FRACTIONAL CFOS:

WHEN AND WHY

While fractional CFO and finance services are nothing new, they have been noticeably trending for small to mid-sized organizations. The disruption and challenges many businesses face due to the economic effects of COVID-19 have only increased the need.

WHAT IS A FRACTIONAL CFO?

The term "fractional" is a relatively new but increasingly common way to refer to outsourced CFO, controller, and similar finance and accounting outsourcing. But first, what is a CFO, fractional or otherwise?

In general, a Chief Financial Officer, or CFO, is an executive responsible for managing an organization's top-level financial activities and planning. A CFO should be a key strategic partner to the CEO and other executives, and typically reports to the CEO.

Controllers, by comparison, directly manage the accounting function and oversee financial statement reporting, internal controls and accounting procedures, and similar activities. They typically report to the CFO, or, in smaller organizations, to the CEO. I've held all three positions (controller, CFO, and CEO) and know that the lines can blur, especially between CFO and controller in small to mid-sized organizations.

Once, when interviewing for a high-level finance position, the CEO asked what I would do if he was unavailable my first two months and I could do whatever I wanted. I told him I would work in the plant for a month, then ride around with the sales team, sit in with the marketing department, and finally introduce myself to the accounting department. The controller must know the accounting function; a CFO must know the business.

ONGOING OR INTERIM?

A fractional CFO may be engaged on an ongoing, interim, or project basis. An organization may fill a CFO vacancy on an interim basis rather than rush into a permanent decision due to the critical nature of the position and the urgency of their needs. Organizations that are ready to establish a CFO position but aren't exactly sure what it should look like may choose an experienced fractional CFO to help assess the company's culture, establish its needs, and set the ground for a permanent position.

If an organization needs a CFO level executive on an ongoing basis, but not full-time, a part-time fractional CFO may be the best fit. This can provide a company with CFO level planning and oversight without committing to a full-time position.

A fractional CFO may also be brought in on a project basis. The company may have a capable permanent CFO but lack availability or expertise for specific needs.

As examples, a company may need to optimize financial strategies and planning, be considering substantial acquisitions, planning the introduction of significantly different operations, experiencing rapid growth, or any of a number of critical situations. Fractional CFO services can supplement and boost the expertise and bandwidth of the internal team.

ABOUT THE AUTHOR

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PROVIDERS

Fractional CFOs may be compensated in a number of ways, including hourly rates or fixed fees for defined services, and it may depend on the nature of the service provider. The most common types, and their pros and cons, are:

- **Freelancers:** These are individuals with specific expertise, often focused on certain industries. They can act independently and quickly, but are often limited to their personal expertise and availability.
- **"Matchmakers":** These go by a variety of names, but their function is to match freelancers with clients for a fee. They may have a broad range of professionals and expertise available, but may be more costly in total.
- **Consultancies:** These firms specialize in fractional services and typically have a bench to draw from. This may offer a broader range of resources and expertise, and consultancies can usually assign different personnel in the event of turnover or for specific expertise.

WEIGHING OPTIONS

The first step in selecting a fractional CFO is to list your needs. Be open to suggestions from experienced candidates, who may "see" issues that are not readily apparent from up close.

A CPA or MBA is no guarantee. Look for experience with situations similar to yours. A true CFO must be able to work well cross-functionally with operations, marketing, sales, tech, and other key functions or it will be difficult to implement even the best solutions. Make sure professionals you are considering can commit sufficient availability. Ask about possible conflicts of interest and familiarity with your industry.

With the right match, fractional CFO services can be a money saver. This may be in the form of lower costs or a cost effective way to obtain specific expertise for a limited period. And in a challenging situation or crisis, the right help can be a lifeline.

Morrison has filled a variety of fractional CFO, controller, and other roles since 2002. These have included many of the situations described above, including filling vacancies on an interim basis, ongoing part-time CFO-level assistance, providing expertise for specific projects, helping create new positions, and more.