



FINANCIAL MANAGEMENT

NEW BUSINESSES: BUILDING A FINANCE TEAM FOR GROWTH

Small and growing businesses can face as wide a range of finance-related issues as do larger organisations. How do they build the right finance team to deal with these? **Claudia Krinks** analyses the options.

Building the right finance capability is critical for small and growing organisations. But they often struggle with how to do this, given their (sometimes rapid) growth and their constrained resources.

A small and growing organisation – ie with 5-1000 staff in total, and with revenues and costs probably between £250,000 and £50m – faces particular challenges in structuring its finance team.

There appear to be two conflicting needs:

- breadth of activities covered; and
- available resources.

1. Breadth of activities

On the one hand, the finance team in a small organisation must cover the same enormous breadth of activities as a large company, from the highly commercial, strategic and forward-thinking to the more clerical processing of invoices (see Box 1, right, 'Breadth of activities').

Which of these activities are most important will depend on the stage of a company's evolution, that company's business context, and, equally important, the skills and personalities that exist within the management team as a whole.

For example, a start-up business will bring in finance skills at the bottom of the scale and work its way up: perhaps outsourcing the book-keeping in the early days, and the founder taking on full responsibility for the business plan and strategic direction of the company. However, as the business grows in size and complexity, more often than not, due to the idiosyncrasies of the business and the need for constant communication, finance is brought in-house. Usually, at this stage, the founders are tied up with managing growth, and need to make more informed decisions, for which high quality, insightful management information and planning are paramount.

2. Available resources

On the other hand a small company cannot afford specialised finance roles to cover the varying skill sets and competence levels required for this breadth of finance activities. (This is different from a large company, which will be able to have specialised units for different types of work – eg a specialist financial

planning team, or a shared service centre for more transactional work.)

At the same time, a single general finance role may not be appropriate. If a single person is asked to do the detail-orientated financial accounting as well as the blue-sky strategic thinking, you are asking them to perform mental acrobatics. This may prove neither cost-efficient nor effective.

So how can one go about building a finance team that is fit for purpose, and agile enough to deal with the changing demands of a growing business? The answer is to be creative in your use of resources when structuring the team.

There are many options worth considering, such as:

- outsource some data processing (perhaps to your accountant or to a specialist bureau);
- outsource the more technical elements to specialist firms of accountants;
- insource – through organisations which provide part-time finance resources on an as-needs basis;
- use interims as temporary resources for special projects; and
- use part-time, directly employed resources for any or all of the roles.

Again, what makes sense will depend on the context. One important part of that will be the personalities and history within the management team: the most important thing for non-financial managers will be to work in each area with someone they can trust.

Box 1 BREADTH OF ACTIVITIES

Strategy and direction

Planning and technical

For growth (eg FX, scaleable processes, asset registers, statutory reporting)

Financial management

Trends, expectations, feedback loops

Management accounting

Financial reports and analysis

Financial accounting

Book-keeping, credit control, invoicing, payroll

Clerical

Purchase ledger, opening new jobs

Non-financial services often managed by finance

eg IT, legal, HR, office management



Claudia Krinks is a chartered accountant and founder of Professional Identity, which sources part-time professionals for businesses.
claudia@professional-identity.com

‘The most important thing for non-financial managers will be to work in each area with someone they can trust.’

Box 2 BENEFITS AND CHALLENGES OF USING PART-TIME RESOURCES IN A FINANCE TEAM

BENEFITS

It is a cost-effective way of getting the right skills in the right place.

Part-time staff can be more efficient and effective as they are fresher.

You can often get a better quality candidate in a part-time role as they will value the flexibility.

Segregation of duties can be achieved early on – improving internal controls.

It can be an effective way of creating development opportunities for the finance team, as there are more roles and therefore more opportunities for promotion: creating a micro-version of a team in a much larger company.

Sometimes, part-time staff will have the ability to increase their hours over time (for example mothers whose children are getting more independent): they can be a cost-effective means of scaling up a finance team in a growing company.

CHALLENGES

It is necessary to invest up-front to structure each role.

Where the company is not growing, opportunities for development are limited.

If a team is too part-time they may be seen as inaccessible by the business.

Part-time staff need good communication skills and require extra management time – not only in terms of individual development needs, but also in terms of the need to plan ahead and communicate effectively.

The increased lead times involved in assigning projects to part-time workers can mean that they get overlooked for involvement in interesting projects. Opportunities for development can often therefore require more planning and forethought.

Part-time staff often work part-time because they have commitments outside of work, and this can reduce their flexibility where workloads increase and produce longer lead-times on projects.

Case study

Business A is an owner-managed business services company which was set up in the mid-1990s by two professionals who thought that they could deliver their product better in a smaller more agile business. This case study charts how they used part-time resources to build an effective and agile finance team with plenty of opportunities for development.

