The CFO as Your Company's Risk Manager

Michael K. Menerey, Partner, CFO Edge, LLC

It's not uncommon for owners of companies that have survived the startup phase and become a viable operation to exhale and let their guard down a little bit. After all, they've made it through what is often the most difficult part of entrepreneurship: Getting a new venture off the ground and surviving the rough first few months (or years), when cash flow is often tight and unexpected new challenges seem to pop up every day.

However, this is not the time to ease up or let your guard down. In fact, just the opposite is true: The period in a business' lifecycle when success and growth are ramping up is when many companies hit rough patches and run into new, unforeseen problems that, in a worst-case scenario, can put the company out of business.

External Factors and Risks

These problems can stem from a wide range of different external factors and risks that can negatively impact a business. Following are some of the most common external threats faced by companies as they develop and become successful:

Acts of God — This is the term used to describe things like earthquakes, tornadoes, floods, fires, etc. These are usually the easiest risks to guard against by purchasing business insurance policies that cover them. The amount of coverage and deductible levels you need are the biggest variables here.

Information technology and security — This is becoming a more visible risk every day, although it's not a new one. Your internal systems and data protection come first, but depending on your business, you may store significant amounts of customer or patient information as well. This ranges from credit card and bank account information to health information protected by the HIPAA compliance requirements. If data is breached or stolen, your company may face significant liability, which makes cyber insurance essential for most companies today.

Employee and HR risks — Holding onto your existing employees (especially key employees and executives), recruiting new employees and minimizing employee lawsuits all fall under this category. A related area is protecting your directors and officers from lawsuits, which you can do by purchasing a D&O liability insurance policy.

Supply chain disruptions — Depending on your business, this could be one of your most significant risks. For example, if you have a handful of key customers, vendors or distributors and they leave — or if their business is impaired and therefore they cannot buy from you or supply you with critical parts, services or supplies or help you sell your products — your company could be significantly damaged.

Labor disruptions — Worker strikes can be incredibly disruptive, as the recent strikes at the ports of Long Beach and Los Angeles demonstrated. The wide-ranging impact of strikes like these can be potential game changers, depending on your business.

Terrorism — This is usually thought about from a personal safety viewpoint. But whether it's direct violence or an indirect terrorism incident, like an attack on water or power generating facilities, terrorism can cause significant disruption to a business.

Government regulations — Let's not forget about the government and regulatory agencies that are continually changing the rules and regulations and creating additional hurdles for businesses. The key here is paying attention to rules that affect your industry and being ready for them before they become effective.

A partner's exit —If you have a partner in your business and don't have a buy-sell agreement in place, the company could be at risk if either or both of you die suddenly or depart the business for other reasons. Even with a buy-sell agreement in place, the company and its assets may still be at great risk if the agreement is not funded (this is generally accomplished through life insurance).

One of the best ways to manage threats and risks like these is to engage an outsourced CFO services provider to act as your risk manager. An experienced CFO has seen many of these scenarios first-hand and can advise you on planning for how to deal with them. This requires thinking beyond just insurance. For example, an outsourced CFO can help you plan for disruptions in your supply chain by evaluating your relationships with key customers, suppliers and distributors and lining up alternatives, including temporary facilities, so your business isn't disrupted if your lose one or more of them.

An outsourced CFO can also help you shore up your management team so if a key employee leaves, the company doesn't go into a tailspin due to a lack of leadership. In addition, an outsourced CFO can help you structure competitive compensation plans and benefits packages designed to retain your top employees, as well as draft employment contracts to further shield your company from HR and employee risks.

Concluding Thoughts

Owners of companies that have survived the startup phase and experienced success sometimes exhale and let their guard down a bit. However, this is not the time to ease up; in fact, just the opposite is true. The period in a business' lifecycle when success and growth are realized is when many companies hit rough patches and run into new, unforeseen problems stemming from a wide range of different external factors and risks. An outsourced CFO services provider can serve as your risk manager by helping you plan for how to manage these risks so they don't cause major disruptions at your company.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.