YOU GOT IN ON THE GROUND FLOOR, THE FIRST FD IN THE BUSINESS, PERHAPS. AND IT'S GONE WELL: YOU'VE GROWN LIKE TOPSY. BUT NOW IT'S GETTING HARDER TO MANAGE THINGS THE WAY YOU DID IN THE EARLY DAYS. SOMETHING'S CHANGED. THE FACT IS, YOU'RE NO LONGER FD OF A SMALL COMPANY. AND...

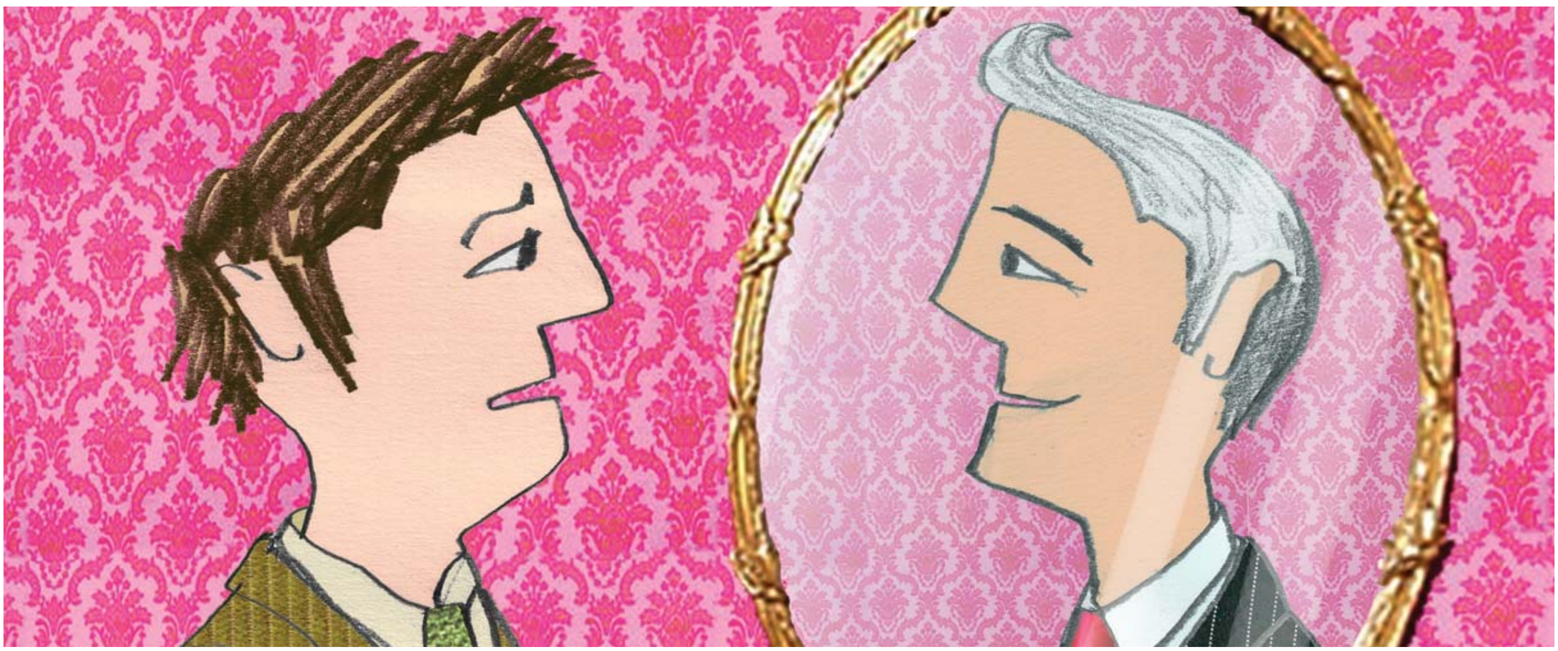


ILLUSTRATION: GILL BUTTON

YOU'LL KNOW YOU'RE THE FD OF A "SMALL CORPORATE" WHEN...

…THE CEO MUST BUTT OUT

In most small companies, the MD/CEO will often boast that they know every number in the business. But there comes a point when they'll have to step back and let you, the FD, do your job. "If the company is growing, then it's successful," says Andrew Litchfield, FD of AAC Group, which had a turnover of £9m in 2001 and is now a group of 15 companies with revenues of £30m. "So the MD is doing something right. But you also need to ask what his best position is – then play him there." And that role is bound to be different from when the company was bootstrapping its way up.

A CEO who stays too involved in the detail neglects their "visionary" role and becomes a brake on the business. "As FD you need to prove your abilities so the CEO will let go," says Litchfield. "One of the 'small corporate' FD's skills is to ensure the CEO never hinders the business, even if he has to be 'pushed' to limit his involvement in the detail."