Stage 1: Initially, the founders (who had little financial knowledge themselves) outsourced the finance function to a local firm of accountants. This enabled them to focus on the start-up phase of the business in the knowledge that the finances were in a safe pair of hands. It allowed flexibility to grow with the business, afforded minimal risk and commitment and provided them with technical accounting advice as required.

Stage 2: After only six months, their business had grown rapidly, and they recognised a need to have a financial partner in the business who would be able to provide

them with information on a more ad hoc basis, to support their decision making. This did not constitute a full-time role, so they hired a part-time finance manager (FM) for two days a week. The FM’s remit initially focused on management accounting and book-keeping. However, as a very well qualified individual, she soon found herself advising the founders on the strategic direction of the business and on their personal financial planning. She also took on responsibility for HR, legal and IT (all of which often fall into the finance function in a small business). This all-encompassing role placed a lot of demands on the finance manager who was working across all levels of the business.

Stage 3: As the company continued to grow, so did the workload of the finance department, and more and more time was being spent on the clerical work rather than the more strategic element for which the finance manager had been engaged. A decision was taken to bring in an additional part-time administrator to cover the more clerical aspects of the finance

‘Growing businesses need to be creative in their use of resources when structuring the finance team.’

department, as well as other administrative tasks – for example purchasing, and HR administration.

Stage 4: The company continued to grow successfully, expanding into Europe. As the workload on the finance team increased, so did the opportunities for development, and a further employee was brought in to manage the financial accounting and sales ledger, notching the FM’s role up a level, so that she had more time to provide insight and to support decision making. These three part-time people enabled the company to have permanent finance cover, while saving money by ensuring that tasks were covered by people with the appropriate skill level.

Stage 5: The company reached the stage where it wished to expand into a new line of business. This raised major strategic questions. While the FM was ambitious and resourceful, there was a need for additional input from an experienced FD. The decision was taken to accelerate the finance manager’s development by bringing in a very-part-time FD to mentor the FM and advise on the major questions of company direction, while in parallel the FM gained exposure to the new business area. This phase of the business’s development demanded a lot more planning and analysis so, in addition to the FD, a business finance partner was brought in to free up the FM from the routine reporting, enabling her to take a step back from the detail and provide more clear direction to the business.

Conclusion

The above case study is just one company’s experience, but it illustrates some general lessons, namely:

- the finance team needs to change and grow over time as the business grows;
- there is no formula as to when change is needed, it will often be driven by key events. (A classic example of this is the need to raise capital, creating the need for an experienced fundraiser in the business on, perhaps, a short-term basis. A successful round of fundraising might then lead to the need for an FD who can manage the new stakeholders – perhaps someone experienced in venture capital-backed companies);
- there are many ways to add or adjust capability. Keep in mind contracts, part-time, interim and outsourcing options;
- look for a capable and trustworthy person with good development potential, around whom you can build an effective team; and
- consider the development needs of your current finance team and try to seek ways of fulfilling that potential – which is so paramount for ensuring the continuity and stability of the finance function.

In choosing how you structure your own finance team, Box 2 (opposite), ‘The benefits and challenges of using part-time resources in a finance team’, may provide useful food for thought.

Further, when that structure has been decided upon, the actual people you choose will also be key. Both those planning to engage extra finance assistance, and those thinking of taking on such a role, should take a look at Box 3 (below), ‘Key attributes that businesses should look for in part-time workers’.

Box 3 KEY ATTRIBUTES THAT BUSINESSES SHOULD LOOK FOR IN PART-TIME WORKERS

- Some flexibility: for more senior roles, there needs to be a willingness to take calls out-of-hours and also some recognition that if full-time colleagues are working 50-60 hour weeks, ‘part-time’ may need to be considered as a factor of those hours, rather than of a standard 35-40 hour week.
- Ability to grow with the business: it is critical to take a long-term view here, taking into account employees’ motivations and the company’s likely ability to meet their development needs.
- Possibility of increasing time commitment in the future if appropriate.
- Ability to bring something new into the business, be that a skill, experience or even a network.
- Communication skills: if part-time workers are going to succeed they need to be able to manage handovers and ensure that they manage the expectations of colleagues and clients.
- Organisational skills: time management and the ability to prioritise and reprioritise are important, particularly where flexibility is limited.
- Ability to be firm: in an environment where most people work full time, part-time workers can lose their way if they are too flexible or if they take on more work than they can do in the allocated time. This can lead to disengagement in the long term.
- Availability: it is critical that a team of part-time workers is a team – at least for one day of the week. Equally, where the part-time role interfaces with other parts of the business, it is important that this is taken into consideration. Finally, ideally a team will cover the full working week to ensure continuity for the business.