# Agent of Change: The Start-Up CFO

**KG Subramanian** on the unique opportunity Finance Heads have to transform start-ups into mature organisations

> Before jumping ship, CFOs must weigh the pros and cons – both personal and professional – of joining a start-up

Many start-ups debate whether to hire a full-time CFO, or instead, simply have a contractual arrangement with a 'virtual' finance head. This is a tricky question, because in its early days, a company may not be able to offer meaningful engagement, or even adequate compensation, to its CFO. There are issues, as well, around the seniority and depth of experience required, which depend greatly on the size and complexity of the business. On the flipside, a virtual CFO might 'feel' like an 'outsider' to the organisation, and doubts can arise about his or her commitment and accountability. As a result, many firms initially 'try and buy' a virtual CFO before settling down with someone who is 'in-house'.

### To leap or not to leap? Angles both personal ...

The CFO, too, will have dilemmas to wrestle with – both personal and professional. On the personal front, there may be anxieties about having the right 'chemistry' with the founders, other CXOs in the company, or with the existing finance team. Another fundamental concern is whether to leave the comfort of an established business for the uncertainties of a start-up. These questions apply, of course, to anyone looking at a change of job, but in the CFO's case, they acquire greater resonance because of the statutory responsibilities of being a KMP.

### ...and professional

Once these personal issues are resolved, the CFO must necessarily look at a whole host of questions that strike at the very heart of how Finance gets runs at a fledgling business.

### *Ad-hoc versus structured*

Start-ups tend to function in a somewhat unstructured manner,

and often, it falls upon the CFO to decide whether – and when – to bring in the necessary discipline and processes, especially in areas that have an impact on cash flows. One organisation, for example, allowed its employees – many of whom were too busy even to visit a bank or ATM – to take cash advances for their everyday needs and return the money later via personal cheques in favour of the company. Initially, people would issue these cheques promptly, and the accounts would get squared off within a day or so. Soon, however, some started to ask Finance to hold back on encashing these cheques for a few days, and as a result, the firm was left holding piles of cheques, some of which even expired. An initiative that started off with such good intent quickly became a menace for the company, and the CFO had to step in, putting his foot down to stop the practice.

Very few young businesses look at margins, unit economics, or other parameters that actually drive the business. The CFO's job is to bring in that discipline

### *Bringing order to decision-making*

It is an open question whether a business should allow team-level decision-making to remain arbitrary and opaque – as it often is – or instead, bring structure to it, involving various stakeholders in important discussions. While supposedly 'reviewing' the effectiveness of its marketing spend, the marketing head of a certain company gave a glowing presentation on the agency's credentials, highlighted its inherent strengths and past successes, and ended with a request for funding on a mammoth scale. A better way to go about this would have been to study the company's relevant target audience, assess the effectiveness of a particular type of campaign, and compute an expected ROI to determine if it made sense to go ahead or not. In many cases, however, such discussions centre around emotions rather than hard data – and often, the decision has already been made. All that the team is doing, in effect, is to try and find a justification for that decision. The CFO's role here is to get the team to focus on the process rather than the result, and to allow the end-decision to automatically derive from there.


### *Establishing relevance and context*

Many young businesses will focus on functional or business parameters – such as website traffic, customer visits, or number of users – that 'feel' good, but may not actually be 'needed', at least not from a cash-flow perspective. Rarely do they look at margins, unit economics, and other parameters that actually drive the business. The CFO's job here is to put the 'need' ahead of the 'feel', while stressing the 'commercial' aspects that make business sense. After all, any business must one day make monetary sense – and ideally, that day should come within a reasonable timeframe.

### *Moving beyond 'project mode'*

Sometimes, new ventures are born out of college projects, or ideas that a group of batch-mates might feel passionately about. However, the jump from being (and behaving like) a 'college project team' to becoming a 'corporate team', with all of its required accountability, demands guidance. CFOs can – and must – play a role in this transition, most of all by getting the founders to treat the venture more like a 'business'.

### *Towards systems integration*

Many start-ups are built around excellent, customer-centric front-end business systems, but what they might lack is strong accounting and reporting systems, or ones that are well integrated with the front-end. This creates major challenges in terms of control and reporting, with the result that, frequently, the accounting team must devote precious resources to reconciliation work. Added to that, there is a tendency to build systems around different platforms, mostly depending on the interests of the person leading that project. The upshot is multiple systems that are unable to 'communicate' with each other. Clearly, these are big issues of concern for the CFO, who must have the ability to work with the tech team to 'connect' the various systems, thereby automating many processes and minimising the reconciliation work.

## Many action points to consider

Having settled in and set these 'basics' in place, the typical start-up CFO will have a laundry-list of action points to work on.

### *Robust MIS systems*

'Tech guys' love data, and usually, they churn out huge volumes of it. The CFO, though, needs to ensure that only the more relevant data is generated and captured, preferably from a single source – thus minimising the need for reconciliation. The challenge is that teams might hesitate to cede control over their data, so the process needs to be effectively managed. Ideally, Finance should take charge of MIS to ensure uniformity, and it must strive for transparent processes that allow

> High up on the list of deliverables for the new CFO are robust MIS systems, effective cash management, improved compliance, and strong investor relations

the various teams to understand where the numbers come from, and what they actually mean.

### *Effective communication*

All too often, non-Finance people say things like, 'Had they told me, I would have done this differently. Now that we have done it this way, please help us process the payment.' Clearly, for a start-up CFO, setting expectations straight, especially about SOPs, is a key action point. This can extend into other areas – including linking compensation more strongly and overtly with results.

### *Cash management*

Given that most start-ups will, at any point, have funding for no more than 6-18 months worth of running costs, the CFO needs to keep an eye on the cash position. This allows the rest of the business to plan ahead. Equally, if revenues are falling short of target – thus impacting cash flows in subsequent months – it allows the CFO to find ways, in a timely manner, to either cut costs or arrange for additional funding.

### *Buy vs Make*

Rather than building their teams and technology internally, many young businesses look to 'buy' them via the acquisition route. It is the CFO's job, as the CEO's advisor, to help make the right decisions in this regard, running the due diligence, including on potential tax or litigation issues that business teams tend to ignore. The integration of two separate cultures is another key focus area, requiring careful analysis.

### *Investor relations*

As everyone knows, in the start-up world, what brings in the money is the founder, and his or her ability to build and lead a team. CFOs must leverage this fact by establishing a solid, transparent relationship with the investor community. A key principle to follow is to always communicate 'bad news first.'

### *Compliance*

At their initial stages, most companies do not pay enough attention to this critical issue, even arguing that they are not in the 'business of compliance.' Yet compliance in India is becoming increasingly complex and setting up a strong compliance framework, under various heads, is a key ask for the CFO. As someone rightly said, 'If you feel cost of compliance is very high, try non-compliance and see the cost of the same.'

Ultimately a great idea needs to be converted into a great company, scaled up with money raised from investors or generated from the business, and then offer a shareholders profitable exit. The CFO, with a multi-angle ring-side view of the business, can play a vital role in this cycle, and can even be the 'agent of change' that many young businesses need. For this to happen, however, the CFO needs to be empowered in the truest sense, most importantly by being made integral to the decision-making process. ■

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*The views expressed here are personal.*