

Independent advisers – asking the right questions

Employing financial consultants is not about knowing the answer, but asking the right questions. Arthur Burgess looks at where treasurers should go to get advice.

Treasurers, whether of small or large companies, face similar difficulties in evaluating proposals. The bond house information pops through your door. "Have I got a deal for you – an exotic bond – and just to prove how well I could lead it, here is an exhibit showing that I am top of the league tables in exotic bonds." Shortly after this the syndications specialist arrives. "Never been so cheap – you can get a terrific deal in seven years, and, by the way, here is an exhibit showing that I am the house of the year in (you've guessed it) syndications."

It would be a surprise if banks did not play to their strengths; it would require resolve of the highest order to advise that a rival's product should be used.

Treasurers who do a regular flow of deals soon develop the analytical capabilities to determine which proposals are appropriate to the risk appetite of the company in prevailing circumstances. But how does the occasional user of the markets keep up to speed?

Keeping up to speed

This is not even a question of size, since the finances of some very large companies are so securely based that they are rare visitors to the public markets. Coupled with this problem is the need to retain staff in the flow of current thinking. The level of financing activity determines to at least some degree the interest level of the job for the bright young people who will provide the key analytical resource of all treasuries. Even if not lured away by the City's fabled telephone book salaries, they may well find terminal boredom setting in if they are never in a position to consummate deals with the houses they speak with on a regular basis. The banks too will stop talking with them if they feel they will never get a sufficient flow of business.

So, where does the hard-pressed treasurer get necessary advice?

On the face of it there is a super-abundance of available sources, but caution needs to be exercised as each potential provider has its own agenda, which may or may not identify exactly with that of its employer of the moment. The population of potential advisers has become more complex in recent years and this does little to aid the decision process. Once upon a time it was possible to discern fairly readily the angle from which each group of experts would approach the problem.

A high street bank with a large balance sheet was likely to offer funds (especially to those who did not need them). From merchant banks which did not have large balance sheets it was a good guess that the advice would involve methods of capital provision which did not involve substantial capital. Boutiques developed complex special products and leasing houses suggested leasing. The same applied to general management advice. You went to an IT house (in those days they were called computer experts) and you could see that computerisation was likely to feature in the solution. You went to McKinsey and got 'McKinsey-style' advice, and so on through other management consultants, auditing firms and the like. But now, with the multi-service



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nature of many advisers, it is not always obvious what the angle is – stockbrokers and insurers offering bonds, bankers offering insurance products and the huge combines which are the dominant forces in accounting, law, insurance, banking all crossing borders worldwide. Though the advisory firms will still naturally play to their strengths it is not now as clear what these are.

It is not necessarily true that all these possible sources are exploiting or planning to exploit gullible end users. However, treasurers or finance directors too busy to acquire the necessary skills themselves, and too financially constrained to hire the expertise to work directly for them, should tread carefully when purchasing third-party advice. The background of the adviser must be explored across all skills that would need to be employed, not only those in the proposed solution.

Asking the right question

Most important of all, what question is the adviser being asked to address? If they are not asked the correct question, it is probably impossible for them to give the correct answer. Remember the conclusion to "The Hitchhiker's Guide to the Galaxy"? The answer was 42, but what was the question?

In the quest for the correct question, it is likely that objectives will become clearer. Maybe the best approach is to chat through the problem with another treasurer who may have faced the same thing.

If the question is well-defined and a consultant required, the conceivable sources of expertise are as follows:

- *The bank.* Depending on the structure of banking relationships, the company will have a commercial bank (or a small group of banks) who stand *primus inter pares*. This group is a good starting point as

long as it is made clear that the selected bank is being appointed in an advisory role. Many treasurers prefer this to be a formal arrangement involving the payment of a fee. This puts a clear onus on the adviser to act in the company's interests.

- *The investment bank.* Again this is a function of how the company's banking structure is organised. It may be that the investment bank is a subsidiary of the main commercial bank. It is possible that if the problems require a novel or complex solution to be tailored there will be a greater pool of expertise in an independent institution. Again it is important to ensure that the advice is from a relatively independent and dispassionate source and that they identify explicitly what they earn from the proposed solution.
- *The auditors.* This is one of the newer sources that are holding themselves out as advisers on treasury and financing matters. All the major firms employ experts, many of whom have track records in industry. Some are developing products in conjunction with their banking clients, providing

innovative thinking on tax and accounting implications of proposals. Again, it is essential to be sure of the question and to bind the firm that is contractually to provide it. If it is the same firm as the company's auditor, does a Chinese wall exist between the activities or will the auditing arm subsequently cause problems?

- *The lawyers.* Yes, the big law firms are also in on the act, and are often more likely to be financially unaffected by the proposed solution since they will probably be charging on a time basis rather than in relationship to the financing. But again what is being asked of them? If it is a case of checking clever arithmetic then one of the other suggestions may be more appropriate, if tax or contractual robustness is the problem (as it could well be in a project financing), a lawyer could be the answer.
- *Specialist treasury consultant.* These are mushrooming, from the sole consultant – often an ex-treasurer – up to large medium-sized partnerships. The advantage is they are likely to come at the problem from the same angle as the employing treasurer

would if he or she had the time (the disadvantage being that they probably come at the problem from the same angle as the employing treasurer would if he or she had the time!)

A personal note

In conclusion I would add on a personal note that I have reservations about employing consultants at all. Where it is necessary it is important to restrict the area of work – remember it is in the consultant's interest to make the brief as wide as possible – and to tie down the project as tightly as possible. Selection is a problem – the problem with specialists is that they specialise, and the problem with generalists is that they generalise. Employing consultants is not an easy solution – it just seems to be.

The debate that has been running in these columns on outsourcing as a solution to pressure on treasury staff numbers or costs pivots on the same question: "Have you an internal buyer sufficiently educated in the subject to understand the product offered?" ■

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