

To outsource or not to outsource

Jonathan Dolby, global head of marketing and communications service management, cash and derivative operations, UBS AG, asks how should a corporate treasurer decide whether to outsource?

The role of a modern corporate treasurer is essentially to be a financial magician, simultaneously guaranteeing liquidity as well as getting the best return on available assets, whilst constantly reducing costs and playing a central role in defining the company's long-term business strategy. In short, a treasurer must manage the detail using specialist technical skills, while at the same time being seen by the company's stakeholders as a senior financial executive who adds value to the 'big picture'. In response to this pressure, it is tempting to outsource some of the detailed daily business functions of a treasury centre to free up time for more obvious value-adding tasks.

However, many treasurers worry about which functions can safely be outsourced and/or they fear bringing the house down on their departments, and ultimately themselves, by outsourcing a step too far and marginalis-

ing their value. The way to consider outsourcing is as an investment decision; it should be based on an analysis of the potential benefits compared with other options, and the decision should be weight-adjusted to reflect the company's ability to manage all known associated risks in accordance with its risk policy. This approach is effective simply because outsourcing a function or series of functions is indeed, an investment: it requires project management skills; it feeds on time-consuming contributions from existing skilled employees; and it involves not inconsiderable fees paid to the outsourcing provider. There are three steps in the analysis that should be followed when considering whether outsourcing is right for one's company.

Think it through

The first step is to understand why

outsourcing is being considered. Is it being considered as a solution to some short-term organisational issues that are creating a pressured environment? Or is it part of a strategic plan to position the treasury department within the company? Experience shows that treasurers who, out of desperation, decide to outsource, will rarely reap the full benefits, while those treasurers who contemplate outsourcing in the context of their company's strategic plan are much more likely to be successful. The second step is to decide what to outsource. This is probably the element in the thought process where most treasurers begin to feel the conflict between improving efficiency and self-preservation.

There is often a fear that outsourcing a process may be perceived as being tantamount to admitting a lack of appropriate skills in the treasury department, or that if a treasurer outsources one process too many, the company's stakeholders start to question the value that their treasurer is adding. These fears are also exacerbated by the fact that outsourcing part of the treasury's function usually

results in some headcount reduction, and this in turn can be perceived both by the treasurer and other colleagues as a loss of influence. The common sense approach works best to tackle these fears. First of all, if the treasurer is really adding value, he/she will be respected as a senior financial executive who contributes to the long-term planning/growth of the company. Secondly, detailed evaluation of an outsourcing project does not necessarily end with an outsourcing project.

Once treasurers have reflected on the real reason why outsourcing is being considered and have decided what to outsource whilst jumping over the confidence hurdle in their own perceived value, the last step is to honestly appraise the current state of the processes/functions to be outsourced. Outsourcing is not a panacea, and exporting a broken or convoluted process only shifts daily ownership of the problem.

Treasurers would also do well to remember that they might outsource the duty but never the responsibility. This means that if a function/process is inefficient and is exposing a company to unnecessary risk, a treasurer cannot easily sidestep that risk by outsourcing the process. In fact in many cases, even if a company is legally protected from the economic risk, the damage to reputation can be significant. At this point in the analysis, it is a valuable exercise to explore ways of maximising the efficiency of one's processes/functions so that they are ready for an outsourcing project. Aside from the obvious advantage of efficiency gains, this can be a



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useful acid test or reality check that helps to galvanise a final decision: to outsource or not to outsource.

Pick and choose

If the main advantages of outsourcing can be condensed into cost reduction and optimal resource allocation, then these can largely be achieved simply with excellent support from one's main product and liquidity provider. In many cases a major market player will have gone through similar challenges, and by sharing its key lessons learned, other companies could benefit from this experience. Additionally, most major financial service providers boast an array of client tools and services, and treasurers could

do well to analyse their needs together with providers in order to pick and choose the tools and services which compliment their company's existing strengths while removing waste and improving straight-through processing (STP). Some financial providers even actively look to involve clients closely in developing new services, and so treasurers may find themselves playing an integral role in the creation of a new service that will benefit them directly.

Final thoughts

The benefits of outsourcing part of a treasury department are clear. When approached carefully, and if all known issues are actively managed throughout the conceptual, transitional and maintenance phases, outsourcing can deliver on its implied promise of lowering costs and enhancing resource allocation. Treasurers who are adding value as members of the executive management team have nothing to fear from outsourcing part of their functions. Yet, outsourcing is not necessarily the best method to achieve cost-effectiveness (increasing value-for-money rather than simply reducing costs). Treasurers should thoroughly vet prospective outsourcing providers, focusing on the best cultural fit to their own company and ensuring that the overall service of the treasury department is not compromised. //

