FOCUS ON

DOES YOUR ORGANISATION HAVE A CFO?

Keith Miller of EisnerAmper talks to *HFMWeek* about what it means to have a CFO

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Firms in the investment advisory asset management business generally break down into three areas: the stock picking and analyst number crunching part, the operations middle/back office part, and the organisation's own finance/tax/internal accounting part. The firm's founder and/or CIO take care of the first and the COO deals with the second but who's looking after the third part? You could answer "our CFO", but does your organisation really have a CFO? And what does it mean to have a CFO anyway?

A STRONG CFO

A strong CFO in an asset management business doesn't solely record transactions in an accounting system, generate periodic management financial reports or make sure the tax returns get done on time. The CFO plays a key leadership role in the organisation: he or she is the firm's chief financial steward and chief financial strategist. The CFO's value is most clearly observable in helping the executive board determine the future direction of the business. For example, how much profit do you currently make from a given advisory client? Taking into consideration your advisory fee earned plus the effort it took to bring the client on board, the time and cost of providing investment advisory services and the cost to you when they redeem their money, will you actually make a profit from this client? Do you really know?

Cash is the most valuable asset on any company's balance sheet. Can you truly say the business is protecting and maximising the use of its most valuable asset? Is the firm managing its cash flow effectively? What about business loans or leases for office equipment? Has the firm struck the right balance between using loans to gain necessary financing and building cash reserves? Has the firm negotiated equipment leases that were really necessary (as opposed to buying outright), and at rates and terms that made the most sense?

Finally, what about the business plan? When was the last time the firm evaluated this document (assuming the organisation has one written down) against its vision of where it wants to go? Is the firm on track for its financial targets? What is the firm's current enterprise value? What is its ultimate goal, and do the owners have an exit strategy? For example, do the owners want to generate a target level of assets under management (AuM) or be acquired for a given price by a larger advisor? A strong CFO would want to be able to answer all of these questions.

So, does your organisation really have a CFO?

CONSIDERING AN EXPENSIVE PROSPECT

A true CFO is an expensive acquisition. At a minimum, his or her salary is invariably on the wrong side of $200,000 before even considering benefits. Do you wait to hire a CFO until the firm is managing client assets above a threshold that you believe can bear this cost?

Or, do you wait until the business's financial responsibilities exceed its founders' capabilities, or until the firm becomes complex enough to encounter real financial, tax or accounting issues worthy of a CFO? Where is that line in the sand?

Through all of the recent financial scandals involving money managers, sophisticated investors have demanded total transparency over their assets and to know that a "guardian angel" within the advisory firm has their back. More than being considered overhead, might having a CFO on board be looked upon favourably by a potential client when you make a pitch to manage their assets?

Rather than bringing on a CFO after the journey has begun, could having a designated financial officer possessing the full CFO toolkit be an asset from the firm's inception in demonstrating to potential advisory clients a clear commitment to sound financial stewardship and setting an institutional mindset toward managing client assets?

Finally, would having a CFO on board allow the person currently charged with the firm's financial stewardship to go back to doing what really allows him or her to add value to the business (rather than overseeing the annual financial statement audit and tax returns)? For the founders, this creates the opportunity to experience the therapeutic pleasure that comes from transferring to the CFO's office all those finance ring-binders that were waiting patiently for the Saturday in November when you promised you were "going to take care of all this stuff…"

Now, does your firm need a CFO? ■