



SHOULD YOUR ORGANIZATION OUTSOURCE ACCOUNTING?

As associations continue to operate on leaner budgets, some have found that outsourcing certain functions is a good way to keep quality up and costs down.

BY MIKE BUZAS

Outsourcing is not a new concept. Even the Romans practiced outsourcing of a sort — they solved their chronic labor shortage by hiring mercenaries to defend their far-flung and expanding empire.

Outsourcing is not a new concept for associations, either. For many years, associations have transferred routine projects such as fundraising, membership, development, lobbying, trade show management, and publishing to specialized third-party firms. And a recent trend has seen more associations and nonprofits outsourcing their accounting processes as well. What used to be viewed as a strictly internal management function is now routinely outsourced.

Why This Growing Trend?

Unfortunately, it's sometimes a crisis that moves an association to consider outsourcing its accounting function. Botched or delayed financial statements, high turnover in the accounting department, a bad audit report, suspected fraud, poorly trained or dishonest staff — any of these circumstances can wreak havoc in an association, cause a board of directors to lose confidence in the CEO, and force the CEO to consider outsourcing.

However, outsourcing the accounting function doesn't have to be an action driven by crisis. In fact, outsourcing often is a sound business strategy. It enables association executives to focus on what

they do best: provide services to their members and accountability to their boards. Especially in small or mid-sized associations, which often require staff to work across different functions, accounting can often be done more competently and cost-effectively by outside, trained professionals.

Outsourcing vs. Offshoring

Outsourcing should not be confused with "offshoring," in which services such as information technology, human resources, and customer support are provided from other parts of the world. Offshoring of accounting services is in its infancy, although it, like the outsourcing of accounting, is a growing trend. Many accounting firms, as well as their clients, prefer the opportunity for face-to-face interaction, especially since accounting can be quite complicated — sometimes even testy. Offshoring the accounting function could hinder that type of close interaction.

Outsourced accounting is the assignment of a primarily administrative business function to a group of professional accountants and/or bookkeepers. Outsourced accounting enables accounting professionals with many years of expertise to perform routine transactions and processes, often more accurately and economically than in-house staff. This frees up an association's valuable management resources, enabling the CEO and executive team to concentrate on fulfilling the association's primary mission, including operating within a budget that often gets stretched thinner every year.

When Is Outsourced Accounting a Smart Business Strategy?

Outsourcing is much more than a preference for having someone else perform your detailed, routine tasks. It's much more than saving money and cutting operating costs. It's a strategic business tool that can generate broad business benefits. A 2004 survey conducted by Accenture, a global management consulting, technology services, and outsourcing company, found that rewards from outsourcing are not frontloaded in cost-savings during the first year only to decline over time. Outsourcing actually helped companies perform better, and

performance and satisfaction with outsourcing increased over the long term.

So, when should an association outsource?

When accounting needs to be done better, faster, and cheaper than in-house staff resources can do it. Simply stated, accounting transactions have to be done correctly, quickly and within certain time constraints, all the time. Having an outsourced team dedicated solely to your accounting functions — rather than an in-house staff that may have several duties competing for priority — increases the likelihood that your accounting will be done undistracted, prioritized, objectively, and efficiently.

When the association needs more information and guidance than in-house staff can provide. The outsourced professional accountant with years of experience can tell you more than the numbers. The accountant can tell you what they mean, help you spot problems affecting your business, and help you to analyze trends and take corrective action in a timely manner.

When the association needs to be more flexible regarding its use of in-house talent. Good staff are hard to find and harder to retain, so their strength should be focused on fulfilling the organization's mission. While an accounting firm's excellence in accounting may not give you a competitive advantage, it will keep you from being distracted by accounting mistakes.

When the association needs improved security within the accounting and reporting functions. Are you using the latest security tools and firewalls to safeguard and protect your vital financial data? Is your information backed up daily with redundant safety measures? Are all of your network, accounting, and wireless programs updated with the latest software patches available?

When the association needs to streamline its computer hardware and software resources. Is the only reason you maintain an increasingly complex and expensive computer system to support your accounting and revenue information systems? Would you like to access your up-to-date financial information

anytime, anywhere? Associations' notoriously tight budgets often permit only piecemeal improvements in information technology hardware and software. By the time a complete solution is in place, it's often already obsolete, or the accounting requirements have changed. Outsourcing can provide an excellent alternative to playing catch up with technology. Many accounting firms have invested millions of dollars in infrastructure and training to provide accounting services to a growing base of customers.

In spite of the growth of outsourced accounting, outsourcing is not necessarily right for every association. Perform the following self assessment. Your answers should reveal whether outsourced accounting is appropriate for your association:

- Are your vital accounting processes exceptional or routine? Do the same revenue and disbursement processes repeat on a monthly, weekly, or even daily basis? Or are exceptions, such as national trade shows, the routine?
- Are your accounting activities transaction oriented, or are they special events?
- Do your accounting processes flow in cycles with periods of high and low activity?
- Is your accounting function staffed for the peak periods or the lulls?
- If staffed for the peaks, how do you utilize the excess staff during the lulls?
- If staffed for the lulls, how do you augment this staff for the peaks?
- If you were building your organization from scratch today, would you invest "as much as practical" or "as little as practical" into your accounting infrastructure and staffing?

The key to determining whether outsourcing is right for you is whether outsourcing, as a business strategy, provides greater competency in execution of the outsourced process and generates higher overall satisfaction in comparison with in-house processing. Trained professionals who specialize in a particular process can often perform better, more accurately, and more cost-effectively than generalists or part-time staff who may not be properly equipped for the process.

Good staff are hard to find and harder to replace.

Choosing Wisely

If self-analysis shows that you and your association will benefit from outsourced accounting, you should consider the best way to go about selecting an experienced accounting service provider that will help you better manage your organization. Price (contracted cost) is an important consideration but by far not the most important. In your request for proposal, ask for — and insist on — the following vital elements of a successful outsourced accounting arrangement:

- Stability and reliability of services;
- Timeliness guarantees;
- Commitment to infrastructure and training;
- Evidence of discipline regarding policy and procedures;
- Technical accounting expertise;
- Knowledge of the changing legal environment and its impact on business;
- A team approach to outsourcing;
- A willingness to bring expertise and advice in all appropriate areas;

- A timeline and a migration plan;
- Knowledge of and experience with nonprofit organizations;
- Continuous cost reduction and continuous process improvement.

You can write your own RFP or customize one of the many available through a number of professional organizations, such as the American Institute of Certified Public Accountants (www.aicpa.org).

An outsourced accounting provider should have a multitude of references available to ease the natural uncertainties and anxieties of a new business relationship. The references should be from organizations of similar size and with similar constituencies. Make sure to ask these references about the provider's commitment to the client's needs and dedication to the service objectives of the engagement. Satisfied customers are generally effusive and forthcoming when the provider has delivered services successfully, efficiently, and reliably for a considerable period of time.

Finally, look for more than simply accounting/bookkeeping expertise in your service provider. Look for experience and strategic thinking. The best accounting firms do more than simply produce accurate financial statements, standardize accounting operations, and set up procedures. If you do decide to outsource your accounting function, you want the firm you choose to do more than just "count the money;" you want them to be your organization's true partner. **X**



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