsel as well as provide a voice of reason. They are often asked to lead group-wide transformation programs and must be able to translate detailed information into clear, concise, and accessible messaging. It is obvious that creating a top talent pipeline to ensure the right people and leadership skills are in place within the finance function is also critical.
2. **Operations –** they should possess a strong understanding of the company's business model and industry and be able to use this knowledge to provide an independent perspective and to constructively challenge the commercial and operations teams, ensuring that business decisions are grounded in solid financial criteria. They must navigate complex data and provide analytics and predictive scenarios that drive action and decision-making. The CFO should also identify opportunities for top-line growth and drive profit improvement, not just through the traditional methods of cost control, but through examples such as product line/regional profitability analysis and benchmarking against industry peers.
3. **Controls –** in an increasingly global and volatile environment with additional regulatory burdens, it often falls to the CFO to ensure adequate assessment and mitigation of risk, and compliance with applicable regulatory or other legal requirements. They must understand risk through a commercial as well as a financial lens. Therefore, they need to manage risk as the business executes on its strategies and initiatives as well as maintain a strong internal controls environment and financial reporting processes.
4. **Strategy –** supporting strategy development and helping enable its execution. The CFO also plays a role in prioritizing and ensuring the strategy can be funded. The finance skillset is very applicable to building predictive modeling, analyzing macroeconomic trends, and incorporating non-financial information. This also includes communicating the strategy and progress against it to external stakeholders and investors.

As Peter Drucker said, "Culture eats strategy for breakfast." The modern CFO needs the four fundamental pillars AND the ability to model a culture that values informed decision making. Finance should be embedded throughout the organization, not as a barrier, as a partner and decision support function. The 21st Century CFO is a strong communicator and leader who can balance the need to say "no" with the need to support the organization.

SeatonHill™
Strength in Numbers

Determining the Need to Hire a CFO in Small to Mid-Market Businesses

Now that we have outlined the history, role, duties, and skills of a CFO, how does a small to mid-market business determine the need for a CFO? It is not always an easy decision. There are considerations. Let us start with what you might have in place.

Most small to mid-market businesses have a bookkeeper, accountant, and/or controller. This person(s) or service, your accountant for example, is managing the day-to-day transactions including billing and payroll. A controller should be able to manage the accounting, produce financial statements, and support tax and other regulatory filing. These roles usually cover the “back-office” functions which are mission critical and core requirements.

Scope of Duties for CFO, Controller, and Bookkeeper

Strategic	Tactical	Transactional
CFO	**Controller / Accounting Manager / Accounting Service**	**Accountant / Bookkeeper / Accounting Service**
Investors & Capital Raises	Accounting & Financial Statements & Management Reporting	Transaction Processing, Invoicing, Check Runs, Payables
Financial Models & Operating Plans	Commissions, Payroll, Month End Close, Invoicing	Payroll & Benefits Processing, Bank Account Reconciliations
Mergers & Acquisitions	Cashflow, Forecast, Sales Tax	Accruals & Prepaids, Fixed Assets, Depreciation, Sales Tax
Strategic Plan & Board Packages	Tax and Audit Support, Policies, Procedures, Systems	Assist with Month End Close
Revenue Recognition & Complex Accounting	Design & Implement Internal Controls	
Contract Negotiations		
Risk Management		

If you are not sure or are thinking about the need for a CFO, here are questions to ask yourself:

- Have the financial and accounting requirements of your business grown beyond your knowledge and comfort zone?
- Are your meetings to review the financial performance focused on what not why?
- Do you feel out of touch with where the company is going and lack a strong operating plan or forecast?
- Is your company struggling with what the key performance indicators should be?
- Is your company in the state of rapid growth or market or geographic expansion?
- Do you have a complex product or service offering?
- Are you seeking merger and acquisition opportunities or investors or bank funding or exit-strategy?
- Do you feel financially unprepared to cope with an economic downturn?

An internal tipping point is when the information you need to make decisions is not available or not available at the pace, form, and format you need to manage your business. You might be growing revenue with declining profit and just do not have the details to quickly address the situation. An external indicator is when the company requires more financial savvy to deal with customers, banks, boards, or investors to gain their confidence. Achieving revenue benchmarks is not necessarily an indicator. For example, a $20m private company that has slow growth and is achieving its profit goals may not be ready for a CFO. On the other hand, a start-up with little or no revenue that is developing a promising product that needs investment to scale and seek a strategic buyer in 2 years does need a CFO to help with capital raises, board packages, and investor relations.