That requires a change in the relationship between the top two. "There was period when I was proving to the board that they could trust me," says Ian Little, FD of Access Accounting, the financial software company that has grown from sales of £2m in 1997 to nearly £9m last year and is targeting a 50 per cent growth in that number for 2006. "That was an important phase in allowing [CEO] Alistair [O'Reilly] to step back because previously he'd understood every number in the business. There was certainly a watershed moment when I had the confidence, and he had the trust in me, to move his focus elsewhere."

…YOU TAKE A STEP BACK, TOO

Small company FDs instinctively know how all the numbers fit together. But there comes a point when the business is too complex for you to have this instant knowledge of the P&L – you need to start focusing on KPIs. "Losing touch with the detail is very unsettling," says Signs Express founder and FD Frank Eliel. The business took on its first franchisee in 1992 and in ten years developed operations in 75 territories. "It's the thing that you prided yourself on, and suddenly you're being asked questions that you can't answer instantly. That can make you feel very foolish."

Of course, you have other people to answer those questions. "You need a team that will highlight the things you need to know," says Litchfield. "And you certainly need an excellent number two who can do the detail," says Eliel.

"Over the past few years our management accounts have evolved into a document of telephone directory proportions – not only do we have a far bigger business to report on, but the development of controls and information systems has increased the depth of the reporting," says Zoe Tindall, FD of Yo! Sushi, which has gone from start-up to international restaurant chain (complete with MBO) within a decade. "It would consume half of my working life to analyse the numbers to the same degree as I did a few years ago. The emphasis is now on monitoring a few key drivers and trend analysis – but never without an eye on the bottom line."

Ian Little
Access Accounting

"THE CHANGES IN THE BUSINESS HAVE FORCED ME ONTO A VERY STEEP LEARNING CURVE"

Zoe Tindall
Yo! Sushi

"PUTTING IN NEW INFRASTRUCTURE CAN SUBMERGE A BUSINESS. BUT THE COMPANY CAN'T GROW WITHOUT IT"

…YOUR JOB CHANGES

"My role is unrecognisable compared to even 18 months ago," says Little. "The changes in the business have forced me onto a very steep learning curve." The trick is to be able to let go of the old jobs so you can embrace the new challenges that your more mature organisation throws up.

Two vital skills here. First, communication, especially with fellow board members. "It's an education process really," says Litchfield. They need to understand that you can't give corporate finance support if you're chasing up the plumbers or trying to track down last month's staff absences. Second, delegation, both within the finance function and to newly created support departments (see below). "The role expands and you then get into many other areas where you have not been exposed to before," says Eliel. "Like corporate governance – you're not only doing the right thing, but being seen to do it right, too. That means you have to devote time to it."

…YOU STOP WORRYING ABOUT THE NEXT PAYROLL

In fact, cash flow management should shift from being a nervous glance at the overdraft to a careful analysis of working capital. "There is a point when you have to get over the shock as you move into cash flow positive after many years of being overdrawn," says Eliel. And, like many signs of corporate status, that means you'll be able to shift from a short to a long-term view of the business.

Part of this is down to scale, but it's also a question of maturity. So do does being corporate mean you have secure, long-term revenue streams that bring with them predictability? "It's important not to get complacent as you get bigger," says Litchfield. "Customer relationships do mature, but even corporates have to be focused on them or risk being caught out."

…YOU HAVE TREASURY WORRIES

As you start to get bigger you'll (hopefully) find that there is more cash in the bank (although some of the FDs we spoke to said they'd managed to grow into a small corporate by creating growth businesses through high gearing). "There came a point when we had £2m in the bank, then £3m," says Little. "Then we started to think, 'What should we be doing about it? Should we be investing it elsewhere?' That's when we started to think about acquisitions."

Access has never paid out big dividends, something that many smaller companies will find themselves doing if there is spare cash. "The owners usually want it out of the business before it's realised, let alone banked!" says one FD we spoke to. It's a reminder that the switch to small corporate has to happen in the round. A top team of CEO and FD freed from the day-to-day can devote more time to strategic thinking, identify acquisitions and find use for positive cash-flow. (Mind you, you can't say that about some FTSE 350 companies at the moment, as they engage in share buy-backs and special dividends.)

Alternatively, you might find that the amounts you're borrowing to fund growth are getting too big to fall under the overdraft or even term loans from your bank – especially if the amounts are big enough that a few basis points here or there become material. Marry that to your need for more sophisticated financial and operational risk management, and suddenly you're starting to think about developing a treasury function.

