

How do firms benefit from hiring a CFO?

By Danielle Braff

Is it time for some smaller or solo firms to consider employing a CFO?

It's a well-worn cliché that lawyers are lousy businesspeople.

As a result, many of the larger firms have already turned to financial specialists to help. More than 70% of Am Law 200 firms and over 85% of Am Law 100 firms employ a chief financial officer, according to a study by Colliers International, a real estate brokerage. The larger the firm's revenue, the more likely it is to hire a CFO. But what about small firms or solo practices?

"I know of no solos who employ their own CFOs. A scattering of smaller firms with 20 or fewer lawyers use them, but in my experience, they generally delegate that authority to one of the partners," says Stephen J. Curley, a solo practitioner from Stamford, Connecticut, and the chair-elect of the ABA Solo, Small Firm & General Practice Division.

Is it time for some of these smaller or solo firms to consider employing a CFO?

"Lawyers tend not to be good at business and even worse when it comes to financial issues," says Michael McCready, the managing partner of McCready Law, a seven-lawyer firm with offices in Illinois and Indiana that employs a CFO. "A CFO should be considered a necessity, not a luxury."

Kevin Hirzel, managing member of Hirzel Law, a 10-attorney firm with offices in Farmington and Traverse City, Michigan, hired a CFO for the first time in fall 2020. He says the firm experienced rapid growth over the last few years, resulting in more administrative work. He realized his sweet spot was practicing law and marketing, while managing the financial aspect of the firm wasn't the best use of his time.

The firm hired a recruiting agency and vetted more than 60 candidates for the position. "We specifically looked for somebody who had a background in business as opposed to somebody who was a lawyer or had previous experience in a law firm, so we were bringing a skill set to the table that the owners of the firm did not have," Hirzel says.

CFOs typically provide financial reporting (profit and loss statements, balance sheets, cash flow, managerial reports). They also handle banking activities and cash management, are in charge of capital allocation and evaluate financial opportunities, says Bryan Reilly, the CFO of Pond Lehigh Giordano, a workers' compensation and Social Security disability firm based in Philadelphia.

Reilly, who started as the firm's staff accountant in 2010, was promoted to CFO in 2014. He also helps the firm with investment analysis, negotiations, employee benefits, and compensation analysis and design.

Having a CFO allowed Hirzel Law to make more data-driven decisions because it now has a better handle on how to allocate resources and project revenue, Hirzel says. "In short, if a law firm is looking to grow, it needs to have a CFO."

If not now, when *should* you hire a CFO?

The struggle, however, is determining when to hire a CFO.

A CFO can be a relatively expensive addition to a firm, with the base salary being about \$180,000 annually for a startup company or up to \$360,000 for a well-established firm looking for a high-level CFO, says Ethan Taub, the CEO of Loanry, a loan company in California. There are also part-time and fractional CFOs, which may be better options for smaller firms. Fees for outsourced CFO services range from \$200 to more than \$1,000 weekly, depending on the type and volume of reporting and the desired frequency of communication as determined by the firm, says Kelley Brubaker, a CPA who offers outsourced CFO services to law firms.

Brubaker says the time to hire a CFO will be different for every firm, but there are a few signs: when partners have questions on a regular basis that the bookkeeper is unable to answer; when the firm doesn't understand the tax preparer's advice; when the firm is bleeding cash; or when the firm is planning on growing in the near future.

For a smaller firm, a CFO tends to manage the bookkeeper and tax preparer and will ensure the day-to-day work is completed accurately and timely.

However, Roger Royse, who started a solo firm that grew to 27 lawyers, cautions that it's important for a small firm to control costs and not just add overhead for the sake of having overhead. Royse, who left his firm in March with seven colleagues to join Haynes & Boone, is a CPA and also took on the CFO role at his firm. "But if I had to do it over, I would have hired an outside CFO at about 15 lawyers," Royse says.

Other law firms are relieved they hired a CFO even when they were small. Matthew Dolan, the founder of Connecticut-based Dolan Divorce Lawyers, which has four attorneys, has been using a CFO for a year now. While Dolan says he has a very good handle on his firm's financials, he also knows he doesn't have the same level of knowledge as someone whose sole focus is the financials of the firm.

"As we continue to grow, I want every department of our firm managed by an expert in that field," Dolan says. "This will free up my own time and will allow us to get to the next level of profitability and client happiness."

Dolan's CFO provides bookkeeping services, financial reports and financial forecasting reports. The real benefit of the CFO, however, is the freedom he provides. Dolan says he doesn't have to get bogged down in the financial details anymore and can instead focus his attention on higher-level management and decision-making.

Plus, Dolan says, the beauty of modern technology is that small firms have access now to a CFO they may not have been able to afford in the past. Several agencies provide virtual CFOs who can work for several firms simultaneously. Through a virtual CFO agency, Dolan's firm was able to afford a financial strategist, whom he says the firm would have never otherwise been able to afford to hire full time.

Before hiring anyone, law firms should consider their cash flow rather than the number of attorneys they have, suggests Keoki Wallace, the CEO of business consultancy It's More Than Just Numbers. If most of the law firm's business comes from flat fees or from standard monthly billings that are paid within a specified amount of time, then all they need is a good controller, Wallace says. Where a CFO could make a difference is when there are large discrepancies between months or when cases go over an extended period, such as when there is an upfront payment and then no next payment until many months or even years later.

"I have had many talented controllers work for me over the years who could easily do everything even a large law firm with stable cash flow needs," Wallace says.

Before selecting a finance professional, Reilly advises looking for someone who can go beyond debits and credits. Reilly says the CFO chosen needs to be an entrepreneur: He or she should understand the business, comprehend how clients are acquired, how clients are serviced and how revenue is generated (which requires some understanding of the law). Other soft skills are important, such as the ability to communicate with peers and partners and fit in with the overall dynamic of the firm, Reilly says.

If you don't have a CFO, expect to dedicate a significant amount of time to dealing with your firm's finances, says David Sanders, who owns his Houston-based solo firm but says he doesn't have the luxury of hiring a CFO. Sanders blocks off the majority of the day once a week to manage his financial affairs. He estimates this accounts for about 25 hours per month. Time well spent?