Using a part-time financial services provider: key considerations

By Brad Gersich

Founders of technology companies often bring to the table vision, strategy or technical expertise. Quite often, however, these core team members lack the experience and the time to spend on accounting and financial matters important to their company. This article discusses how a founder can work with a third-party financial services provider to handle essential financial aspects of launching and maintaining a company.

What do part-time financial services providers do?

Entrepreneurs outsource legal matters to outside counsel in the early stages. Similarly, they often rely on contract service providers to manage the company's finances so that the team can focus on product development and customer acquisition. For starters, service providers can handle the blocking-and-tackling of basic bookkeeping. Moreover, in many cases, they can also contribute to the development and implementation of the company's business plan, offering insights into the company's go-to-market strategy, operations and money management.

Should I turn to an individual or a large organization to provide part-time financial services?

This is a question often asked by founders. Each approach has its benefits. Individual service providers typically work for the company for a certain number of hours or days in a week. When individuals are providing the service, the ability of the service provider to support the company's growth is primarily limited by time (*eg*, the individual provides services to other companies as well) and capability (*eg*, the individual is competent at bookkeeping, but may have insufficient experience with financial planning, business strategy or operations management, which senior financial executives often possess).

Larger organizations can offer a young company layers of service beyond what an individual may be able to provide, depending on the particular (and often evolving) needs of their client.

Initially, when a larger organization is the part-time financial services provider, this single outside resource is likely able to tackle all the company's needs.

The hiring of an outside financial services provider is generally structured as an "independent contractor" relationship. The service provider is charged with performing key financial functions for the business, but day-to-day supervision of the services provided is neither desired nor required. Compensation is typically structured on a time-and-materials basis, but alternative fee arrangements can be negotiated, and equity incentive grants can reduce cash commitments. For more about independent contractor relationships, please see our article. When retaining an individual, we recommend ensuring that the relationship is structured so that the individual is in fact treated as an independent contractor rather than an employee. For more about the risks of misclassification, please see our article.

How should I evaluate service providers?

When interviewing part-time financial services providers, we encourage you to:

- Be reflective about the short-term and intermediate-term needs of your company, so that the relationship is appropriately tailored to those needs
- Probe experience, asking for specific examples of core expected competencies in accounting, finance and strategy
- Establish an understanding as to who will be doing the work on a day-to-day basis, and how costs will be managed to ensure the biggest bang for the buck
- Request and check references from other recent or current clients

A couple of final thoughts

Notably, companies should keep in mind that the relationship with a part-time financial services provider may well be transitory. As the company grows, a part-time provider may no longer be sufficient. It may become more cost effective, and strategically sensible, for the company to move beyond part-time hires and bring in its own full-time finance officer.

And finally, one core strength of any founding team is the ability to identify areas of weakness and effectively address them. When founders don't want to, or have the capability to, create financial statements and understand generally accepted accounting principles, then using a part-time financial services provider is a recognized and viable alternative when a founder doesn't want or have the capability to understand generally accepted accounting principles or create financial statements.