…ADVISERS PITCH YOU

Professional advisers can be, well, tarts. They know when you're starting to get big enough that their schemes and systems will start to make sense. "My in-tray is crammed with invites to 'working breakfasts' and 'networking lunches'," says Tindall. "But love them or hate them, advisers are a necessary part of growing the business and they've provided invaluable advice over the years. Still, I always apply caution when choosing advisers. Be specific in what you want them to deliver; drive a hard bargain on the fees – they want the hot, growing companies on their client list; and reference the hell out of them."

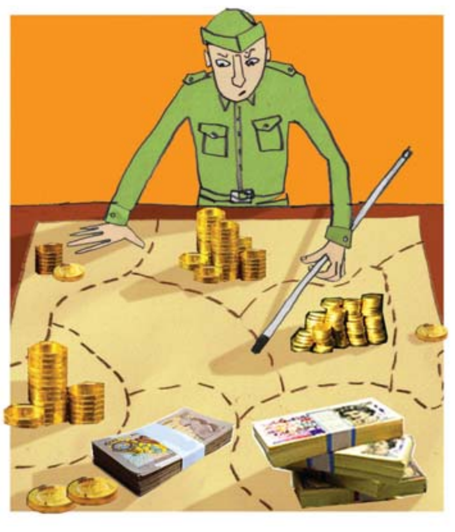
"Your external advisers need to improve as you grow," says Litchfield. "But even when you step up another level, you must continue to think about value for money." He likes to quote Lord Weinstock: "Consultants are invariably a waste of money," he told the *FT* in 1997. "There has been the occasional instance where a useful idea has come up, but the input we have received has usually been banal and unoriginal, wrapped in impressive-sounding but irrelevant rhetoric." Small corporate should not lead to corporate waste, in other words.

YOU'RE "BIGSMALL"

The vogue in car adverts is for contradictory words to be elided – like "bigsmall", a hatchback that looks roomy. Most of the "small corporate" FDs we spoke to hinted that they see this as an ideal position as their businesses have grown. "The trick is to retain the positive aspects of being a small business," says Access Accounting FD Ian Little. "It's easy to get sucked into being a 'corporate' and adopt all the negative aspects that entails."

Litchfield agrees. "You want the controls, but also the agility, the flexibility, the hunger and the culture that enabled the business to grow in the first place," he says. "You want to be a bigger, more powerful speedboat, never an oil tanker."

"The company has come of age," says Yo! Sushi FD Zoe Tindall. "But I don't like to apply the word 'corporate' to the business as it conjures up images of politics, starched shirts and red tape. I like to think we're a large entrepreneurial firm – we strive to keep the passion and creativity of a start-up but balanced with the controls and governance of a corporate. Hey, as long as I can still wear my trainers I'm happy!"



…YOU START HIRING EXPERTS

Small companies have a can-do culture where people are happy to turn their hand to anything. But when you start to need a full-service ad agency, say, or a development team for a piece of bespoke software – welcome to corporate-land. "Small companies are often unwilling to bring in 'outsiders' on what are considered non-core, non-value-adding activities," says Little. "So recognising the value that experts can offer, even if they're not doing things that immediately impact the bottom line, is a sign of maturity."

"Our business would not be scaleable had we not invested in experts," says Tindall. "It's a shift in mind-set for an FD – one day you're involved in all manner of initiatives and before long specialist teams and departments have sprung up. As the complexity of the business grows, it becomes more financially viable to hire in the expert than for the 'jack-of-all-trades' FD to dedicate time to areas they may well not be best suited to."

…NEW MARKETS EMERGE

Small companies generally specialise. But after a while they exhaust their markets (either by product, region or skill-set). The good news is that the networks and connections that they make as they're growing create ready-made avenues for fresh growth. So your business "leaking out" of your existing operations is a sure sign you need to take a more corporate approach.

"We're developing numerous franchises with overseas partners – I view them as start-ups being incubated by the main business," says Tindall. "A few years ago we would have questioned why we were moving into these areas as they don't contribute hugely to the bottom line and take up a disproportional amount of management time. But now we take a long-term view: they will be a significant driver of value and profit in the future."

…M&A IS ON THE AGENDA

Assuming that your growth has delivered cash, credibility and expansion into new markets, it's almost inevitable that you'll start to think about acquisitions. "We'd done JVs and other co-operative deals with our resellers and other small software companies," says Little. "That was a practical solution when we wanted to offer customers more, but we didn't have the resources ourselves. But we started to feel that there was a lack of control with the less formal arrangements, and that meant they didn't have the impetus and drive to succeed. Going down the acquisition route gave us much more control on key decisions. We made the initial acquisitions through the trading company. But we have since formalised the structure to recognise the need to separate investments by the holding company from the trading ops." Which leads us to…

…STRUCTURE NEEDS A REVIEW

Or to put it another way, says Little, you start to find that "group" costs are clouding the picture. Access solved the problem by creating a group company and four operating subsidiaries. That means overheads not attributable to any one trading division are cleanly stripped out of its results and decisions and based on its "true" performance. "Messy structures are definitely a weakness," agrees Litchfield. "You should only ever hold people responsible for costs that they can control."

