

## When The FD Gets In The Way

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Any MBA or business studies course will point out the importance of having a properly controlled and well disciplined accounting function. There have been many catalogued disasters where lack of this vital process has resulted in the ultimate demise of the largest of organisations let alone the new start-up.

Take General Motors for instance. GM's share price dropped more than 12% in one 3 day period after delaying the filing of its accounts. GM restated its historic profits and was forced to admit "The lack of effective internal controls could adversely affect our financial condition and ability to carry out our strategic business plan".

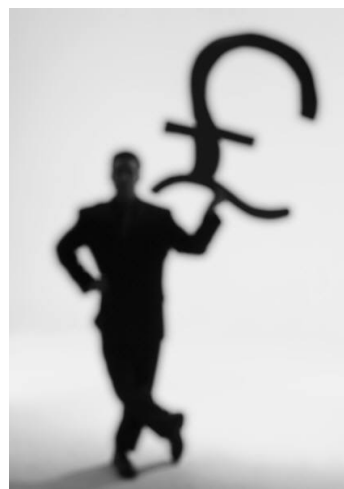
Dell is another company who recently had to delay its results because it had found "a number of accounting errors, evidence of misconduct, and deficiencies in the financial control environment."

So no argument, every company needs good financial control and how better to protect yourself than to employ a full time Finance Director (FD)? The GM and Dell issues also highlight the huge responsibilities of the FD. But who is this colossus on whose shoulders can be borne the weight of investors' trust, with responsibility for accounting for the Sales Director's complex deal whilst massaging the CEO's ego? Interestingly, apart from the odd Monty Python-like parody little time has been spent analysing what sort of person wants to become an FD and what makes a good one.

The starting point is to understand what are the origins of the typical FD? Around 80% of graduate chartered accountants come from a mathematical, accounting or scientific background, people who like definite answers to a problem. Many of these individuals 'fell' into accounting unable to decide what to finally do in life. Accounting offered a safe option, good pay, good prospects, something one could succeed at, but still a qualification

with so many options open. Our budding FD still didn't need to decide what they really wanted to be when they grew up!

The best FDs I have met also combine two other significant qualities. Firstly, they have the ability to picture the story behind the numbers their favourite word is "because". After every accounting fact that the FD relays comes a "because" statement. The second quality is the ability to communicate this picture in a way that everyone in an organisation can understand easily. An FD that resorts to complex jargon to explain a company's performance doesn't understand what is actually going on behind the numbers.



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But these are the skills we associate more readily with a salesman or a marketeer. So are we looking at a problem solving, risk-averse salesman that does not quite know where they want to end up in life?

Well yes, and I believe this is why so many FDs make the transition from FD to CEO. In fact more than one in five FTSE 100 CEOs are accountants.

However, this may also explain why in SME companies so many FDs feel unfulfilled or worse, live in conflict with the rest of the management team.

This is often a more acute issue in Venture Capitalist (VC) backed companies. The VC quite rightly wants a solid controller of funds and someone with experience to manage the company's finances from small to medium to large to exit. However, the problems comes in the length of time it may take for a company to become successful.

When the spectacular growth occurs, no problem, but what if the market or product is not quite ready yet and there is a delay in execution? After a while our FD starts to become a little bored and in a vain effort to add value starts to become the salesperson or marketer that they really wanted to be all along. When these efforts fail, the FD becomes de-motivated and can no longer implement the strict financial and budgetary measures necessary in the same cheery and light-hearted way they once did. In short the FD gets in the way.

At Isosceles the business accounting consultancy we have seen this issue on a regular basis.

Rarely is the person who is going to take the company public, deal with corporate financiers, investors and NOMADS the same type of person who is going to produce management accounts, the forecast and weekly cash-flow when the budget doesn't run to a financial controller as well.

We have had clients who have had as many as four full-time FDs in two years. That's four sets of recruitment fees, and four handovers.

This situation partly explains the rapid growth in part-time and outsourced FD services such as Isosceles'. These services have prospered not only because the client gets access to the higher FD skills they need in a cost effective way, but because the concept of running a portfolio of clients where the financial processing and controller elements are covered within one team has attracted excellent FDs.

With the emergence of broadband, serviced offices, VOIP, WEBEX™ the edges between small and big companies are becoming evermore blurred. The evolution of part-time FD and outsourced accounting solutions is another tool for successful companies to prosper.

So when the FD gets in the way what is the solution? Half an FD.