An experienced CFO comes equipped to deal with all the above and more. It also means having a trusted advisor to help make fact-based decisions from tactical to strategic. Hiring a CFO does not mean your controller or bookkeeper is doing a bad job. It means the scope and sophistication of the business and your needs have changed.

SeatonHill™
Strength in Numbers

The Future of Work Post Pandemic: Fractional CFO Leadership in Small to Mid-Market Businesses

Fractional CFO's have been around for a long time. They have always been a means for small to mid-market businesses to acquire the talent of an experienced CFO on a part-time or project basis. The post pandemic world has demonstrated, with the support of technology, remote working is effective and here to stay. This has made the fractional CFO model an effective option.

A fractional or part-time CFO provides financial expertise on a contractual basis to small to mid-market businesses. They are fully qualified and bring significant previous CFO-level experience. The CFO can work on a part-time or retainer basis. A fractional CFO is accustomed to the new virtual working arrangements and can work on-site as required. The scope of responsibilities can range from ongoing oversight of finance to working on a specific initiative which requires immediate attention and specialized expertise.

The benefit of hiring a fractional CFO is you can quickly hire a high caliber CFO for a small to mid-market business without paying the high salary they would command. And, without the commitments and risk of hiring a full-time CFO. This can be a huge advantage for small to mid-market businesses that have an immediate project need or need part-time CFO oversight of finance and to manage specific tasks. The CFO also provides an experienced trusted advisor for the CEO.

What are signs you are ready for a fractional CFO?

- Need a better understanding of financial data
- Major decisions are on the horizon
- The business is growing
- Taking on investors
- Preparing to navigate an economic downturn
- The CEO needs a trusted CFO advisor

A strong fractional CFO can bring immediate focus to your priority challenge and enable data-driven decision making. An experienced CFO understands the required accounting process to deliver core data, what can be automated, and the key performance indicators and financial models you need in place to measure performance and forecast future earnings.

Here is what you should expect from a fractional CFO:

- Proper financial foundation is in place with the controller / accounting manager, and financial systems and processes
- Short and long-term planning enabling the ownership to look forward
- Help managing growth or navigating tough economic conditions
- Support specialized activities such as audit, investments, banking, and M&A activity
- A network of resources and relationships
- Strategic financial advice and trusted advisor

Fractional CFO leadership is growing in the post pandemic world. In May of 2022, the Wall Street Journal reported that 37 CFOs resigned from S&P 500 companies in 2020, up 27.6% from the previous year. We have all read about the great resignation and the boom in remote work technology such as Zoom, Teams, and Miro. These are all signs that support more fractional talent will be available and small to mid-market businesses will have access to talent without geographic limits. The fractional CFO is a great option and provides flexibility in when and if a full time CFO is hired.

SEATONHILL™
Strength in Numbers

Summary and Conclusions

The CFO is a new role first appearing in the early 1960's and earning a place on the executive team in the later part of the 20th century. Changes in accounting regulations and SEC reporting in the rough economic times of the 1970's added significant complexity to the then traditional "back office" role of finance. Through the 1980's the growth of start-ups and M&A activity added more complex transactions. Through the 1990's and early part of the 21st century, technology increased the speed, quantity, and detail of financial data. The 21st century CFO is now a strategic partner to the CEO and management team with the ability to interpret data to inform decision making, navigate complex transactions, and drive adoption to the digital economy. The post pandemic world has made virtual work options mainstream and proven their effectiveness. CFO leadership is now essential to grow and navigate in unstable times.

Nick Vadala is a partner in the Boston office of SeaonHill. He has 30+ years of experience in executive roles in public, private, and investor-backed companies, and has career-long experience in technology-driven service organizations on growth, change, and exit stages. Nick's experience has given him the skills to analyze key business drivers, solve challenges in complex situations, and develop strategies to sustain and grow profitability. He has led cross functional teams in all areas of an organization with the ability to evaluate, mentor, and motivate high performing teams. His work has given him the opportunity to develop strong board, investor, and client presentation skills, and most importantly, the capability to leverage the critical business metrics that drive scale and operational excellence.

About SeatonHill

We provide organizations financial leadership with a strategic and operational focus by placing elite CFO talent to challenge the business and contribute to operational decisions to achieve results.

With our curated talent, our financial leaders guide small and medium-sized businesses through complex financial problems to mitigate risk and achieve organizational goals.

SEATONHILL™
Strength in Numbers

CORPORATE OFFICE

SeatonHill Partners, LP
777 Main Street, Suite 600
Fort Worth, TX 76102

www.SeatonHill.com

SEATONHILL OFFICES

Dallas
Fort Worth
Los Angeles
Houston
New York
Atlanta
Denver
Chicago
Philadelphia
London