But don't expect this to be straightforward. "It's taken a few years for us to define exactly which costs should be taken centrally and which we should charge to the operating business," says Tindall. "We've reached a stage where we effectively have 22 cost centres, so we can report the 'development' businesses on a standalone basis."

…YOU SEEK NEW DIRECTORS

OK, there are plenty of FTSE 100 companies without an IT or HR director on the board. But while small companies tend to have few "outsider" directors, small *corporates* recognise a need for top-level people with specific experience.

They also start to see the value in non-execs who bring in new skills – even in finance, particularly if you think the business may float one day and will need to show its corporate governance credentials – or a bulging contacts book.

That all changes the actual *function* of the board. "Meetings have moved from a once-in-a-blue-moon chat between CEO, founder and myself, to monthly meetings, complete with board packs, agendas, non-execs and a chairman," says Tindall. Accountability, collegiate decision-making and strong decision support mechanisms are all hallmarks of the small corporate.

…THINGS ARE WELL RUN

Many small business owners take a perverse pride in a "seat of the pants" management style. But when you feel that things are running like clockwork, you can probably say you've made the transition to small corporate.

That has a profound effect on individual managers' stress levels. "I feel far more relaxed about the health and running of the company now," says

Tindall. "If I took six weeks off to trek through the Himalayas, I'm confident the business would be in safe hands and no crisis could rock us to the core. It's a deep-seated trust in the team – they are experts in their field and they can deliver."

…CONTROLS ARE EMBEDDED

Part of that confidence comes from the fact that good controls are part of everything you do. Small corporates gear up for control when projects begin, not when things start to fail. Good controls will also help you to step away from the routine – you trust the numbers, so you won't feel the need to engage in constant manual checks. "But introducing controls is very hard work," says Litchfield. "It's tiring, demanding – but very necessary."

Perhaps most FDs are more suited to the corporate environment? "Working in a small company is difficult for any finance professional – we have an innate need to control and to add process which is often in contrast to the ethos of the start-up," says Tindall. "I have, in the past, felt I was the 'annoying FD', bashing my head against the wall, dictating about process, forms and controls."

…COSTS HAVE GONE UP

It'd be nice to think that with scale comes efficiency. But in your first steps as a small corporate, you might find costs accelerate faster than revenues. "That's partly due to increased activity and partly because you create new group costs that it's less easy to balance against operating income," says Little. "But you're also seeing advisers' fees increase, you've got M&A costs that you didn't have – bear in mind you need to amortise goodwill from acquisitions – and if you're opening up new markets or developing new products, you have larger investment costs."

Eliel points out that "lowest cost" also ceases to be your number one procurement metric. "Take insurance," he says. "Suddenly it's not just about keeping cost minimal, but working out how to protect *everything* from *any* sort of shock. Or health and safety: as a small corporate, it's about ensuring excellence to avoid the possibility of a law suit and brand damage. Now you have deeper pockets, you're more vulnerable. People don't sue paupers!"

It's a balancing act. "Put the infrastructure in place too soon and it will submerge the business," says Tindall. "But then the business can't grow without the infrastructure. We've been through a period where we'd grown too fast and the cost base soared. Only pruning back allowed us to continue going forward – it was a difficult period, but gave us time to reflect on what works and why it works, and that's where our success grew from."

And if you *can* develop the right group structure, overhead can be controlled. "We only have three group directors and my head office team is me, a group FC and a 20-hour-per-week part-timer who does the payroll for almost all of our 15 companies," says Litchfield. "Are we so unusual?"

…HR BECOMES AN ISSUE

It's not just having a formal recruitment process and personnel policies – which almost no small company has. "We had a major issue with staff who'd been here since the start," says a quoted company FD who prefers not to be named. His business has trebled in size in three years and is clearly a "corporate" entity. "Many of them fought against change because they were either frightened of it or perceived their importance to the business to be reduced. It's a challenge to ensure they continue to perform and to convince them they can fit into the 'new' environment."

Litchfield reckons training is a crucial factor. "It's so easy to continue to do things yourself because it's quicker," he says. "But you need to train and educate others. It's a difficult, painful process – but has long-term benefits. You need people with the potential to keep growing as the company does, but also an ability to recognise when they hit their limit. There is nothing more irritating than losing someone good because they've been over-promoted in a period of rapid growth."

As usual, it's the people that will make or break a business, whatever level it's at.

Richard Young is editor and publishing director of Real Finance.